

Form ADV Program Brochure

Harbor Investment Advisory, LLC

December 31, 2014

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This Wrap Fee Brochure (Brochure) provides information about the qualifications and business practices of Harbor Investment Advisory, LLC. If you have any questions about the contents of this Brochure, please contact Elizabeth B. Brennen, Chief Compliance Officer at 1-410-659-8900 and/or bbrennen@harborLLC.com. Harbor Investment Advisory, LLC is a registered investment adviser. Registration of an Investment Adviser does not imply any level of skill or training.

The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

Additional information about Harbor Investment Advisory, LLC also is available on the SEC's website at www.adviserinfo.sec.gov. The SEC's web site also provides information about any persons affiliated with, registered, and required to be registered, as investment adviser representatives of Harbor Investment Advisory, LLC.

MATERIAL CHANGES

Please note that “material changes” have been made to this Brochure as of December 31, 2014, since our last delivery or posting of the Brochure on the SEC’s public disclosure website (IAPD) www.advisorinfo.sec.gov. The material changes include program name changes and a fee schedule change (frequency). This brochure also includes some minor editorial changes and updated information on our assets under management.

We provide new clients with a brochure before or at the time we enter into an advisory agreement. In the future, we will deliver to you, within 120 days of the end of each fiscal year, a free, updated Brochure that either includes or is accompanied by a summary of material changes. Alternatively, we may deliver a summary of material changes that includes an offer to provide a copy of the updated brochure and information on how our clients may obtain the brochure.

Currently, our Brochure may be requested by contacting Elizabeth B. Brennen, Chief Compliance Officer at 1-410-659-8900. Our Brochure is also available on our web site www.harborinvestmentadvisory.com, free of charge.

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SERVICES, FEES AND COMPENSATION

Harbor Investment Advisory, LLC ("Harbor", "our" and or "we") is a registered investment adviser with the United States Securities and Exchange Commission ("SEC"), providing investment advisory and investment consulting services to a variety of clients.

Harbor has been registered as an investment advisor since 2009 and is 100% owned by Harbor Investment Management, LLC.

ASSETS UNDER MANAGEMENT

As of December 31, 2014, Harbor managed approximately \$101,948,215 in discretionary assets and \$567,717,672 in non-discretionary assets.

INVESTMENT SERVICES

Investment advice and portfolio management services are provided on a continuing basis, which includes managing our client's ("Client's") assets among cash, stocks, mutual funds, exchange traded funds, bonds, and other securities ("Assets"). Our advice and services are also based on your stated investment objectives for your investment portfolio account ("Account(s)"). We will execute investment recommendations in accordance with information gathered in Harbor's Client Investment Profile and New Account Form. The documents describe the investment objectives of our clients and a description of their assets, earnings, tax status, acceptable levels of investment risk, imposed investment restrictions, and other information.

Harbor will provide a variety of investment related services based on client information gathered including, but not limited to:

- (i) Managed investment advisory services pursuant to the advisory agreement,
- (ii) Assist our clients in determining investment objectives and establishing an investment implementation strategy,
- (iii) Perform due diligence on portfolio manager(s) and direct investments,
- (iv) Perform agency brokerage transactions for the Account effected by Harbor in its capacity as introducing broker and executed by Pershing LLC ("Pershing"); and as applicable, custodial and clearing services provided by Pershing with respect to the Account;
- (v) Administrative services such as computing, charging and collection of Account fees, including the fee for services provided under the advisory agreement,
- (vi) Administrative services to include, but not limited to, the processing of deposits and withdrawals from the Account pursuant to the client's instruction; and
- (vii) The issuance of monthly and/or quarterly Account statements.

ADVISORY PROGRAMS

Harbor offers several different advisory programs depending on the needs of the Client, which are described as follows:

Harbor Advisor Discretionary

Harbor sponsors the Harbor Advisor Discretionary program, which provides limited discretionary authority in managing the investments of the Client's Account. In the Harbor Advisor Discretionary program, the Financial Advisor is primarily responsible for the allocation of the Assets and managing the Assets in the Account in a manner consistent with the Client's investment objectives on a discretionary basis. Harbor provides due diligence to assist in the selection of Securities and performs

ongoing advisory services, which include investing and re-investing the Assets in the Account within the broad parameters established by Harbor. Harbor will provide continuous and regular management services, which include directing and re-investing the Assets in the Account, in accordance with the stated investment objectives of the Client.

Harbor Advisor Non-Discretionary

Harbor sponsors the Harbor Advisor Non-Discretionary program, which provides non-discretionary authority in managing the investments of the Client's Account. In the Harbor Advisor Non-Discretionary program, the Financial Advisor assists Clients in the allocation of their Assets and in managing the Assets in the Account in a manner consistent with the Client's investment objectives on a non-discretionary basis. Harbor provides due diligence to assist the Client in investing and re-investing the Assets in the Account, with the Client having the final determination to initiate Securities selection. Harbor will provide continuous and regular management services, which include directing and re-investing the Assets in the Account, in accordance with the stated investment objectives of the Client.

Harbor Manager Select

Harbor sponsors the Harbor Manager Select program, which is a non-discretionary advisory program where Harbor assists Clients in engaging the services of independent third party money managers that may or may not participate in a traditional Separately Managed Account Program ("SMA Program") and perform other services. In the Harbor Manager Select program, the Financial Advisor assists the Client with limited due diligence in engaging the services of Portfolio Managers in a manner consistent with the Client's investment objectives and performs other advisory services. Client selects and engages Portfolio Manager(s) on a "dual contract" basis to provide investment management services, which include the investment and re-investment of the Assets in the Account. Services provided and applicable fees charged by the Portfolio Manager(s) are governed under a separate agreement maintained directly between Client and the Portfolio Manager(s).

Advisory fees payable to Harbor are not shared with the portfolio manager(s) as the portfolio manager(s) compensation is fully defined under a separate agreement between the client and portfolio manager(s). These services may cost the client more or less than purchasing the bundled services offered separately, depending on such factors as account size, the change of account value over time, the frequency of transactions, advisory fees, commissions and custody expenses.

Harbor Separately Managed Account

Harbor, through its Harbor Separately Managed Account program, offers Clients access to a traditional SMA Program sponsored by Lockwood Advisors, Inc. ("Lockwood"), which has been engaged to provide Clients' access to independent third party money managers and perform other services. Lockwood is a federally registered investment advisory firm that specializes in processing and administering individually managed accounts, and in providing managed account services and technologies to sponsors of wrap programs, investment management firms and financial services firms, enabling such companies to offer managed account services to their respective clients. For a complete description of these services, please see Lockwood's applicable disclosure brochure and/or Form ADV Part 2A disclosure. Harbor assists Clients in selecting Portfolio Managers in the SMA program without discretionary authority over your Account. Lockwood may require additional documentation for the SMA program.

Harbor Investment Consulting

The Harbor Investment Consulting program is a comprehensive investment management and consulting service, where the Financial Advisor assists in the allocation of the Client's Assets and in managing the Assets in the Account in a manner consistent with the Client's investment

objectives on a non-discretionary basis. Harbor provides due diligence to assist Clients in investing and re-investing of their Assets, with the Client having the final determination for the selection of securities, Portfolio Manager(s), and Assets the Client has designated for analysis held outside of the Harbor Account.

FEES AND COMPENSATION

All fees are subject to negotiation. The amounts and specific manner in which fees are charged is negotiated and memorialized in our contract with client. Harbor is compensated through an annualized asset-based fee (the "Advisory Fee"), which will be paid monthly in arrears. The valuation of securities and other instruments are generally determined by their last reported sale price on the principal market in which they are traded, if traded on a market for which transaction prices are publically reports, on the first business day of the respective billing period. Otherwise, other readily marketable securities and instruments are valued by using a pricing service or by our determining a fair market value in conformity with our fiduciary duty to client. Although many fees are individually negotiated, some common fees are included on our fee schedule for client review and described further below:

Fee Schedule		
Fee Type	Fee Cost	When Charged
Harbor Advisor Discretionary	Computed as a percentage of the assets under management in the Account for the previous quarter including any margin debt in the Account. The fee ranges from 0.25% to 2.00%	Monthly, in arrears
Harbor Advisor Non Discretionary	Computed as a percentage of the assets under management in the Account for the previous quarter including any margin debt in the Account. The fee ranges from 0.25% to 2.00%	Monthly, in arrears
Harbor Manager Select	Computed as a percentage of the assets under management in the Account for the previous quarter including any margin debt in the Account. The fee ranges from 0.25% to 2.00%	Monthly, in arrears
Harbor Separately Managed Account	Computed as a percentage of the assets under management in the Account for the previous quarter including any margin debt in the Account. The fee ranges from 0.25% to 1.50%.	Monthly, in arrears
Harbor Investment Consulting	Computed as a percentage of the assets under management in the Account for the previous quarter including any margin debt in the Account. The fee ranges from 0.05% to 1.50%	Monthly, in arrears

Such fees may be deducted from an Account within twenty (20) business days of the end of the period for which said fees are incurred. The Advisory Fee for the initial period will be prorated based on the net asset value of the assets on the opening date of the Account and the number of days services were provided. Upon termination of an Account, any prepaid, unearned fees will be promptly refunded, and any earned, unpaid fees will be due and payable.

In addition to the Advisory Fee, clients can indirectly incur certain fees and expenses for investments made for the client. Additionally, Harbor may refer client to providers of investment offerings for which Harbor and/or its employees receive selling and or placement compensation, in addition to the Advisory Fee. Client understands that these fees and expenses generally are not to be credited back to the client or used to reduce the client's Advisory Fee. Additionally, there is a \$50.00 custody fee imposed on IRA accounts which is waived for advisory Accounts.

By investing with certain third party money managers and/or by making direct investments, client may incur fees, brokerage commissions, transaction fees, manager's fees, custody fees, and other related costs and expenses. Such charges, fees and commissions are exclusive of and in addition to Harbor's Advisory Fee.

Additionally, you can indirectly incur certain fees and expenses for investments made for the Account in mutual funds, exchange traded funds ("ETF") and money market funds. The fees and expenses are paid by the respective fund and are borne by all fund shareholders owning the same class of share which can include, but are not limited to, mutual fund 12(b)(1) servicing fees, sub-accounting fees, management fees, custody, portfolio transaction execution costs, administration fees, distribution fees, and shareholder servicing fees. Fees and expenses charged by these securities are deducted from each fund's net asset value and as such, are an indirect expense of the client's investment portfolio. Finally, these types of investments can be purchased directly, without being managed by Harbor pursuant to this Agreement. For a complete description of the fees and expenses related to each investment, client should review the prospectus for the respective mutual fund, ETF and money market fund.

Related to fixed income securities transactions, client may indirectly incur certain fees and expenses for transactions effected through a broker/dealer other than Pershing from the commission or mark-up/down that is included in the net purchase price or sale proceeds of the security. These fees and expenses will not be credited back to client's investment Account or used to reduce the client's Advisory Fee.

Some of these fee arrangements could create a potential incentive for Harbor to favor higher fee paying products over other products in the allocation of investment opportunities. However, Harbor has procedures designed and implemented to ensure that clients are treated fairly and equally, and to prevent this conflict from influencing the allocation of investment opportunities among all of our clients.

Transactions in any securities effected through Harbor for the accounts of clients that are employee benefits plans subject to Employee Retirement Income Security Act of 1974, as ("ERISA") will be completed in compliance with Exemption 86-128 of ERISA. The foregoing regulatory requirements generally provide, among other things, that advance written authorization be obtained from each client with respect to the utilization of Harbor as a broker/dealer to effect transactions for its account and that periodic reports of such transactions be furnished to its clients. The Custody Fee, money market fees and trailers and 12b1 fees are waived on all ERISA accounts.

ACCOUNT REQUIREMENTS AND TYPES OF CLIENTS

ACCOUNT REQUIREMENTS

Minimum account size is dictated by the program in which a client is participating as described in the chart below. Exceptions to the minimum account size are made at the discretion of the manager and/or Harbor.

Approximate Account Minimums	
Program	Account Minimum*
Harbor Advisor Discretionary	\$50,000
Harbor Advisor Non-Discretionary	\$50,000
Harbor Manager Select	The minimum account size is dictated by the underlying manager's guidelines. Typical account minimums are \$1,000,000
Harbor Separately Managed Account	The minimum account size is dictated by the underlying manager's guidelines. Typical account minimums are \$100,000
Harbor Investment Consulting	The minimum account size is dictated by the underlying manager's guidelines. Typical account minimums are \$1,000,000

* Harbor Investment Advisory can make exceptions to account minimums depending on the circumstances of the relationship and manner in which assets are allocated by account type and title.

TYPES OF CLIENTS

Harbor provides portfolio management services to:

- Individuals,
- High net worth individuals,
- Corporations,
- Not for profit entities,
- Corporate pension and profit-sharing plans,
- Taft-Hartley plans,
- Charitable institutions,
- Foundations,
- Endowments,
- Trusts,
- Other U.S. and international institutions.

PORTFOLIO MANAGER SELECTION AND EVALUATION

GENERAL PORTFOLIO SELECTION AND EVALUATION CRITERIA

Harbor can engage the services of third party managers in the form of mutual funds and independent money managers. A due diligence effort to select and retain suitable managers generally takes into consideration the following:

- (i) The money manager is affiliated with a bank, insurance company, broker- dealer, and/or registered investment advisor;
- (ii) For active managers, historical performance calculations are in compliance with the performance guidelines of the Global Investment Performance Standards ("GIPS") and represents the style of the portfolio being considered;
- (iii) Detailed information on key personnel, representative clients, fee arrangements, range of investment styles, and assets under management;
- (iv) Qualitative analysis considers a clearly defined investment strategy, consideration to the investment selection process, sell discipline/downside protection, investment style adherence, quality and depth of the management team, firm ownership, desire to close portfolios based on size, marketing capabilities, type of client base, and regulatory compliance, transparency of underlying investments, and research capabilities;
- (v) Quantitative analysis considers risk-adjusted returns, performance attribution, portfolio composition, fees, and statistical measures.

Other investment formats (direct investments, Exchange Traded Funds, index funds, commingled funds, limited partnerships, fund-of-funds, etc.) shall be examined with the same due diligence scrutiny as a traditional manager structure.

Consideration will be given to both active and passive management when available. The rationale to engage active management is to "add value" over time versus an indexed alternative. Both enhanced return and risk control are opportunities for a manager to "outperform" a comparable benchmark. Recognizing that active managers have periods where they over and underperform the benchmarks, manager selection and retention shall consider a series of full market cycles (at least 5-10 years) in order to weight the impact of active management over long periods of time.

The selection, retention or dismissal of a manager is based on a comprehensive due diligence assessment, however it is possible that a manager could be engaged even though the analysis reveals certain factors that, in isolation, could be deemed unappealing.

PERFORMANCE REVIEW

Harbor does not utilize a third-party to review the portfolio and or sub-manager performance information. Additionally, you should be aware that performance information may not be calculated on a uniform and consistent basis.

RELATED PERSON PORTFOLIO MANAGEMENT

Associated persons of Harbor are allowed to engage in portfolio management services for our clients. Their activities are monitored and they are compensated by a comprehensive single fee.

PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT

Harbor does not charge any performance-based fees (fees based on a share of capital gains on or capital appreciation of the assets within a client Account).

ANALYSIS METHODS

Harbor utilizes a combination of quantitative and qualitative analytical tools to support investment recommendations for its clients. Investment strategies are defined based on the client's investment objectives, time horizon, liquidity needs and risk tolerance. Our advisors discuss with clients that investing in securities involves certain risks and a potential for loss, which allows for clients to understand the risks associated with investment portfolios. Investing in securities involves risk of loss that clients should be prepared to bear.

SOURCES OF INFORMATION

The main sources of information that we use to analyze investments includes:

- Research materials prepared by others
- Corporate rating services
- Timing services
- Annual reports, prospectuses, filings with the SEC
- Company press releases
- Financial newspapers and magazines

INVESTMENT STRATEGIES

We work with our clients to identify an appropriate asset allocation to achieve their investment objectives. Asset allocation requires an understanding of client specific issues and consideration of the economic and market environment. Most importantly, our disciplined approach reflects a longer-term investment focus that seeks to achieve consistent, risk-adjusted returns. We adhere to a philosophy of evaluating the global landscape of information and investment opportunities. In constructing portfolios we perform due diligence on a variety of offerings such as direct investments, individual securities, professional money managers, index funds, and alternative investments.

INVESTMENT STRATEGY RISKS

Market Risk

There are risks associated with investing in securities. Market movements are difficult to predict and are influenced by a number of factors to include; general economic conditions, government fiscal and monetary policies, changing supply and demand relationships, international political and economic events, catastrophic acts of nature, company specific factors, and the inherent volatility of the marketplace.

Lack of Diversification

Portfolio investments may be concentrated and diversification may be limited. There are no limits with respect to position sizes. Any assets or combination of assets that can be held in an Account can be purchased or sold.

Liquidity

The Accounts will be invested in liquid securities and private investments are not permitted. It is possible, however, that securities become less liquid during the holding period.

Cash and Cash Equivalents

Accounts may maintain significant cash positions from time to time and the client will pay the Advisory Fee based on the net asset value of the Account, including cash and cash equivalents. Furthermore, the Account may forego investment opportunities to hold cash positions, if deemed in the best interests of the client.

Leverage

We may use leverage in investing. Such leverage may be obtained through various means. The use of short-term margin borrowings may result in certain additional risks to Accounts. For example, should the securities pledged to a broker to secure a margin loan decline in value, a "margin call" may be issued pursuant to which additional assets would be required to be deposited with the broker or the broker would effect a mandatory liquidation of the pledged securities to compensate for the decline in value. We might not be able to liquidate assets quickly enough to pay off the margin debt and the Accounts may therefore also suffer additional significant losses as a result of such default. Although borrowing money increases returns, if returns on the incremental investments purchased with the borrowed funds exceed the borrowing costs for such Accounts, the use of leverage decreases returns, if returns earned on such incremental investments are less than the costs of such borrowings.

Interest Rate Fluctuation

The prices of securities in which the Advisor may invest are sensitive to interest rate fluctuations and unexpected fluctuations in interest rates could cause the corresponding prices of the long and short portions of a position to move in directions which were not initially anticipated. In addition, interest rate increases generally will increase the interest carrying costs of borrowed securities and leveraged investments.

Utilization of Alternative Investments

Alternative investment products, including hedge funds, commodity hedged accounts and managed futures, involve a high degree of risk, often engage in leveraging and other speculative investment practices that may increase the risk of investment loss, can be highly illiquid, are not required to provide periodic pricing or valuation information to investors, may involve complex tax structures and delays in distributing important tax information, are not subject to the same regulatory requirements as mutual funds, often charge high fees which may offset any trading profits, and in many cases the underlying investments are not transparent and are known only to the investment manager.

CLIENT INFORMATION PROVIDED TO PORTFOLIO MANAGERS

In compliance with the client agreement executed by you and Harbor, we will provide a portfolio manager and or sub-manager information regarding your investment objectives, account holdings to be managed and other information as may be reasonably necessary for the portfolio manager and or sub-manager to make a decision as to whether to accept the engagement with respect to your account management. After the portfolio manager and or sub-manager is engaged to manage your assets, Harbor will on an on-going basis provide the portfolio manager and or sub-managers with any information you provide us regarding your portfolio, including changes or modifications to your investment objectives, and any specific investment restrictions relating to your portfolio imposed by you, investments that you advise us to not conform to your instructions.

CLIENT CONTACT WITH PORTFOLIO MANAGERS

Each portfolio manager and or sub-managers will be reasonably available to you for joint consultation along, with us, regarding your financial situation and objectives, and the management by the respective portfolio manager and or sub-managers of your investment portfolio.

ADDITIONAL INFORMATION

DISCIPLINARY

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of Harbor or the integrity of Harbor's management. Harbor has no information which is applicable to this Item.

OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS

Harbor is registered as a broker-dealer under the Securities and Exchange Act of 1934 and state jurisdictions, and is a member firm of the Financial Industry Regulatory Authority. The broker-dealer activities comprise approximately 50% of its business activities with the remaining 50% estimated to be spent on investment adviser activities. See Brokerage Practices and Client Referrals and Other Compensation for a discussion of the conflicts of interest and compensation related to these relationships.

CODE OF ETHICS

Harbor has adopted a Code of Ethics for all supervised persons of the firm describing its high standard of business conduct, and fiduciary duty to its clients. The Code of Ethics includes provisions relating to the confidentiality of client information, a prohibition on insider trading, a prohibition of rumor mongering, restrictions on the acceptance of significant gifts and the reporting of certain gifts and business entertainment items, and personal securities trading procedures, among other things. All supervised persons at Harbor must acknowledge the terms of the Code of Ethics annually, or as amended.

Harbor anticipates that, in appropriate circumstances, consistent with clients' investment objectives, it will cause Accounts over which Harbor has management authority to effect, and will recommend to investment advisory clients or prospective clients, the purchase or sale of securities in which Harbor, its affiliates and/or clients, directly or indirectly, have a position of interest. Harbor's employees and persons associated with Harbor are required to follow Harbor's Code of Ethics. Subject to satisfying this policy and applicable laws, officers, directors and employees of Harbor and its affiliates may trade for their own accounts in securities which are recommended to and/or purchased for Harbor's clients. The Code of Ethics is designed to assure that the personal securities transactions, activities and interests of the employees of Harbor will not interfere with (i) making decisions in the best interest of advisory clients and (ii) implementing such decisions while, at the same time, allowing employees to invest for their own accounts. Generally, the Code of Ethics requires prior written approval for personal securities transactions placed for all employee and employee-related accounts. Nonetheless, because the Code of Ethics in some circumstances would permit employees to invest in the same securities as clients, there is a possibility that employees might inadvertently benefit from market activity by a client in a security held by an employee. Employee trading is continually monitored under the Code of Ethics, and is designed to reasonably prevent conflicts of interest between Harbor and its clients. Harbor's clients or prospective clients may request a copy of the firm's Code of Ethics by contacting Elizabeth Brennen, Chief Compliance Officer.

BROKERAGE PRACTICES

General

When clients direct Harbor to execute all or a portion of its transactions effected on their behalf with a specific broker, Harbor does not negotiate commission rates on behalf of its clients unless specifically directed to do so. Harbor does not determine whether commission rates charged by a broker selected by its clients are the lowest available. For trades not directed to Harbor by the Advisory client, Harbor will use its best efforts to obtain execution on the best terms reasonably available. Harbor may, in compliance with Section 28 (e) of the Securities Exchange Act of 1934, receive commissions in excess of the amount of commissions other broker-dealers would have charged.

Transaction rates for trades executed through Harbor may not always be as favorable as those that could be obtained if transactions were executed through another broker-dealer. The fact that Harbor's clients are likely to use an affiliated broker to execute transactions presents a potential conflict of interest in that Harbor's personnel will receive additional compensation in their capacity as Broker. Such transactions may create a conflict of interest because Harbor has a duty to obtain the most favorable price for advisory clients while its registered representatives of the affiliated broker dealer, have a duty to obtain the most favorable price for their brokerage customers.

Third Party Broker/Dealers

Notwithstanding the foregoing, we may, at our discretion, trade with non-affiliated broker-dealers for advisory Accounts when circumstances, such as the receipt of research and other services to be provided by a broker-dealer, warrant it. Our clients have generally agreed in their client Account agreement that we may recommend to them the broker-dealers. Such services may include, but are not limited to, written information and analysis concerning specific:

- Securities,
- Companies or sectors,
- Market, financial and economic studies and forecasts,
- Financial publications,
- Statistical and pricing services,
- Portfolio accounting systems as well as discussions with research personnel,
- Technical and telecommunications services including: hardware, software, databases, lines and equipment utilized in the investment management process (updates, improvements, repairs and replacements).

In selecting a broker-dealer other than Harbor to execute transactions, we will, consistent with our obligations to obtain best price and best execution for our clients, taking into consideration such relevant factors as:

- Price,
- Broker's or dealer's facilities, reliability and financial responsibility,
- The ability of the broker or dealer to effect transactions, particularly with regard to such aspects as timing, order size, and execution of orders,
- The research and related brokerage services provided by such broker or dealer to us, notwithstanding that an Account may not be the direct or exclusive beneficiary of such services,
- Any other factors we consider to be relevant. Subject to the requirements of Section 28 (e) of the Securities Exchange Act of 1934, as amended, we may pay a broker a commission in excess of that which another broker might charge in recognition of the value of research and execution provided.

Client Directed

Clients may instruct us to direct all or a portion of the securities transactions for its Account to a specified broker or dealer. We will treat the client direction as a decision by the client to retain the discretion that otherwise would have in selecting a broker/dealer to effect transactions and in negotiating transaction fees generally for the client's Account. The client who directs us to use a specific broker/dealer may pay higher or lower transaction fees such as commissions, commission equivalents, mark-ups, mark-downs, dealer spreads, credits or otherwise, and may receive less or more favorable execution services than if the client did not direct transactions to a particular broker/dealer.

Block Trades

We may enter aggregated trade orders ("Block Trade") in a given security for groups of clients that are bunched or aggregated. When entering Block Trades, we generally determine the full allocation to each participating Account at the time the orders are placed. When execution of the order is completed in a single trading day, the Block Trade is average priced and allocated in full to the Accounts that were part of the Block Trade. When execution of the order is not completed in a single day ("Partial Fill"), the Account allocation of shares purchased or sold in the Block Trade is provided to the broker/dealer using one of several fair and equitable methods of allocation generally at the end of the day's trading. The allocation of a Partial Fill will be done in a fair and equitable manner using various allocation methods at the average price for the day. Notwithstanding the above, a given Account may receive a better or worse price than if its trading had been accomplished separately. Any allocation procedures administered are not intended to operate concurrently to favor or disfavor the same Accounts.

Soft Dollar Arrangements

Harbor does not engage in any Soft dollar arrangements.

TRADE ERRORS

Though Harbor will attempt to correct trading errors as soon as they are discovered, it may not be responsible for poor executions or trading errors committed by the brokers with whom it transacts or Harbor itself, unless, such errors resulted from the Harbor's negligence, fraud or willful misconduct.

REVIEW OF ACCOUNTS

The designated supervisor of Harbor and the Chief Compliance Officer will review all Accounts on a quarterly basis, and compare each investment on a transaction basis to insure that each transaction is: (i) suitable to the respective client's investment objectives; (ii) meets that client's quality standards; and (iii) to make sure that their investment objectives are still pertinent to the managed Account arrangement. More frequent reviews may be triggered by material changes in variables such as the client's individual circumstances or the market economic or political environment. If your investment objectives change, you are obligated to inform Harbor.

Clients will receive written statements from the broker/dealer, bank or other qualified custodian that holds and maintains client's investment Accounts on a monthly or quarterly basis, depending on the amount of activity. In addition, Harbor may provide supplemental quarterly reports.

CLIENT REFERRALS AND OTHER COMPENSATION

Harbor does not pay any third parties for the referral of advisory clients.

In our capacity as a broker/dealer, we are generally used to execute portfolio transactions for our advisory clients. These transactions are conducted subject to proper, and customary, disclosure including (but not limited to) compensation received by us and our registered representatives. To this end, compensation is received by Harbor, as a broker/dealer, and/or its registered representatives, when portfolio transactions are effected on behalf of advisory clients, and Harbor and its registered representatives may receive compensation as a result of acting in one or both capacities. Additionally, Harbor, as a broker/dealer, may buy securities for itself from, or sell securities it owns to clients of Harbor, at which time commissions and or other markups/markdowns may be charged to those clients.

If Harbor is not otherwise directed in writing to execute trades through a particular broker/dealer, Harbor will execute, as a broker, all purchases and/or sales on behalf of a client's Account through Pershing. As part of this arrangement, brokerage commissions are included within the Advisory Fee charged by Harbor.

Harbor and/or its employees may receive and retain revenue sharing payments from certain mutual fund and money market fund investments held in the Account and client understands that these payments will not be credited back to the client or applied to reduce the client's Advisory Fee. Additionally, we will receive compensation related to margin loans as a result of clients who borrow money from the Custodian.

CUSTODY

Harbor has entered into an agreement with Pershing LLC ("Pershing") who will execute securities purchase and sale orders for client Account and perform and provide custodial and clearance services. In addition, client may maintain custody Accounts with a brokerage firm or bank custodian of their choosing.

Clients will receive brokerage transaction confirmations and, at least quarterly, written statements from the broker/dealer, bank or other qualified custodian that holds and maintains client's investment Accounts. Harbor urges clients to carefully review such statements and compare such official custodial records to any supplemental reporting that we may provide.

INVESTMENT DISCRETION

Harbor offers discretionary investment management through the Harbor Advisor Discretionary program. This program provides limited discretionary investment management to clients that execute a written advisory agreement granting Harbor discretionary authority to manage their Account. Harbor has authority to purchase and sell securities and instruments for the client's Account, arrange for delivery and payment in connection with the foregoing, and act on behalf of a client in all matters necessary or incidental to the handling of a client's Account, including monitoring certain assets.

When selecting securities and determining amounts, Harbor observes the investment policies and objectives and risk tolerance of the client for which it advises as defined in the written New Account Agreement and Master Advisory Agreement. Harbor's authority to trade securities may also be limited by certain federal securities and tax laws that require diversification of investments and favor the holding of investments once made.

VOTING CLIENT SECURITIES

Harbor does not take any action or render any advice with respect to the voting of proxies solicited by, or with respect to, the issuers of any securities held in an Account. Clients receive proxies and other solicitations directly from their custodian and may contact Harbor to with any questions related to the instructions.

FINANCIAL INFORMATION

Harbor has no financial commitment that impairs its ability to meet contractual and fiduciary commitments to clients, and has not been the subject of a bankruptcy proceeding.

BUSINESS CONTINUITY PLAN

We have a Business Continuity Plan that addresses how the Firm will respond to events that may disrupt its business. If the main telephone line is inactive, the emergency number is 410-504-3088. If the emergency line is down, please contact your custodian. We will resume operations as quickly as possible (preferably within twenty-four hours) depending on the severity of the business disruption. Our Business Continuity Plan covers data backup and recovery, mission critical systems financial and operational assessments, alternative communications, alternate business locations, regulatory reporting and the assurance of prompt access to funds and securities for our customers. Additional details regarding the firm's Business Continuity Plan are available upon request.

PRIVACY NOTICE TO CUSTOMERS

We do not disclose nonpublic personal information about our individual clients or former clients except as permitted by law. We restrict access to nonpublic personal information about you (that we may obtain from your account and your transactions) to those employees who need to know that information to provide products or services to you or to alert you to new, enhanced or improved products or services we provide. We maintain physical, electronic and procedural safeguards that comply with federal standards to safeguard your nonpublic personal information.