Harbor Core Plus Fund

Income Research + Management

Subadviser Since 02/02/2022

Total Net Assets – *All Classes*	$1,067,420,158
Fixed Income Assets:	99.27%
Cash & Other Assets Less Liabilities:	0.73%
Benchmark Name:	Bloomberg US Aggregate Bond Index

Portfolio Managers

William A. O'Malley, CFA

James E. Gubitosi, CFA

Bill O'Neill, CFA

Jake Remley, CFA

Matt Walker, CFA

Rachel Campbell

Investment Philosophy

The Fund invests primarily in U.S. dollar-denominated fixed income securities. Under normal market conditions, the Fund invests at least 80% of its net assets, plus borrowings for investment purposes, in a diversified portfolio of fixed income instruments. Fixed income instruments include but are not limited to: obligations issued or guaranteed by the U.S. Government, its agencies, or instrumentalities; corporate debt securities; municipal debt securities; U.S. dollar-denominated debt of foreign issuers; and securitized securities including mortgage-backed and asset-backed securities, which may also include non-agency mortgage-backed securities. These securities may have different types of interest rate payment and reset terms. The Subadviser's approach is grounded in detailed bottom-up research and emphasizes careful security selection.

CHARACTERISTICS & ALLOCATION

As of 06/30/2022

Portfolio Characteristics

	Portfolio	Benchmark
Number of Bonds	701	12,563
Avg. Market Coupon (%)	3.28	2.54
Wtd. Avg. Maturity (yrs)	8.38	8.63
Wtd. Avg. Duration (yrs)	6.33	6.44
Beta vs. Fund Benchmark	1.01	
Current 30-Day Yield %	3.88	
Current 30-Day Un-Sub Yield %	3.86	

Top 10 Issues

	Portfolio %
US TREASURY N/B 08/41 1	6.05
US TREASURY N/B 08/51 2	2.49
Federal National Mortga	1.73
FNMA POOL FS0065 FN 12/	1.32
FED HM LN PC POOL ZT152	1.29
FNMA POOL FM4956 FN 08/	1.23
FNMA POOL FM5397 FN 12/	1.21
FED HM LN PC POOL RA528	1.17
FNMA POOL FM8217 FN 03/	1.15
FNMA POOL BV3088 FN 02/	1.11
Total	**18.73**

Maturity

	Portfolio %
0-1 yr	1.88
1-3 yr	16.08
3-5 yr	26.31
5-7 yr	17.63
7-10 yr	19.30
10-20 yr	11.25
20-30 yr	6.90
Over 30 yr	0.65

Duration

	Portfolio %
0-1 yr	6.07
1-3 yr	15.22
3-5 yr	31.66
5-7 yr	22.44
7-10 yr	8.01
10-20 yr	12.28
20-30 yr	4.31
Over 30 yr	0.00

Credit Quality

	Portfolio %
US Govt/Agency	11.87
AAA	40.06
AA	2.42
A	7.92
BBB	28.47
BB	3.93
B	0.39
CCC	1.06
CC	1.31
C	0.52
Below C	0.00
Non-Rated	1.58

Harbor®

Trusted Partnerships › Trusted Solutions

CHARACTERISTICS & ALLOCATION

As of 06/30/2022

Sector	% of Market Value
Credit	**35.02**
Industrial	19.24
Finance	13.13
Utility	2.65
Non-corporate	0
Government	**12.41**
Treasury	12.18
SBA and Gov Guaranteed	0.23
Agency	0
Municipal	**0.89**
Revenue	0.81
GO	0.09
Pre-Refund/ETM	0
Securitized	**51.53**
Agency RMBS	26.49
ABS	10.58
CMBS	8.74

Sector (cont.)	% of Market Value
RMBS	5.72
Agency CMBS	0.00

PERFORMANCE

As of 06/30/2022

Performance

Share Class	Ticker	CUSIP	3 Months	YTD	1 Yr.	3 Yr.	5 Yr.	10 Yr.	Since Inception	Inception Date	Net Expense Ratio %	Gross Expense Ratio %
Institutional	HABDX	411511108	-5.41%	-10.83%	-10.80%	-0.50%	1.19%	1.99%	6.23%	12/29/87	0.38	0.39
Administrative	HRBDX	411511686	-5.46%	-11.01%	-11.02%	-0.75%	0.92%	1.73%	3.88%	11/01/02	0.63	0.64
Retirement	HBFRX	411512189	-5.23%	-10.65%	-10.59%	-0.36%	1.28%	2.03%	6.25%	06/01/18	0.30	0.31
Bloomberg US Aggregate Bond Index			-4.69%	-10.35%	-10.29%	-0.93%	0.88%	1.54%	5.61%	12/29/87		

Retirement Class shares commenced operations on June 1, 2018. The performance attributed to the Retirement Class shares prior to that date is that of the Institutional Class shares. Performance prior to June 1, 2018 has not been adjusted to reflect the lower expenses of Retirement Class shares. During this period, Retirement Class shares would have had returns similar to, but somewhat higher than, Institutional Class shares due to the fact that Retirement Class shares represent interests in the same portfolio as Institutional Class shares but are subject to lower expenses.

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 harborcapital.com or by calling 800-422-1050.

ATTRIBUTION

As of 06/30/2022

Harbor Core Plus Fund - Quarterly Attribution – *As of 06/30/2022*

	Portfolio Return (Gross of Fee)	Bloomberg Aggregate Index Return	Return Difference	Market Term Structure	Asset Allocation	Security Selection	Price and Intraday	Total
2Q 2022	**4.84**	**4.69**	**0.15**	**0.04**	**(0.22)**	**0.05**	**(0.02)**	**(0.15)**

Market Term Structure		Asset Allocation		Security Selection		Price and Intraday	
Duration	0.08	Finance	(0.05)	Finance	0.05	Pricing	0.02
Shape	0.00	Industrial	(0.03)	Industrial	(0.03)	Intraday	(0.04)
Other	(0.04)	Utility	(0.02)	Utility	0.02		
		ABS	0.06	ABS	(0.11)		
		CMBS	(0.01)	CMBS	0.03		
		MBS	0.00	MBS	0.07		
		Agency	0.01	Agency	0.00		
		Municipal	0.01	Municipal	0.03		
		Non-Corp	0.00	Non-Corp	0.00		
		Treasury	(0.21)	Treasury	(0.01)		
		Other	0.02	Other	0.00		

What Worked

- Security selection within Agency RMBS
- The portfolio’s overweight to ABS and out of benchmark allocation to SBAs aided relative performance
- Top performers: BAYNGR, BFCM and an Agency RMBS pool

What Didn’t Work

- The Harbor Core Plus Bond Fund portfolio underperformed the Bloomberg Aggregate Index during the 2nd quarter. Higher interest rates caused negative absolute returns for the portfolio and the benchmark
- Security selection within Financials, Industrials and ABS detracted from performance
- The portfolio’s underweight to Treasuries and overweight to Financials also detracted from relative returns
- Bottom performers: SECBEN, M, NOC

Source: Bloomberg

“At IR+M, we remain cautious given the volatile market backdrop, despite spreads and all-in yields being relatively more attractive for fixed-income investors.”

Pacific Investment Management Company, LLP

Market in Review

The second quarter of 2022 was plagued by heightened volatility amid ongoing geopolitical tensions, inflationary pressures, and a hawkish Federal Reserve (“Fed”), which ultimately led to fears of an economic slowdown. Disrupted supply chains due to Russia’s invasion of Ukraine, lingering impacts from COVID-19, and lockdowns in China put additional stress on the price of consumer goods, particularly food and energy prices. This was evident from the April and May Consumer Price Index (“CPI”) data—increases of 8.3% and 8.6% year over year, respectively—which suggest inflation is far from normalizing. Investors reacted by revising expected Fed rate hikes upward; the anticipated fed funds rate for December 2022 increased from 2.40% as of March 2022 to 3.38% as of June 2022. Treasury yields moved in tandem with hiking expectations, with the two-year and 10-year rate increasing from 2.34% for both tenors, to 2.96% and 3.44%, respectively. As investors expected, the elevated inflation numbers prompted the Fed to take action. The central bank hiked the fed funds rate twice, by 0.50% in May, and 0.75% in June, to a range of 1.50%-1.75%, and announced plans to aggressively reduce its balance sheet of Treasuries and agency mortgage-backed securities (MBS). Fed Chair Powell acknowledged the difficulty of engineering a soft landing and admitted a recession is “certainly a possibility.” This came after U.S. real gross domestic product (“GDP”) contracted at an annualized rate of 1.6% in the first quarter of 2022.

High-yield issuance totaled just $25 billion, the lowest second-quarter total since 2006. Year to date, $68 billion has been issued, down by 76% from the same time last year, making it the slowest first-half of supply since 2009.

Portfolio Performance

During the second quarter of 2022, the Harbor Core Plus Bond Fund (Institutional Class, “Fund”) returned -5.41%, underperforming its benchmark, the Bloomberg US Aggregate Bond Index, which returned -4.69%. Higher interest rates caused negative absolute returns for the Fund and the benchmark. The Fund’s underperformance relative to the Index was driven primarily by the overweight to spread product and underweight to U.S. Treasuries in the risk-off environment. A higher-quality bias within the corporate new-issue market caused credit curves to reach the widest levels since 2020, with the average spread difference between A- and BBB-rated corporates widening by 0.18%, from 0.48% to 0.66%. The cautious tone and prospect for even higher rates also impacted investor sentiment—corporate bond funds had net outflows for 14 straight weeks—the longest period of consecutive outflows on record. Soft demand and the risk-off tone pushed investment-grade and high-yield spreads 0.40% and 2.44% wider to 1.55% and 5.69%, respectively—new, year-to-date wides.

Agency mortgage-backed securities (MBS) underperformed Treasuries and other securitized sectors, given the Fed’s willingness to actively sell its MBS holdings at a loss. Investors questioned what would replace Fed demand, which had absorbed over $280 billion of agency MBS in 2022. This, coupled with higher mortgage rates, caused agency MBS to underperform and the duration of the Bloomberg MBS Index to extend from 5.2 years to 5.9 years. Specifically, lower-coupon mortgages, like those held by the Fed on its balance sheet, underperformed higher-coupon mortgages.

Security selection within Financials, Industrials, and asset-backed securities (ABS) detracted from performance. On the positive side, security selection within agency residential mortgage-backed securities (RMBS) led to positive relative returns.

Lastly, it is worth mentioning that the Fund had a sizable withdrawal. We were able to sell out of legacy non-agencies and credit, as well as trim our Core Plus ABS ideas to provide liquidity for the outflow.

Portfolio Positioning

We strive to remain duration- and curve-neutral to the benchmark.

Positive contributors to relative performance included security selection within agency RMBS and commercial mortgage-backed securities (CMBS).

Detractors from relative performance included security selection within Industrials, Financials, and ABS. The Fund's underweight to Treasuries also detracted from relative returns.

The Fund's overweight to BAA and BA credit buckets and underweight to AAA securities detracted from relative performance. Additionally, security selection in BAA and A securities detracted from relative performance. This was offset by positive security selection within BA and AAA securities, which aided performance.

The Fund's out-of-benchmark allocation to non-agency RMBS aided relative returns. On the other hand, our out-of-benchmark allocation to BA names detracted from relative returns.

We invest exclusively in U.S. dollar-denominated, fixed-income securities.

Contributors & Detractors

The largest contributors to Fund performance included an agency RMBS pool and Banque Federative du Credit Mutuel SA.

The largest detractors from Fund performance included SBL Holdings and Macy's.

Buys and Sells

VST 5.125 25. We purchased $4,980K at 237.5 VS 3yr of the Vistra Corp deal at new issue. We view VST as stable due to a clarified financial policy, improved power-price environment, better-articulated growth plans in environmental, social, and governance (ESG) projects, as well as buybacks of lower, leveraged-buyout risk.

INDX 2007-AR134A1. We selectively sold this position to accommodate a large withdrawal.

Outlook

Entering the third quarter, investors will continue to focus on economic data for indications of a hard or soft landing. Inflation has shown little sign of slowing, and the market expects the Fed to continue hiking rates in an attempt to reverse the trend. However, other exogenous factors, such as disrupted supply chains, are outside of the Fed's control and may cause elevated prices to linger. Second-quarter GDP (to be released later this month) may show a second, consecutive quarter of U.S. economic contraction, indicating a technical recession. However, many consumers and companies appear healthy, thanks to a prolonged period of record-low yields and economic rebound. At IR+M, we remain cautious, given the volatile market backdrop, despite spreads and all-in yields being relatively more attractive for fixed-income investors. With a continued emphasis on liquidity, we believe our bottom-up focus should allow us to take advantage of further weakness and benefit if sentiment shifts. Furthermore, volatility brings opportunities for bottom-up security selection, and we are poised and ready to take what the market presents.

Risks

There is no guarantee that the investment objective of the Fund will be achieved. Fixed income investments are affected by interest rate changes and the creditworthiness of the issues held by the Fund. As interest rates rise, the values of fixed income securities held by the Fund are likely to decrease and reduce the value of the Fund's portfolio. The use of derivative instruments may add additional risk.

There may be a greater risk that the Fund could lose money due to prepayment and extension risks because the Fund invests heavily at times in mortgage-related and/or asset backed securities. The Fund may engage in active and frequent trading to achieve its principal investment strategies. Investing in international and emerging markets poses special risks, including potentially greater price volatility due to social, political and economic factors, as well as currency exchange rate fluctuations. These risks are more severe for securities of issuers in emerging market regions.

Disclosures

Effective on February 2, 2022, Income Research + Management (“IR+M”) replaced Pacific Investment Management Company, LLC (“PIMCO”) as investment subadviser to Harbor Bond Fund (the “Fund”). In connection with this change, the Fund was renamed “Harbor Core Plus Fund” and its investment strategy changed to reflect IR+M’s approach to managing the Fund’s assets. Performance prior to that date is not attributable to IR+M.

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.

All data except for top holdings, performance, and yields is provided by the subadviser.

Current 30-Day Yields are for the Institutional Class and 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.

Due to rounding, percentages may not sum to 100.

Views expressed herein are drawn from commentary provided to Harbor by the subadviser 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.

The views expressed herein may not be reflective of current opinions, 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 sector, industries, or country holdings may be greater than 100% because of the inclusion of derivatives and the collateral securities supporting those instruments.

Sector allocations are determined using the Global Industry Classification Standard (GICS), which is a service of Morgan Stanley Capital International (MSCI) and Standard & Poor's (S&P).

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.

Income Research + Management is an independent subadviser to the Harbor Core Plus Fund.

Distributed by Harbor Funds Distributors, Inc.

Definitions

Beta is a measure of systematic risk, or the sensitivity of a fund to movements in the benchmark. A beta of 1 implies that the expected movement of a fund's return would match that of the benchmark used to measure beta.

Duration is a commonly used measure of the sensitivity of the price of a debt security, or the 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.

2317117-20220729