

## 3Q20 Quarterly Commentary

Investment Style: Small Cap Growth

Portfolio Manager: John O. Barr

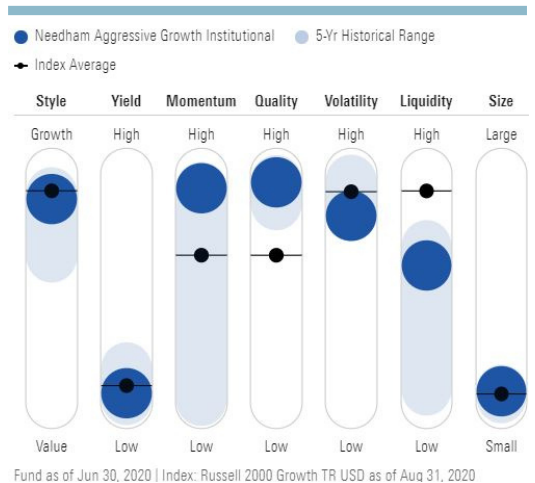
### MARKET REVIEW

- U.S. equities rallied for the second quarter in a row; S&P 500 returned 8.93%; Russell 2000 returned 4.93%. YTD at September 30, the S&P 500 returned 5.57%; Russell 2000 returned -8.69%.
- 3Q20 U.S. GDP estimates called for 32% quarter-on-quarter growth, well ahead of the initial 12% estimate on July 31<sup>1</sup>.
- In late August, the Federal Reserve adopted new policy that allows inflation over 2%, providing a tailwind to equities.<sup>2</sup>
- The Federal Reserve’s balance sheet increased to \$7T in late September, up from \$4.2T in early March, providing another tailwind to asset prices. After the 2008 Great Financial Crisis, it took five years for the balance sheet to expand by \$3T.
- During the 3rd quarter, high-quality and long-term momentum factors outperformed, while small-size, high-yield and value factors underperformed.<sup>3</sup>
- The top industry contributors were software and tech hardware. Utilities, telecommunications and energy were underperforming sectors.

### PORTFOLIO REVIEW

- In 3Q20, Institutional (NEAIX) and Retail classes (NEAGX) returned 10.27% and 10.07%, respectively. YTD at September 30, NEAIX returned 24.56% and NEAGX 24.02%, considerably outperforming the S&P 500’s 5.57% and Russell 2000’s -8.69% YTD results.
- The Fund’s allocation and selection effect in IT (semiconductor capital equipment and IT hardware) were the primary contributors in 3Q20. Electric equipment and healthcare stock selection also contributed, as did the Fund’s underweights in energy, telecommunications and utilities.
- Greater-than-benchmark exposure to high quality stocks helped the Fund’s third quarter performance. We believe our portfolio companies’ high profitability, return-on-capital and moderate leverage are a cause for Morningstar’s high quality ranking.<sup>4</sup>
- Consumer Discretionary stocks, led by the hospitality industry, accelerated in 3Q20 as the market anticipated a return to normalcy. These stocks rarely match our quality investment criteria, so the Fund was underweight.
- The Fund’s top two contributors were two of the largest positions, Apple, Inc. (AAPL) and Entegris Inc. (ENTG). Apple reported a strong June quarter for Mac, iPad, iPhone and Services. Entegris provides technology for advanced semiconductor manufacturing.
- Aspen Aerogels Inc. (ASPN) and Cryoport, Inc. (CYRX) were also major contributors. The market began to recognize Aspen Aerogel’s potential to supply aerogels for use in thermal control in lithium ion batteries. Cryoport furthered its position in cold chain logistics by acquiring Chart Industries Inc.’s. (GTLS) container business.
- None of the Fund’s positions were material detractors in 3Q20.

#### NEAIX Morningstar Factor Profile



### THE OPPORTUNITY

- We target companies we perceive to have significant, unrecognized growth opportunities. COVID-19 is hastening revolutionary development in technology and life sciences; the Fund is a long-term investor in companies that build the infrastructure necessary to bring these developments to market.
- For years, we have been underweight financials, utilities, commodity and consumer-facing companies. We believe the underlying technology infrastructure is less vulnerable to economic cycles.
- Greater-than-benchmark exposure to high quality stocks positions the Fund for outperformance in future periods of market weakness.
- We seek current and growing profitability and sound balance sheets in the stocks we hold, and believe that during times of uncertainty, this may continue to benefit our shareholders.

- 1 - <https://www.cbo.gov/publication/56368#:~:text=During%20the%20second%20quarter%20of,the%20fourth%20quarter>
- 2 - <https://www.marketwatch.com/story/fed-unanimously-adopts-new-strategy-widely-seen-as-leading-to-easier-policy-2020-08-27>
- 3 - [https://research.ftserussell.com/products/downloads-research/FTSE\\_Russell\\_Monthly\\_Performance\\_Report\\_LCY.pdf?](https://research.ftserussell.com/products/downloads-research/FTSE_Russell_Monthly_Performance_Report_LCY.pdf?)
- 4 - <https://www.morningstar.com/funds/xnas/neaix/portfolio>

**AVERAGE ANNUAL RETURNS AS OF 9/30/20**

	3 MO	YTD	1YR	3YR	5YR	10YR	SINCE INCEPT.
Needham Aggressive Growth Fund Inst Class**	10.27%	24.56%	41.82%	14.04%	16.55%	12.55%	11.04%
After Taxes on Distributions	10.27%	24.56%	38.41%	11.51%	14.04%	11.20%	10.00%
After Taxes on Distributions & Redemptions	6.08%	14.54%	26.05%	10.21%	12.52%	10.02%	9.21%
Needham Aggressive Growth Fund Retail Class	10.07%	24.02%	40.97%	13.40%	15.90%	11.93%	10.43%
After Taxes on Distributions	10.07%	24.02%	37.52%	10.85%	13.38%	10.58%	9.39%
After Taxes on Distributions and Redemptions	5.96%	14.22%	25.59%	9.71%	11.98%	9.48%	8.66%
Russell 2000 Index	4.93%	-8.69%	0.39%	1.77%	8.00%	9.85%	7.78%
S&P 500 Index	8.93%	5.57%	15.15%	12.28%	14.15%	13.74%	8.01%

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 2.17% for the Retail Class and 1.90% for the Institutional Class. The Needham Aggressive Growth Fund's Net Expense Ratio is 1.92% for the Retail Class and 1.24% 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, 2021 to the extent the Gross Expense Ratio exceeds 1.85% and 1.18% 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](#)

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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).

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*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. Needham Aggressive Growth Fund's ownership as a percentage of net assets in the stated securities as of 9/30/20: AAPL: 10.66%; ENTG: 11.37%; ASPN: 2.49%; CYRX: 2.38%.

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