

Socially-Aware Investing Shines a Light on the Value of Healthy Corporate Culture

Once upon a time, investors might have only been interested in the answers to, “*What is the logic of this business over the long term?*” Today, they want to know much more nuanced information like, “*What is the overall social impact of this business? Do I want to be part of funding that impact?*”

This shift to socially-aware investing is far beyond just a trend. In fact, we believe certain powerful, structural demographic and economic themes may serve as tailwinds to sustain earnings growth over the long term. Whereas fundamental research used to be all about traditional economic characteristics, today there are ways to evaluate a company that probe far deeper and aggregate rich sources of alternative data to form what we believe to be a more realistic, comprehensive picture of how a company truly operates in the world.

Old ways of evaluating a company’s attractiveness...

What constitutes a quality business?

The answer used to rely primarily on a company’s:

- > Easily understood value proposition
- > Long-term revenue growth potential
- > High incremental margins and strong returns on invested capital
- > Durable competitive advantages via brand, products, and/or services (among others)
- > Strong or appropriate balance sheet, free from dependency on external sources of capital
- > Uncomplicated financials
- > Talented management with a track record of allocating capital responsibly
- > Transparency and treatment of shareholders as owners

... Enriched by new ways to unearth potential equity value

There are now expanded, fundamental ways to determine a company’s potential value, and they may matter more (in terms of stock price appreciation potential) than the old ways. Today’s investors may want to use their investable capital to fund companies that are aligned with their values. They may want to see companies do the right things, such as treating employees right according to measures that employees themselves feel are important. **Stakeholder capitalism is here.**

Although it’s more of a challenge to measure progress on social issues like these we believe, it’s critical to measure what matters, and not just what is easy to measure, or what has been measured in the past. A quality business may stand head and shoulders above its competitors by consistently demonstrating that its employees feel intrinsically motivated to do better work for the business because they are:

- > Respected and valued
- > Informed and kept in the loop
- > Offered choices and have some control over their career progression
- > Welcomed into the social fabric of the organization
- > Treated fairly and have the same opportunities as their colleagues

The rise of socially-aware investing has increased the demand for data that can demonstrate a company’s ability to build a diverse, inclusive and satisfied workforce, and to manage its human capital fairly. Until recently, there has been little concrete evidence, let alone sufficiently standardized and detailed data, to allow for comparisons between companies.

The Human Capital Factor

Developed by Irrational Capital, the Human Capital Factor (HCF) is designed to offer a differentiated, comprehensive measure of corporate social performance. It seeks to identify companies that enact positive human capital practices in the workplace. There is evidence and historical data to suggest that employee perceptions such as pride, purpose, and psychological safety may impact a company’s stock performance more than other factors.

Through proprietary data sets gathered from corporate employee surveys and public sources such as Glassdoor, two million responses and more than 13 million unique data points from over 2,000 companies in the U.S. are combined into an aggregate HCF score that reflects how motivated employees are to create value for a given company. The Human Capital Factor uses this proprietary data to help demonstrate that doing the right thing can pay.

Ready to learn more?

- > Click [here](#) to access more information about Harbor Corporate Culture Leaders ETF (HAPY)
- > Reach out to your Investment Consultant (866) 313-5549

Important Information

Investors should carefully consider the investment objectives, risks, charges and expenses of a Harbor fund before investing. To obtain a summary prospectus or prospectus for this and other information, visit harborfunds.com or call 800-422-1050. Read it carefully before investing.

The views expressed herein are those of Harbor Capital and/or Irrational Capital investment professionals at the time the comments were made. They may not be reflective of their current opinions, are subject to change without prior notice, and should not be considered investment advice.

Investing involves risk, principal loss is possible. Unlike mutual funds, ETFs may trade at a premium or discount to their net asset value. The ETF is new and has limited operating history to judge.

Shares are bought and sold at market price not net asset value (NAV). 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.

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 Fund may not exactly track the performance of the Index with perfect accuracy at all times. Tracking error may occur because of pricing differences, timing and costs incurred by the fund or during times of heightened market volatility.

The Fund relies on the Index provider's methodology in assessing whether a company may be considered a corporate culture leader. There is no guarantee that the construction methodology will accurately assess a company to include or exclude it from the index which could have an adverse effect on the Fund's returns. The Fund's assets may be concentrated in a particular sector or industries to the extent the Index is concentrated and is subject to the risk that economic, political, or other market conditions that have a negative effect on that sector or industry will negatively impact the value of the Fund.

The Human Capital Factor Unconstrained Index is designed to deliver exposure to equity securities of large cap U.S. companies that demonstrate high employee engagement, based on scores produced by Irrational Capital LLC. This unmanaged index does not reflect fees and expenses and is not available for direct investment.

Irrational Capital is a third-party index provider to the Harbor Corporate Culture Leaders ETF.

Foreside Fund Services, LLC is the Distributor of the Harbor ETFs.