

# Harbor Small Cap Value Fund

EARNEST Partners LLC

Subadvisor Since 12/14/2001

**Total Net Assets - All Classes** \$2,095,323,134  
**Equity Assets:** 97.20%  
**Cash & Other Assets Less Liabilities:** 2.80%  
**Benchmark Name:** Russell 2000® Value Index

## Portfolio Managers



Paul E. Viera

## Investment Philosophy

The Fund invests primarily in equity securities – common and preferred stocks – of small cap companies with stocks trading at prices below what the portfolio manager believes are their intrinsic values. In selecting stocks for the Fund, the portfolio manager: utilizes a value-based investment style seeking to identify companies with stocks trading at prices below what the portfolio manager believes are their intrinsic values, applies fundamental and qualitative criteria to identify companies for the portfolio, and maintains relationships with key analysts and industry experts to obtain unbiased research perspectives.

## CHARACTERISTICS & ALLOCATION

As of 09/30/2023

Portfolio Characteristics			Economic Sectors		
	Portfolio	Benchmark		Portfolio %	Benchmark %
Number of Holdings	59	1,448	Industrials	30.17	14.28
Wtd Avg Market Cap (\$Mil)	4,009.30	2,349.60	Financials	20.95	25.51
Median Market Cap (\$Mil)	3,293.00	718.00	Information Technology	16.57	5.81
Price/Book Ratio	2.39	1.30	Consumer Discretionary	7.59	10.29
Adjusted Trailing P/E Ratio	21.50	11.00	Energy	6.95	10.99
% EPS Growth - Past 3 Yr	12.80	27.50	Health Care	5.46	8.34
Est 3-5 Yr EPS Growth Rate (%)	13.60	6.40	Real Estate	3.96	10.36
Return on Equity (%)	10.94	9.44	Materials	3.47	4.86
Beta vs. Fund Benchmark	0.90		Consumer Staples	2.08	2.71
Forecasted P/E Ratio	18.00	11.40	Communication Services	0.00	2.65
			Utilities	0.00	4.10

Top 10 Holdings			Top 10 Industries		
	Portfolio %	Benchmark %		Portfolio %	Benchmark %
Houlihan Lokey Inc. Cla	3.53	0.00	Machinery	10.50	2.62
Casella Waste Systems I	3.23	0.00	Banks	10.38	15.77
Franklin Electric Co. I	2.81	0.00	Electronic Equipment	7.42	2.18
Parsons Corporation	2.76	0.11	Aerospace & Defense	7.07	0.98
Hexcel Corporation	2.49	0.00	Energy Equipment	6.95	2.65
FormFactor Inc.	2.42	0.00	Semiconductors	6.28	1.75
Flowserve Corporation	2.41	0.00	Capital Markets	5.02	0.78
Oceaneering Internation	2.36	0.00	Health Care Equip	4.17	1.49
AAR CORP.	2.33	0.18	Hotels Rest & Leisure	4.03	0.91
Reinsurance Group of Am	2.31	0.00	Professional Services	3.99	1.23
<b>Total</b>	<b>26.65</b>	<b>0.29</b>	<b>Total</b>	<b>65.81</b>	<b>30.36</b>

Market Capitalization		
		Portfolio %
Large	Above 25.0B	0.00
	10.0B - 25.0B	1.20
Mid	5.0B - 10.0B	26.67
	1.0B - 5.0B	67.09
Small	0.0 - 1.0B	2.23



### 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	HASCX	411511843	-4.76%	3.21%	14.75%	11.65%	4.68%	8.27%	9.46%	12/14/01	0.88	0.88
Investor	HISVX	411511694	-4.88%	2.92%	14.30%	11.24%	4.29%	7.87%	9.49%	11/01/02	1.24	1.24
Retirement	HNVRX	411512452	-4.76%	3.26%	14.82%	11.74%	4.76%	8.33%	9.49%	03/01/16	0.80	0.80
Russell 2000® Value Index			-2.96%	-0.53%	7.84%	13.32%	2.59%	6.19%	7.81%	12/14/01		

## MANAGER COMMENTARY

As of 09/30/2023

**"While economic growth continues to fare better than many expected, the higher-for-longer interest rate regime combined with mounting consumer pressures like rising oil prices and the resumption of student loan repayments ultimately weighed heavily on market sentiment in the quarter."**

EARNEST Partners, LLC

### Market in Review

In the third quarter of 2023, the broad rally in global equity markets stalled after a strong first half of the year as investors began to focus on long-term economic growth prospects and the posture of the Federal Reserve ("Fed") in its fight against inflation. Energy emerged as the star performer during the quarter, gaining momentum as travel demand continued to remain strong and several OPEC countries extended supply restrictions through the end of 2024. Rate-sensitive industries, such as Consumer Discretionary, Real Estate, and Utilities, encountered headwinds in the wake of the Fed's persistent commitment to maintaining higher interest rates for an extended period. These businesses typically hold lots of debt on their balance sheets, which ensures that they will face higher financing costs. Additionally, Utilities and real estate investment trusts ("REITs") — often viewed as bond proxies by many investors — are competing for investors' capital with government securities that are offering over 5% annualized rates. Many of the stocks within the tech-heavy Nasdaq-100 (Amazon and Tesla are both within Consumer Discretionary) saw a pullback after the index gained more than 40% during the first half of the year on the back of optimism surrounding artificial intelligence ("AI") and related industries.

### Portfolio Performance

The U.S. small-cap equity market, as represented by the Russell 2000® Value Index, contracted 2.96% during the third quarter of 2023 despite strong gains in July. The index returned more than 6.50% through the first four weeks of the quarter as speculation grew that the economy could avoid a recession and realize a soft landing as the Fed continued to navigate monetary policy. While economic growth continues to fare better than many expected, the higher-for-longer interest rate regime combined with mounting consumer pressures — like rising oil prices and the resumption of student loan repayments — ultimately weighed heavily on market sentiment in the quarter.

Retirement Class shares commenced operations on March 1, 2016. The performance attributed to the Retirement Class shares prior to that date is that of the Institutional Class shares. Performance prior to March 1, 2016 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.

Expense ratio information is as of the Fund's current prospectus, as supplemented. Gross expenses are the Fund's total annual operating expense.

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](http://harborcapital.com) or by calling 800-422-1050.



Of the 11 Global Industry Classification Standard (GICS®) sectors, only two – Energy and Financials – generated positive returns in the quarter. Notably, the Energy sector gained more than 18% as supply constraints drove the underlying commodity prices to year-to-date highs in the quarter. Net of fees, the Harbor Small Cap Value Fund (Institutional Class, “Fund”) underperformed its benchmark, the Russell 2000® Value Index, for the period in part due to its relative underweight position to the Energy sector and relative overweight position to the Information Technology sector. The Information Technology sector was a laggard for the quarter as the market continued to adjust to the prospects of the higher-for-longer rate regime. However, EARNEST Partners continues to focus on high-quality companies that we believe are well positioned to benefit over the long term.

### **Contributors & Detractors**

Detracting from performance, Darling Ingredients is a developer and producer of sustainable natural ingredients sourced from bionutrients. The company operates through three segments: feed ingredients, food ingredients, and fuel Ingredients. It offers ingredients and specialty solutions for customers in various industries including the pharmaceutical, food/pet food, industrial, and energy industries. Despite Darling Ingredients reporting a ~26% year-over-year increase in earnings per share of \$1.55 and an adjusted EBITDA of \$508 million, shares contracted more than 10% for the quarter. However, management continues to hold a favorable earnings outlook, emphasizing leverage reduction while planning increased capital outlays for sustainable aviation fuel initiatives and capacity expansion. Darling Ingredients anticipates strong earnings in the fuel segment due to lower fat costs. Darling Ingredients' performance reflects the strength of its legacy business lines combined with an underappreciated opportunity in the rapidly expanding renewable diesel space. Given Darling Ingredients' first-mover advantage and market-leading position within renewables, the company should be well positioned to capitalize on market opportunities and grow earnings.

Contributing to performance, Houlihan Lokey (“HLI”), an investment banking company, provides merger and acquisition (“M&A”), capital market, and financial advisory services worldwide. It operates in three segments: corporate finance, financial restructuring, and financial and valuation advisory. Despite missing consensus earnings estimates, HLI shares were up approximately 11% in the quarter. The earning miss was driven in part by a decline in M&A activity coupled with increased operating expenses. These factors, however, were partially offset by robust restructuring transaction revenue, which constituted ~30% of the top line and represented a ~57% increase year over year. Management notes that the restructuring business is expected to remain buoyant. We maintain our position in HLI owing to its cyclically balanced business model, where its corporate finance and financial restructuring segments continue to outperform expectations. The company's growing market share in middle-market M&A transactions underscores our optimism toward the growth potential of its corporate finance business.

### **Underweights and Overweights**

The Fund entered the period with a relative overweight to Information Technology and Industrials. The Fund is positioned this way because we have found more attractive individual opportunities relative to other sectors. Our views on the names in the Fund have remained consistent since last quarter, and the Fund continues to maintain a healthy overweight, reflecting our conviction in the holdings.

### **Outlook**

There were no new themes or trends introduced into the Fund during the quarter. We continue to position the Fund based on the underlying fundamentals of individual companies and the growth prospects relative to what is currently reflected in the stock price.

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](http://harborcapital.com) or by calling 800-422-1050.



### Best & Worst Performers

Best Performers	Average Weight %	Return %
SABRE CORP	1.04	40.75
DMC GLOBAL INC	0.45	37.78
OCEANEERING INTL INC	1.98	37.54
RYDER SYSTEM INC	1.30	27.06
ARCHROCK INC	0.83	24.42

Worst Performers	Average Weight %	Return %
WOLVERINE WORLD WIDE INC	0.67	-44.45
METHODE ELECTRONICS INC	0.91	-31.55
CRACKER BARREL OLD COUNTRY	1.45	-26.92
ENVESTNET INC	1.60	-25.81
CONMED CORP	2.43	-25.65

### Contributors & Detractors

Greatest Contributors	Return %	Contribution to Return %
OCEANEERING INTL INC	37.54	0.61
RYDER SYSTEM INC	27.06	0.29
HOULIHAN LOKEY INC	9.53	0.28
PARSONS CORP	12.90	0.26
SABRE CORP	40.75	0.26
<b>Total</b>		<b>1.69</b>

Greatest Detractors	Return %	Contribution to Return %
CONMED CORP	-25.65	-0.69
CASELLA WASTE SYSTEMS INC-A	-15.64	-0.55
DARLING INGREDIENTS INC	-18.17	-0.45
ENVESTNET INC	-25.81	-0.44
CRACKER BARREL OLD COUNTRY	-26.92	-0.41
<b>Total</b>		<b>-2.53</b>



### Quarterly Attribution:

#### Harbor Small Cap Value Fund vs Russell 2000® Value

##### Performance

	Portfolio	Benchmark	Active
Return Ex Currency	-4.55	-2.96	-1.59
Currency Contribution	0.00	0.00	0.00
<b>Total Return</b>	<b>-4.55</b>	<b>-2.96</b>	<b>-1.59</b>

Sector Attribution	Average Weight			Total Return			Contribution to Return		Attribution Analysis		
	Port. Avg. Wgt.	Bench. Avg. Wgt.	Variation in Avg. Wgt.	Port. Total Return	Bench. Total Return	Variation in Total Return	Port. Contribution To Return	Bench. Contribution To Return	Allocation Effect	Selection Effect	Total Effect
Utilities	0.00	4.18	-4.18	0.00	-11.67	11.67	0.00	-0.49	0.38	0.00	0.38
Health Care	5.74	9.33	-3.59	-17.72	-16.03	-1.69	-1.08	-1.50	0.52	-0.16	0.36
Real Estate	4.04	10.50	-6.45	-1.41	-4.91	3.51	-0.06	-0.51	0.12	0.14	0.26
Financials	20.38	25.28	-4.90	3.31	1.02	2.29	0.52	0.11	-0.19	0.44	0.24
Communication Services	0.00	2.80	-2.80	0.00	-6.22	6.22	0.00	-0.17	0.09	0.00	0.09
Materials	3.48	4.89	-1.41	-6.08	-2.65	-3.43	-0.18	-0.12	0.00	-0.12	-0.12
Industrials	29.62	14.34	15.28	-4.51	-3.92	-0.60	-1.30	-0.54	-0.14	-0.19	-0.33
Consumer Staples	2.37	2.60	-0.23	-18.17	-1.90	-16.27	-0.45	-0.05	0.00	-0.39	-0.39
Consumer Discretionary	8.11	10.31	-2.20	-11.20	-5.05	-6.15	-0.92	-0.51	0.05	-0.51	-0.46
Energy	6.26	9.82	-3.56	23.04	18.46	4.58	1.17	1.51	-0.67	0.20	-0.47
Information Technology	17.26	5.97	11.30	-13.16	-11.85	-1.31	-2.28	-0.69	-1.02	-0.28	-1.30
<b>Total</b>	<b>100.00</b>	<b>100.00</b>	<b>0.00</b>	<b>-4.55</b>	<b>-2.96</b>	<b>-1.59</b>	<b>-4.55</b>	<b>-2.96</b>	<b>-0.71</b>	<b>-0.88</b>	<b>-1.59</b>

### Trailing 1 Year Attribution:

#### Harbor Small Cap Value Fund vs Russell 2000® Value

##### Performance

	Portfolio	Benchmark	Active
Return Ex Currency	15.86	7.84	8.02
Currency Contribution	0.00	0.00	0.00
<b>Total Return</b>	<b>15.86</b>	<b>7.84</b>	<b>8.02</b>

Sector Attribution	Average Weight			Total Return			Contribution to Return		Attribution Analysis		
	Port. Avg. Wgt.	Bench. Avg. Wgt.	Variation in Avg. Wgt.	Port. Total Return	Bench. Total Return	Variation in Total Return	Port. Contribution To Return	Bench. Contribution To Return	Allocation Effect	Selection Effect	Total Effect
Industrials	28.74	13.59	15.15	33.12	28.35	4.78	8.29	3.20	3.05	1.06	4.11
Health Care	7.12	10.15	-3.03	-3.21	-19.39	16.19	-0.09	-1.75	1.06	1.22	2.28
Financials	21.38	27.05	-5.67	-2.13	-5.36	3.23	0.28	-1.30	0.90	0.97	1.87
Information Technology	17.50	5.90	11.60	19.26	26.23	-6.98	3.89	1.41	2.27	-1.29	0.98
Utilities	0.00	4.80	-4.80	0.00	-5.97	5.97	0.00	-0.15	0.72	0.00	0.72
Real Estate	4.09	10.71	-6.62	11.30	5.21	6.09	0.53	0.63	0.17	0.26	0.43
Communication Services	0.00	2.94	-2.94	0.00	-2.98	2.98	0.00	-0.08	0.36	0.00	0.36
Materials	3.97	4.41	-0.44	20.00	23.97	-3.98	0.83	0.90	0.00	0.02	0.01
Energy	3.89	7.18	-3.29	93.83	43.77	50.06	2.27	2.76	-1.19	0.96	-0.23
Consumer Staples	2.53	2.69	-0.16	-21.09	-0.02	-21.07	-0.39	0.00	0.05	-0.67	-0.63
Consumer Discretionary	7.82	10.58	-2.77	3.22	25.43	-22.21	0.13	2.21	-0.49	-1.64	-2.13
<b>Total</b>	<b>100.00</b>	<b>100.00</b>	<b>0.00</b>	<b>15.86</b>	<b>7.84</b>	<b>8.02</b>	<b>15.86</b>	<b>7.84</b>	<b>7.14</b>	<b>0.88</b>	<b>8.02</b>

Past performance is not a guarantee of future results.

### Risks

There is no guarantee that the investment objective of the Fund will be achieved. Stock markets are volatile and equity values can decline significantly in response to adverse issuer, political, regulatory, market and economic conditions. Stocks of small cap companies pose special risks, including possible illiquidity and greater price volatility than stocks of larger, more established companies.

### Benchmarks

The Russell 2000® Value Index is an unmanaged index representing the smallest 2000 stocks with the lowest price-to-book ratio and future earnings. This unmanaged index does not reflect fees and expenses and is not available for direct investment. The Russell 2000® Value Index and Russell® are trademarks of Frank Russell Company.

### Disclosures

Shares of the Harbor Small Cap Value Fund are unavailable to new investors as of June 1, 2021. The Fund continues to accept investments from existing shareholders and allows exchanges from other Harbor Funds as long as the exchanging shareholder has an existing Harbor Small Cap Value Fund account.

All holdings-related data is provided by FactSet. Because FactSet relies on external sources for its data, that data may differ slightly from actual values maintained by Harbor Funds.

Due to the security valuation procedures of the Fund and intra-day trading activity not included in the FactSet calculations, the actual returns may vary. From time to time the cash return in the portfolio may appear distorted based on the way FactSet's attribution calculation methodology addresses delayed settlements.

Beta is a rolling three year, unless the Fund has a track record of less than three years, in which case it is a rolling one year.

Best and Worst Performers sections reflect stocks in the portfolio for the quarter with an average weight of 0.25% or greater.

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](http://harborcapital.com) or call 800-422-1050. Read it carefully before investing.**

**EARNEST Partners LLC is an independent subadvisor to the Harbor Small Cap Value Fund.**

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### Attribution Disclosures

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

Active Currency Contribution is the Currency Contribution of the portfolio minus the Currency Contribution of the benchmark.

Allocation Effect is the portion of portfolio excess return that is attributable to taking different group bets from the benchmark. (If either the portfolio or the benchmark has no position in a given group, allocation effect is the lone effect.) A group's allocation effect equals the average percent capitalization of the portfolio's group minus the average percent cap of the benchmark's group times the total return of the benchmark group minus the total return of the benchmark.

Average Weight is the dollar value (price times the shares held) of the security or group, divided by the total dollar value of the entire portfolio displayed as a percentage. It is calculated as the simple arithmetic average of daily values.

Contribution to Return is the contribution of a security or group to the overall portfolio return. It is calculated as the security weight multiplied by the daily security return linked daily across the reporting period.

Currency Contribution is Total Return in USD subtracting out the Local Returns.

Local Returns are the Total Return of the portfolio or benchmark using the local currency.

Selection Effect is the portion of portfolio excess return attributable to choosing different securities within groups from the benchmark. A group's security selection effect equals the average weight of the benchmark's group times the total return of the portfolio's group minus the total return of the benchmark's group.

Total Effect is the sum of Allocation Effect and Selection Effect. The total effect represents the opportunity cost of what was done in a group relative to the overall portfolio. It is not just the difference between percent contribution in the portfolio and benchmark. At the overall portfolio level, the two numbers are equal. At the group level, they can be different.

Total Return is the price change of a security or group including dividends accrued over the report period (or the in-portfolio return) which includes only the time period that each security was in the portfolio.

### 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.

Median Market Cap: The median size of the companies in a portfolio or index as measured by the market value of outstanding shares.

Weighted Average Market Capitalization: The average size of the companies in a portfolio or index as measured by the market value of outstanding shares.

Earnings per share (EPS) is the portion of a company's profit allocated to each outstanding share.

The Est 3-5 Yr EPS Growth (%) is the estimated growth of earnings per share over the next 3-5 years, using pre-calculated mean long-term EPS growth rate estimates, which are calculated using each individual broker's methodology, from FactSet, First Call, I/B/E/S Consensus, and Reuters. Forward looking estimates may not come to pass.

% EPS Growth - Past 3 Year: Earnings per share refers to the bottom-line measure of a company's profitability defined as net income divided by the number of outstanding shares.

The Adjusted Trailing P/E (price-to-earnings) Ratio is the closing stock price divided by the sum of the last 12 months actual EPS.

Forecasted P/E Ratio: a measure of the P/E (price-to-earnings) ratio using forecasted earnings for the P/E calculation.

Return on Equity (ROE) is a measure of financial performance calculated by dividing net income by shareholders' equity.

The Price/Book (price-to-book) Ratio evaluates a firm's market value relative to its book value.

All P/E, ROE and P/B statistics are calculated as weighted medians.

The Global Industry Classification Standard (GICS®) is an industry analysis framework that helps investors understand the key business activities for companies around the world. MSCI and S&P Dow Jones Indices developed this classification standard to provide investors with consistent and exhaustive industry definitions.

Adjusted EBITDA (earnings before interest, taxes, depreciation, and amortization) is a measure computed for a company that takes its earnings and adds back interest expenses, taxes, and depreciation charges, plus other adjustments to the metric.

The Nasdaq 100 is a stock market index that includes 100 of the largest, most actively traded, non-financial companies that are listed on the Nasdaq Stock Market.