

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: \$29,215,502
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 09/30/2022

Portfolio Characteristics		
	Portfolio	Benchmark
Number of Issues	118	1,961
Number of Issuers	107	1,002
Number of Industries	48	68
Wtd. Avg. Maturity (yrs)	6.08	5.72
Duration	4.48	4.42
Current 30-Day Yield %	8.44	
Current 30-Day Un-Sub Yield %	8.44	
Derivatives % of Portfolio	0.0	0.0

Top 10 Issues		Portfolio %
ASGN INC.		1.48
SIRIUS XM RADIO INC SR		1.46
COMMSCOPE INC.		1.42
VECTOR GROUP LTD SR SEC		1.40
TRINET GROUP INC COMPAN		1.40
PRIMO WATER HOLDINGS IN		1.39
WESTERN MIDSTREAM OPERA		1.38
BAYTEX ENERGY CORP SR U		1.38
ARROW BIDCO LLC SR SECU		1.37
Alliance Resource Opera		1.34
Total		14.01

Top 10 Sectors		
	Portfolio %	Benchmark %
Energy	17.51	12.61
Services	9.91	6.65
Retail	8.94	5.33
Technology & Electronics	7.92	4.70
Capital Goods	7.47	6.41
Basic Industry	7.16	7.51
Financial Services	5.63	4.94
Healthcare	5.13	8.91
Real Estate	5.08	3.85
Consumer Goods	5.02	3.68
Total	79.78	64.58

Credit Quality		
	Portfolio %	Benchmark %
AAA	0.00	0.00
AA	0.00	0.00
A	0.00	0.00
BBB	0.00	0.00
BB	54.56	52.29
B	35.93	36.66
CCC	6.56	10.35
CC	0.87	0.65
C	0.00	0.05
Below C	0.00	0.00
Non-Rated	0.00	0.00

Bond Market Exposures		
	Portfolio %	Benchmark %
High-Yield Corporate	97.93	100.00
Cash	2.07	0.00



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Maturity			Duration		
	Portfolio %	Benchmark %		Portfolio %	Benchmark %
0-1 yr	0.00	0.00	0-1 yr	2.42	0.58
1-3 yr	13.63	15.11	1-3 yr	21.89	23.13
3-5 yr	22.25	28.10	3-5 yr	40.00	40.92
5-7 yr	41.04	32.51	5-7 yr	26.89	29.48
7-10 yr	14.53	20.72	7-10 yr	2.54	4.37
10-20 yr	2.28	2.29	10-20 yr	4.19	1.52
20-30 yr	4.19	1.23	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)	-0.44%	-12.54%	-12.05%	N/A	N/A	N/A	-12.00%	09/14/21
Harbor Scientific Alpha High-Yield ETF (Market)	-1.02%	-13.45%	-12.84%	N/A	N/A	N/A	-12.65%	09/14/21
ICE BofA US High Yield Index (H0A0)	-0.68%	-14.62%	-14.06%	N/A	N/A	N/A	-13.83%	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.



“As the likelihood of recession increases, we believe downward revisions to projected earnings will become more pronounced, and investors may become more risk averse to exposures in leveraged corporates.”

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Market in Review

Risk markets finished the quarter weaker, with U.S. equities and high-yield bonds down 5% and 1%, respectively, as volatility spiked, and interest rates continued their upward trend. U.S. investment-grade bonds returned -5% as the asset class’s higher interest rate sensitivity dominated. Economic data provided further evidence of a slowing global economy as inflation reached new highs. The continued hawkishness of global central banks was underscored by the U.S. Federal Reserve’s (“Fed’s”) aggressive policy to fight inflation as rising interest rates resulted in a continued tightening of financial conditions.

Portfolio Performance

During the third quarter of 2022, the Harbor Scientific Alpha High-Yield ETF (“ETF”) returned -0.44% (by NAV) and -1.02% (by market price), while its benchmark, the ICE BofA US High Yield Index (H0A0), returned -0.68%.

Performance was driven by positive security selection aided by the improved opportunity set reflected in spread dispersion.

Portfolio Positioning

The ETF maintained an overweight to the Energy sector, which was the strongest contributor to sector performance; the weakest was an overweight to Basic Industry companies. Risk continues to be focused on high-yield security selection with an overweight to BBs and an underweight to lower-quality high yield given the deteriorating economic environment. The ETF had a very slight overweight to duration during the period, which detracted from performance given the rise in interest rates during the quarter.

Contributors and Detractors

The largest contributors to performance included long positions in VM Consolidated, an industrial, and Primo Water, a food and beverage company, both adding to security selection performance. VM Consolidated was held based on supportive insights across sentiment, valuation, and fundamentals. VM outperformed following a ratings upgrade from Moody’s and a recovery in travel volumes. Primo Water was held based on positive sentiment insights. Primo outperformed following strong earnings and an increase in earnings guidance for the year.

The largest detractors to performance included long positions in Rite Aid, a retailer, and Pitney Bowes, a technology company, both subtracting from security selection performance. The Rite Aid position was driven by supportive sentiment and valuation insights, but bonds underperformed following weak earnings. Pitney Bowes was held based on strong valuation but underperformed given deteriorating economic sentiment.

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Buys & Sells

During the quarter, the ETF purchased a new position in the chemical company Ashland based on strong sentiment insights. This position added to security selection performance due to strong demand and the continued ability to capture the benefits of the commodity upcycle. The ETF sold its position in Parkland, a refiner, based on declining valuation insights. This position added to security selection performance following a pickup in refining margins in the second half of the quarter and a rating upgrade from Standard & Poor's.

Outlook

The fundamental backdrop for credit continued to weaken through the third quarter, and we believe this trend will continue through the rest of 2022 and into next year. Lending conditions indicate net tightening, a reliable forward indicator of the corporate default cycle. The continuing backdrop of economic deceleration is also contributing to weakening fundamentals. As the likelihood of a recession increases, we believe downward revisions to projected earnings will become more pronounced, and investors may become more risk averse to exposures in leveraged corporates. We project that global high-yield defaults will continue to rise, and this supports our more defensive stance on credit positioning in the ETF. A shift to increasing incidence of defaults is conducive to rising idiosyncratic dispersion within credit, which we believe will provide an improved opportunity set for credit security selection going forward.

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 (HOAO) 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.

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.

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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 High-Yield ETF.

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