

# 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:** \$121,922,034  
**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 12/31/2023

| Portfolio Characteristics     |           |           |
|-------------------------------|-----------|-----------|
|                               | Portfolio | Benchmark |
| Number of Issues              | 190       | 1,827     |
| Number of Issuers             | 149       | 962       |
| Number of Industries          | 50        | 67        |
| Wtd. Avg. Maturity (yrs)      | 4.74      | 4.82      |
| Duration                      | 3.91      | 3.87      |
| Current 30-Day Yield %        | 7.27      |           |
| Current 30-Day Un-Sub Yield % | 7.27      |           |
| Derivatives % of Portfolio    | 0.00      |           |

| Top 10 Sectors           |              |              |
|--------------------------|--------------|--------------|
|                          | Portfolio %  | Benchmark %  |
| Energy                   | 12.38        | 12.11        |
| Leisure                  | 11.18        | 8.21         |
| Retail                   | 7.55         | 5.34         |
| Real Estate              | 7.54         | 4.25         |
| Capital Goods            | 7.36         | 6.89         |
| Basic Industry           | 7.04         | 8.17         |
| Healthcare               | 6.89         | 8.27         |
| Media                    | 6.66         | 9.22         |
| Technology & Electronics | 6.41         | 5.62         |
| Consumer Goods           | 6.12         | 3.73         |
| <b>Total</b>             | <b>79.12</b> | <b>71.80</b> |

| Top 10 Issues           |  | Portfolio %  |
|-------------------------|--|--------------|
| UNICREDIT SPA           |  | 1.39         |
| HILTON DOMESTIC OPERATI |  | 1.28         |
| NEW FORTRESS ENERGY INC |  | 1.22         |
| FORTRESS TRANS & INFRAS |  | 1.18         |
| RAKUTEN GROUP INC       |  | 1.18         |
| FAIR ISAAC CORP         |  | 1.17         |
| DAVITA INC              |  | 1.15         |
| TEMPUR SEALY INTL INC   |  | 1.11         |
| ROYAL CARIBBEAN CRUISES |  | 1.07         |
| AMC NETWORKS INC        |  | 1.07         |
| <b>Total</b>            |  | <b>11.82</b> |

| Credit Quality |             |             |
|----------------|-------------|-------------|
|                | Portfolio % | Benchmark % |
| AAA            | 0.00        | 0.00        |
| AA             | 0.00        | 0.00        |
| A              | 0.00        | 0.00        |
| BBB            | 0.64        | 0.00        |
| BB             | 56.54       | 48.32       |
| B              | 32.55       | 40.03       |
| CCC            | 9.49        | 10.96       |
| CC             | 0.00        | 0.37        |
| C              | 0.00        | 0.07        |
| Below C        | 0.00        | 0.00        |
| Non-Rated      | 0.00        | 0.00        |

| Bond Market Exposures |             |             |
|-----------------------|-------------|-------------|
|                       | Portfolio % | Benchmark % |
| High-Yield Corporate  | 98.59       | 99.71       |
| Investment Grade      | 0.64        | 0.04        |
| Corporate             |             |             |
| Cash                  | 0.77        | 0.25        |

# Harbor Scientific Alpha High-Yield ETF



## ALLOCATION & PERFORMANCE

As of 12/31/2023

| Maturity   |             |             | Duration   |             |             |
|------------|-------------|-------------|------------|-------------|-------------|
|            | Portfolio % | Benchmark % |            | Portfolio % | Benchmark % |
| 0-1 yr     | 1.18        | 0.34        | 0-1 yr     | 5.81        | 4.75        |
| 1-3 yr     | 22.87       | 20.79       | 1-3 yr     | 25.40       | 30.91       |
| 3-5 yr     | 25.38       | 33.52       | 3-5 yr     | 44.32       | 47.56       |
| 5-7 yr     | 34.29       | 32.23       | 5-7 yr     | 21.52       | 14.25       |
| 7-10 yr    | 13.75       | 10.84       | 7-10 yr    | 2.18        | 1.50        |
| 10-20 yr   | 1.76        | 1.44        | 10-20 yr   | 0.00        | 0.77        |
| 20-30 yr   | 0.00        | 0.54        | 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 |
|--|----------|--------|--------|-------|-------|--------|-----------------|----------------|
| <b>Harbor Scientific Alpha High-Yield ETF (NAV)</b>    | 7.83%    | 13.68% | 13.68% | N/A   | N/A   | N/A    | 2.03%           | 09/14/2021     |
| <b>Harbor Scientific Alpha High-Yield ETF (Market)</b> | 8.19%    | 13.31% | 13.31% | N/A   | N/A   | N/A    | 1.87%           | 09/14/2021     |
| ICE BofA US High Yield Index (H0A0)                    | 7.06%    | 13.46% | 13.46% | N/A   | N/A   | N/A    | 0.42%           | 09/14/2021     |

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.

# Harbor Scientific Alpha High-Yield ETF



## MANAGER COMMENTARY

As of 12/31/2023

**"The fourth quarter of 2023 began with a downtick in risk markets as financial conditions tightened with rising interest rates."**

BlueCove Limited

### Market in Review

Risky assets and interest rate markets rallied into year-end, with yields on the U.S. 10-year Treasury down close to 0.70% as U.S. equities (S&P 500 Index) and U.S. high yield (ICE BofA U.S. High Yield Index) rose ~12% and ~7%, respectively. The fourth quarter of 2023 began with a downtick in risk markets as financial conditions tightened with rising interest rates. Markets were initially unwilling to price in a significant probability that the Federal Reserve ("Fed") would raise rates further despite strong economic data alongside decidedly more negative forward guidance during the earnings season. The tone shifted in the middle of the quarter as markets brought forward expectations for the timing of the first rate cuts. The Fed pivoted to a more dovish stance as inflation prints continued to trend below expectations alongside a weaker growth outlook. U.S. high-yield credit spread dispersion contracted to below long-term median levels, but the shifts in market sentiment were a supportive environment for the Harbor Scientific Alpha High-Yield ETF's ("ETF") security selection emphasis.

### Portfolio Performance

During the quarter, the ETF outperformed its benchmark by 0.77% (NAV), driven by a strong contribution from security selection. Fundamental insights performed well, but the subsequent market rally into year-end weakened performance. During the rally, however, sentiment signals performed well against the backdrop of the earnings volatility in November. Valuation signals were broadly positive for most of the quarter, providing a more consistent source of returns.

### 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 real estate investment trusts ("REITS") and Banking and underweight positions in Communication Services and Capital Goods companies. In aggregate, sector positioning added 0.05% to performance versus the benchmark during the quarter.

Given our more defensive positioning, the ETF was underweight lower quality and overweight BBs. 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.

### Outlook

We believe that easing financial conditions present a tailwind for growth that will help in the near term, as U.S. economic growth troughs amid the lagged effect of tightened credit conditions, waning fiscal impulse support, and a normalized U.S. consumer balance sheet. However, we believe that risky asset valuations leave significant room for disappointment from a range of potential risks in 2024. These risks include the possibility that the easing of financial conditions will impede the normalization of core inflation, and the Fed may be wary of delivering cuts as aggressively as expected while unemployment remains low.

We believe that defensive positioning in credit risk remains prudent. Historically, periods between the last Fed hike and first Fed cut have been characterized by spread widening, with further widening once cuts begin. Aside from this macroeconomic backdrop, the technical support from low corporate supply that characterized 2023 is set to give way to elevated supply, as a large maturity wall of high-yield corporate debt falls into focus in the new year. Thus, we believe further fundamental deterioration in credit quality is likely in 2024. In our view, 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 emphasis.

**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.**

# Harbor Scientific Alpha High-Yield 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 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.

The Standard & Poor's 500 Index is an unmanaged index generally representative of the U.S. market for large capitalization equities. 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.

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 ratings for the underlying securities of the portfolio are composite ratings calculated by ICE Data Indices, LLC (“ICE”) and based on the simple averages of ratings from Moody's, S&P, and Fitch. If a security rating is unavailable from ICE, composite ratings calculated by Bloomberg Financial L.P. (“BFLP”) and based on the simple averages of ratings from security's Moody's, S&P, Fitch, and DBRS, are used. The composite rating from ICE is calculated by assigning a numeric equivalent to the ratings in each agency's scale. The average of the numeric equivalents for each agency that rates a bond is rounded to the nearest integer and then converted back to an equivalent composite rating using a scale that ranges from AAA (highest) to D (lowest). If only two of the designated agencies rate a bond, the composite rating is based on an average of the two. Likewise, if only one of the designated agencies rates a bond, the composite rating is based on that one rating. For the composite rating from BFLP, the rating agencies are evenly weighted when calculating the composite. It is calculated by taking the average of the existing ratings, rounded down to the lower rating in case the composite is between two ratings. A composite will not be generated if the bond is rated by only one of the four rating agencies. Ratings range from AAA (highest) to D (lowest). Mortgages: Short term and long term ratings are used to generate a composite. The composite ratings are not intended to be a credit opinion. Unrated securities are not rated by the national ratings agencies stated above. Ratings, which are subject to change, apply to the creditworthiness of the issuers of the underlying securities and not to the Fund or its shares. Totals may not sum to 100% due to the exclusion of certain assets and liabilities.

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.**