

# Harbor Scientific Alpha High-Yield ETF

BlueCove Limited

Subadvisor Since 09/14/2021

**Ticker:** SIHY  
**CUSIP:** 41151J109  
**Net Expense Ratio:** 0.48%  
**Gross Expense Ratio:** 0.48%  
**Total Net Assets:** \$114,092,610  
**Benchmark Name:** ICE BofA US High Yield Index (H0A0)

## Portfolio Managers



Benjamin Brodsky, CFA



Michael Harper, CFA



Garth Flannery, CFA



Benoy Thomas, CFA

## Investment Philosophy

The Harbor Scientific Alpha High-Yield ETF (SIHY) seeks total return. The management team has an objective to provide total returns in excess of its benchmark while maintaining a risk profile consistent with that of the broader high-yield market. The management team will seek to achieve its objective by mainly investing in below investment grade (high-yield) corporate bonds.

The Fund is an actively managed fixed income strategy which employs a structured investment process that utilizes a proprietary framework in the security selection of below investment-grade (high-yield) bonds.

## CHARACTERISTICS & ALLOCATION

As of 06/30/2023

Portfolio Characteristics		
	Portfolio	Benchmark
Number of Issues	161	1,870
Number of Issuers	129	967
Number of Industries	52	67
Wtd. Avg. Maturity (yrs)	5.00	5.12
Duration	4.07	4.06
Current 30-Day Yield %	8.10	
Current 30-Day Un-Sub Yield %	8.10	
Derivatives % of Portfolio	0.00	

Top 10 Issues		Portfolio %
UNICREDIT SPA SUBORDINA		1.49
HILTON DOMESTIC OPERATI		1.45
COTY INC SR SECURED 144		1.43
LIVE NATION ENTERTAINME		1.41
NEW FORTRESS ENERGY INC		1.40
SIRIUS XM RADIO INC COM		1.36
LAMB WESTON HLD COMPANY		1.33
HOLOGIC INC COMPANY GUA		1.30
VECTOR GROUP LTD SR SEC		1.30
CARNIVAL CORP SR UNSECU		1.29
<b>Total</b>		<b>13.76</b>

Top 10 Sectors		
	Portfolio %	Benchmark %
Leisure	11.50	8.41
Energy	9.68	11.19
Retail	8.77	5.53
Capital Goods	8.40	7.02
Consumer Goods	8.36	3.70
Real Estate	7.34	4.07
Healthcare	7.28	7.90
Technology & Electronics	6.81	5.63
Basic Industry	6.68	7.85
Media	5.26	8.90
<b>Total</b>	<b>80.08</b>	<b>70.20</b>

Credit Quality		
	Portfolio %	Benchmark %
AAA	0.00	0.00
AA	0.00	0.00
A	0.00	0.00
BBB	0.37	0.00
BB	59.92	49.40
B	29.98	39.33
CCC	8.41	10.41
CC	0.00	0.80
C	0.00	0.06
Below C	0.00	0.00
Non-Rated	0.00	0.00

Bond Market Exposures		
	Portfolio %	Benchmark %
High-Yield Corporate	98.31	100.00
Investment Grade	0.37	0.00
Corporate		
Cash	1.32	0.00



Maturity			Duration		
	Portfolio %	Benchmark %		Portfolio %	Benchmark %
0-1 yr	0.00	0.00	0-1 yr	1.18	1.97
1-3 yr	26.74	20.58	1-3 yr	32.35	27.09
3-5 yr	19.15	31.37	3-5 yr	36.57	48.35
5-7 yr	34.77	33.25	5-7 yr	24.93	19.62
7-10 yr	15.70	12.21	7-10 yr	3.65	1.99
10-20 yr	2.32	1.87	10-20 yr	0.00	0.97
20-30 yr	0.00	0.69	20-30 yr	0.00	0.00
Over 30 yr	0.00	0.04	Over 30 yr	0.00	0.00

### Average Annual Returns

	3 Months	YTD	1 Yr.	3 Yr.	5 Yr.	10 Yr.	Since Inception	Inception Date
Harbor Scientific Alpha High-Yield ETF (NAV)	1.14%	4.53%	9.61%	N/A	N/A	N/A	-2.07%	09/14/21
Harbor Scientific Alpha High-Yield ETF (Market)	0.43%	4.09%	9.32%	N/A	N/A	N/A	-2.33%	09/14/21
ICE BofA US High Yield Index (H0A0)	1.63%	5.41%	8.87%	N/A	N/A	N/A	-3.50%	09/14/21

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. 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 [harborcapital.com](http://harborcapital.com) or by calling 800-422-1050.

Shares are bought and sold at market price not net asset value (NAV). A fund's NAV is the sum of all its assets less any liabilities, divided by the number of shares outstanding. Market price returns are based upon the closing composite market price and do not represent the returns you would receive if you traded shares at other times.



**"The fragility arising from monetary policy tightening is evident beyond the regional banking distress and record U.S. commercial bank deposit outflows witnessed in the first half of 2023."**

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### Market in Review

Volatility declined during the second quarter of 2023, supporting a rally in risk markets, with U.S. equities and high-yield bonds up. The quarter began with subdued volatility in both risk and interest rate markets, marked by first-quarter earnings reports surprising to the upside. Market sentiment around U.S. regional banks stabilized, as lending conditions continued to tighten with growth indicators continuing to be supportive. Lower-quality credit rallied toward quarter-end as the U.S. Federal Reserve ("Fed") kept rates on hold to observe the effects of recent hikes, amid a strong risk-on sentiment despite weaker consumer data in China and an aborted coup in Russia. U.S. high-yield credit spread dispersion remained above the long-term median levels, a supportive environment for the Harbor Scientific Alpha High-Yield ETF's ("ETF") security selection emphasis.

### Portfolio Performance

During the quarter, the ETF underperformed its benchmark by 0.49% (NAV), driven by negative contributions from both sector positioning and security selection. Fundamental and sentiment insights detracted with the rally in lower quality alongside several company-specific developments.

### Portfolio Positioning

The ETF seeks to be broadly neutral to duration and yield curve versus its benchmark. Over the period, the largest sector positions were overweight positions in Banking and REITS and underweight positions in Communication Services and Energy. In aggregate, sector positioning subtracted 0.08% from performance versus the benchmark during the quarter.

The ETF was underweight lower quality and overweight BBs given our more defensive positioning. This subtracted 0.25% from performance given the rally in lower quality. The ETF seeks to invest only in index-eligible securities, currently only invests in USD securities, and does not emphasize country selection versus the benchmark.

### Contributors and Detractors

The largest detractors to performance include long positions in DISH Network, a cable satellite company, and Grubhub, a consumer services company, subtracting a combined 0.30% from security selection performance. Both bonds were held based on supportive valuation insights. DISH Network bonds underperformed on the back of higher competition and the expectation of a continued increase in leverage. Grubhub bonds underperformed following slowing momentum in sales growth.

The largest contributors to performance include long positions in Cimpress, a printing company, and Carnival Corp, a cruise liner, adding a combined 0.16% to security selection performance. Cimpress was held based on supportive sentiment and valuation insights. Bonds outperformed following strong results and continued upward guidance. Carnival was held based on supportive sentiment insights. Bonds outperformed following better-than-expected forward cruise bookings for 2023 and 2024, which is supportive of the continued improvement of the company's credit strength.

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### Buys & Sells

During the quarter, we added to the position in Deluxe Corp, a printing services company, based on strong valuation insights. This position added 0.03% to security selection performance.

Also during the quarter, we trimmed the position in AMC Networks, a film and TV company, based on declining sentiment insights. This position subtracted 0.13% from security selection performance.

### Outlook

We believe defensive positioning in credit risk remains prudent. We expect that the backdrop of tightening lending conditions, continuing corporate margin contractions, eroding consumer savings, sticky inflation, and elevated geopolitical risk remains a potent mix of pre-conditions that could trigger market disappointment. In addition, we believe that stubbornly high core inflation presents a constraint for monetary stimulus.

The fragility arising from monetary policy tightening is evident beyond the regional banking distress and record U.S. commercial bank deposit outflows witnessed in the first half of 2023. Corporate bankruptcy filings in the U.S. have been rising rapidly, and we believe this may be a good leading indicator of growing distress in low-transparency areas of the economy (e.g., private credit). Outside of the U.S., revisions to first-quarter 2023 growth highlighted that the Eurozone has slipped into a recession, while the China reopening impulse started to wane.

Against this backdrop, we believe that further fundamental deterioration in credit quality is likely as the year progresses. We believe that a continuing trend of rising default incidence is conducive to elevated idiosyncratic dispersion within credit and will likely provide a rich opportunity set for the Fund's security selection emphasis.

### Risks

Investing involves risk, principal loss is possible. Unlike mutual funds, ETFs may trade at a premium or discount to their net asset value. Harbor ETFs are new and have limited operating history to judge.

All investments involve risk including the possible loss of principal. Fixed income securities fluctuate in price in response to various factors, including changes in interest rates, changes in market conditions and issuer-specific events, and the value of your investment in the Fund may go down. There is a greater risk that the Fund will lose money because they invest in below-investment grade fixed income securities and unrated securities of similar credit quality (commonly referred to as “high-yield securities” or “junk bonds”). These securities are considered speculative because they have a higher risk of issuer default, are subject to greater price volatility and may be illiquid. Because the Fund may invest in securities of foreign issuers, an investment in the Fund is subject to special risks in addition to those of U.S. securities. These risks include heightened political and economic risks, greater volatility, currency fluctuations, higher transaction costs, delayed settlement, possible foreign controls on investment, possible sanctions by government bodies of other countries and less stringent investor protection and disclosure standards of foreign markets.

### Benchmarks

The ICE BofA US High Yield Index (H0A0) Index is an unmanaged index that tracks the performance of below investment grade U.S. Dollar-denominated corporate bonds publicly issued in the U.S. domestic market. All bonds are U.S. dollar denominated and rated Split BBB and below. This unmanaged index does not reflect fees and expenses and is not available for direct investment.

### Disclosures

All data except for top holdings and performance is provided by the subadvisor.

A basis point is one hundredth of 1 percentage point.

Current 30-Day Yields represent the average annualized income dividend over the last 30 days excluding gains and losses as defined by the SEC. Current 30-Day Yield is the Current 30-Day Subsidized SEC Yield and reflects reimbursements or waivers of fees currently in effect. Current 30-Day Yield-Unsub is the Current 30-Day Unsubsidized SEC Yield and does not reflect reimbursements or waivers of fees currently in effect.

Credit quality breakdown is based on ratings from Standard and Poor’s. Ratings are measured on a scale that generally ranges from AAA (highest) to D (lowest). A bond rated AAA is the most creditworthy, while a bond rated BB or below is much riskier. Any security that has not been given a credit rating by Standard & Poor’s is listed as “not rated”. The credit quality of securities in the Fund’s portfolio does not apply to the stability or safety of the Fund. The Fund itself has not been rated by an independent rating agency.

Duration is a commonly used measure of the sensitivity of the price of a debt security, or aggregate market value of a portfolio of debt securities, to change in interest rates. Modified Duration measures the change in the value of a security in response to the change in interest rates. Securities with a longer duration are more sensitive to changes in interest rates and generally have more volatile prices than securities of comparable quality with a shorter duration.

Views expressed herein are drawn from commentary provided to Harbor by the subadvisor and may not be reflective of their current opinions or future actions, are subject to change without prior notice, and should not be considered investment advice.

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

As a result of changing market conditions, total net asset levels, expenses and other statistics may change at any time and may differ from those shown.

The total amount shown for Credit Quality, Maturity, Sector, and Duration tables exclude derivatives and cash positions. Bond Market Exposures exclude derivatives only. Positions may not total 100% due to rounding.

Sector allocations are determined using the ICE BofA Fixed Income Index classifications.

**Investors should carefully consider the investment objectives, risks, charges and expenses of a fund before investing. To obtain a summary prospectus or prospectus for this and other information, visit [harborcapital.com](http://harborcapital.com) or call 800-422-1050. Read it carefully before investing.**

**BlueCove Limited is a third-party subadvisor to the Harbor Scientific Alpha High-Yield ETF.**

**Forside Fund Services, LLC is the Distributor of the Harbor ETFs.**