

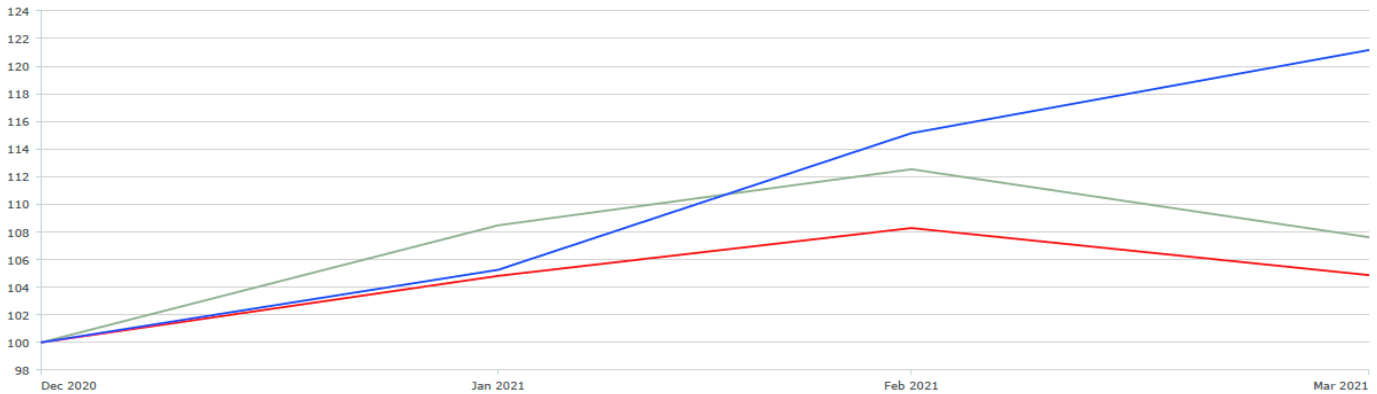
## 1Q21 Quarterly Commentary

Portfolio Managers: Christopher J. Retzler

Investment Style: Small Cap Growth

### MARKET REVIEW

- In 1Q21, the Russell 2000 returned 12.70% and the S&P 500 returned 6.17%. Bullish sentiment continued through early February until inflation fears increased and the long end of the yield curve began to rapidly rise. This caused a risk-off period for higher growth stocks and a significant rotation out of growth into value late in the quarter - the Russell 2000 Value Index returned 21.17% in Q1 while the Russell 2000 Growth Index returned +4.88%.



	RETURN
Russell 2000 Value	21.17
Needham Small Cap Growth Institutional	7.62
Russell 2000 Growth	4.88

Source: Zephyr Informa

### MACRO OBSERVATIONS

- We believe accommodative policies have long provided tailwind for equities. In the “Semi-Annual Report on Monetary Policy to the Senate,” Fed. Reserve Chairman Powell said, “following periods when inflation has been running below 2%, appropriate monetary policy will likely aim to achieve inflation moderately above 2% for some time...we will continue to increase our holdings of Treasury securities and agency mortgage-backed securities at least at their current pace...The economy is a long way from our employment and inflation goals, and it is likely to take some time for substantial further progress to be achieved.”<sup>1</sup>

- In 1Q21, top-performing industries were energy, materials, financials and consumer discretionary.

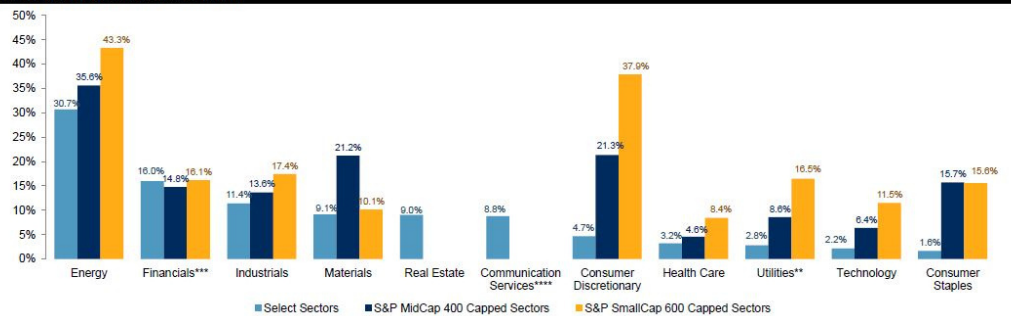
The market is anticipating recovery from the pandemic recession as vaccinations, which started in mid-December, have now reached over 30% of the US population.<sup>2</sup>

### 1Q21 TOP-PERFORMING INDUSTRIES

INDEX INVESTMENT STRATEGY  
 Register to receive our dashboards at [on.spdij.com/DashboardSignup](https://on.spdij.com/DashboardSignup)  
**U.S. Sector Dashboard**  
 March 31, 2021

S&P Dow Jones Indices  
 A Division of S&P Global

#### QUARTERLY PERFORMANCE SUMMARY



- In mid-March, the \$1.9T American Rescue Plan Act became law. Congress and the Biden Administration quickly turned to consideration of a \$2.5 trillion infrastructure bill. The Administration plans to raise taxes in the fall. It’s possible that \$4.4T of stimulus spending may push the equity markets higher despite the pending tax increases.<sup>3</sup>

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## PORTFOLIO REVIEW

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- In 1Q20, Institutional (NESIX) and Retail classes (NESGX) returned 7.62% and 7.40%, respectively, compared to the S&P 500's 6.17% and the Russell 2000's 12.70%. While the rotation out of growth and into value stocks impacted our Q1 performance, our highest conviction stock picks are well-positioned for the environment that we believe will be dominated by strength in semiconductor spending for the remainder of the year.
- In March, the Fund won two 2021 Refinitiv Lipper Fund awards in the Small-Cap Core category for delivering strong risk-adjusted returns for the three-year time period ended November 30, 2020 (245 funds in the category) and the five-year time period ended November 30, 2020 (235 funds in the category). The Fund also won Refinitiv Lipper's 2020 Awards for three- and five-year performance. We are excited about these recognitions and appreciate the long-term support of our investors.
- The Fund's top 1Q21 contributors included Sientra, Inc. (SIEN), AXT, Inc. (AXTI), ViaSat, Inc. (VSAT), Photonics, Inc. (PLAB) and Cambium Networks Corp (CMBM). We reduced our exposure in some of our top holdings and redeployed those cash proceeds, ending the quarter nearly fully invested.
- In March, Roche Diagnostics announced intent to acquire the Fund's holding GenMark Diagnostics (GNMK) at a 43% premium. We have already seen three large M&A transactions this year, and we expect further M&A activity. Cash remains cheap and the threat of higher capital gains tax rates should cause M&A to continue. We believe our portfolio has many viable targets.

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## OUTLOOK

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- Big news in the semiconductor industry - We've long felt the semiconductor industry has moved beyond a cyclical PC-driven industry to one of strategic importance. In March, Intel Corp. (INTC) announced plans to invest \$20B in new plants in Arizona. In early April, Taiwan Semiconductor Manufacturing Co., Ltd. (TSM) announced it will spend \$100B of capex over 3 years. Also, the Biden Administration's proposed a \$2.5T infrastructure bill includes \$50B for the semiconductor industry. All of these investments will require advanced semiconductor manufacturing equipment.
  - We are carefully watching the current global semiconductor shortage (a result of pandemic disruptions), and its potential impact on our portfolio. There is a balance between risks and opportunities in this shortage as we have rarely witnessed such a global supply interruption.
  - At March 31, 2021, 17.9% of Needham Small Cap Growth Fund's assets were invested in Semiconductor and Semiconductor Equipment companies.
  - We believe economic growth will continue accelerating in 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 rotation to value is a bullish indicator, as the market broadens out and includes those industries that have underperformed.
  - 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.
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1- <https://www.federalreserve.gov/newsevents/testimony/powell20210223a.htm>

2- <https://www.npr.org/sections/health-shots/2021/01/28/960901166/how-is-the-covid-19-vaccination-campaign-going-in-your-state>

3- <https://www.statista.com/chart/24395/composition-of-the-american-rescue-plan-act/>

Average Annual Returns as of 3/31/21. 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.

	3 MO	YTD	1YR	3YR	5YR	10YR	SINCE INCEPT.
Needham Small Cap Growth Fund Inst Class**	7.62%	7.62%	118.08%	39.80%	30.57%	15.64%	15.02%
After Taxes on Distributions	7.62%	7.62%	105.78%	33.78%	25.86%	13.07%	13.04%
After Taxes on Distributions & Redemptions	4.51%	4.51%	68.25%	28.84%	22.64%	11.67%	12.17%
Needham Small Cap Growth Fund Retail Class	7.40%	7.40%	116.53%	38.92%	29.80%	14.99%	14.39%
After Taxes on Distributions	7.40%	7.40%	103.99%	32.82%	25.05%	12.40%	12.41%
After Taxes on Distributions and Redemptions	4.38%	4.38%	67.32%	28.07%	21.95%	11.09%	11.58%
Russell 2000 Index	12.70%	12.70%	94.85%	14.76%	16.35%	11.68%	9.76%
S&P 500 Index	6.17%	6.17%	56.35%	16.78%	16.29%	13.91%	9.30%

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](#)

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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.*

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 3/31/21: SIEN: 3.13%; AXTI: 1.62%; VSAT: 2.38%; PLAB: 6.49%; CMBM: 0.00%.

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