



Subadviser: Jennison Associates LLC (Since 05/01/1990)

Portfolio Managers: Spiros "Sig" Segalas, Kathleen A. McCarragher, Blair A. Boyer, Natasha Kuhlkin, CFA

1st Quarter, 2019

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Jennison Associates LLC

Economic Overview

Global equity markets rebounded in the first quarter of 2019 from their sharp late-2018 declines, led by a strong advance in U.S. equities. The recovery came despite the federal government shutdown in December and January, which weighed on both employment and confidence, resulting in below-trend growth in consumer spending.

The U.S. Federal Reserve (Fed) signaled a pause on increases in the federal funds rate, on signs of moderating employment growth, fewer inflationary pressures, and a paucity of growth outside the U.S. Indicators of U.S. Gross Domestic Product (GDP) growth in this year's first quarter pointed to a deceleration from 2018's 2.9% pace. Fourth quarter corporate profits, reported early in the first quarter, brought into sharper focus the waning impact of corporate tax rate reductions and projections of slowing earnings growth in 2019. The Fed's changed posture on rate hikes led to a decline in the yields of longer term government securities, causing the yield curve to become slightly inverted as the quarter drew to a close.

Worries about trade conflict, particularly with China, abated as rhetoric moderated and negotiations continued. To stimulate slumping domestic activity, Chinese authorities have begun implementing measures that could lead to growth recovery later in 2019. Europe's economic health remained subpar, with Italy in recession, Germany and France experiencing decelerating growth, and the U.K. still mired in disagreement on how to withdraw from the European Union.

Portfolio Review

In the first quarter of 2019, the Harbor Capital Appreciation Fund (Institutional Class) returned 17.54%, outperforming its benchmark, the Russell 1000® Growth Index, which returned 16.10%. With advances in every sector, the index largely recovered from the double-digit declines posted in 2018's final quarter. Among the growth index's major sectors, Information Technology, Communication Services, Industrials, and Consumer Discretionary made the strongest advances.

We believe the market's focus on company fundamentals and diminished macroeconomic worries in the first quarter favored the Fund's investment approach. Previously, in the fourth quarter of 2018, market volatility and risk aversion disadvantaged companies with projected high earnings

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.

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Manager Commentary

As of 03/31/2019

growth, like those held in the Fund, regardless of their underlying fundamentals. The stocks of many of these companies rebounded in 2019's first quarter, as macroeconomic concerns ebbed and corporate earnings reports generally indicated continued strength.

Every sector in the Fund contributed to positive absolute return. Information Technology, Communication Services, and Consumer Discretionary holdings, which had fallen sharply in the fourth quarter, rebounded as macroeconomic concerns ebbed. Health Care and Consumer Staples were strong contributors to relative return, due to stock selection in both cases as well as an underweight to Consumer Staples. Sector weights are incidental to fundamental-research-based stock selection. Only Materials and Energy detracted from relative return, with stock selection in those sectors having a marginally negative effect.

Long-held and substantially weighted holdings Netflix, Amazon, MasterCard, and VISA have continued to benefit from economies of scale and their platform-based business models.

Facebook, Alibaba, and Tencent have started to recover from company-specific issues. Despite ongoing concern about data breaches, user-data usage, increased government scrutiny, and maturing user engagement, Facebook is showing resilience, with user growth and engagement metrics remaining solid, and advertisers continuing to seek the reach and targeting only Facebook can provide. Slowing Chinese economic growth and Chinese government efforts to tighten control of gaming, as well as internet and non-traditional financial businesses, have weighed on Alibaba and Tencent. As these issues move toward resolution, we are beginning to see strong fundamentals reemerging.

After declining in the fourth quarter of 2018 on gaming graphics processing unit (GPU) inventory issues and a slowdown in the cryptocurrency mining boom, Nvidia has begun to recover on signs that the inventory issues are being resolved. The company's proposed acquisition of Mellanox, announced in the first quarter, could enhance Nvidia's functionality and potentially lead to further share gains in the data center space. Mellanox makes end-to-end interconnect solutions that provide high throughput and low latency, delivering data faster to data center applications.

In Industrials, Boeing posted a double-digit gain in the first quarter despite a sharp decline in March on concerns about its 737 Max jet in the wake of two recent crashes. Flights of the aircraft have been suspended pending clear identification of the cause of the accidents and appropriate remediation. If the issues are related to maneuvering characteristics augmentation software (MCAS), as preliminary data suggests, they could likely be addressed through software changes and pilot training. Given manufacturing and supply-chain complexities, production continues, although at a moderated pace, with an express intent to incorporate remedies before future deliveries. Chances of mass order cancellations seem minimal given the high costs of switching out. Our long-term fundamental expectations of the company remain intact.

Only a handful of Fund holdings lost ground in the quarter. Tesla's decline was tied to renewed controversy surrounding CEO Elon Musk and concerns about vehicle production volume. The decline in Bristol-Myers Squibb reflected uncertainty about its proposed acquisition of Celgene, as well as the highly competitive oncology-treatment landscape. McDonald's fell on declining customer traffic in the U.S. and increasing costs; we eliminated the position.

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Danaher, a new position added during the quarter, is a diversified conglomerate whose subsidiaries design, manufacture, and market products and offer services geared to worldwide professional, medical and dental, industrial, and commercial markets. In February, the company announced that it is buying GE Life Sciences' biopharmaceutical business, a leading provider of instruments, consumables, and software that support the research, discovery, process development, and manufacturing workflows of biopharmaceutical drugs. In our view, the business is attractive for its recurring revenue and distinct and scarce life sciences and diagnostics capabilities. We believe that Danaher is likely to establish a dominant position in the bioproduction/manufacturing industry.

Outlook

U.S. equity prices have rebounded nearly to their levels of last fall, before the fourth quarter sell-off. Fears of a near-term recession have abated, while monetary policymakers have turned more dovish in light of slower growth expectations both in the U.S. and abroad. Bonds yields have fallen since the Fed's policy pivot.

Expectations of global growth depend in large part on a U.S.-China trade resolution that removes the threat and chilling impact of substantially higher tariff levels. U.S. trade issues extend beyond China – the fate of the proposed U.S.-Mexico-Canada Agreement, which would replace the North American Free Trade Agreement, remains unresolved, as does a dispute with the European Union over automobile tariffs.

Despite these concerns, we believe that S&P 500 earnings appear headed for single-digit growth in 2019 on top of last year's tax-rate-reduction-induced surge. We continue to forecast double-digit aggregate 2019 profit gains for the Fund. Combined with last year's growth, this leaves valuations of Fund holdings at reasonable levels in absolute terms and relative to the S&P 500 and the Russell 1000® Growth indices. Although we believe the Fund holds fundamentally strong companies with solid long-term growth prospects, we remain alert not only to the challenges posed by slowing economic growth and trade friction, but also by the headwinds created by data privacy issues, emerging regulatory views on the scope and scale of large technology platforms, and health care policy reform proposals leading into the 2020 U.S. election cycle. By identifying fundamentally strong companies through our disciplined, research-intensive approach, we believe we have constructed a portfolio that is positioned to generate above-average returns over the longer term. We believe that the market should value them appropriately over the long-term, as it has historically.



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ECONOMIC SECTORS

	% of Net Assets
Information Technology	35.67
Consumer Discretionary	19.90
Communication Services	16.00
Health Care	14.02
Industrials	6.65
Consumer Staples	3.83
Financials	2.16
Real Estate	1.76

TOP TEN HOLDINGS

Company Name	% of Net Assets
1. Amazon.com Inc.	6.33
2. Microsoft Corp.	4.68
3. MasterCard Inc.	4.11
4. Salesforce.com Inc.	3.80
5. NetFlix Inc.	3.71
6. VISA Inc.	3.66
7. Tencent Holdings Ltd.	3.36
8. Boeing Co.	3.24
9. Alphabet Inc. Class C	3.07
10. Alphabet Inc. Class A	3.06

ADDITIONAL HOLDINGS

Company Name	% of Net Assets
Alibaba Group Holding Ltd. ADR	2.83
Facebook Inc.	2.80
NVIDIA Corp.	1.86
Tesla Inc.	1.67
Bristol-Myers Squibb Co.	0.71
Danaher Corp.	0.71
Mcdonald's Corp	0.00

TOTAL RETURNS

	Three Months	1 Yr.	5 Yr.	10 Yr.	Since Incp. (12/29/1987)	Expense Ratios Net	Gross
Harbor Capital Appreciation Fund - INST	17.54%	11.52%	13.94%	17.21%	11.81%	0.66%	0.71%
Russell 1000® Growth Index	16.10%	12.75%	13.50%	17.52%	10.47%		
S&P 500 Index	13.65%	9.50%	10.91%	15.92%	10.54%		

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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 a contractual management fee waiver through 02/29/2020.

The Russell 1000® Growth Index is an unmanaged index generally representative of the U.S. market for larger capitalization growth stocks. The Standard & Poor's 500 Index is an unmanaged index generally representative of the U.S. stock market. These unmanaged indices do not reflect fees and expenses and are not available for direct investment. The Russell 1000® Growth Index and Russell® are trademarks of Frank Russell Company.

Since the Fund may hold foreign securities, it may be subject to greater risks than funds invested only in the U.S. These risks are more severe for securities of issuers in emerging market regions. 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.

Views expressed herein are drawn from commentary provided to Harbor by the subadviser, Jennison Associates LLC, 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.

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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