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**NEEDHAM FUNDS****Third Quarter 2019****Macro Commentary****Review of the 3rd Quarter 2019**

The Needham Funds' mission is to create wealth for long-term investors—and the third quarter was another step forward.

In the third quarter, the Needham Growth Fund Institutional and Retail classes returned 2.19% and 2.05%, respectively; the Needham Aggressive Growth Fund Institutional and Retail classes returned 3.68% and 3.54%, respectively; and the Needham Small Cap Growth Fund Institutional and Retail classes returned 3.26% and 3.13%, respectively. The Russell 2000 Index returned -2.40% and the S&P 500 Index returned 1.70%.

For the year-to-date ended September 30, 2019, Needham Growth Fund Institutional and Retail classes returned 28.58% and 28.02%, respectively; the Needham Aggressive Growth Fund Institutional and Retail classes returned 27.17% and 26.63%; respectively; and the Needham Small Cap Growth Fund Institutional and Retail classes returned 33.57% and 33.06%, respectively. The Russell 2000 Index returned 14.18% and the S&P 500 Index returned 20.55%.

In July, U.S. equity markets climbed higher after talk started in June of a Federal Reserve rate cut. Chairman Powell signaled that a rate cut could be appropriate given concerns about economic weakness, and at the end of July, the Federal Reserve followed through with a 25-basis-point rate cut. The Fed also announced that it ended its balance sheet reduction program early. Once again, the Federal Reserve showed that it favors an easing monetary policy environment.

The trade war with China raged in August. The U.S. threatened to apply a new 10% tariff on \$300 billion of Chinese imports to start on September 1. Futures markets priced in another rate cut by December 11.

In September, the U.S. economy added a disappointing 136,000 jobs. However, the unemployment rate reached a 50-year low of 3.5%. At the end of September, the revised estimate for second quarter GDP was reported at 2.0%, down from 3.1% in the first quarter. Trade with China has been problematic throughout the year, and it continued in the third quarter.

On September 17, the Federal Reserve began holding daily repo (repurchase) operations, offering at least \$75 billion in daily cash injections through November 4, 2019. Another form of easy monetary policy, these repo operations provide cash, overnight or longer, to banks. The repo overnight lending rate had spiked to 10%. Shahid Ladha, Head of Strategy at BNP Paribas, estimated that the Fed needs to increase reserves by nearly \$400 billion in 2020.

Our outlook for the fourth quarter of 2019 remains positive, with an accommodative Federal Reserve, and increasing value recognition in our small cap companies that lagged in 2018. We look forward to a year in which patience is rewarded.

*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](http://www.needhamfunds.com).

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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.*