Harbor Scientific Alpha Income ETF

BlueCove Limited

Subadvisor Since 09/14/2021

Ticker:	SIFI
CUSIP:	41151J208
Net Expense Ratio:	0.50%
Gross Expense Ratio:	0.50%
Total Net Assets:	$31,533,582
Benchmark Name:	Bloomberg US Aggregate Bond Index

Portfolio Managers


Benjamin Brodsky, CFA


Michael Harper, CFA


Garth Flannery, CFA


Benoy Thomas, CFA

Investment Philosophy

The Harbor Scientific Alpha Income ETF (SIFI) seeks total return. The management team has an objective to provide competitive total returns and income to investors with lower relative risk than the broader high-yield market. The management team seeks to achieve its objective by investing in fixed income securities including corporate bonds, emerging market sovereign bonds, and fixed income derivative instruments.

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

CHARACTERISTICS & ALLOCATION

As of 06/30/2023

Portfolio Characteristics

	Portfolio
Number of Issues	158
Number of Issuers	138
Number of Industries	49
Wtd. Avg. Maturity (yrs)	4.36
Duration	3.75
Current 30-Day Yield %	7.00
Current 30-Day Un-Sub Yield %	7.00
Derivatives % of Portfolio	-27.4

Top 10 Issues

	Portfolio %
L BRANDS INC.	1.16
CIMPRESS PLC 06/26 7	1.15
OPEN TEXT CORP. CO. GUA	1.12
VECTOR GROUP LTD SR SEC	1.11
XEROX HOLDINGS CORP COM	1.08
ROYAL CARIBBEAN CRUISES	1.04
OPEN TEXT CORP SR SECUR	0.97
WEATHERFORD INTERNATION	0.97
INTESA SANPAOLO SPA SUB	0.95
CHORD ENERGY CORP COMPA	0.94
Total	**10.48**

Top 10 Sectors

	Portfolio %
Technology & Electronics	11.39
Healthcare	10.46
Consumer Goods	8.77
Capital Goods	8.36
Services	8.20
Basic Industry	8.03
Retail	7.44
Energy	7.38
Leisure	4.50
Media	4.40
Total	**78.92**

Credit Quality

	Portfolio %
AAA	0.00
AA	0.00
A	5.41
BBB	30.51
BB	32.50
B	21.38
CCC	6.59
CC	0.00
C	0.00
Below C	0.00
Non-Rated	0.00

Bond Market Exposures

	Portfolio %
High-Yield Corporate	59.81
Investment Grade Corporate	35.65
Emerging Markets	0.93
Cash	3.61

Harbor

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Harbor Scientific Alpha Income ETF

ALLOCATION & PERFORMANCE

As of 06/30/2023

Maturity	Portfolio %
0-1 yr	2.09
1-3 yr	28.84
3-5 yr	22.50
5-7 yr	33.57
7-10 yr	8.21
10-20 yr	1.18
20-30 yr	0.00
Over 30 yr	0.00

Duration	Portfolio %
0-1 yr	2.76
1-3 yr	34.16
3-5 yr	39.43
5-7 yr	18.86
7-10 yr	1.18
10-20 yr	0.00
20-30 yr	0.00
Over 30 yr	0.00

Average Annual Returns

	3 Months	YTD	1 Yr.	3 Yr.	5 Yr.	10 Yr.	Since Inception	Inception Date
Harbor Scientific Alpha Income ETF (NAV)	-0.21%	2.17%	3.79%	N/A	N/A	N/A	-5.68%	09/14/21
Harbor Scientific Alpha Income ETF (Market)	-0.48%	2.02%	4.09%	N/A	N/A	N/A	-5.45%	09/14/21
Bloomberg US Aggregate Bond Index	-0.84%	2.09%	-0.94%	N/A	N/A	N/A	-7.03%	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 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 during 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 by 9% and 2%, respectively.[1] Investment-grade bond returns were broadly flat, as the benefit of tighter spreads was offset by the increase in interest rates, which saw the U.S. 10-year rate rise by 0.37%. 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, pausing to observe the effects of recent hikes, amid a strong risk-on sentiment, despite weaker consumer data in China and an aborted potential coup in Russia. Credit spread dispersion across the investment-grade and high-yield markets reverted closer to the long-term median levels — still a supportive environment for the Harbor Scientific Alpha Income ETF's ("ETF") security selection opportunities.

Portfolio Performance

During the quarter, the Harbor Scientific Alpha Income ETF returned -0.21% (NAV), outperforming the Bloomberg US Aggregate Bond Index, which returned -0.84%. Gains from the credit positioning were offset by losses due to the rise in interest rates during the quarter.

Portfolio Positioning

The ETF's interest rate duration position averaged approximately four years during the quarter. The interest rate position subtracted 1.36% from the ETF's total return as rates rose. The credit allocation added 1.56% to the ETF's total return, driven by both carry and the rally in spreads. Of this, about 0.23% was attributable to positive security selection.

Contributors and Detractors

The largest contributors to security selection performance included long positions in Cimpress, a printing company, and Viasat, a communications equipment company — together adding a combined 0.20% to the ETF's performance. Cimpress was held based on supportive sentiment and valuation insights. Bonds outperformed following strong results and continued upward guidance. Viasat was held based on supportive valuation insights. Bonds outperformed following successful completion of the acquisition of Inmarsat and increased clarity about the capital structure of the enlarged firm.

The largest detractors from performance included long positions in AMC Networks, a film & TV company, and Grubhub, a consumer services company, which together subtracted a combined 0.27% from the ETF's performance. Both positions were held based on supportive valuation insights. Grubhub bonds underperformed following a slowing momentum in sales growth. AMC Networks bonds underperformed following uncertainty in the refinancing of its near-term bonds and concerns about how the company will be affected, given the shift of television viewership toward streaming.

1 Bloomberg S&P 500 Index (SPX): ICE BofAML US High Yield Index (H0A0).

Buys & Sells

During the quarter, we purchased a new position in Life Time Group, an entertainment facilities company, based on improving sentiment insights. This position added 0.02% to the ETF's security selection performance.

Also during the quarter, we sold the position in Apollo Commercial Real Estate Finance, a mortgage finance company, based on declining sentiment and valuation insights. This position added 0.05% to 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 remain a potent mix of preconditions to 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 during 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 have highlighted the fact that the Eurozone has slipped into a recession, while the China reopening impulse has also 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 ETF's security selection opportunities, albeit with a lower risk allocation to credit. Within the rates markets, we believe that on balance, recession likelihood in the U.S. remains pervasive, arguing for a long duration position to balance the credit risk in the ETF.

IMPORTANT INFORMATION

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 Bloomberg US Aggregate Bond Index is an unmanaged index of investment-grade fixed-rate debt issues with maturities of at least one year. This unmanaged index does not reflect fees and expenses and is not available for direct investment.

The S&P 500 Index is an unmanaged index generally representative of the U.S. market for large capitalization equities. This unmanaged index does not reflect fees and expenses and is not available for direct investment.

The ICE BofAML US High Yield Index (H0A0) 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. These unmanaged indices do not reflect fees and expenses and are not available for direct investment.

Disclosures

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

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. 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 or call 800-422-1050. Read it carefully before investing.

BlueCove Limited is a third-party subadvisor to the Harbor Scientific Alpha Income ETF.

Foreside Fund Services, LLC is the Distributor of the Harbor ETFs.

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