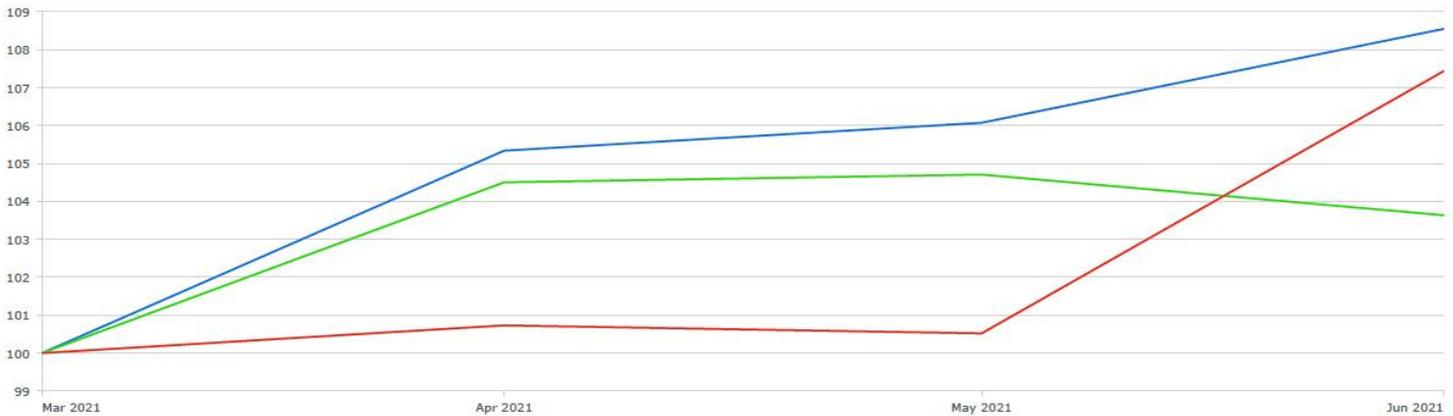


**2Q21 Quarterly Commentary**

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

**MARKET REVIEW**

- In 2Q21, the S&P 500 returned 8.55% and the S&P MidCap 400 returned 3.64%.



	CUMULATIVE RETURN
Needham Growth Institutional	7.44
S&P 400	3.64
S&P 500	8.55

Source: Zephyr Informais

**MACRO OBSERVATIONS**

- 10-year U.S. Treasury rates fell from 1.75% to 1.5% after a one-year increase from near 1.0%. The decrease helped equities in the second quarter.<sup>1</sup>
- Inflation - Oil rose 18.1% and a basket of other commodities increased 9.4% in Q2. Core CPI rose 0.7% month-over-month in May and 0.9% in April.<sup>2</sup> Labor and inventory shortages and supply chain disruptions are prevalent, supporting the idea that this inflation is temporary as economies recover from COVID-19 shutdowns.
- On inflation - We note that Milton Friedman said, “Inflation is always and everywhere a monetary phenomenon in the sense that it is and can be produced only by a more rapid increase in the quantity of money than in output.”
- At the June 17, Federal Reserve Board Meeting Chairman Powell said, “You can think of this meeting that we had as the ‘talking about talking about’ meeting,” in consideration of a future increase in interest rates.<sup>3</sup> Other than Paul Volcker, we believe that Federal Reserve Board Governors have a history of accommodative policies which have long provided a tailwind for equities and are unlikely to change.
- In 2Q21, top-performing industries were technology, energy, and healthcare. The post-pandemic recovery is underway. Approximately 2/3 of U.S. adults are now fully vaccinated.

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## IMPACTS ON PORTFOLIO PERFORMANCE

- The Fund's Institutional (NEEIX) and Retail classes (NEEGX) returned 7.44% and 7.32% respectively in 2Q21, outperforming the S&P Mid-cap 400's 3.64% and underperforming the S&P 500's 8.55%.
- The Fund's 2Q21 underperformance relative to the S&P 500 was primarily a result of sector allocation; the Fund has minimal exposure to financials, energy, and real-estate, all of which outperformed in Q2. Within technology, Microsoft Corporation (MSFT) and Facebook Inc. (FB) were S&P 500 outperformers. With our focus on less-discovered investments, the Fund is not invested in these companies. The Fund's leading contributors were in the industrial, industrial technology, and technology sectors.
- The Fund's top contributor was its largest position as of June 30, 2021 - Aspen Aerogels Inc. (ASPN). Aspen Aerogels manufactures aerogel-based insulation; in October, it announced a contract to supply its Pyrothin-TM thermal barriers to a major North American automobile manufacturer to prevent thermal runaway in Lithium-ion batteries for Electric Vehicles (EVs).
- Other top contributors were Entegris Inc. (ENTG), Thermo Fisher Scientific, Inc. (TMO), and Vicor Corporation (VICR). Thermo Fisher reported a strong quarter and guidance for both COVID-19-related revenue and organic revenue growth. It also reported an agreement to acquire PPD, Inc., a leading pharmaceutical contract research organization. Vicor supplies power conversion devices, which reduce power consumption in data centers and other markets, including for EVs.
- FormFactor Inc. (FORM) was the top detractor as investors reacted poorly to the company's 2Q21 margin guidance. FormFactor supplies test and measurement equipment for wafer processing. We believe the company is well-positioned for the future.
- With the decline in interest rates, growth factors outperformed for the first time in three quarters. The Fund's in-line exposure to growth factors may have hurt relative performance.<sup>45</sup>
- With 16% turnover, the Fund does not rotate into or out of sectors, but invests in companies we believe can outperform over the long-term.

## LOOKING AHEAD &amp; OPPORTUNITIES

- Many of our top small-cap portfolio holdings have made multi-year investments that we believe position them to deliver growth and positive returns over the next few years. We believe if these investments succeed, they could provide a hedge to macroeconomic factors such as inflation.
- Vicor, PDF Solutions Inc. (PDFS), Aspen Aerogels, KVH Industries Inc. (KVHI), and Super Micro Computer Inc. (SMCI) are some of the Fund's major holdings making such investments.
- We are also optimistic about the short- and long-term opportunities in the semiconductor manufacturing equipment industry, which represents about one-third of the Fund's investments.
- The Fund targets investments we perceive to have significant, unrecognized growth opportunities. COVID-19 hastened the revolutionary development in technology & life sciences; the Fund is a long-term investor in companies that enable the research and manufacturing to bring these developments to market. Semiconductor manufacturing is an important example.
- Greater-than-benchmark exposure to high-quality stocks might position the Fund for outperformance in future periods of market weakness.

1, 2 - FTSE Russell Monthly Performance Report USD, June 2021

3- <https://www.cnn.com/2021/06/16/fed-holds-rates-steady-but-raises-inflation-expectations-sharply-and-makes-no-mention-of-taper.html>

4 - <https://www.morningstar.com/funds/xnas/neeix/portfolio>

5 - [https://on.spdji.com/rs/838-LDP-483/images/dashboard-sp-500-factor-2021-06.pdf?mkt\\_tok=ODM4LUxUUC00ODMAAAF-G8XApoF01ze4WwDmrea8AiVw05hdzcYkfiPdIkLPdBDPxUkCJ374IxUpTsdKzuQC1cXm9AQRKpwGqrC1eR0Kg2rqppzcW-QOdzRWGExu](https://on.spdji.com/rs/838-LDP-483/images/dashboard-sp-500-factor-2021-06.pdf?mkt_tok=ODM4LUxUUC00ODMAAAF-G8XApoF01ze4WwDmrea8AiVw05hdzcYkfiPdIkLPdBDPxUkCJ374IxUpTsdKzuQC1cXm9AQRKpwGqrC1eR0Kg2rqppzcW-QOdzRWGExu)

Average Annual Returns as of 6/30/21. 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.

	3 MO	YTD	1YR	3YR	5YR	10YR	SINCE INCEPT.
Needham Growth Fund Inst Class**	7.44%	15.38%	54.15%	26.87%	20.43%	13.40%	14.54%
After Taxes on Distributions	7.44%	15.38%	51.93%	23.78%	17.93%	11.61%	13.09%
After Taxes on Distributions & Redemptions	4.40%	9.10%	32.90%	20.30%	15.70%	10.48%	12.40%
Needham Growth Fund Retail Class	7.32%	15.15%	53.54%	26.24%	19.84%	12.89%	14.05%
After Taxes on Distributions	7.32%	15.15%	51.27%	23.12%	17.33%	11.09%	12.60%
After Taxes on Distributions and Redemptions	4.33%	8.97%	32.56%	19.79%	15.20%	10.04%	11.94%
S&P 500 Index	8.55%	15.25%	40.79%	18.67%	17.65%	14.84%	9.97%
S&P 400 Index	3.64%	17.59%	53.24%	13.17%	14.29%	12.40%	11.92%
Russell 2000 Index	4.29%	17.54%	62.03%	13.52%	16.47%	12.34%	9.56%

The Needham Growth Fund's Gross Expense Ratio is 1.85% for the Retail Class and 1.58% for the Institutional Class. The Needham Growth Fund's Net Expense Ratio is 1.85% for the Retail Class and 1.40% 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, 2022 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](#)

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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).

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 6/30/21: ASPN: 8.10%; ENTG: 7.94%; TMO: 6.86%; VICR: 4.65%; FORM: 2.94%; PDFS: 5.18%; KVHI: 3.50%; SMCI: 1.83%.

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