Harbor Core Bond Fund

Income Research + Management

Subadviser Since 06/01/2018

Total Net Assets – *All Classes*	$57,232,120
Fixed Income Assets:	99.16%
Cash & Other Assets Less Liabilities:	0.84%
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 06/30/2022

Portfolio Characteristics

	Portfolio	Benchmark
Number of Bonds	199	12,563
Avg. Market Coupon (%)	3.09	2.54
Wtd. Avg. Maturity (yrs)	8.56	8.63
Wtd. Avg. Duration (yrs)	6.32	6.44
Beta vs. Fund Benchmark	1.04	
Current 30-Day Yield %	2.96	
Current 30-Day Un-Sub Yield %	2.84	

Top 10 Issues

	Portfolio %
US TREASURY N/B 01/27 1	4.70
US TREASURY N/B 02/42 2	3.52
US TREASURY N/B 02/52 2	2.32
US TREASURY N/B 08/40 1	2.26
FED HM LN PC POOL ZA119	1.95
FEDERAL NATIONAL MORTGA	1.56
GNMA II POOL 785283 G2	1.51
FED HM LN PC POOL SD049	1.36
FNMA POOL FM8672 FN 11/	1.20
US TREASURY N/B 02/32 1	1.19
Total	**21.56**

Maturity

	Portfolio %
0-1 yr	2.10
1-3 yr	16.67
3-5 yr	27.47
5-7 yr	18.27
7-10 yr	15.46
10-20 yr	11.06
20-30 yr	8.05
Over 30 yr	0.91

Duration

	Portfolio %
0-1 yr	7.33
1-3 yr	15.69
3-5 yr	27.77
5-7 yr	22.13
7-10 yr	10.58
10-20 yr	13.25
20-30 yr	3.25
Over 30 yr	0.00

Credit Quality

	Portfolio %
US Govt/Agency	14.93
AAA	45.36
AA	3.16
A	14.03
BBB	22.03
BB	0.41
B	0.00
CCC	0.00
CC	0.00
C	0.00
Below C	0.00
Non-Rated	0.00

Harbor®

Trusted Partnerships › Trusted Solutions

Harbor Core Bond Fund

CHARACTERISTICS & ALLOCATION

As of 06/30/2022

Sector	% of Market Value
Credit	**33.56**
Industrial	18.17
Finance	11.75
Utility	3.63
Non-corporate	0
Government	**18.76**
Treasury	15.57
SBA and Gov Guaranteed	3.19
Agency	0
Municipal	**2.20**
Revenue	1.22
GO	0.98
Pre-Refund/ETM	0
Securitized	**45.41**
Agency RMBS	25.58
CMBS	8.43
ABS	8.18

Sector (cont.)	% of Market Value
RMBS	2.27
Agency CMBS	0.94

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	HACBX	411512239	-4.92%	-10.59%	-10.86%	-0.65%	N/A	N/A	1.33%	06/01/18	0.34	0.40
Retirement	HCBRX	411512197	-5.00%	-10.64%	-10.88%	-0.60%	N/A	N/A	1.39%	06/01/18	0.26	0.32
Bloomberg US Aggregate Bond Index			-4.69%	-10.35%	-10.29%	-0.93%	N/A	N/A	1.14%	06/01/18		

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.

"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."
Income Research + Management

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.

Investment-grade corporate issuance totaled roughly $269 billion, the lightest second quarter since 2013 and almost $200 billion less than the first quarter. Soft demand and the risk-off tone pushed spreads almost 0.40% wider, from 1.16% to 1.55%—a new, year-to-date wide.

Portfolio Performance

During the second quarter of 2022, the Harbor Core Bond Fund (Institutional Class, "Fund") returned -4.92%, slightly 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 relative underperformance was driven primarily by asset allocation, given the risk-off tone. 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 spreads 0.40% wider to 1.55%, a new year-to-date wide.

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, such as those held by the Fed on its balance sheet, underperformed higher-coupon mortgages.

Security selection was positive. On the positive side, credit-security selection was strong with Financials and Utilities leading the way. On the negative side, security selection within asset-backed securities (ABS) and Industrials detracted.

Portfolio Positioning

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

Positive contributors to relative performance included security selection within Utilities and Financials.

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

Security selection in AAA securities detracted from relative performance. This was offset by security selection within BAA and AA securities, which aided performance.

The Fund's out-of-benchmark allocation to small business administration pools (SBAs) aided relative returns, while the out-of-benchmark allocation to non-agency residential mortgage-backed securities (RMBS) detracted from relative performance.

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

Contributors and Detractors

The largest contributors to Fund performance included a taxable municipal and an agency RMBS pool.

The largest detractors from Fund performance included United Airlines and a whole-business-franchise ABS pool.

Buys & Sells

We purchased $262K XEL 4.5 52 of the Northern States Power deal. We view NSP-MN as an environmental, social, and governance (ESG) leader given their strong coal-reduction targets.

We sold TD 0.75 25 at +75 on 5/11/22, and as of 6/30/22, it was trading around +95. We selectively sold this position at a tight level, to help meet the redemption needs.

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.

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

	Portfolio Return (Gross of Fee)	Bloomberg Aggregate Index Return	Return Difference
2Q 2022	4.84	4.69	0.15

Market Term Structure		Asset Allocation		Security Selection		Price and Intraday		Total
0.04		(0.22)		0.05		(0.02)		(0.15)
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 Financials and Utilities
- The portfolio's overweight to ABS and out of benchmark allocation to SBAs aided relative performance
- Top performers: PENSKE, an Agency RMBS pool and a Taxable muni

What Didn't Work

- The Harbor Core 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 Industrials and Agency RMBS detracted from returns
- The portfolio's underweight to Treasuries and overweight to Financials also detracted from relative returns
- Bottom performers: UAL, and ABS security and an Agency RMBS security

Source: Bloomberg

Harbor Core Bond Fund – 1 Year 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
1 Year	**(10.50)**	**(10.29)**	**(0.21)**	**0.46**	**(0.40)**	**(0.21)**	**(0.06)**	**(0.21)**

Market Term Structure		Asset Allocation		Security Selection		Price and Intraday	
Duration	0.34	Finance	(0.07)	Finance	0.05	Pricing	0.01
Shape	0.16	Industrial	(0.03)	Industrial	0.06	Intraday	(0.07)
Other	(0.04)	Utility	(0.04)	Utility	0.05		
		ABS	0.08	ABS	(0.24)		
		CMBS	(0.01)	CMBS	0.02		
		MBS	0.02	MBS	(0.16)		
		Agency	0.03	Agency	(0.04)		
		Municipal	(0.02)	Municipal	0.04		
		Non-Corp	(0.01)	Non-Corp	0.00		
		Treasury	(0.38)	Treasury	0.01		
		Other	0.03	Other	0.00		

What Worked

- The portfolio's overweight to non- Agency RMBS and ABS positively contributed to relative performance
- Security selection within Financials, Industrials and Utilities aided relative performance
- Top performers: OXY, ACACN and a taxable muni security

What Didn't Work

- The Harbor Core Bond Fund portfolio underperformed the Bloomberg Aggregate Index over the past 12 months
- The portfolio's underweight to Treasuries and Financials detracted from relative performance
- Security selection within ABS and Agency RMBS detracted from relative returns
- Bottom performers: BALN, an ABS security and an Agency RMBS security

Source: Bloomberg

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

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.

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 02/28/2023.

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.

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 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 Bond Fund.

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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.