



# Harbor Strategic Growth Fund



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## 1st Quarter, 2018 Commentary

*"Although behavioral biases may influence near-term stock performance, we believe that business economics matter more over time." -Mar Vista*

*Investment Partners, LLC*

### Equity returns were more muted amid greater volatility

Although economic fundamentals and global growth remain solid in the first quarter of 2018, factors such as inflation uncertainty, social media regulations, a more hawkish Fed, and global trade concerns fueled a surge in market volatility. Fundamentally, tax reform continued to be a positive tailwind for corporate earnings.

The Harbor Strategic Growth Fund returned 1.68% for the first quarter, outperforming its benchmark, the Russell 1000® Growth Index, which returned 1.42%. Stock selection in Industrials made that sector the largest contributor to relative returns, while stock selection in Materials was also beneficial. Consumer Discretionary was the greatest detractor, due to both stock selection and an underweight. The Fund's sector weightings, however, are purely a residual outcome of the bottom-up stock selection process.

Mar Vista's comments were made in an April, 2018 report. Highlights adapted from the report appear below. All comments relate to the quarter ended March 31, 2018, unless otherwise indicated. All references to the year-to-date are for the period January 1 through March 31, 2018.

## HIGHLIGHTS

### Risk Factors and Volatility Prompted Adjustments

Concerns over possible government-imposed regulation within social media, rising interest rates, and the "tariff tantrum" caused us to revise and add scenario possibilities for companies that have social media, high debt, or potential tariff-impacted revenue exposure. In some cases, these adjustments had a small impact on our range of intrinsic values. The volatility in the market allowed us to identify opportunities, improving the portfolio average discount to intrinsic value to 10% this past quarter. Although this is slightly higher than at the end of the fourth quarter of 2017 (7%) or the beginning of the first quarter of 2018 (2%), this is lower than the typical discount we receive when investing in new companies. As a result, we believe that future returns will closely correlate with our companies' abilities to compound their intrinsic value.

### Search for Reasonable Value Drove a Market Rotation

A rotation by investors away from the faster-growing, higher-valued concentrated holdings of the market, experienced in the latter half of the first quarter, was beneficial for the Fund as investors searched for growing companies with more reasonable valuations. The traditional growth sectors of Information Technology, Consumer Discretionary, and Health Care together make up a much smaller percentage of the Fund than of its benchmark index. Our portfolio construction process focuses on bottom-up factors independent of benchmark weights. The resulting Fund's sector exposures represent the areas in which we are finding skewed risk-reward opportunities in serial compounders, and are not an expressed opinion on the sectors from a macro level.

### Optimistic Yet Cautious

We remain optimistic about the compounded intrinsic value growth of the Fund's holdings. In our view, the recent volatility of the market improved the Fund's discount to intrinsic value. Nevertheless, this discount continues to be at the low end and well below the 20-35% historical range. We cautiously remind our investors that downside risks have a way of sneaking up on markets during periods of increasing optimism. Although behavioral biases may influence near-term stock performance, we believe that business economics matter more over time. Investment



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bargains are elusive, but we believe that companies that compound owners' earnings become increasingly attractive with the passage of time. We will continue to identify these unique franchises and wait patiently for markets to offer them at discounts.

## Total Returns

As of 03/31/2018

	Three Months	One Year	Three Years	Five Years	Since Inception (11/01/2011)	Expense Ratios	
						Net	Gross
<b>Harbor Strategic Growth Fund - INST</b>	1.68%	17.76%	10.49%	13.61%	14.76%	0.70%	0.89%
Russell 1000® Growth Index	1.42%	21.25%	12.90%	15.53%	16.00%		

**Sectors:** As of 03/31/2018, the Harbor Strategic Growth Fund had invested the following percentages of its assets in the sectors listed: Information Technology, 22.29%; Industrials, 19.38%; Financials, 15.79%; Consumer Discretionary, 9.01%; Consumer Staples, 6.79%; Health Care, 5.29%; Real Estate, 4.59%; Materials, 4.34%; Energy, 4.05%;

**Performance data shown represents past performance and is no guarantee of future results. Past performance is net of management fees and expenses and reflects reinvested dividends and distributions. Past performance reflects the beneficial effect of any expense waivers or reimbursements, without which returns would have been lower. Investment returns and principal value will fluctuate and when redeemed may be worth more or less than their original cost. Returns for periods less than one year are not annualized. Current performance may be higher or lower and is available through the most recent month end at harborfunds.com or by calling 800-422-1050.**

Performance figures discussed in any of the Manager Commentaries reflect that of the Institutional Class shares.

This information should not be considered as a recommendation to purchase or sell a particular security. The holdings or sectors mentioned may change at any time and may not represent current or future investments.

Expense ratio information is as of the Fund's current prospectus, as supplemented. Gross expenses are the Fund's total annual operating expenses. The net expense ratios for this fund are subject to an expense limitation agreement, excluding interest expense, if any, through 02/28/2019.

The Russell 1000® Growth Index is an unmanaged index generally representative of the U.S. market for larger capitalization growth stocks. This unmanaged index does not reflect fees and expenses and is not available for direct investment. The Russell 1000® Growth Index and Russell® are trademarks of Frank Russell Company.

Since the Fund typically invests in a limited number of companies, an adverse event affecting a particular company may hurt the Fund's performance more than if it had invested in a larger number of companies.

At times, a growth investing style may be out of favor with investors which could cause growth securities to underperform value or other equity securities.

Stock markets are volatile and equity values can decline significantly in response to adverse issuer, political, regulatory, market and economic conditions.

The views expressed herein are those of the subadviser, Mar Vista Investment Partners, LLC, and may not be reflective of their current opinions or future actions. These views are not necessarily those of Harbor Funds and should not be construed as such.

**Investors should carefully consider the investment objectives, risks, charges and expenses of a Harbor fund before investing. A summary prospectus or prospectus for this and other information is available at harborfunds.com or by calling 800-422-1050. Read it carefully before investing.**

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