

Harbor Scientific Alpha Income ETF

BlueCove Limited

Subadvisor Since 09/14/2021

Ticker: SIFI
CUSIP: 41151J208
Net Expense Ratio: 0.50%
Gross Expense Ratio: 0.50%
Total Net Assets: \$29,155,210
Benchmark Name: Bloomberg US Aggregate Bond Index

Portfolio Managers



Benjamin Brodsky, CFA



Michael Harper, CFA



Garth Flannery, CFA



Benoy Thomas, CFA

Investment Philosophy

The Harbor Scientific Alpha Income ETF (SIFI) seeks total return. The management team has an objective to provide competitive total returns and income to investors with lower relative risk than the broader high-yield market. The management team seeks to achieve its objective by investing in fixed income securities including corporate bonds, emerging market sovereign bonds, and fixed income derivative instruments.

The Fund is an actively managed multi-sector fixed income strategy which employs a structured investment process that utilizes a proprietary framework in the asset allocation and security selection of both investment-grade and below investment-grade (high-yield) bonds.

CHARACTERISTICS & ALLOCATION

As of 09/30/2022

Portfolio Characteristics

	Portfolio
Number of Issues	155
Number of Issuers	138
Number of Industries	42
Wtd. Avg. Maturity (yrs)	4.03
Duration	3.63
Current 30-Day Yield %	5.50
Current 30-Day Un-Sub Yield %	5.50
Derivatives % of Portfolio	3.5

Top 10 Sectors

	Portfolio %
Healthcare	13.59
Energy	13.16
Consumer Goods	11.30
Capital Goods	10.20
Basic Industry	9.09
Technology & Electronics	6.97
Foreign Sovereign	6.76
Services	6.10
Utility	4.60
Real Estate	4.41
Total	86.17

Top 10 Issues

	Portfolio %
PIONEER NATURAL RESOURC	1.00
BAE Systems Holdings In	1.00
BAYER US FINANCE LLC CO	0.99
GILEAD SCIENCES INC SR	0.99
IMPERIAL BRANDS FIN PLC	0.99
REPUBLIC SERVICES INC S	0.98
VISTRA OPERATIONS CO LL	0.98
NEW FORTRESS ENERGY INC	0.98
DH EUROPE FINANCE II CO	0.97
ALEXANDER FUNDING TRUST	0.96
Total	9.85

Credit Quality

	Portfolio %
AAA	0.00
AA	0.00
A	0.00
BBB	54.67
BB	35.50
B	6.45
CCC	0.00
CC	0.00
C	0.00
Below C	0.00
Non-Rated	0.00

Bond Market Exposures

	Portfolio %
Investment Grade Corporate	51.09
High-Yield Corporate	38.76
Emerging Markets	6.76
Cash	3.39



Trusted Partnerships > Trusted Solutions

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Maturity		Duration	
	Portfolio %		Portfolio %
0-1 yr	2.67	0-1 yr	3.37
1-3 yr	33.76	1-3 yr	38.12
3-5 yr	17.17	3-5 yr	34.98
5-7 yr	33.55	5-7 yr	19.86
7-10 yr	9.46	7-10 yr	0.27
10-20 yr	0.00	10-20 yr	0.00
20-30 yr	0.00	20-30 yr	0.00
Over 30 yr	0.00	Over 30 yr	0.00

Average Annual Returns

	3 Months	YTD	1 Yr.	3 Yr.	5 Yr.	10 Yr.	Since Inception	Inception Date
Harbor Scientific Alpha Income ETF (NAV)	-1.27%	-13.35%	-13.38%	N/A	N/A	N/A	-13.75%	09/14/21
Harbor Scientific Alpha Income ETF (Market)	-1.39%	-13.60%	-13.48%	N/A	N/A	N/A	-13.74%	09/14/21
Bloomberg US Aggregate Bond Index	-4.75%	-14.61%	-14.60%	N/A	N/A	N/A	-15.00%	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.



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Market in Review

Risk markets finished the third quarter of 2022 weaker, with U.S. equities and high-yield bonds down 5% and 1%, respectively, as volatility spiked, and interest rates continued their upward trend. Investment-grade bond returns declined 5% as the asset class’s higher interest rate sensitivity dominated returns. 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 comments from U.S. Federal Reserve Chair Jerome Powell about the aggressive policy emphasis to fight inflation, as rising interest rates resulted in a continued tightening of financial conditions. Weakness in interest-rates markets had a negative impact on the Harbor Scientific Alpha Income ETF (“ETF”) returns.

Portfolio Performance

The Harbor Scientific Alpha Income ETF returned -1.27% (by NAV) and -1.39% (by market price) during the third quarter, outperforming the Bloomberg US Aggregate Bond Index, which returned -4.75%. The decline in total ETF returns was attributable to the interest rate position, with a positive contribution from credit security selection due to spread tightening in selected positions and positive carry.

Portfolio Positioning

The ETF’s interest rate duration position averaged 3.6 years over the quarter, ranging from 3.4 to 4.2 years. The duration position subtracted about -3.55% from the total return, as yields rose with an emphasis on shorter-end duration. The credit allocation added +1.63% to the fund’s total return given the allocation to high yield credit, with about one-third of return contribution driven by positive carry and the remainder from spread tightening in selected names.

Contributors and Detractors

The largest contributors to performance included long positions in Valvoline, a consumer products company, and Vistra Operations, an electric company, adding a combined .07%. The Valvoline long position was driven by valuation and fundamental insights. Bonds tightened on the back of the company selling part of its assets and using the funds for deleveraging. The Vistra long position was driven by sentiment insights. Bonds outperformed following an earnings recovery and expectations of solid cash-flow generation.

The largest detractors to performance included long positions in Open Text, a technology company, and FMG Resources, a metals and mining company, subtracting a combined .07%. The long position in Open Text was driven by positive fundamental and valuation insights. The bonds underperformed following a significant acquisition made by the company during the current quarter. The long position in FMG Resources was driven by positive signals across the three categories of sentiment, valuation, and fundamentals. Bonds underperformed following market worries on the negative impact of decelerating economic activity on the demand for iron ore.

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Buys & Sells

During the quarter, we initiated a new position in New Red Fin, a restaurant company, based on strong fundamentals and valuation. This position added .01% to the ETF security selection performance.

Also during the quarter, we sold the position in CVR Energy, a refiner, based on strong sentiment signals on the back of improved refining margins in the second half of the quarter. This position added .02% to the ETF security selection performance.

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 overall credit positioning in the fund. 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.

With U.S. core inflation still increasing through September, the proximity of peak rates remains uncertain. Although rising yields have improved the attractiveness of rates, valuations remain expensive relative to compensation for volatility—offset by the attractiveness of flight-to-quality assets as recessionary risks rise. Thus, we maintain a more neutral interest rate duration position versus a long-term, expected average target.

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 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 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 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.

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 Income ETF.

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