Harbor Core Plus Fund

Income Research + Management

Subadvisor Since 02/02/2022

CHARACTERISTICS & ALLOCATION

As of 09/30/2022

Total Net Assets – *All Classes*	$984,719,547
Fixed Income Assets:	99.32%
Cash & Other Assets Less Liabilities:	0.68%
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 U.S. dollar-denominated fixed income securities. 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 but are not limited to: obligations issued or guaranteed by the U.S. Government, its agencies, or instrumentalities; corporate debt securities; municipal debt securities; U.S. dollar-denominated debt of foreign issuers; and securitized securities including mortgage-backed and asset-backed securities, which may also include non-agency mortgage-backed securities. These securities may have different types of interest rate payment and reset terms. The Subadviser's approach is grounded in detailed bottom-up research and emphasizes careful security selection.

Portfolio Characteristics

	Portfolio	Benchmark
Number of Bonds	688	12,641
Avg. Market Coupon (%)	3.36	2.63
Wtd. Avg. Maturity (yrs)	8.31	8.52
Wtd. Avg. Duration (yrs)	6.13	6.20
Beta vs. Fund Benchmark	0.99	
Current 30-Day Yield %	4.44	
Current 30-Day Un-Sub Yield %	4.42	

Top 10 Issues

	Portfolio %
US TREASURY N/B 08/41 1	5.82
US TREASURY N/B 08/51 2	2.38
Federal National Mortga	1.72
US TREASURY N/B 02/32 1	1.43
FNMA POOL FS0065 FN 12/	1.28
FED HM LN PC POOL ZT152	1.26
FNMA POOL FM4956 FN 08/	1.20
FNMA POOL FM5397 FN 12/	1.18
US TREASURY N/B 02/42 2	1.16
FED HM LN PC POOL RA528	1.16
Total	18.60

Maturity

	Portfolio %
0-1 yr	3.47
1-3 yr	17.30
3-5 yr	19.17
5-7 yr	19.58
7-10 yr	21.10
10-20 yr	12.13
20-30 yr	6.91
Over 30 yr	0.32

Duration

	Portfolio %
0-1 yr	7.03
1-3 yr	14.64
3-5 yr	29.16
5-7 yr	25.01
7-10 yr	9.49
10-20 yr	13.90
20-30 yr	0.73
Over 30 yr	0.03

Credit Quality

	Portfolio %
US Govt/Agency	11.94
AAA	40.81
AA	1.86
A	7.65
BBB	28.74
BB	4.17
B	0.38
CCC	1.10
CC	0.98
C	0.10
Below C	0.00
Non-Rated	1.48

Harbor

Trusted Partnerships › Trusted Solutions

Harbor Core Plus Fund

CHARACTERISTICS & ALLOCATION

As of 09/30/2022

Sector	% of Market Value
Credit	**34.12**
Industrial	19.44
Finance	12.55
Utility	2.12
Non-corporate	0
Government	**12.96**
Treasury	12.77
SBA and Gov Guaranteed	0.19
Agency	0
Municipal	**0.90**
Revenue	0.81
GO	0.09
Pre-Refund/ETM	0
Securitized	**51.56**
Agency RMBS	26.43
ABS	10.91
CMBS	8.40

Sector (cont.)	% of Market Value
RMBS	5.23
Agency CMBS	0.59

PERFORMANCE

As of 09/30/2022

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	HABDX	411511108	-4.35%	-14.71%	-14.82%	-2.70%	-0.05%	1.22%	6.05%	12/29/87	0.38	0.39
Administrative	HRBDX	411511686	-4.40%	-14.93%	-15.09%	-2.94%	-0.30%	0.97%	3.59%	11/01/02	0.63	0.64
Retirement	HBFRX	411512189	-4.23%	-14.43%	-14.53%	-2.53%	0.06%	1.28%	6.07%	06/01/18	0.30	0.31
Bloomberg US Aggregate Bond Index			-4.75%	-14.61%	-14.60%	-3.26%	-0.27%	0.89%	5.42%	12/29/87		

Retirement Class shares commenced operations on June 1, 2018. The performance attributed to the Retirement Class shares prior to that date is that of the Institutional Class shares. Performance prior to June 1, 2018 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.

Harbor Core Plus Fund - Quarterly Attribution – *As of 09/30/2022*

	Portfolio Return (Gross of Fee)	Bloomberg Aggregate Index Return	Return Difference	Market Term Structure	Asset Allocation	Security Selection	Price and Intraday	Total
3Q 2022	**(4.26)**	**(4.75)**	**0.49**	**0.07**	**0.08**	**0.38**	**(0.04)**	**0.49**

Market Term Structure		Asset Allocation		Security Selection		Price and Intraday	
Duration	0.08	Finance	0.01	Finance	0.07	Pricing	0.00
Shape	0.03	Industrial	0.02	Industrial	0.11	Intraday	(0.04)
Other	(0.04)	Utility	0.01	Utility	0.01		
		ABS	0.08	ABS	(0.04)		
		CMBS	0.04	CMBS	(0.02)		
		MBS	0.07	MBS	0.25		
		Agency	0.00	Agency	0.00		
		Municipal	0.00	Municipal	0.01		
		Non-Corp	(0.01)	Non-Corp	0.00		
		Treasury	(0.15)	Treasury	(0.01)		
		Other	0.01	Other	0.00		

What Worked

- The Harbor Core Plus Bond Fund portfolio outperformed the Bloomberg Aggregate Index in the 3rd quarter.
- Security selection within Agency RMBS, Industrials and Financials aided outperformance.
- The portfolio’s overweight to ABS and CMBS contributed to relative returns.
- Top performers: OXY, ORCINC, and an Agency RMBS security.

What Didn’t Work

- Security selection within ABS slightly detracted from performance.
- The portfolio’s underweight to Treasuries also detracted from relative returns.
- Bottom performers: WBD, an ABS security and a non-Agency RMBS security.

Source: Bloomberg

“Entering the fourth quarter, investors will need to navigate a market plagued with uncertainty.”
Pacific Investment Management Company, LLP

Market in Review

During the third quarter of 2022, persistent inflationary pressures and a continuation of tighter monetary policy resulted in heightened volatility, as investors grappled with an uncertain economic outlook. The Consumer Price Index increased 9.1%, year over year in June, then fell to 8.5% and 8.3%, year over year in July and August, respectively. Although inflationary pressures showed signs of slowing, Federal Reserve (“Fed”) Chair Jerome Powell reiterated the Fed’s commitment to fight inflation until “the job is done,” even if it results in “pain” for households and businesses. The impact was already evident as the U.S. economy contracted for a second-consecutive quarter, entering a technical recession. Second-quarter GDP fell 0.9%, year over year, following a 1.6% decline in the first quarter. Despite this, the Fed announced two additional 0.75% hikes in July and September to bring the fed funds target range to 3.0%–3.25%. The Fed’s outlook for short-term rates revealed this was not the end of hiking either—the updated dot plot showed most Fed officials anticipate the federal funds rate to not only be higher than where they predicted in June, but for longer, as well. Investors pushed Treasury rates higher across the curve, as the market priced in more rate hikes, with the curve flattening and the three-year Treasury rate closing the quarter at the highest point on the curve.

High-yield corporate issuance totaled less than $20 billion in the third quarter, the lightest quarter of issuance since 2009. The light supply helped support the sector, which outperformed Treasuries by over 2.25%. The outperformance was led by higher-quality cohorts where issuers are less susceptible to slower growth. High yield spreads tightened by 0.17%, from 5.69% to 5.52%, and yields increased by 0.79%, from 8.89% to 9.68%.

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

Portfolio Performance

During the third quarter, the Harbor Core Plus Bond Fund (Institutional Class, “Fund”) returned -4.35%, outperforming its benchmark, the Bloomberg US Aggregate Bond Index, which returned -4.75%.

The Fund’s outperformance relative to the Index was driven primarily by our overweight to spread product and underweight to U.S. Treasuries. BBB-rated debt outperformed higher-rated corporates and caused credit curves to tighten for the first time in 2022. The average spread difference between A- and BBB-rated corporates tightened by 0.09%, from 0.66% to 0.57%. Investment-grade spreads widened by 0.04%, quarter over quarter, from 1.55% to 1.59%—a new, year-to-date wide—while yields increased by 0.98% to 5.69%.

In the securitized market, performance was mixed with asset-backed securities (“ABS”) outperforming Treasuries by 0.30% and agency mortgage-backed securities (“MBS”) underperforming by 1.69%. The ABS sector benefited from its shorter duration, which attracted investors, given the low compensation for taking additional interest rate risk. Agency MBS underperformed due to the uncertain impact of quantitative tightening and higher rates. This led to duration extensions and clouded future prepayment speeds for lower-coupon mortgages. The Bloomberg MBS Index convexity increased to 0.14, the highest level on record.

Security selection within Financials, Industrials, and agency residential mortgage-backed securities (“RMBS”) aided relative performance. On the negative side, security selection within ABS and commercial mortgage-backed securities (“CMBS”) detracted from relative returns.

Portfolio Positioning

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

Positive contributors to relative performance included security selection within agency RMBS, Financials, and Industrials. Detractors from relative performance included security section within ABS and CMBS.

The Fund's overweight to the BAA credit bucket and underweight to AAA securities aided relative performance. Additionally, security selection in BA and AAA securities contributed to positive relative performance.

The Fund's out-of-benchmark allocation to non-agency RMBS aided relative returns.

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

Contributors & Detractors

The largest contributors to portfolio performance included Occidental Petroleum, Owl Rock Core Income Corporation, and an agency RMBS pool.

The largest detractors from portfolio performance included Warner Bros Discovery, an ABS whole business pool, and a non-agency RMBS pool.

Buys and Sells

We purchased FR SD1100 in the secondary market at a 0.79% option-adjusted spread ("OAS").

This is a seasoned pool of agency-backed mortgages, which has historically had relatively stable prepayment speeds.

We added to mortgage-backed securities passthroughs to reduce our underweight, adding stable cash flow, as well as high-quality spread product.

We sold legacy non-agency RMBS and ABS.

We also opportunistically trimmed five legacy (pre-GFC) positions—CWL, HASC, IMSC, OOMLT, PFRMS—comprising roughly 0.90% of the Fund.

Outlook

Entering the fourth quarter, investors will need to navigate a market plagued with uncertainty. The Fed, along with most other central banks, is tightening monetary policy to fight inflation with 1.00%–1.25% of rate hikes expected for the remainder of the year. A continued slowdown in economic growth is expected, but the magnitude and length is hard to predict. The strengthening U.S. dollar pressured other countries and forced some to intervene in their currency or rate markets to avoid a further deterioration of conditions. This may cause the Fed to pivot sooner than initially anticipated. At Income Research + Management, we pride ourselves on being bottom-up security selectors. We remain methodical in adding any additional risk at a time when the market could turn in either direction. We feel confident that the securities that do make it into the Fund are fundamentally sound and able to withstand market weakness—but are also attractively priced should spreads tighten.

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.

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

Effective on February 2, 2022, Income Research + Management (“IR+M”) replaced Pacific Investment Management Company, LLC (“PIMCO”) as investment subadvisor to Harbor Bond Fund (the “Fund”). In connection with this change, the Fund was renamed “Harbor Core Plus Fund” and its investment strategy changed to reflect IR+M’s approach to managing the Fund’s assets. Performance prior to that date is not attributable to IR+M.

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.

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.

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 subadvisor to the Harbor Core Plus Fund.

Distributed by Harbor Funds Distributors, Inc.

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.

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.