



Harbor Strategic Growth Fund



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3rd Quarter, 2018 Commentary

"Our investment emphasis on owning compounding business models is well suited for volatile political environments." -Mar Vista Investment Partners, LLC

A strong bull market and records achieved in the third quarter of 2018

Although the 10-year Treasury climbed above 3% and oil prices exceeded \$70 per barrel, strong corporate earnings growth and low interest rates have helped fuel the longest running bull market in modern financial history. Several equity market records were achieved this quarter, including Apple's and Amazon.com's eclipsing of the \$1 trillion market capitalization milestone for the first time. Corporate profit growth of more than 20% in the first half of 2018 has kept equity valuations in line with historical averages.

In the third quarter of 2018, the Harbor Strategic Growth Fund returned 6.96%, underperforming its benchmark, the Russell 1000® Growth Index, which returned 9.17%. Energy was the largest detractor from relative performance, due to an overweight position and stock selection. The Fund's sector weightings, however, are purely a residual outcome of the bottom-up stock selection process. Conversely, the Fund's relative performance benefited from stock selection in Consumer Discretionary.

Mar Vista's comments were made in an October, 2018 report. Highlights adapted from the report appear below. All comments relate to the quarter ended September 30, 2018, unless otherwise indicated. All references to the year-to-date are for the period January 1 through September 30, 2018.

HIGHLIGHTS

Trade Concerns Triggered a Decline in Industrials

Based on the Russell 1000® Growth Index and the S&P 500 Index, Energy companies and investments in trendy areas of the market such as high beta Information Technology stocks significantly outperformed during the period, while Industrials declined over trade concerns. As the bull market entered its 10th year, capital continued to crowd into a select group of dearly valued technology companies. The strengthening U.S. economy and unprecedented fiscal stimulus have been key factors underpinning the market's ascent. As we head into the final quarter of the year, trade tensions with China and rising interest rates will be important risks to monitor.

Sector Allocation Independent of Benchmark Weighting

The Fund's largest overweights versus the benchmark at the end of the third quarter were in Financials and Industrials. The largest underweights continued to be in the traditional growth sectors of Information Technology, Consumer Discretionary and Health Care. The Fund's portfolio construction process focuses on bottom-up factors independent of benchmark weights. The resulting 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.

The Fund's Investment Emphasis Well Suited for Political Volatility

The Fund's average discount to intrinsic value declined to 6% this past quarter. This is lower than the typical discount we receive when investing in new companies. As a result, we believe that future returns should closely correlate with our companies' abilities to compound their intrinsic values. Our investment emphasis on owning compounding business models is well suited for volatile political environments. We will continue to allocate capital to these businesses that we believe to be competitively advantaged when they trade below our estimates of intrinsic value.



Harbor Strategic Growth Fund

Total Returns

As of 09/30/2018

	Three Months	One Year	Three Years	Five Years	Since Inception (11/01/2011)	Expense Ratios Net	Expense Ratios Gross
Harbor Strategic Growth Fund - INST	6.96%	18.32%	15.84%	13.87%	15.10%	0.70%	0.89%
Russell 1000® Growth Index	9.17%	26.30%	20.55%	16.58%	17.16%		

Sectors: As of 09/30/2018, the Harbor Strategic Growth Fund had invested the following percentages of its assets in the sectors listed: Information Technology, 25.41%; Industrials, 20.03%; Financials, 15.57%; Health Care, 8.42%; Consumer Discretionary, 6.65%; Consumer Staples, 6.47%; Materials, 4.65%; Real Estate, 4.34%; Energy, 3.86%;

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. As of 09/30/2018, the Harbor Strategic Growth Fund held the following position referenced as a percentage of the Fund's total net assets: Apple Inc. - 3.72%; Amazon.com Inc. - 3.08%

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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