



NEEDHAM SMALL CAP GROWTH FUND

2Q19 Quarterly Commentary

Portfolio Manager:
Christopher J. Retzler

Investment Style: Small Cap Growth

Needham Small Cap Growth Fund: Review of the Second Quarter 2019

In the second quarter, the Needham Small Cap Growth Fund Institutional and Retail classes returned 11.07% and 10.88%, respectively. The Russell 2000 Index returned 2.10% and the S&P 500 Index returned 4.30%.

We are very pleased with the Fund's second quarter performance, as headline and market volatility returned. We were able to reduce specific positions that achieved our price targets while deploying capital into new and existing positions. While volatility may seem to be a bad word for the overall markets, it is a great chance for active managers to find buying opportunities. It is in these volatile markets when a cash position is truly strategic for small cap fund managers. Many small cap investment opportunities "trade by appointment" and we like to capitalize on these opportunities when liquidity is available to both buy and sell stock positions. The Fund continued its lean toward a concentrated portfolio of stocks, with the top 10 holdings representing 53.99% of net assets at June 30, 2019.

Top holdings at June 30, 2019 included Photronics, Inc. (PLAB), PDF Solutions, Inc. (PDFS), Aspen Aerogels, Inc. (ASPN), Zuora, Inc. (ZUO) and MACOM Technology Solutions Holdings, Inc. (MTSI). The Fund's top second quarter contributors included Aspen Aerogels, Inc. (ASPN), Amber Road, Inc. (AMBR), Ultra Clean Holdings, Inc. (UCTT), Electronics For Imaging, Inc. (EFII) and Aquantia Corp. (AQ). The Fund's largest second quarter detractors were Neophotonics Corp. (NPTN), Photonics, Inc. (PLAB), and Zuora, Inc. (ZUO).

After a very strong start to the year, the markets were due for a pause and pullback, and we experienced that weakness in March. The increased volatility continued throughout the second quarter due to headlines focused on trade disputes and restrictions, with particular attention paid to the Huawei ban, both on the supply chain and end-customer markets. While we recognize these impacts are meaningful and will have negative consequences for industries such as semiconductors, optical and communications, we also believe that companies have creative plans to balance their exposure to such headwinds. As the market digested daily updates from trade uncertainties, our patience paid off, and we were able to deploy a significant amount of our cash position into stocks at good value points. The Fund ended the quarter with a cash position of 17.1%, and we will remain patient as we deploy the remaining capital.

After our investments in Amber Road, Inc. (AMBR), Electronics for Imaging, Inc. (EFII), Aquantia Corp. (AQ) and Quantenna Communications, Inc. (QTNA) announced their intentions to be acquired, we had the challenge of redeploying a significant amount of capital that was returned along with investment inflows into the Fund. We added to some of our larger positions, such as Photronics, Inc. (PLAB), TTM Technologies, Inc. (TTMI), EMCORE Corp. (EMKR) and Intevac, Inc. (IVAC), and remain excited about the remainder of the summer to find good points of entry to investments.

Our outlook for 2019 remains positive, with the possibilities of a U.S.-China trade deal, an accommodative Federal Reserve, and value recognition in our small cap companies that lagged in 2018. We look forward to a year of patience rewarded. We continue to believe that a good environment remains for investment in equities. Three themes we are focused on include: 1) continuation of the growth in the semiconductor capital equipment industry; 2) 5G communication infrastructure build-outs; and 3) military and defense modernization. These three areas of investment impact much of our portfolio, and we believe that long term, they should create shareholder value.

We expect the increased volatility to continue throughout 2019 and into 2020. We expect at least one or probably two rate cuts this year from the Federal Reserve unless the economy returns to very strong and sustained growth rates. While the global trade negotiations have been painful headlines for many, any resolution to these disagreements should provide a nice tailwind to the global economy as we enter the general election of 2020. The high-yield markets remain strong, which is also supportive of the small cap asset class valuations. We reiterate from past quarterly letters that mergers and acquisitions continued in the small cap universe. We expect to see increased M&A activity to improve and benefit our portfolio of stocks in 2019.

We believe the U.S. remains the best place in the world to be investing, and we continue to see an opportunity to invest in small and mid-cap stocks. Most importantly, we see a revolution happening in technology that has created and continues to create investment opportunities. We see opportunity in our strategy of investing in companies that we know well and that we believe are positioned with secular growth drivers.

We welcome our new investors and thank all of our investors for their continued support. If you have any questions, thoughts or concerns, please contact us at (800) 625-7071 or at cretzler@needhamco.com. For information about the funds, please visit our website at www.needhamfunds.com.

Sincerely,



Chris Retzler
Portfolio Manager

AVERAGE ANNUAL RETURNS AS OF 6/30/19

	3 MO	YTD	1YR	3YR	5YR	10YR	SINCE INCEPT.
Needham Small Cap Growth Fund Inst Class**	11.07%	29.36%	17.41%	19.00%	11.47%	12.82%	11.34%
After Taxes on Distributions	11.07%	29.36%	11.29%	14.90%	8.45%	11.12%	9.74%
After Taxes on Distributions & Redemptions	6.55%	17.38%	11.33%	13.32%	7.95%	10.08%	9.24%
Needham Small Cap Growth Fund Retail Class	10.88%	29.03%	16.75%	18.35%	10.87%	12.21%	10.74%
After Taxes on Distributions	10.88%	29.03%	10.60%	14.25%	7.84%	10.52%	9.14%
After Taxes on Distributions and Redemptions	6.44%	17.19%	10.96%	12.81%	7.47%	9.55%	8.72%
Russell 2000 Index	2.10%	16.98%	-3.31%	12.30%	7.06%	13.45%	8.42%
S&P 500 Index	4.30%	18.54%	10.42%	14.19%	10.71%	14.70%	8.18%

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 2.27% for the Retail Class and 2.03% for the Institutional Class. The Needham Small Cap Growth Fund's Net Expense Ratio is 1.93% for the Retail Class and 1.26% 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, 2020 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](#)

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. The Needham Small Cap Growth Fund's ownership as a percentage of net assets in the stated securities as of 6/30/19: PLAB 8.77%; PDFS 7.72%; ASPN 6.91%; ZUO 4.91%; MTSI 4.85%; AMBR 0.00%; UCTT 4.65%; EFII 0.00%; AQ 0.17%; NPTN 0.00%; QTNA 0.00%; TTMI 4.09%; EMKR 3.61%; IVAC 2.59%.