# Harbor Core Bond Fund

Income Research + Management

*Subadvisor Since 06/01/2018*

| | |
|---|---|
| **Total Net Assets** – *All Classes* | $104,109,391 |
| **Fixed Income Assets:** | 97.94% |
| **Cash & Other Assets Less Liabilities:** | 2.06% |
| **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 investment-grade fixed income securities of issuers located in the U.S. 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 bonds, debt securities and other similar instruments issued by various public- or private-sector entities. The Subadviser's approach is grounded in detailed bottom-up research and emphasizes careful security selection through rigorous fundamental credit analysis of the issuer, a detailed review of the structural features of the security, and relative-value comparisons to other opportunities. In order to be selected for the portfolio, a security must be attractive on all three of these factors. If one factor deteriorates, the security becomes a candidate for sale.

# CHARACTERISTICS & ALLOCATION

*As of 06/30/2023*

### Portfolio Characteristics

| | Portfolio | Benchmark |
|---|---|---|
| Number of Bonds | 281 | 13,358 |
| Avg. Market Coupon (%) | 3.64 | 2.96 |
| Wtd. Avg. Maturity (yrs) | 8.88 | 8.60 |
| Wtd. Avg. Duration (yrs) | 6.26 | 6.31 |
| Beta vs. Fund Benchmark | 1.00 | |
| Current 30-Day Yield % | 4.15 | |
| Current 30-Day Un-Sub Yield % | 4.08 | |

### Top 10 Issues

| | Portfolio % |
|---|---|
| US TREASURY N/B 08/42 3 | 5.86 |
| US TREASURY N/B 01/28 3 | 4.65 |
| US TREASURY N/B 08/52 3 | 3.85 |
| US TREASURY N/B 08/32 2 | 1.22 |
| US TREASURY N/B 02/42 2 | 1.07 |
| FNMA POOL FM5601 FN 01/ | 0.92 |
| US TREASURY N/B 02/52 2 | 0.89 |
| FED HM LN PC POOL ZA119 | 0.88 |
| FNMA POOL CA5181 FN 02/ | 0.85 |
| UNITED AIRLINES PASS-TH | 0.74 |
| **Total** | **20.94** |

### Maturity

| | Portfolio % |
|---|---|
| 0-1 yr | 4.27 |
| 1-3 yr | 13.81 |
| 3-5 yr | 19.04 |
| 5-7 yr | 18.55 |
| 7-10 yr | 22.48 |
| 10-20 yr | 12.65 |
| 20-30 yr | 8.63 |
| Over 30 yr | 0.56 |

### Duration

| | Portfolio % |
|---|---|
| 0-1 yr | 5.37 |
| 1-3 yr | 18.24 |
| 3-5 yr | 27.66 |
| 5-7 yr | 19.31 |
| 7-10 yr | 12.36 |
| 10-20 yr | 17.06 |
| 20-30 yr | 0.00 |
| Over 30 yr | 0.00 |

### Credit Quality

| | Portfolio % |
|---|---|
| US Govt/Agency | 19.28 |
| AAA | 44.02 |
| AA | 3.69 |
| A | 12.75 |
| BBB | 19.26 |
| BB | 0.00 |
| B | 0.00 |
| CCC | 0.00 |
| CC | 0.00 |
| C | 0.00 |
| Below C | 0.00 |
| Non-Rated | 0.00 |

Harbor

## CHARACTERISTICS & ALLOCATION

*As of 06/30/2023*

| Sector | % of Market Value |
|---|---|
| **Credit** | **31.37** |
| Industrial | 13.93 |
| Finance | 13.89 |
| Utility | 3.55 |
| Non-corporate | 0 |
| **Government** | **23.52** |
| Treasury | 19.77 |
| SBA and Gov Guaranteed | 3.75 |
| Agency | 0 |
| **Municipal** | **2.02** |
| Revenue | 1.52 |
| GO | 0.50 |
| Pre-Refund/ETM | 0 |
| **Securitized** | **42.10** |
| Agency RMBS | 25.96 |
| ABS | 8.22 |
| CMBS | 6.70 |

| Sector (cont.) | % of Market Value |
|---|---|
| RMBS | 1.00 |
| Agency CMBS | 0.22 |

## PERFORMANCE

*As of 06/30/2023*

### Average Annual Returns

| 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** | HACBX | 411512239 | -0.73% | 2.46% | -0.71% | -3.81% | 0.95% | N/A | 0.93% | 06/01/18 | 0.34 | 0.44 |
| **Retirement** | HCBRX | 411512197 | -0.82% | 2.50% | -0.53% | -3.73% | 1.03% | N/A | 1.01% | 06/01/18 | 0.26 | 0.36 |
| Bloomberg US Aggregate Bond Index | | | -0.84% | 2.09% | -0.94% | -3.96% | 0.77% | N/A | 0.73% | 06/01/18 | | |

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 and/or expense limitation agreement, excluding interest expense and acquired fund fees and expenses (if any), through 02/29/2024.

**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.**

**"Volatility breeds opportunity, and we continue to seek incremental relative value opportunities on a bottom-up basis, while remaining mindful of liquidity and our risk positioning relative to the benchmark."**
Income Research + Management

## Market in Review

Risk assets showed resilience during the second quarter of 2023, despite continued concerns about inflation, aftershocks from the mini-banking crisis, and uncertainty regarding the federal debt ceiling. Additional banking collapses and the potential for a U.S. Treasury default resulted in weakness and volatility in the markets during April and May, before a calmer tone in June saw equities rise and credit spreads tighten, following the debt ceiling resolution. The Consumer Price Index ("CPI") rose 4% year over year in May, the lowest figure since March 2021, marking 11 straight months of disinflation.

Though the overall rate of inflation has come down, thanks to lower energy prices, core CPI remains more stubborn, growing 5.3% year over year in May, a modest decline from the relative peak of 6.6% in September 2022. The U.S. Federal Reserve ("Fed") hiked the fed funds target range by 0.25% to 5.00%–5.25% in May, before deciding to pause hikes at the most recent Federal Open Market Committee ("FOMC") meeting in June.

Treasury yields rose across the curve during the quarter, particularly in the front end where yields are more sensitive to Fed decisions. Despite the pause, the Fed signaled that monetary conditions may continue to tighten, as inflation remains above its desired long-term target of 2%. This outlook for monetary conditions was reflected in the Fed's updated dot plot, which showed a median estimate of a 0.50% increase in rates through the end of 2023. The labor market has continued to show strength, as job additions outpaced expectations in each month during the quarter, though the rate of unemployment increased slightly in June.

We believe our bottom-up focus should allow us to take advantage of further weakness, and benefit if sentiment shifts.

## Portfolio Performance

During the second quarter of 2023, the Harbor Core Bond Fund (Institutional Class, "Fund") returned –0.73%, outperforming its benchmark, the Bloomberg US Aggregate Bond Index, which returned –0.84%.

The Fund's outperformance relative to the index was driven primarily by our overweight to Financials and security selection in the residential mortgage-backed securities ("RMBS"), asset-backed securities ("ABS"), and Industrial sectors. Investment-grade corporate issuance in the second quarter was $306 billion, bringing the total for the first half of the year to $706 billion, down slightly from the amount issued in the first half of 2022. Jumbo deals within pharmaceuticals, notably from Pfizer and Merck funding recent acquisitions, highlighted primary market activity. These deals brought the share of issuance in the Health Care sector to 15% during the second quarter of 2023, compared to about 5% of total issuance in 2022. Investment-grade corporate spreads tightened and the rise in Treasury rates pushed corporate yields higher. Additionally, the spread between A and BBB-rated debt tightened marginally.

Securitized products generally saw positive excess returns during the quarter, led by commercial mortgage-backed securities ("CMBS"). CMBS rebounded from weak returns during the first quarter, as spreads tightened amid positive consumer spending data and Fed Chair Jerome Powell's comments that the Fed is focused on smaller banks with heavy lending in the commercial real estate sector. Agency mortgage-backed securities ("MBS") recovered from underperformance driven by the FDIC's sale of MBS products from failed banks early in the quarter, as investors gradually absorbed the additional supply.

On the negative side, our security selection within the agency RMBS and Financial sectors detracted from relative returns.

## Fund Positioning

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

Positive contributors to relative performance included overweights to Financials relative to the index and security selection in the RMBS, ABS, and Industrial sectors.

Detractors from relative performance included security selection within both the agency RMBS and Financial sectors.

The Fund's overweight to BAA and A securities and underweight to AAA securities has aided relative performance. In addition, security selection in the AAA, AA, and BA credit buckets aided relative performance.

The Fund's out-of-benchmark security selection in Small Business Administration loans ("SBA") aided relative returns.

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

## Contributors and Detractors

The largest contributors to Fund performance included Lincoln Financial Corporation, Occidental Petroleum, and a rate-reduction ABS security.

The largest detractors from Fund performance included Federal Realty Investment Trust, Berkshire Hathaway Energy Company, and Elevance Health.

## Buys & Sells

During the quarter, we purchased DTE 4.875.28 (5-year new issue) in the primary market at +1.40 versus the 5-year Treasury. DTE Energy owns two Michigan-regulated utilities, including Detroit's DTE Electric and DTE Gas, serving 3.6 million customers. The purchase of this new issue was driven by improved business mix and the fact that DTE's target funds from operations ("FFO") debt is higher than peers.

We sold TX Natural Gas SECZ, opportunistically trimming rate-reduction bonds during the quarter and bringing down absolute exposure by 0.34%.

## Overweights and Underweights

During the year, we reduced our exposure to corporates by 0.92%. We reduced our allocation to Industrials by 2.71%, while slightly increasing our Financials and Utilities positioning by 1.34% and 0.45%, respectively. During the most recent quarter, our positioning in Industrials and Financials added 0.01% and 0.02%, respectively.

Top-line securitized exposure is down 2.38% on the year (absolute weight), and we have decreased our RMBS exposure by 1.32% during the year. We also decreased our ABS and CMBS exposures by 0.52% and 0.54%, respectively. Index-relative contributions to option-adjusted spread duration (“OASD”) changed similarly — the ABS overweight decreased by 0.05 years to 0.23 years, and RMBS, which started the year slightly overweight to the index at 0.02 years, is now 0.13 years underweight. During the quarter, ABS contributed 0.02%, while agency RMBS detracted 0.10%, relative to the index.

Treasury exposure increased by 2.87% during the year on an absolute basis. Treasuries underperformed spread products during the second quarter, but the timing of the reduced Treasury position led to a 0.13% contribution in Fund performance relative to the index.

Looking at individual subsector contributions to OASD relative to the index, the two largest changes during the quarter were as follows:

Rate reduction (ABS): OASD Ctr vs. index was 0.05 years at 3/31/23 and 0.02 years at 6/30/23. During the quarter, we trimmed exposure to rate-reduction bonds in the Fund.

Agency fixed-rate, pass-throughs (RMBS): OASD Ctr vs. index was -0.26 years at 3/31/23 and -0.24 years at 6/30/23.

During the quarter, we increased agency fixed-rate, pass-throughs in the Fund.

## Country Allocation

The Fund's country allocation relative to the benchmark did not change during the quarter. Income Research + Management invests exclusively in U.S. dollar-denominated, fixed-income securities. With that said, consistent with our bottom-up approach, we will opportunistically purchase Yankee issues when we believe they are attractive on a relative value basis.

Over the quarter, the Fund's absolute weight of Yankees was relatively stable, increasing slightly from 5.20% to 5.24%.

## Outlook

We did not add any new themes or tilts to the Fund during the quarter. The second quarter of 2023 provided some relief to equity and fixed-income investors, following volatility in the first quarter, though our risk posture remains cautious. Global economic indicators, such as the manufacturing Purchasing Managers’ Index (“PMI”) across developed economies, are gradually deteriorating, yet fixed-income valuations remain firm around long-term spread averages. We continue to watch central bank activity, geopolitical events, and forces that impact the consumer and the economy, such as interest rates, inflation, housing and mortgage rates, jobs, sentiment, etc. Volatility breeds opportunity, and we continue to seek incremental relative value opportunities on a bottom-up basis, while remaining mindful of liquidity and our risk positioning relative to the benchmark.

## Harbor Core Bond Fund - Quarterly Attribution – *As of 06/30/2023*

| | Portfolio Return (Gross of Fee) | Bloomberg Aggregate Index Return | Return Difference |
|---|---|---|---|
| 2Q 2023 | -0.68 | -0.84 | 0.16 |

| Market Term Structure | | Asset Allocation | | Security Selection | | Price and Intraday | | Total |
|---|---|---|---|---|---|---|---|---|
| 0.05 | | 0.17 | | -0.02 | | -0.01 | | 0.19 |
| Duration | 0.01 | Finance | 0.06 | Finance | -0.04 | Pricing | -0.01 | |
| Shape | 0.03 | Industrial | 0.00 | Industrial | 0.03 | Intraday | 0.00 | |
| Other | 0.01 | Utility | 0.00 | Utility | 0.00 | | | |
| | | ABS | 0.00 | ABS | 0.03 | | | |
| | | CMBS | 0.01 | CMBS | 0.00 | | | |
| | | MBS | -0.01 | MBS | -0.05 | | | |
| | | Agency | -0.02 | Agency | 0.01 | | | |
| | | Municipal | 0.01 | Municipal | -0.01 | | | |
| | | Non-Corp | -0.01 | Non-Corp | 0.00 | | | |
| | | Treasury | 0.13 | Treasury | 0.00 | | | |
| | | Other | 0.00 | Other | 0.00 | | | |

## What Worked

- The Harbor Core Bond Fund outperformed the Bloomberg Aggregate Index in the 2$^{nd}$ quarter.
- The portfolio's underweight to Treasury contributed to relative performance.
- Top performers: LNC, OXY, and an ABS security.

## What Didn't Work

- Security selection within RMBS detracted from relative returns.
- The portfolio's overweight to CMBS detracted from relative returns.
- Bottom performers: FRT, BRKHEC, ELV.

Source: Bloomberg
Due to rounding totals may not sum to 100.
**Past performance is not a guarantee of future results.**

## Harbor Core Bond Fund – 1 Year Attribution – *As of 06/30/2023*

| | Portfolio Return (Gross of Fee) | Bloomberg Aggregate Index Return | Return Difference | Market Term Structure | Asset Allocation | Security Selection | Price and Intraday | Total |
|---|---|---|---|---|---|---|---|---|
| 1 Year | -0.35 | -0.94 | 0.24 | -0.14 | 0.29 | 0.53 | -0.09 | 0.59 |

| Market Term Structure | | Asset Allocation | | Security Selection | | Price and Intraday | |
|---|---|---|---|---|---|---|---|
| Duration | -0.03 | Finance | 0.09 | Finance | 0.00 | Pricing | -0.03 |
| Shape | -0.03 | Industrial | 0.09 | Industrial | 0.13 | Intraday | -0.05 |
| Other | -0.08 | Utility | 0.03 | Utility | 0.01 | | |
| | | ABS | 0.00 | ABS | 0.08 | | |
| | | CMBS | -0.08 | CMBS | 0.14 | | |
| | | MBS | 0.02 | MBS | 0.15 | | |
| | | Agency | -0.01 | Agency | 0.02 | | |
| | | Municipal | 0.03 | Municipal | 0.00 | | |
| | | Non-Corp | -0.04 | Non-Corp | 0.00 | | |
| | | Treasury | 0.23 | Treasury | -0.01 | | |
| | | Other | -0.07 | Other | 0.00 | | |

## What Worked

- The Harbor Core Bond Fund portfolio outperformed the Bloomberg Aggregate Index over the past 12 months.
- Asset Allocation within Treasuries greatly contributed to relative returns.
- The portfolio's overweight to Industrial and the Finance sector also aided performance.
- Top performers: ORCL, ABIBB, OXY.

## What Didn't Work

- Security selection within Treasuries slightly detracted from relative returns.
- The portfolios overweight to CMBS detracted from performance.
- Bottom performers: An ABS security, PEAHEA, PENSKE.

Source: Bloomberg
Due to rounding totals may not sum to 100.
**Past performance is not a guarantee of future results.**

# IMPORTANT INFORMATION

## 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.

There may be a greater risk that the Fund could lose money due to prepayment and extension risks because the Fund invests, at times, in mortgage-related and/or asset backed securities.

## 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.

## Disclosures

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

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.

Credit quality breakdown is based on ratings from Moody's, Standard and Poor's and Fitch. In cases where all three credit rating agencies have assigned different credit ratings to the same security, the middle rating is used. In cases where the security is rated by two rating agencies, the lower rating is used and, in cases where only one rating agency has assigned a credit rating to a security, that rating is used. Ratings are measured on a scale that generally ranges from AAA (highest) to D (lowest). Securities that receive no rating from an independent agency have been categorized as 'not rated.' Certain unrated securities (such as derivatives) are not reflected in the data shown. U.S. Treasury and U.S. Agency securities appear under the category U.S. Government/Agency. 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.

Due to rounding, percentages may not sum to 100.

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 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 subadvisor to the Harbor Core Bond Fund.**

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# IMPORTANT INFORMATION

## Attribution Disclosures

All data for this attribution analysis is provided by Income Research + Management.

Linked Performance by Sectors data is produced from FactSet using data supplied by State Street Bank and Trust Company.

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.

Other is the contribution to relative return due to the cumulative differences in carry, rolldown, and convexity.

Shape is the contribution to relative return due to the difference between the portfolio's and the index's duration profiles. The basic formula is the [(difference of each key rate duration between the portfolio and the index) multiplied by the total return of the respective key rate Treasury] minus the Duration and Other effects.

## 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.