

Regulation Best Interest Disclosure Statement

Harbor Investment Advisory Brokerage

Introduction

This Regulation Best Interest Disclosure Statement (“Regulation BI Statement”) provides information about the scope and terms of the brokerage services that Harbor Investment Advisory, LLC (“Harbor”, or “we”, “us” or “our”) provides to retail customers (“Clients”, “you”, or “your”) that engage Harbor for brokerage services working with our registered representatives. If you have any questions on this information, contact us at 410-659-8900.

Harbor is a dual registrant, which means that we are registered with the U.S. Securities and Exchange Commission (“SEC”) both as a broker-dealer and as an investment adviser. Harbor is also a member firm of the Financial Industry Regulatory Authority (“FINRA”) and is a member of the Securities Investor Protection Corporation (“SIPC”). All of our representatives are registered to provide both brokerage and advisory services, therefore we refer to them as “Financial Advisors”.

For additional information regarding Harbor’s brokerage services, or your brokerage account (“Account”, “Brokerage Account” or “Brokerage Services”), please refer to the Harbor New Account Agreement and the Harbor Form CRS, which is available on our website at www.HarborInvestmentAdvisory.com. This Reg BI Statement does **not** apply to investment advisory programs and services (“Advisory”, “Advisory Account” or “Advisory Services”) offered by Harbor. Information regarding our investment advisory business is described in our Form ADV Part 2A brochures.

In this Regulation BI Statement, we provide information about material facts relating to our Brokerage Services for your Account including:

- Information related to the Brokerage relationship, recommendations and risks.
- The capacity in which we act in connection with your Account and type of Brokerage Services.
- Information on fees and other costs you pay in connection with our Services and your Account.
- Information relating to conflicts of interest that are associated with recommendations we make to you.

Standards of Care

Regulation BI is an SEC regulation that applies to Harbor and our Financial Advisors when we act as a broker-dealer and provide Brokerage Services to our Clients. Regulation BI requires us to act in your best interest, and not place our financial or other interests ahead of yours, when recommending any securities transaction, an investment strategy involving securities, account types, and individual retirement and retirement plan account rollovers. To comply with the standard of conduct established under Regulation BI, we must meet four separate obligations:

- The **Disclosure Obligation** requires us to disclose fully and fairly in writing, at or before the time of the recommendation, all material facts about conflicts of interest relating to the recommendation (including how we and our Financial Advisors are compensated) and about the scope and terms of the relationship with the Client.
- The **Care Obligation** requires us to exercise reasonable diligence, care and skill when making a recommendation to a Client. The Care Obligation extends to recommendations of individual securities and investment strategies as well as to recommendations regarding specific account types, including individual retirement account rollovers.
- The **Conflict of Interest Obligation** requires us to establish, maintain, and enforce written policies and procedures reasonably designed to identify and at a minimum disclose (pursuant to the Disclosure Obligation) or eliminate all conflicts of interest associated with recommendations to Clients.
- The **Compliance Obligation** requires us to establish, maintain and enforce written policies and procedures reasonably designed to achieve compliance with Regulation BI.

When providing Advisory Services, the law generally requires that we act as a fiduciary, which means that we must serve the best interest of our Advisory Clients and not subordinate our Advisory Clients' interests to our own. Although similar to our obligations under Regulation BI and other laws, rules and regulations that apply to us as a broker-dealer, the fiduciary duties that apply to investment advisers impose a different standard of care.

Whether we provide Brokerage Services or Advisory Services, we are required to provide you information regarding material facts relating to conflicts of interest that are associated with our recommendations to you. There are other facts concerning our duties and services that may be material to your decision to establish an account with us or make an investment that we recommend. Whether you decide to open an Advisory Account or a Brokerage Account, we will provide you with more information regarding these services including conflicts of interest. For example, additional information is contained in our Harbor Form CRS, in this Regulation BI Statement (relating to Brokerage Services), and in our Form ADV (relating to Advisory Services).

Brokerage Accounts versus Advisory Accounts

In addition to the different regulations that apply to Brokerage and Advisory relationships, a number of other factors should inform your decision about which account type is most appropriate for you. Those factors include the type and scope of available Brokerage Services and Advisory Services, and their respective fees, costs and expenses, in addition, but not limited, to the following:

- Your preference for an Advisory or Brokerage relationship, a non-discretionary or discretionary relationship, a fee-based or commission-based relationship;
- The types of investment vehicles and solutions that are available in each type of account;
- Whether a particular investment solution or products is available through a Brokerage Account and/or Advisory Account;
- How much trading activity you expect to take place in your account;
- How much of your assets you expect to be allocated to cash or cash equivalents;
- Whether you prefer the frequency and type of client profiling reports, performance reporting and account reviews that are available in an Advisory Account;
- Whether you prefer ongoing account monitoring, as is typically provided in an Advisory Account, or deem acceptable the lack of monitoring services available in a Brokerage Account; and
- The scope of ancillary services that may be available to you through a Brokerage Account, but which may not be available through an Advisory Account.

In our relationship with you, we may act as an investment advisor and a broker-dealer at the same time, but in doing so we do not mean that our Brokerage relationships are Advisory. For example, you may maintain both Brokerage Accounts and Advisory Accounts with Harbor at the same time. While the assets in each account may be considered in making appropriate recommendations, our brokerage relationship continues with respect to your Brokerage Account. Please discuss with your Financial Advisor any questions about the differences between Brokerage Accounts and Advisory Accounts, including the extent of our obligations to disclose conflicts of interest and to act in your best interest, and your rights and our obligations to you.

Capacity

All recommendations regarding your Brokerage Account and Brokerage Services will be made in our capacity as a broker-dealer. You will receive Brokerage Services directly from a Harbor registered representative that is associated with our firm. If you enroll for Advisory Services, we will act as investment advisor solely for that account and not with respect to your Brokerage Account.

Basis for Recommendations

The general basis for Harbor's and our Financial Advisors' recommendations is providing access to, and choice of securities and other investments that meet our Clients' needs based on their investment objectives and goals, among other considerations. Our process also involves due diligence to evaluate whether securities and other investments are in the best interest of at least some of our customers generally. Harbor does not impose any specific investment approach, philosophy or strategy on our Financial Advisors.

Harbor seeks to help Clients achieve their unique investment objectives and to deliver custom solutions drawn from the capabilities of the firm. In designing holistic investment solutions, Harbor Financial Advisors take the time to understand each Client's investment profile, which includes an understanding of the Client's age, other investments, financial situation and needs, tax status, short- and long-term investment objectives, investment experience, investment time horizon, liquidity needs, risk tolerance, estate planning needs, generational giving and philanthropic desires, and any other information the Client discloses to Harbor in connection with each recommendation. Financial Advisors work with each Client to recommend investments and asset allocation strategies that align with the needs and financial goals of the Client.

Risks Associated with Investments and Brokerage Recommendations

While we will take reasonable care in developing and making recommendations to you, securities involve risk and you may lose money. There is no guarantee that you will meet your investment goals or that our recommended investment strategy will perform as anticipated. Please consult any available offering documents for any security that is recommended to you for a discussion of risks associated with the product. Generally, all investments involve risk, the degree of which varies significantly. Investment performance can never be predicted or guaranteed, and the value of your Account will fluctuate due to market conditions and other factors. Investments that we recommend and actions that we take to execute transactions for your Account are subject to various market, liquidity, currency, economic, geographic and political risks and are not necessarily profitable. You assume the risks of investing in securities and other investments and you could lose all or a portion of their value.

Types of Brokerage Services

Brokerage Services

We offer Brokerage Services for Clients, including buying and selling securities on a non-discretionary basis. Our services include discussing your investment goals, assistance with developing or executing an investment strategy, providing recommendations related to investments in your account, on-going communications and facilitating the execution and settlement of your securities transactions.

Brokerage services are appropriate when you desire only periodic or on-demand recommendations that are in your best interest to assist you to pursue your investment goals. For purposes of Regulation Best Interest, we do not monitor your Brokerage Account. We do not have an obligation to update recommendations made previously and do not make implied hold recommendations. For Brokerage Accounts, you make the decisions regarding the investment strategy and the purchase or sale of investments given your investment objectives, financial circumstances and investment needs. Your Financial Advisor of Harbor can provide the following Brokerage Services:

Investment Recommendations. We provide investment recommendations to you regarding securities or investment strategies involving securities from time to time. When we make a recommendation to you, it must be in your best interest at the time it is made in light of, among other things, your investment objectives. You are permitted to disregard our recommendations or otherwise make your own investment decisions.

Unsolicited Transactions. You are permitted to ask your Financial Advisor to execute transactions other than those we recommend to you. Your purchases and sales of securities that are not recommended by us are not subject to Regulation Best Interest.

Transaction Execution. We execute transactions at your direction subject to availability and our policies and procedures for which you pay sales charges. We execute transactions for you consistent with our best execution obligation.

Investment Solutions and Information. We review the securities and other investments that we recommend to you, and we make available investment and market education, research and guidance.

Cash Sweep Program. Any uninvested cash balances in your Account can be automatically deposited (or “swept”) to a FDIC Insured Deposit Program or money market funds under the cash sweep program attributable to your Account (together, “Cash Sweep Program”). Your sweep options vary depending on your Account type and amount available for investment.

Margin Lending. Your Account (other than a Retirement Account) will be a cash account unless you request a margin account. If you use margin lending to purchase securities, the collateral for the margin debt is the assets in your Account. The costs, risks and other features and conditions of margin and other types of securities-based lending are more fully described in your margin agreement.

Custody and Clearing. We have entered into a fully disclosed agreement with Pershing, LLC (“Pershing”) for custody and clearing services for your Account and to provide certain back office functions.

Account Minimums: We generally require that Clients have a minimum of \$50,000 in investment assets to open and maintain a Brokerage Account with us, however, we may waive the minimum in our sole discretion. However, if you either fail to fund your account or do not return account opening documents as required, your account will be closed.

Brokerage Account Types

We offer many different Brokerage Account types including individual and joint accounts, custodial accounts, estate and trust accounts, partnership accounts, 529 plans, individual retirement accounts, and other types of retirement accounts, cash management accounts, custom loan accounts, and other accounts as outlined in our New Account Agreement. For more information concerning available account types speak with your Financial Advisor.

Material Brokerage Fees and Compensation

Material Fees and Costs

This section describes the material fees and costs that apply to your Brokerage Account, including as to transactions, holdings and Account. Prior to investing, you should discuss with your Financial Advisor the fees and costs that you will pay for particular transactions in your Account.

Sales Charges

In connection with the purchase and sale of securities and other investments in your Account, you are charged fees and costs for executing transactions (together, “Sales Charges”). Sales Charges include (1) brokerage commissions and markups and markdowns; (2) underwriting discounts, selling concessions, placement fees, and other applicable fees and charges for new issue offerings; (3) up-front and annual sales charges, including ongoing trailing fees paid on a periodic basis after the transaction like fees paid by a mutual fund under a Rule 12b-1 plan; (4) commissions received from an issuing insurance company; and (5) other transaction charges. The Sales Charges can be included in the price of your security. For some transactions, the Sales Charges are added to the price of the securities you purchase, or are deducted from the price of the securities you sell. For certain securities, you will receive trade confirmations, offering documents and/or subscription documents, which you should consult for the Sales Charges that you will pay for a particular security and transaction.

The Sales Charge information does not cover every security or other investment type or transaction or every fee and cost that applies to your Account and not every security type or transaction is available to you. In certain transactions, minimum Sales Charges will apply. A description of the common types of Sales Charges and the ranges for the common types of transactions include but are not limited to the following:

Stock and ETF Transactions: You pay a commission that is calculated based on the principal value of the security purchased or sold. The commission is in addition to the purchase price you pay or the sale price you receive for the security. The maximum commissions that can be charged range from 0.50% to 3.0%, depending on the principal amount of the transaction, plus \$75.00 per transaction.

Fixed Income Transactions: For purchases, you pay us a markup that is added to and included in the price of the security that you pay. For sales, a markdown is deducted from and included in the price of the security that you receive. Our markups and markdowns range from \$0.63 to \$12.00 per thousand of the quantity of the bonds transacted. In addition, the price you pay (for purchases) or receive (for sales) also includes a trading desk markup or markdown paid to Harbor, typically up to \$0.32 per thousand of the quantity of the bonds transacted. The markup and markdown ranges depend on the security type, availability, and market conditions.

New Issue Certificates of Deposit (“CD”): A placement fee is paid to Harbor for distributing the new issue CD from the brokered CD issuer, the amount of which is included in the offering price (which is the price you pay). Placement fees range from \$0.05 to \$12.00 per thousand of the quantity of the CDs invested.

Listed Option Contracts: You pay a commission calculated based on the principal value and the number of the listed option contracts purchased or sold. The commission is in addition to the purchase premium you pay or the sale premium you receive for the contract. Commissions range from 0.50% to 2.00% of the principal value of the contracts, plus \$2.50 per contract, plus a \$75.00 ticket charge.

Mutual Funds: We currently offer thousands of mutual funds varying in share class structure and investment style. If you invest in mutual funds, we receive compensation in connection with your mutual fund investments to include:

Upfront Sales Charges: For mutual fund Class A shares, you pay an upfront Sales Charge on the purchase in an amount up to 5.75% or less depending on the amount invested (by prospectus). The amount of the Class A share Sales Charge depends on factors such as the size of the purchase, the fund’s particular Sales Charge breakpoint schedule (which lowers the charge based on larger purchases or holdings), your eligibility for any discounts or waivers and/or the asset class of the fund. There are no upfront Sales Charges for mutual fund Class C shares.

Contingent Deferred Sales Charges (“CDSC”): For certain purchase amounts of Class A shares where no Sales Charge is imposed, you will pay a CDSC for any redemption you make within 12 months of the purchase date in an amount ranging from 0.25% to 1.00% of the redemption amount. If you redeem your Class C Share within 12 to 18 months of the purchase date, you will typically pay a CDSC fee of 1.00%, which is deducted from the redemption proceeds.

Annual or Trailing Sales Charges: Mutual funds have an annual asset-based fee or “12b-1 fee” paid out of the fund’s assets that differ based on the fund and share class. For mutual fund Class A shares, a 12b-1 fee is paid to us in addition to the upfront Class A share Sales Charge and typically range from 0.20% and 0.30% but in certain funds can be up to 0.50%. For mutual fund Class C shares where no upfront Sales Charge is paid, you will pay a 12b-1 fee upon the initial purchase and annually thereafter. The mutual fund Class C share 12b-1 fees range from 0.50% to 1.00%.

Money Market Funds: You will not pay an upfront fee. Money market funds, including those available for purchase in ERISA Accounts, have an annual asset-based administrative fee. The administrative fee ranges from 0.00% to 0.50%. The money market funds available to certain Accounts as an automatic cash sweep option under our Cash Sweep Program typically include a 0.40% service fee. Although some money market funds have an annual 12b-1 fee, those available for purchase in your Brokerage Account typically do not charge this fee and Harbor does not share in the 12b-1 fee.

Unit Investment Trusts (“UITs”): There is a sales charge that is included in the UIT offering price (which is the price you pay) that varies based on the type of UIT. For equity UITs, the sales charge ranges from 1.85% to 2.75% of the amount invested. The fixed income UIT sales charge ranges from 2.50% to 3.50% of the amount invested.

Annuities: You pay fees for an annuity directly to the issuing insurance company, the amount of which depends on the annuity type and features you select. For variable annuities, the fees you pay are included in the annuity contract. For fixed rate, fixed indexed and income annuities, the fee is included through the crediting rates established by the issuing insurance company. Under selling agreements with the insurance company, we receive compensation in the form of sales commissions from the insurance company and trailing payments. The first-year sales commissions received range from 0.00% to 7.00% and trailing payments range from 0.00% to 1.00%, in each case, depending on the type of annuity. The commissions are not an upfront sales charge and do not reduce your initial investment.

Hedge Funds and Private Equity: You pay us a one-time placement fee. For hedge funds, this fee is in addition to, and not deducted from, your hedge fund subscription amount. For private equity feeder funds, this fee is added to, and not deducted from, your private equity capital commitment amount. The placement fee is up to 3.00% for hedge funds and up to 2.50% for private equity funds. That percentage payable to us is set out and disclosed in the private placement memorandum, private offering memorandum or disclosure document, as well as in the subscription agreement you will execute to acquire an interest in a private placement.

Administrative Fees: There are a variety of administrative fees that can be charged to your Brokerage Account depending on certain activities and services provided. For a complete list of these fees, please refer to the Harbor Investment Advisory Administrative Fees document, which is available upon request.

Material Conflicts of Interests

Material Facts About Conflicts of Interest

When we provide you with a recommendation regarding securities transactions or investment strategies involving securities in your account, we must act in your best interest, within the meaning of Regulation Best Interest, and we must not place our interests ahead of yours. We have taken various steps to mitigate, disclose and/or eliminate conflicts of interests associated with recommendations in your account, including developing policies and procedures, supervisory systems, processes and controls, compensation and incentive policies, disclosures, agreements and training. At the same time, the way Harbor generates revenue, and the way your Financial Advisor is compensated, creates some conflicts with your interests and it is important that we disclose the material facts regarding these conflicts. Not every conflict described below will apply to each Client.

Account Type: We offer both Brokerage and Investment Advisory accounts and services whereby compensation for Brokerage Accounts is transaction-based and compensation for Advisory Accounts is fee-based. Because of the differences, it is difficult to compare in advance the compensation received for Brokerage and Advisory accounts, but we may receive more or less compensation based on the account type you select. We have a financial incentive to recommend accounts and services based on the amount of compensation we will receive. Depending on the amount of trading, the types of investments and/or the services you select, you could pay higher fees in a Brokerage Account. By contrast, if the trading activity in your Brokerage Account is limited, your Advisor has a financial incentive to recommend that you enroll in one of our Advisory Services, because the Financial Advisor would earn greater compensation from the annual asset-based fee.

Financial Advisor Compensation: Because Financial Advisors receive compensation that is tied, directly or indirectly, to the sales he or she generates, Financial Advisors have incentives that can conflict with a Client’s interest. In general, Financial Advisors have an incentive to recommend that you open an account,

purchase or sell an investment, or purchase an insurance product with the potential to affect the recommendations made by your Financial Advisor. In some cases, Financial Advisors receive greater compensation in connection with certain recommendations and transactions that will affect the fee you pay.

Transaction-Based Compensation: When a Client purchases or sells securities in a Brokerage Account, the Client pays us transaction-based compensation in the form of Sales Charges. We receive greater compensation when you engage in a greater number of transactions. We have an incentive to recommend that you trade more frequently in your Brokerage Account, rather than buy and hold investments long-term or open an Advisory account.

Third-Party Compensation: We receive compensation from third-parties in several forms including investment products with annual 12b-1 fees, sales charges and shareholder servicing fees creating an incentive to recommend the products offered by the third-party. Compensation out of the assets of product sponsors commonly is paid as a revenue sharing payment and is based on aggregate Client holdings. Additionally, third-parties may provide the firm and our Financial Advisors with access to certain research tools, or software that is developed or subscribed to by the third-party. This creates a potential conflict of interest to the extent that this may cause the firm or our Financial Advisors to prefer those product partners that provide these noncash incentives over other product partners.

Product Share Classes: Some product sponsors offer multiple structures of the same product (e.g., mutual fund share classes or limited partnerships) with each option having a unique expense structure, and some having lower costs to you as compared to others. For Brokerage Accounts, we have an incentive to make available or recommend those share classes or other product structures that will generate compensation to us for the initial purchase and/or ongoing recurring compensation.

Proprietary Products: Harbor does not offer any proprietary products.

Recommendations and Services to Others: When Financial Advisors purchase or sell securities for their own or certain family members' accounts in close time proximity to transactions in those securities that are solicited for their Clients' accounts, the Financial Advisor (or family member) is generally not permitted to pay or receive a better price than the price at which the Client transactions are effected.

We also may make a recommendation to a Client that differs from a recommendation provided to other Clients. For example, we may recommend securities to Clients who hold different parts of the capital structure of the same security issuer. Our recommendations to Clients who hold one class of securities may differ from, or conflict with, recommendations to Clients who hold a different class of securities. Particular Clients may be negatively affected by these decisions while other Clients may be positively affected.

Referral Arrangements and Fees: We have entered into agreements with unaffiliated third-party investment managers. There is a conflict of interest where we and our Financial Advisors recommend that you participate in such a separate third-party advisory arrangement. The costs associated with the services provided by an unaffiliated third-party investment manager to you, including any management fees paid to the manager or commissions or fees paid to us in connection with the transactions executed in an Account results in additional compensation to us and our Financial Advisors.

Rollovers and Transfers: Your Financial Advisor has an incentive to recommend that you roll over or transfer your assets from an employer-sponsored plan and/or another brokerage firm or investment adviser, because these actions may generate transaction-based compensation.

Marketing Support, Due Diligence Meetings and Similar Activities: Due diligence conferences and informational meetings that Financial Advisors attend to analyze certain investment product could include reimbursement for travel related expenses and the cost of meals for our participation in conferences or meetings held in the normal course of business. These payments do not influence our merit-based selection process of various investment offerings for our Clients.

Gifts and Non-monetary Compensation: From time to time, certain investment product distributors and wholesalers provide Financial Advisors non-monetary promotional gifts (e.g., coffee mugs, gift baskets), meals, and invitations to events. Harbor has implemented policies and procedures intended to ensure that we avoid actual or perceived conflicts when receiving gifts and entertainment by discouraging the receipt of these items and limiting the maximum value that any individual is permitted to receive annually.

Additional Information

Please contact your Financial Advisor for more investment information and additional documents regarding the services of Harbor Investment Advisory by calling 410-659-8900 or visiting the websites listed below.

Harbor Investment Advisory, LLC	https://harborinvestmentadvisory.com/
FINRA	https://www.finra.org/
SIPC	https://www.sipc.org/
FINRA Broker Check	https://brokercheck.finra.org/
Pershing Disclosures	https://www.pershing.com/disclosures