

# Harbor Mid Cap Value Fund

LSV Asset Management

Subadvisor Since 09/30/2004

**Total Net Assets - All Classes** \$287,276,639  
**Equity Assets:** 99.79%  
**Cash & Other Assets Less Liabilities:** 0.21%  
**Benchmark Name:** Russell Midcap® Value Index

## Portfolio Managers



Josef Lakonishok, Ph.D.



Menno Vermeulen, CFA



Puneet Mansharamani, CFA



Greg Sleight



Guy Lakonishok, CFA

## Investment Philosophy

The Fund invests primarily in equity securities, common stocks, of mid cap companies that the portfolio manager believes are undervalued in the marketplace at the time of purchase. The portfolio manager's investment strategy uses a quantitative model to evaluate and recommend companies based on the following indicators: fundamental undervaluation, such as low price-to-cash flow ratio or low price-to-earnings ratio, past negative market sentiment, recent momentum, such as high recent stock price performance and control of incremental risk relative to the benchmark index.

## CHARACTERISTICS & ALLOCATION

As of 09/30/2022

Portfolio Characteristics			Economic Sectors		
	Portfolio	Benchmark		Portfolio %	Benchmark %
Number of Holdings	151	702	Financials	20.65	18.47
Wtd Avg Market Cap (\$Mil)	12,356.90	17,792.40	Consumer Discretionary	14.21	9.61
Med Cap - # Stocks (\$Mil)	6,522.00	8,217.00	Industrials	10.89	15.14
Price/Book Ratio	1.67	2.06	Information Technology	10.84	9.15
Adjusted Trailing P/E Ratio	8.50	18.20	Consumer Staples	8.63	4.05
% EPS Growth - Past 3 Yr	18.00	14.80	Materials	7.89	7.35
Return on Equity (%)	19.74	12.91	Health Care	7.64	7.29
Beta vs. Fund Benchmark	1.11		Real Estate	7.04	11.58
Forecasted P/E Ratio	8.30	15.30	Energy	5.20	5.17
Proj. Earnings Growth Rate (%)	9.20	10.10	Utilities	3.98	8.99
			Communication Services	2.82	3.35

Top 10 Holdings			Top 10 Industries		
	Portfolio %	Benchmark %		Portfolio %	Benchmark %
Hartford Financial Services	1.60	0.36	Insurance	8.34	6.79
Kroger Co.	1.59	0.51	Equity REITS	7.04	11.07
Snap-on Incorporated	1.45	0.19	Oil Gas & Consumables	5.20	4.48
Jazz Pharmaceuticals Public	1.38	0.14	Machinery	5.07	5.04
McKesson Corporation	1.34	0.00	Electronic Equipment	4.95	1.81
Allstate Corporation	1.32	0.60	Banks	4.70	5.10
Owens Corning	1.30	0.14	Specialty Retail	4.29	2.05
Ameriprise Financial Inc.	1.28	0.18	Health Care Providers	4.23	1.85
HP Inc.	1.28	0.25	Food Products	4.09	2.47
Tyson Foods Inc. Class A	1.27	0.33	Containers & Packaging	3.71	1.44
<b>Total</b>	<b>13.81</b>	<b>2.70</b>	<b>Total</b>	<b>51.62</b>	<b>42.10</b>

Market Capitalization		
		Portfolio %
Large	Above 25.0B	16.34
	10.0B - 25.0B	21.54
Mid	5.0B - 10.0B	31.83
	1.0B - 5.0B	26.38
Small	0.0 - 1.0B	3.92



Trusted Partnerships > Trusted Solutions



### 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	HAMVX	411511835	-4.74%	-17.08%	-10.98%	3.62%	2.08%	8.47%	6.78%	03/01/02	0.85	0.89
Administrative Investor	HRMVX	411511728	-4.81%	-17.27%	-11.21%	3.36%	1.83%	8.21%	7.77%	11/01/02	1.10	1.14
Investor	HIMVX	411511736	-4.83%	-17.32%	-11.32%	3.24%	1.70%	8.08%	7.64%	11/01/02	1.21	1.25
Retirement	HNMVX	411512460	-4.74%	-17.05%	-10.94%	3.70%	2.16%	8.52%	6.80%	03/01/16	0.77	0.81
Russell Midcap® Value Index			-4.93%	-20.36%	-13.56%	4.50%	4.76%	9.44%	8.85%	03/01/02		

## MANAGER COMMENTARY

As of 09/30/2022

**“On the economic front, GDP data confirmed that the U.S. economy is in a “technical” recession as GDP fell by -0.6% year over year in the second quarter after a -1.6% contraction in the first quarter.”**

LSV Asset Management

### Market in Review

U.S. equities finished lower in the third quarter as the Federal Reserve’s (Fed) aggressive stance toward combatting inflation stoked fears of a Fed-induced recession and weighed on equity markets. The S&P 500 was down 4.88% for the quarter. As measured by Russell indexes, small-cap stocks outperformed large-caps, while value stocks underperformed growth across all market-cap segments. All but two of the 11 broad S&P 500 sectors posted losses for the quarter, with only Energy and Consumer Discretionary stocks posting positive returns. Communication Services, Real Estate, and Materials fell the most.

Coming into the quarter, anticipation of a Fed policy pivot supported equities, as monetary tightening was having the intended effect of slowing the economy while moderating inflation, a sign that the Fed could slow or stop its rate hikes sooner than expected in 2023. Yet these hopes were quickly abandoned following a hawkish speech from Federal Reserve Chairman Jerome Powell at the annual economic symposium in Jackson Hole, Wyoming, in August. The Fed raised the interest rates by 0.75% for the third consecutive meeting in September.

On the economic front, GDP data confirmed that the U.S. economy is in a “technical” recession, as GDP fell by -0.6% year over year in the second quarter after a -1.6% contraction in the first quarter. Higher interest rates have negatively impacted the housing market as both new and existing home sales fell precipitously over the quarter. On the positive side, labor market data continued to be resilient as the August non-farm payrolls report beat expectations; retail sales and industrial production also beat expectations during 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 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.

**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.**



### Portfolio Performance

During the third quarter of 2022, the Harbor Mid Cap Value Fund (Institutional Class, “Fund”) returned -4.74% slightly outperforming its benchmark, the Russell Midcap® Value Index, which returned -4.93. The relative underperformance of value stocks had a negative impact on relative results in the quarter, given the Fund’s deep value bias.

We take limited sector and industry bets and look to add value primarily from bottom-up stock selection. During the third quarter, the Fund’s stock selection added value, while sector selection was mixed. While the Fund benefited from an underweight to Real Estate, which lagged in the quarter, this was offset by the Fund’s underweight to Industrials and overweight to Consumer Staples. Stock selection was positive, particularly in the Energy, Consumer Discretionary, and Industrials sectors. This was offset by poor selection among Materials and Information Technology stocks. At the industry level, strong stock selection among refiners, plus air freight and logistics companies added value. However, our overweight to technology hardware and poor selection among semiconductor stocks detracted.

### Contributors & Detractors

Stock selection within the Energy sector added value in the quarter, particularly refiners Marathon Petroleum, HF Sinclair, and Devon Energy, in the exploration and production group. Marathon and HF Sinclair returned over 20% in the down market as revenue and profits beat expectations. Refiners have benefited as oil prices have remained elevated, leading to higher profits year over year. While Devon Energy was up over 25% in the first six months of the year, the stock notched another gain of over 10% in the third quarter as higher oil prices have led to a significant increase in cash flow, with the company returning much of this cash to shareholders in the form of dividends and share repurchases.

Poor performance among the Fund’s Information Technology holdings had a negative impact on results, particularly HP Inc. and Seagate Technology. Both stocks reported disappointing earnings in the period. Even more important, in the case of both stocks, management reduced forward guidance citing macro concerns including high inflation and the potential for a recession. The revised guidance weighed on the stocks’ prices. In the case of HP, consumers loaded up on PCs during the pandemic, but demand has subsequently slowed. HP continues to buy back stock at these levels — and both stocks continue to trade at attractive valuation multiples.

### Buys & Sells

The Fund recently purchased Packaging Corp of America, a paper and packaging company in the Materials sector. Packaging Corp of America became a candidate for purchase given its attractive valuation measures, particularly cash flow, which has the most weight in the stock-ranking procedure. While recent price momentum (the past three to six months) for the stock has been below average, the company ranks high on several measures of operating momentum including margin improvement, growth in sales, and EBITDA — earnings before interest, taxes, depreciation, and amortization.

We trimmed our position in McKesson in the Health Care sector. McKesson is a diversified health care services provider that delivers one-third of all pharmaceuticals distributed in North America. The stock has done extremely well, especially over the past two years, but has become less attractive on several valuation metrics, particularly forward earnings and cash flow. While the company does not pay much in terms of dividends, it has been aggressively buying back shares, which is a positive indicator in our model. Long-term performance has been good, which is a negative signal in our model. While we still own the stock, we reduced the position given its run-up.

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### Outlook

While value stocks have had a nice run recently after nearly 10 years of relative underperformance, we believe value stocks and the Harbor Mid Cap Value Fund are positioned to do well going forward. The Fund is trading at valuation multiples not seen in years, both absolute and relative to the benchmarks, while the quality of the portfolio is higher than a value benchmark and in-line with a core benchmark. In other words, we have been able to generate a portfolio at these attractive valuation multiples without compromising on quality. In addition, when we look at the overall market, growth stocks continue to trade at a premium to their long-term averages, while value stocks remain at a discount. Combined, these factors bode well for Fund performance going forward.

## QUARTERLY ATTRIBUTION

As of 09/30/2022

### Best & Worst Performers

Best Performers	Average Weight %	Return %
Atlas Air Worldwide Holdings Inc.	0.72	54.87
Dick's Sporting Goods Inc.	0.69	39.43
Cardinal Health Inc.	0.80	28.52
Foot Locker Inc.	0.79	25.32
Marathon Petroleum Corporation	0.98	21.55

Worst Performers	Average Weight %	Return %
AMC Networks Inc. Class A	0.32	-30.29
Brandywine Realty Trust	0.26	-28.59
Office Properties Income Trust	0.30	-27.60
Seagate Technology Holdings PLC	1.12	-24.62
Big Lots Inc.	0.27	-24.54

### Contributors & Detractors

Greatest Contributors	Return %	Contribution to Return %
Atlas Air Worldwide Holdings Inc.	54.87	0.44
Dick's Sporting Goods Inc.	39.43	0.20
Cardinal Health Inc.	28.52	0.17
HF Sinclair Corporation	20.14	0.17
Marathon Petroleum Corporation	21.55	0.17
<b>Total</b>		<b>1.15</b>

Greatest Detractors	Return %	Contribution to Return %
Tyson Foods Inc. Class A	-22.92	-0.32
HP Inc.	-23.27	-0.31
Seagate Technology Holdings PLC	-24.62	-0.23
Industrial Logistics Properties Trust	-60.90	-0.21
Ally Financial Inc.	-16.20	-0.20
<b>Total</b>		<b>-1.27</b>

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### Quarterly Attribution:

Harbor Mid Cap Value Fund vs Russell Midcap® Value

#### Performance

	Portfolio	Benchmark	Active
Return Ex Currency	-4.16	-4.93	0.77
Currency Contribution	0.00	0.00	0.00
<b>Total Return</b>	<b>-4.16</b>	<b>-4.93</b>	<b>0.77</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
Consumer Discretionary	14.34	9.78	4.56	-1.33	-5.64	4.31	-0.17	-0.52	-0.03	0.62	0.59
Energy	4.55	5.01	-0.46	11.50	-0.75	12.25	0.40	-0.12	-0.01	0.53	0.52
Health Care	7.39	7.17	0.22	-4.51	-7.59	3.08	-0.27	-0.45	0.01	0.20	0.21
Industrials	10.97	14.81	-3.84	2.61	-0.48	3.09	0.39	-0.12	-0.14	0.32	0.18
Communication Services	2.79	3.52	-0.73	-6.49	-9.31	2.82	-0.18	-0.29	0.03	0.09	0.11
Utilities	3.97	8.97	-5.00	-7.07	-5.58	-1.49	-0.33	-0.65	0.04	-0.07	-0.03
Consumer Staples	8.46	4.03	4.43	-7.19	-8.00	0.81	-0.58	-0.33	-0.17	0.07	-0.09
Financials	20.03	17.90	2.13	-2.75	-2.02	-0.73	-0.61	-0.46	0.06	-0.16	-0.10
Real Estate	7.40	11.87	-4.47	-13.78	-9.43	-4.35	-0.94	-1.01	0.20	-0.34	-0.14
Materials	8.15	7.49	0.66	-12.44	-6.75	-5.69	-0.92	-0.48	-0.02	-0.47	-0.48
Information Technology	11.03	9.46	1.57	-10.00	-5.70	-4.30	-0.95	-0.49	0.00	-0.49	-0.49
<b>Total</b>	<b>100.00</b>	<b>100.00</b>	<b>0.00</b>	<b>-4.16</b>	<b>-4.93</b>	<b>0.77</b>	<b>-4.16</b>	<b>-4.93</b>	<b>0.47</b>	<b>0.30</b>	<b>0.76</b>

### Trailing 1 Year Attribution:

Harbor Mid Cap Value Fund vs Russell Midcap® Value

#### Performance

	Portfolio	Benchmark	Active
Return Ex Currency	-10.20	-13.55	3.35
Currency Contribution	0.00	0.00	0.00
<b>Total Return</b>	<b>-10.20</b>	<b>-13.55</b>	<b>3.35</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
Health Care	7.04	7.45	-0.41	1.08	-20.81	21.89	0.09	-1.35	0.11	1.51	1.62
Consumer Staples	8.37	4.40	3.97	8.18	-0.13	8.31	0.43	-0.12	0.45	0.60	1.05
Industrials	11.95	14.50	-2.55	-8.31	-15.46	7.15	-0.81	-2.10	-0.01	0.85	0.83
Communication Services	2.82	3.60	-0.78	-22.35	-37.50	15.15	-0.62	-1.45	0.27	0.50	0.77
Consumer Discretionary	14.92	9.90	5.02	-19.76	-27.11	7.35	-2.68	-2.61	-0.79	1.32	0.53
Information Technology	10.82	10.04	0.78	-18.08	-21.94	3.86	-1.85	-1.96	-0.06	0.45	0.39
Financials	20.24	17.01	3.23	-15.23	-14.25	-0.98	-3.00	-2.34	-0.04	-0.22	-0.25
Materials	8.91	7.68	1.23	-13.78	-8.82	-4.96	-1.14	-0.80	0.10	-0.38	-0.27
Real Estate	7.47	11.48	-4.01	-23.69	-16.36	-7.33	-1.75	-1.80	0.13	-0.61	-0.47
Utilities	3.35	7.82	-4.47	14.34	4.60	9.74	0.22	-0.08	-0.77	0.24	-0.53
Energy	3.36	6.12	-2.76	65.54	37.72	27.82	0.89	1.06	-1.40	0.67	-0.73
<b>Total</b>	<b>100.00</b>	<b>100.00</b>	<b>0.00</b>	<b>-10.20</b>	<b>-13.55</b>	<b>3.35</b>	<b>-10.20</b>	<b>-13.55</b>	<b>-1.58</b>	<b>4.94</b>	<b>3.36</b>

## 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. The value of securities selected using quantitative analysis can react differently to issuer, political, market, and economic developments than the market as a whole or securities selected using only fundamental analysis. The factors used in quantitative analysis and the weight placed on those factors may not be predictive of a security's value. In addition, any model may contain flaws or the model may not perform as anticipated. Stocks of mid cap companies pose special risks, including possible illiquidity and greater price volatility than stocks of larger, more established companies.

## Benchmarks

The Russell Midcap® Value Index is an unmanaged index generally representative of the U.S. market for medium capitalization value stocks. This unmanaged index does not reflect fees and expenses and is not available for direct investment. The Russell Midcap® Value Index and Russell® are trademarks of Frank Russell Company.

## Disclosures

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.

The mean/median long term growth rate for Projected Earnings Growth Rate is the expected growth over the next 3-5 years calculated by FactSet from data provided by brokers. The Adjusted Trailing P/E (Price/Earnings) Ratio is the closing stock price divided by the sum of the last 12 months actual EPS. The Forecast P/E Ratio is the closing stock price divided by the sum of the next 4 quarters estimated EPS. All P/E, ROE and P/B statistics are calculated as weighted medians.

Return on Equity (ROE) is the measure of a company's net income divided by its shareholders' equity.

Price-to-Book (P/B) Ratio compares a company's market value to its book value. The market value of a company is its share price multiplied by the number of outstanding shares. The book value is the net assets of a company.

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.

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

**LSV Asset Management is an independent subadvisor to the Harbor Mid 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.