

Harbor Investment Advisory, LLC

Form ADV Part 2A Appendix 1 Wrap Fee Program Brochure

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This Wrap Fee Brochure (“Wrap Fee Brochure”) provides information about the qualifications and business practices of Harbor Investment Advisory, LLC. If you have any questions about the contents of this Wrap Fee Brochure, please contact William C. Schady, Chief Compliance Officer at 1-410-659-8900 and/or wschady@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.

ITEM 2: Material Changes

This Brochure is an updated amendment to the prior Brochure dated February 5, 2020.

This Brochure includes information regarding certain material changes since our last delivery and posting of the Brochure on the SEC's public disclosure website (www.adviserinfo.sec.gov) including an update to ITEM 9: Additional Information/Financial Information related to a loan. Please refer to this section on pages 11 and 12 for detailed information.

Harbor makes ongoing and routine changes to this Brochure to improve and clarify the descriptions of our business practices and compliance policies in response to the evolving firm and regulatory practices. Any grammatical and/or format changes are not deemed material and therefore are not disclosed in this section. We encourage you to review this Brochure in its entirety.

Clients may request a free copy of the Form ADV Part 2A at any time by contacting our Chief Compliance Officer, William C. Schady at 1-410-659-8900 or by email at wschady@harborllc.com. This Brochure is also available on our web site www.harborinvestmentadvisory.com.

We also provided investment advisory services other than the wrap fee programs described in this Wrap Fee Brochure. Additional information about our firm and our other services is set forth in our firm Brochure, which is available on our website, free of charge. We urge all potential clients to review the firm Brochure as well as this Wrap Fee Brochure.

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ITEM 4: Services, Fees and Compensation

Description of Harbor

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 2010 and is 100% owned by Harbor Investment Management, LLC.

Assets Under Management

As of December 31, 2019, Harbor had approximately \$2,820,830,468 in assets under management, of which it managed \$1,326,507,181 on a discretionary basis and it managed \$1,494,323,287 on a non-discretionary basis.

Advisory Services

Investment advice and portfolio management services are provided on a continuing basis, which includes managing our client’s (“Client”) assets among cash, stocks, mutual funds, exchange traded funds (“ETFs”), bonds, and other securities (collectively “Assets”). Our advice and services are also based on your stated investment objectives for your investment portfolio account (“Account”). 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:

- Managed investment advisory services pursuant to the advisory agreement,
- Assist Clients in determining investment objectives and establishing an investment implementation strategy,
- Perform due diligence on portfolio manager(s) and direct investments,
- 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;
- Administrative services such as computing, charging and collection of Account fees, including the fee for services provided under the advisory agreement,
- Administrative services to include, but not limited to, the processing of deposits and withdrawals from the Account pursuant to the Client’s instruction; and
- The issuance of written monthly and/or quarterly Account statements by Pershing.

Wrap Fee Advisory Programs

Harbor sponsors two different wrap fee advisory programs. Our wrap fee programs are managed differently from other firm-offered advisory programs or services, because the Harbor Financial Advisor is primarily responsible for the allocation of Assets in the wrap fee program accounts and, in the case of the Harbor Advisor Discretionary program, the discretionary management of the Assets in the Account. The wrap fee advisory programs are 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 (who is a registered investment advisor representative of Harbor) 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 and on a discretionary basis. Harbor, through its registered investment advisor representative, 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. Clients should be aware that the Financial Advisor may select investments and allocations within the broad parameters established by Harbor. Harbor, through its registered investment advisor representative assigned to the account, 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 investment advice to assist the Client in selecting investments for the Client’s Account. In the Harbor Advisor Non-Discretionary program, the Financial Advisor makes recommendations for the Client’s consideration to assist the Client in the allocation of Assets and in managing the Assets in the Account in a manner consistent with the Client’s investment objectives. Harbor, through its registered investment advisor representative, 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, through its registered investment advisory representative, will provide continuous and regular management services, which include recommendations for rebalancing and re-investing the Assets in the Account, in accordance with the stated investment objectives of the Client.

Fees and Compensation

Wrap Fee Program clients compensate Harbor through an annualized asset-based “wrap fee” (the “Wrap Fee”), which will be paid monthly in arrears. The Wrap Fee charged by Harbor includes Harbor’s advisory fee and all transaction fees, commissions, and other related costs and expenses generally incurred with respect to financial transactions in the Client’s wrap account. The Wrap Program may cost the Client more or less than purchasing these services separately. Generally, a wrap fee based on the value of assets may be less if there is a lot of trading activity in the account, since the wrap fee covers the costs of executing most or all of the transactions. If there is little or no trading activity in the account, or the transactions being made would not otherwise incur a transaction fee, a wrap fee arrangement may cost more than separately paying for these services. The amounts and specific manner in which fees are charged is memorialized in our contract with the Client.

Although many fees are individually negotiated, the range of Harbor’s fees is described below:

Harbor Program	Fee Range *	When Charged
Harbor Advisor Discretionary	0.25% - 2.00%	Monthly in Arrears
Harbor Advisor Non-Discretionary	0.25% - 2.00%	Monthly in Arrears

* Computed as a percentage of assets under management in the Account including any margin debit in the Account.

Wrap Fees are deducted from your Account within twenty (20) business days after the end of the period for which the fees are incurred. 100% of the wrap fee is paid to Harbor. The Wrap 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 if applicable, any prepaid unearned Wrap Fees will be promptly refunded, and any earned, unpaid Wrap Fees will be due and payable.

In addition to the Wrap Fee, Clients can indirectly incur certain fees and expenses for investments made for the Client. Harbor may refer Clients to providers of investment offerings for which Harbor and/or its employees

receive selling and or placement compensation, in addition to the Wrap Fee; if so, these payments are credited back to the Client or used to reduce the Client's Wrap Fee. Custody fees imposed on IRA accounts are waived for advisory Accounts. Other administrative fees charged for wire transfers and check writing services are not included in the Wrap Fee.

Additionally, Clients will indirectly incur certain fees and expenses for investments made for the Account in mutual funds, ETFs, money market funds, and other Assets. 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 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. Finally, these types of investments can be purchased separately, without being managed by Harbor pursuant to this Agreement, which may cost you more or less.

Harbor receives mutual fund distribution and servicing fees from certain mutual fund companies, depending on the class of shares held. Harbor agrees to credit to the Client, or to apply to reduce the Client's Wrap Fee, all payments received from any fund on account of Client's advisory holdings. Clients should be aware that when we place a transaction on your behalf, we attempt to place clients in the most cost-effective share class available at that time. The lowest cost share class typically carries a mutual fund "surcharge" of \$10 per trade, charged by Harbor's custodian to Harbor. If incurred, this charge is passed through to the Client. The Client may opt for a higher cost share class to avoid this surcharge. Since fund companies can add new share classes to a mutual fund at any time, without offering or executing an automatic exchange from existing share classes to the new share class, it is possible that the share class originally selected may no longer be the most cost-effective class available. As set forth below, Harbor offers all clients an annual review of their account and holdings; share class selections are among the topics that will be covered in the review if requested by the client. For a complete description of the fees and expenses related to each investment, Client should review the prospectus for the respective mutual fund, ETF, money market fund, and other Assets.

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. Harbor does not receive any portion of these fees or expenses, so they will not be credited back to Client's investment Account or used to reduce the Client's Advisory Fee.

Please note that the advisory Account can hold certain Assets that are not supervised by Harbor and are not charged a Wrap Fee. Harbor acts only as broker-dealer, and not as an investment adviser, with respect to these assets. In the event of a transaction on these unsupervised Assets, the client will incur a brokerage commission or mark-up/down. All transaction-based compensation arrangements create an incentive for a broker-dealer or representative to recommend investments based on potential compensation to the firm or representative. Harbor has procedures to ensure that all recommendations are suitable for the client based on the client's investment profile as disclosed to Harbor.

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.

All fees and expenses will reduce the Client's investment return.

Financial Advisors who participate in Harbor's Wrap Fee Program are compensated by a share of the Wrap Fee charged to the Clients for whose accounts they are responsible. As the fee charged for Wrap Fee Programs may be greater than the fees charged for other advisory or brokerage services, the amount of the Financial Advisor's compensation may be more than what the person would receive if the Client participated in other programs or paid separately for investment advice, brokerage or other services. Accordingly, the Financial Advisor may have a financial incentive to recommend the wrap fee programs over other programs or services.

ITEM 5: Account Requirements and Types of Clients

Account Requirements

Harbor generally requires that the Client maintain a minimum of \$50,000 in the Wrap Fee Program, but may make exceptions depending on the circumstances of the relationship and manner in which assets are allocated by account type and title.

Types of Clients

Harbor can provide portfolio management services to:

- Individuals
- High Net Worth Individuals and Families
- Corporations
- Not for Profit and Charitable Entities
- Corporate Pension and Profit-Sharing Plans
- Taft-Hartley Plans
- Foundations and Endowments
- Trusts
- Other U.S. Institutions

ITEM 6: Portfolio Manager Selection and Evaluation

Selection and Evaluation Criteria for Recommendation/Selection of Portfolio Managers

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

- The money manager is affiliated with a bank, insurance company, broker- dealer, and/or registered investment advisor;
- 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;
- Detailed information on key personnel, representative Clients, fee arrangements, range of investment styles, and assets under management;
- 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;
- Quantitative analysis considers risk-adjusted returns, performance attribution, portfolio composition, fees, and statistical measures.

Other investment formats (direct investments, ETFs, index funds, commingled funds, limited partnerships, regulated investment companies (“RIC”), 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.

Analysis Method for Recommendation / Selection of Individual Stocks or Bonds

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 Risk

In addition to the risks applicable to all investment strategies and securities, Clients must consider specific risks associated with various investment management strategies.

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.

Liquidity

Accounts will be invested primarily in liquid securities, but it is possible that securities could 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. 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.

Interest Rate Fluctuation

The prices of securities in which the Financial Advisor may invest may be 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, commodities, hedged equity, private equity, 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.

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 retain responsibility for proxy voting and will receive proxies and other solicitations directly from their custodian and may contact Harbor to with any questions related to the instructions.

ITEM 7: 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. Harbor employees who serve as Portfolio Managers have access to all Client information obtained by Harbor with respect to the particular Client Accounts they manage.

ITEM 8: Client Contact with Portfolio Managers

The primary point of contact for Clients with respect to all Harbor wrap fee advisory programs is the Client's Financial Advisor. There are no restrictions on a Client's access to his or her Financial Advisor.

ITEM 9: 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 of the Financial Industry Regulatory Authority ("FINRA").

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 William C. Schady, Chief Compliance Officer.

Review of Accounts

Each client is offered at least an annual account review by a Financial Advisor. Additional reviews may be triggered by client request, or by material market, economic or political events, or by changes in clients' financial situations (such as retirement, termination of employment, physical move, or inheritance). Reviews are based on objectives and parameters established by clients, which are generally memorialized through their individual advisory agreements and/or investment policy statements.

While Financial Advisors will typically evaluate the continued suitability of specific Money Managers (as applicable), managed account platforms, and wrap programs during account reviews, the administrators of such platforms and programs may also perform their own reviews of managers appearing on the platforms and programs. Any reviews will be disclosed in the separate Disclosure Documents maintained by the administrators to applicable platforms and programs.

Client Referrals and Other Compensation

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

Harbor receives mutual fund distribution and servicing fees from certain mutual fund companies, depending on the class of shares held. Harbor agrees to credit to the Client, or to apply to reduce the Client's Advisory fee, all payments received from any fund on account of Client's advisory holdings. Client acknowledges receipt of the selected mutual fund and money market fund prospectus, which provides a complete description of the fees and expenses related to each investment.

Please note that a client's advisory Account can hold certain assets that are not supervised by Harbor, and on which the client is not charged an advisory fee. Harbor acts only as broker-dealer, and not as an investment adviser, with respect to these assets. In the event of a transaction on these unsupervised assets, clients may incur a brokerage commission or mark-up/down. All transaction-based compensation arrangements create an incentive for a broker-dealer or representative to recommend investments based on potential compensation to the firm or representative. Harbor has procedures to ensure that all recommendations are suitable for the client based on the client's investment profile as disclosed to Harbor.

Custody

Harbor has entered into an agreement with Pershing, which may 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 written Account statements from the broker/dealer, bank or other qualified custodian that holds and maintains Client's investment Accounts on a monthly or quarterly basis. Harbor may provide additional Account reports that are supplemental to your custodian's Account statements, but we urge you to refer to your custodial statements as the official record of Account holdings, activity, and tax information as our reports may vary from custodial statements based on accounting procedures and reporting formats.

Financial Information

In this Item, we are required to disclose that Harbor is unaware of any financial condition that impairs its ability to meet contractual and fiduciary commitments to Clients and has not been the subject of any bankruptcy

proceedings. Additionally, Harbor is not required to include a balance sheet for our most recent year end, because we do not require or solicit more than \$1,200 in fees per client, six months or more in advance.

Harbor received a Paycheck Protection Program (“PPP”) loan through the Small Business Administration (“SBA”) in conjunction with the relief afforded from the CARES Act during the COVID-19 Pandemic. Due to the ongoing economic uncertainties surrounding the current COVID-19 pandemic, we believed it was prudent and necessary to apply for, and accept, the PPP loan offered by the SBA in order to support our ongoing operations as allowed under the loan program terms. Harbor has not suffered any interruption of service.