

**Portfolio Manager:**  
John O. Barr

**Investment Style:**  
Small Cap Growth

## NEEDHAM AGGRESSIVE GROWTH FUND

### 4Q19 Quarterly Commentary

#### Needham Aggressive Growth Fund (NEAGX/NEAIX): Review of the Fourth Quarter & Calendar Year 2019

Our mission is to create wealth for long-term investors, and the fourth quarter and full year ending December 31, 2019 were big steps forward.

The Needham Aggressive Growth Fund's Institutional and Retail classes returned 13.86% and 13.66%, respectively, in the quarter ended December 31, 2019. The Russell 2000 Index returned 9.94% and the S&P 500 Index returned 9.07% in the quarter. For the year ending December 31, 2019, the Fund's Institutional and Retail classes returned 44.79% and 43.93%, respectively. The Russell 2000 Index returned 25.52% and the S&P 500 Index returned 31.49%.

According to Morningstar, the Needham Aggressive Growth Fund was the second best performing mutual fund in the Small Cap Growth category in 2019. We are very excited about these results and appreciate the long-term support of our investors.

PDF Solutions (PDFS) was Needham Aggressive Growth Fund's leading contributor in 2019 and the second leading contributor in the fourth quarter. In October, PDF hosted only its second investor day since going public in 2001. The company highlighted its four-year journey to become an analytics software company for semiconductor manufacturing. Over 50% of revenue is from this fast-growing, high-value offering. PDF's Exensio big data platform provides access to organized data from a customer's supply chain, as well as Exensio's automated intelligence and machine learning capabilities.

Entegris, Inc. (ENTG) was the second-leading contributor in 2019, as well as the sixth highest contributor in the fourth quarter. Entegris supplies filters and chemicals used in advanced semiconductor manufacturing processes. Based on confidence in its business, Entegris said the second quarter of 2019 represented a bottom, and revenue grew in the third and fourth quarters. The company also announced \$20 million in annual cost savings, which was in place by the end of 2019.

In April, Entegris announced a merger with Versum Materials, which was bested by an offer from Merck AG (MKGAF). Throughout 2019, Entegris continued with its acquisition strategy by acquiring Digital Specialty Chemicals (DSC) in March, MPD Chemicals for \$165 million cash in July, and Hangzhou Anow Microfiltration for \$73 million in September. Entegris is doing its own version of what might have been with Versum.

Entegris sees 2020 as a healthy year for its logic and foundry customers, led by Taiwan Semiconductor Manufacturing Company Ltd. (TSM) and Intel Corporation (INTC). Entegris also sees an increasingly positive environment for its memory customers. Over time, we believe that semiconductors will increase as a percentage of industrial output and that Entegris' filtration and specialty materials products will grow even faster than the semiconductor industry.

Apple, Inc. (AAPL), and MKS Instruments, Inc. (MKSI) were also leading contributors in 2019 and the fourth quarter. What a year it was for Apple. It's hard to remember, but Apple fell to \$143 per share on January 3, 2019 (the stock closed at \$293.65 on December 31, 2019). Entering 2019, the market was concerned about weakness in China for its new, high-end phones. Apple reported revenues for iPhone and Services and gross margins above Wall Street estimates for the March quarter. It also increased its share buyback and raised its quarterly dividend. In June, Apple saw iPhone sales in emerging markets stabilize and near 50% growth in Wearables, which now account for near 10% of revenue. The September quarter brought strong iPhone, Wearables and Services results. Throughout the year, Apple showed increasing operating margins.

In the fourth quarter, MKS Instruments reported strong revenue and earnings, benefitting from unexpected business from Taiwan Semiconductor, as TSMC ramped leading-edge 7nm (nanometer) and 5nm manufacturing. As an aside, a 5nm transistor is about 10 atoms wide. Manufacturing these semiconductor devices is absolutely a miracle of science. The benefit of these leading-edge semiconductors is that they use less power and extend the battery life of smartphones and other devices.

For 2019, the Fund's short position in Ubiquiti, Inc. (UI) was the main detractor. The company's limited float and stock repurchases funded with bank debt have supported the stock price at a premium valuation. The stock spiked in November as the company reported 14% year-over-year revenue growth. While we remain skeptical about Ubiquiti's business model and governance, it is time to move on from this short position. As of December 31, 2019, the Ubiquiti short position is down to 0.3% of net assets and it will no longer have a significant impact on the Fund.

DIRTT Environmental Solutions Ltd. (DIRTT and DRT:TSE) was the fourth quarter's leading detractor. We believe DIRTT is the future of semi-custom construction. DIRTT designs interior office spaces on its incredible virtual reality CAD system. DIRTT manufactures the walls and interior components, which are shipped and assembled on-site. As a result, there is less on-site waste and a more predictable schedule. DIRTT competes with dry wall and the requirement for skilled workers.

DIRTT is undergoing a management transition. Co-Founder & CEO Mogans Smed was dismissed by DIRTT's board of directors in September 2018. New CEO Kevin O'Meara was a co-founder of Builders FirstSource, Inc. (BLDR) and was CEO of private equity-backed Atrium Corporation, North America's largest vinyl and aluminum window manufacturer. O'Meara has also been affiliated with the private equity firms American Securities and Hicks, Muse & Co. We believe he's a strong CEO to take DIRTT to the next level.

DIRTT's third quarter revenue and earnings were disappointing, down year-over-year. DIRTT also guided to continued weakness in the 4th quarter. The company pointed to the sales force and distribution partner changes which first started in 2018. O'Meara and his new management team are professionalizing DIRTT's customer engagement model, but it is taking time. DIRTT added a second major manufacturing facility in Rock Hill, South Carolina, which could lead to better margins.

Additions to the Fund in 2019 included Bruker Corporation (BRKR), Smith-Midland Corporation (SMID) and Wabtech Corp. (WAB), all of which were over 50 basis points of net assets on December 31, 2019. The Fund exited only three positions that were over 50 basis points of net assets as of December 31, 2018. Amber Road, Inc., Ecology & Environment, Inc. and Electronics for Imaging Inc. were all acquired.

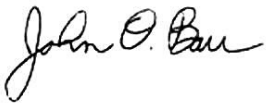
At December 31, 2019, the Fund's top 10 positions were 63.02% of net assets. For the first time in a long time, the Fund is not fully invested and held 6.6% of net assets in cash. This is not a top-down allocation, but rather a decision to wait for our target prices in potential investments. The Fund had an Active Share of 99.8% versus the Russell 2000 and had trailing 12-month turnover of 8.4%. The Fund was short 0.5% of total investments.

Morningstar categorizes the Fund as Small Cap Growth, and Lipper categorizes it as Small Cap Core. When you hold companies for 10-15 years, and they succeed, they grow to larger market cap categories. My mission is to find companies that match the three criteria and may be compounders over many years, independent of their industry or market cap.

We believe the U.S. remains the best place in the world to be investing, and we continue to see an opportunity to invest in small and mid-cap stocks. Most importantly, we see a revolution happening in technology that has created and continues to create investment opportunities. We see opportunity in our strategy of investing in companies that we know well and that we believe are positioned with secular growth drivers.

We welcome our new investors and thank all of our investors for their continued support. If you have any questions, thoughts or concerns, please contact us at (800) 625-7071 or [jbarr@needhamco.com](mailto:jbarr@needhamco.com). For information about the Needham Aggressive Growth Fund, please visit our website at [www.needhamfunds.com](http://www.needhamfunds.com).

Sincerely,



John Barr, Portfolio Manager

## AVERAGE ANNUAL RETURNS AS OF 12/31/19

	3 MO	YTD	1YR	3YR	5YR	10YR	SINCE INCEPT.
Needham Aggressive Growth Fund Inst Class**	13.86%	44.79%	44.79%	10.26%	8.99%	12.27%	10.19%
After Taxes on Distributions	11.12%	41.30%	41.30%	7.81%	6.64%	10.93%	9.11%
After Taxes on Distributions & Redemptions	9.90%	28.67%	28.67%	7.62%	6.66%	9.98%	8.51%
Needham Aggressive Growth Fund Retail Class	13.66%	43.93%	43.93%	9.63%	8.39%	11.65%	9.58%
After Taxes on Distributions	10.88%	40.41%	40.41%	7.17%	6.03%	10.31%	8.50%
After Taxes on Distributions and Redemptions	9.82%	28.20%	28.20%	7.17%	6.18%	9.44%	7.96%
Russell 2000 Index	9.94%	25.52%	25.52%	8.59%	8.23%	11.83%	8.65%
S&P 500 Index	9.07%	31.49%	31.49%	15.27%	11.70%	13.56%	8.03%

The Needham Aggressive Growth Fund inception date is 9/4/01.

\*\*Performance for any periods prior to the inception date of Institutional Class Shares are based on the historical performance of the Retail Class Shares adjusted to assume the expenses associated with Institutional Class Shares.

The Needham Aggressive Growth Fund's Gross Expense Ratio is 2.97% for the Retail Class and 2.79% for the Institutional Class. The Needham Aggressive Growth Fund's Net Expense Ratio is 2.91% for the Retail Class and 2.35% for the Institutional Class. The Net Expense Ratio reflects a contractual agreement by the Fund's investment adviser to waive its fee and/or reimburse the Fund through May 1, 2020 to the extent the Gross Expense Ratio exceeds 1.95% and 1.40% of the average daily net assets of Retail Class Shares and Institutional Class Shares (Expense Cap). The Expense Cap excludes taxes, interest, brokerage, dividends on short positions, fees and expenses of "acquired funds," extraordinary items and shareholder redemption fees but includes the management fee. Fact Sheet Link: [Needham Aggressive Growth Fund](#)

*The information presented in this commentary is not intended as personalized investment advice and does not constitute a recommendation to buy or sell a particular security or other investments.*

This message is not an offer of the Needham Growth Fund, the Needham Aggressive Growth Fund or the Needham Small Cap Growth Fund. Shares are sold only through the currently effective prospectus. Please read the prospectus or summary prospectus and consider the investment objectives, risks and charges and expenses of the Funds carefully before you invest. The prospectus and summary prospectus contain this and other information about the Funds and can be obtained on our website, [www.needhamfunds.com](http://www.needhamfunds.com).

Investment returns and principal value will fluctuate, and when redeemed, shares may be worth more or less than their original cost. Performance data quoted represents past performance, and does not guarantee future results. Current performance may be higher or lower than these results. Performance current to the most recent month-end may be obtained by calling our transfer agent at 1-800-625-7071. Total return figures include reinvestment of all dividends and capital gains.

*All three of the Needham Funds have substantial exposure to small and micro capitalized companies. Funds holding smaller capitalized companies are subject to greater price fluctuation than those of larger companies.*

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Portfolio holdings are subject to change. The Needham Aggressive Growth Fund's ownership as a percentage of net assets in the stated securities as of 12/31/19: PDFS: 11.00%; ENTG: 9.16%; TSM: 0.73%; INTC: 0.00%; AAPL: 10.48%; MKSI: 4.51%; UI: (0.30%); DRTT & DRT:TSE: 2.16%; BRKR: 0.91%; SMID: 0.68%; WAB: 1.18%.

The source of the data for each of the Russell 2000 Index and the Russell 3000 Index (together, the "Indexes") is the London Stock Exchange Group plc and its group undertakings (collectively, the "LSE Group"). © LSE Group 2019. All rights in the Indexes vest in the relevant LSE Group company which owns the Index. The Indexes are calculated by or on behalf of FTSE International Limited or its affiliate, agent or partner. Neither the LSE Group nor its licensors accept any liability for any errors or omissions in the Indexes; no party may rely on the Index returns shown; and the LSE Group makes no claim, prediction, warranty or representation about the Fund or the suitability of the Indexes with respect to the Fund. No further distribution of data from the LSE Group is permitted without the relevant LSE Group company's express written consent. The LSE Group is not connected to the Fund and does not promote, sponsor or endorse the Fund or the content of this prospectus.