

MARKET REVIEW

- In 4Q20, the S&P 500 returned 12.15%; the Russell 2000 returned 31.37%. For the year ending December 31, 2020, the S&P 500 returned 18.40%; the Russell 2000 returned 19.96%.
- Fiscal stimulus was approved at the end of the year, and we expect continued Federal budget increases in 2021. A fully Democrat-controlled government will unleash spending and further stimulus that should benefit near-term economic growth while increasing debt levels. We expect this will ultimately drive inflation higher over the next few years; the yield curve is already reacting to this potential. The steepening of the interest rate curve has benefited many value stocks in the financial and energy industries.
- During 4Q20, low-quality and value factors outperformed, while high-quality, momentum and low-volatility underperformed.^{1 2} Top-performing industries were energy, materials, financials and consumer discretionary as COVID-19 vaccines were approved and the market anticipated recovery from the pandemic recession. These industries' outperformance indicates a broadening of market participation in anticipation of a new economic cycle.
- The digitization of the global economy has been accelerated, with tremendous results for technology companies. Many companies in our investment universe have experienced decreased expenses and increased productivity as a byproduct of the physical distancing requirements that made telework mandatory. Many of these changes to business operations will remain permanent as employees have exhibited increased productivity under this new paradigm.

PORTFOLIO REVIEW

- In 4Q20, Institutional (NESIX) and Retail classes (NESGX) returned 36.55% and 36.32%, respectively. YTD at December 31, NESIX returned 72.51% and NESGX 71.35%, considerably outperforming the S&P 500's 18.40% and Russell 2000's 19.96% YTD results.
- The Fund was recognized in the Wall Street Journal in December as a top performer and the #2 Fund for 2020 1-year performance in the Small-Cap Core category. The Fund was also recognized earlier in the year with two 2020 Refinitiv Lipper 2020 Fund awards for delivering strong risk-adjusted returns over the three-year and five-year time periods in the Small-Cap Core category. We are excited about these recognitions and appreciate the long-term support of our investors.
- The Fund's top 4Q20 contributions included FireEye, Inc. (FEYE), AXT, Inc. (AXTI), Cambium Networks Corp. (CMBM), Telos Corp. (TLS) and 8x8, Inc. (EGHT). The Fund did not have any M&A announcements in the quarter; companies continue to evaluate risk and the ability to integrate new acquisitions during the pandemic.
- The Fund entered the quarter with a smaller than normal cash position but remained vigilant throughout as volatility provided both exit and investment opportunities. Following the election, we deployed capital as the outcome became known.

TOP TEN HOLDINGS	% OF NET ASSETS
Photronics, Inc.	6.17%
AXT, Inc.	5.53%
Limelight Networks, Inc.	4.13%
Intevac, Inc.	4.05%
Telos Corp.	3.87%
Veeco Instruments, Inc.	3.84%
EMCORE Corp.	3.76%
Fluidigm Corp.	3.45%
Akoustis Technologies, Inc.	3.42%
Sumo Logic, Inc.	3.32%
Total	41.54%

OUTLOOK

- While large cap stocks enjoyed substantial gains in 2020, we believe economic growth will continue accelerating 2021, and that it will benefit a broader array of companies including many with smaller capitalizations. Generally, small cap stocks do well at the beginning of a new economic cycle, and we believe we are in those early days of a recovery following the devastation brought on by the pandemic.
- The technology sector remains strong, with major secular trends firmly in place to support continued growth. Industries and long-term themes we continue to like are semiconductors, semiconductor capital equipment, communications infrastructure, 5G devices, wireless connectivity, military modernization, software and security and specialty material manufacturing.
- Although we are equity investors, we constantly monitor the bond markets and interest rate curve for signs of nervousness in the financial system. High-yield bonds are a key market indicator with similar characteristics to small cap investing. Currently, these markets are calm and reassuring to our bullish investment outlook. This outlook could change if some of the following events were to unfold: 1) An increase in government regulations could slow growth and increase costs. 2) Higher corporate taxes could give pause to U.S. corporate investment and may slow a recovery. 3) If the Federal Reserve were to slow its bond purchasing program, it could be a headwind for risk assets.

1 - https://research.ftserussell.com/products/downloads-research/FTSE_Russell_Monthly_Performance_Report_LCY.pdf?

2 - S&P Dow Jones Indices LLC and/or its affiliates. Data as of December 31, 2020

AVERAGE ANNUAL RETURNS AS OF 12/31/20

	3 MO	YTD	1YR	3YR	5YR	10YR	SINCE INCEPT.
Needham Small Cap Growth Fund Inst Class**	36.55%	72.51%	72.51%	36.74%	30.57%	15.34%	14.78%
After Taxes on Distributions	28.83%	62.76%	62.76%	30.84%	25.85%	12.77%	12.78%
After Taxes on Distributions & Redemptions	20.86%	41.94%	41.94%	26.50%	22.75%	11.47%	11.95%
Needham Small Cap Growth Fund Retail Class	36.32%	71.35%	71.35%	35.91%	29.82%	14.70%	14.16%
After Taxes on Distributions	28.41%	61.40%	61.40%	29.94%	25.06%	12.12%	12.15%
After Taxes on Distributions and Redemptions	20.71%	41.24%	41.24%	25.78%	22.08%	10.89%	11.37%
Russell 2000 Index	31.37%	19.96%	19.96%	10.25%	13.26%	11.20%	9.19%
S&P 500 Index	12.15%	18.40%	18.40%	14.18%	15.22%	13.88%	9.08%

The Needham Small Cap Growth Fund inception date is 5/22/02.

**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 Small Cap Growth Fund's Gross Expense Ratio is 2.12% for the Retail Class and 1.88% for the Institutional Class. The Needham Small Cap Growth Fund's Net Expense Ratio is 1.90% for the Retail Class and 1.23% 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 April 30, 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 Small Cap 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.

Needham & Company, LLC, member FINRA/SIPC, is the distributor of The Needham Funds, Inc.

Portfolio holdings are subject to change. Needham Small Cap Growth Fund's ownership as a percentage of net assets in the stated securities as of 12/31/20: FEYE: 1.34%; AXTI: 5.53%; CMBM: 2.13%; TLS: 3.87%; EGHT: 0.56%.

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 2021. 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.