

4Q20 Quarterly Commentary

Portfolio Managers: John O. Barr & Christopher J. Retzler
Investment Style: Mid Cap Growth

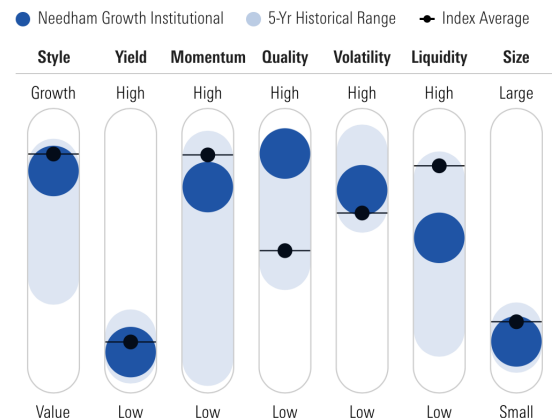
MARKET REVIEW

- In 4Q20, the S&P 500 returned 12.15%; Russell 2000 returned 31.37%. For the year ending December 31, 2020, the S&P 500 returned 18.40%; Russell 2000 returned 19.96%.
- Recent commentary indicates accommodative monetary and fiscal policy, which have long provided a tailwind for equities, will continue. In late August, the Federal Reserve adopted a new policy framework to allow inflation to run above 2%.¹
- A recent Brookings Institute panel featured a draft paper, “Reconsideration of Fiscal Policy in the Era of Low Interest Rates.” Authors Jason Furman and Larry Summers argue that with structural low interest rates, the U.S. government can implement support of public sector spending for health care, education and a host of other programs without raising taxes or systemic risk.² President-elect Joe Biden recently said, “Every major economist thinks we should be investing in deficit spending in order to generate economic growth.”³
- During 4Q20, low-quality and value factors outperformed, while high-quality, momentum and low-volatility underperformed.^{4,5}
- Top-performing industries were energy, materials, financials and consumer discretionary⁶ as COVID-19 vaccines were approved and the market anticipated recovery from the pandemic recession. Information technology continued to outperform.

PORTFOLIO REVIEW

- The Fund’s Institutional (NEEIX) and Retail classes (NEEGX) returned 22.41% and 22.30%, respectively, in 4Q20. In 2020, NEEIX returned 42.24% and NEEGX returned 42.024%, considerably outperforming the S&P 500’s 18.40% and Russell 2000’s 19.96%.
- The Fund’s underexposure to the strong consumer discretionary, financial services, materials, and energy sectors contributed to its outperformance in 2020.
- With 15% turnover, the Fund does not rotate into or out of sectors, but invests in companies we believe can outperform over the long-term.
- The Fund’s top contributors for 4Q20 were Aspen Aerogels (ASPN), Entegris Inc. (ENTG) and FormFactor Inc. (FORM). Aspen’s PyroThin prevents thermal run-away in electric vehicle batteries and the company

NEEIX Morningstar Factor Profile



Fund as of Sep 30, 2020 | Index: Russell Mid Cap Growth TR USD as of Nov 30, 2020

announced a multi-year win with a major North American auto maker. Entegris and FormFactor provide technology for advanced semiconductor manufacturing.

- None of the Fund’s positions were material detractors in 4Q20.

THE OPPORTUNITY

- The Fund targets investments 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 enable the research and manufacturing to bring these developments to market.
- For years, we have been underweight in financials, utilities, commodity and consumer sectors. We believe our investments are less vulnerable to economic cycles.
- Greater-than-benchmark exposure to high quality stocks positions the Fund for outperformance in future periods of market weakness.

- 1 - <https://www.marketwatch.com/story/fed-unanimously-adopts-new-strategy-widely-seen-as-leading-to-easier-policy-2020-08-27>
 2 - <https://www.brookings.edu/events/fiscal-policy-advice-for-joe-biden-and-congress/>
 3 - <https://www.nbcnews.com/politics/white-house/joe-biden-wants-set-aside-deficit-concerns-invest-ailing-u-n1253638>
 4 - https://research.ftserussell.com/products/downloads-research/FTSE_Russell_Monthly_Performance_Report_LCY.pdf?
 5 - S&P Dow Jones Indices LLC and/or its affiliates. Data as of December 31, 2020
 6 - FactSet, 2 Factor Brinson Attribution for NEAGX vs. Russell 2000 ETF for 4Q20.

AVERAGE ANNUAL RETURNS AS OF 12/31/20

	3 MO	YTD	1YR	3YR	5YR	10YR	SINCE INCEPT.
Needham Growth Fund Inst Class**	22.41%	42.24%	42.24%	22.45%	17.29%	12.24%	14.20%
After Taxes on Distributions	20.60%	40.14%	40.14%	19.45%	14.85%	10.47%	12.72%
After Taxes on Distributions & Redemptions	14.15%	26.04%	26.04%	16.93%	13.22%	9.58%	12.10%
Needham Growth Fund Retail Class	22.30%	41.59%	41.59%	21.83%	16.71%	11.73%	13.70%
After Taxes on Distributions	20.45%	39.44%	39.44%	18.80%	14.26%	9.95%	12.23%
After Taxes on Distributions and Redemptions	14.11%	25.67%	25.67%	16.42%	12.74%	9.14%	11.64%
S&P 500 Index	12.15%	18.40%	18.40%	14.18%	15.22%	13.88%	9.56%
S&P 400 Index	24.37%	13.66%	13.66%	8.45%	12.35%	11.51%	11.45%
Russell 2000 Index	31.37%	19.96%	19.96%	10.25%	13.26%	11.20%	9.05%

The Needham Growth Fund inception date is 1/1/96.

**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 Growth Fund's Gross Expense Ratio is 2.01% for the Retail Class and 1.73% for the Institutional Class. The Needham Growth Fund's Net Expense Ratio is 1.98% for the Retail Class and 1.43% 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 1.95% 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 Growth Fund](#) [Prospectus Link](#)

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.

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. Needham Growth Fund's ownership as a percentage of net assets in the stated securities as of 12/31/20: ASPN: 5.08%; ENTG: 7.55%; FORM: 3.79%.

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