



Needham Small Cap Growth Fund: Review of the First Quarter 2020

In the first quarter of 2020, the Needham Small Cap Growth Fund Institutional and Retail classes returned -14.87% and -15.01%, respectively. The Russell 2000 Index returned -30.61% and the S&P 500 Index returned -19.60%.

Needham Small Cap Growth Fund First Quarter Performance

We are very pleased with the Fund's quarterly performance relative to the broader indices. We were cautious on the markets entering 2020, and there were also a few factors that benefited the Fund. The Fund continued to exit and reduce positions that performed well in 2019 as price targets were achieved. We expected a market correction in the first quarter, but did not expect it to be triggered by a global pandemic.

While headline and market volatility dominated the quarter, we deployed a flexible investment approach that allowed the Fund to take advantage of the volatile market environment. We employed disciplined risk management and evaluated each stock individually as price targets were met and new risks arose.

Thankfully, the Fund was relatively prepared to weather the selloff that occurred in March; it had a tremendous cash position going into the market selloff, and we were able to deploy the cash position throughout the downturn. The Fund ended the quarter with a 12% cash position, significantly down from its December cash level. This opportunity helped the Fund to recover nicely and significantly outperform the markets both during the selloff and recovery.

Needham Small Cap Growth Fund was again recognized in the [Wall Street Journal](#) on April 6 as the top performing stock fund for the last twelve months ending March 31, 2020. The Fund was also recognized March 5 with [two 2020 Refinitiv Lipper 2020 Fund awards](#) for delivering strong risk-adjusted returns over three-year and five-year time periods in the Small-Cap Core category. We are very excited about these recognitions and appreciate the long term support and patience of our investors.

The Fund's top 5 holdings as a percentage of net assets at March 31, 2020 included MaxLinear (MXL), II-VI, Inc. (IIVI), FireEye, Inc. (FEYE), GenMark Diagnostics, Inc. (GNMK) and Lending Tree, Inc. (TREE).

The Fund's top first quarter contributors included Limelight Networks, Inc. (LLNW), Vonage Holdings Corp. (VG), Moderna, Inc. (MRNA), Inogen, Inc. (INGN). The Fund did not have any M&A announcements in the quarter. The Fund's largest first quarter detractors were MaxLinear, Inc. (MXL), FireEye, Inc. (FEYE), Lending Tree, Inc. (TREE) and Navigator Holdings, LTD. (NVGS).

Macroeconomic Commentary

As the global pandemic accelerated, central banks and governments around the world took unprecedented actions with monetary and fiscal policy to stabilize the global economy. However, the wave of economic shutdown was overwhelming and from late February to March 23, financial markets experienced some of the largest declines in history. Since those late March lows, the equity markets have significantly recovered at a historic pace; as a result, we would not be surprised to see a modest pullback in the markets at some point in the year.

The underlying economic fundamentals may not support the expansion in multiple we have experienced, as the April market moves off the March lows seem driven primarily by government and central bank actions to provide liquidity. The health crisis will have a lasting impact on many companies' profitability and cash flows, and this will ultimately cause a recalibration in the market. We remain vigilant monitoring the fallout and opportunities for stock price dislocations.

While the outlook for global economic growth has fallen off a cliff in 2020, we remain constructive on the longer-term growth opportunity, as economies of all sizes recover and adjust. The pandemic highlighted weaknesses within the U.S. economy and its overreliance on foreign manufacturing. Rebuilding local supply chains for national security reasons, within almost every industry, should be a national priority. We expect to see a long-term theme of onshoring capital investment to rebuild these critical manufacturing facilities. Some industries are already being evaluated, including pharmaceuticals, semiconductors and general healthcare supplies. The economy that will emerge from the Covid-19 crisis will have significant alterations from the economy we knew before, but within this new order, we see great investment opportunities.

Outlook for the Remainder of 2020

The two primary risks Needham will monitor closely are 1) the upcoming U.S. general election and 2) the risk of a second wave of Covid-19. We expect companies to be generally cautious in their near-term guidance and outlook. It would not surprise us to see companies pull their full year guidance as they continue to evaluate the impact from the health crisis.

We also expect volatility to continue in 2020 as the global economies attempt to recover and reopen from the pandemic. Volatility may seem like a bad word for the overall markets, and the source of market volatility could be something terrible, such as the coronavirus. But to look on the bright side, volatility is a great chance for active managers to find buying and selling opportunities. In volatile markets, a cash position is truly strategic for fund managers, especially in the small cap universe. Many small cap investment opportunities "trade by appointment," and the Needham Small Cap Growth Fund likes to capitalize on these opportunities when liquidity is available to both buy and sell stock positions.

We also expect the Federal Reserve to remain vigilant in setting interest rate policy that remains a tailwind to risk assets. We reiterate from past quarterly letters that we expect to see increased mergers and acquisitions activity in the small cap universe, which could improve and benefit our portfolio of stocks in 2020.

The Fund's portfolio remains focused on the following four investment themes with the goal of creating long-term shareholder value:

- 1) The build out of the distributed work environment
- 2) Continuation of growth in the semiconductor capital equipment industry
- 3) 5G communication infrastructure build-outs
- 4) Military and defense modernization

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 3/31/20

	3 MO	YTD	1YR	3YR	5YR	10YR	SINCE INCEPT.
Needham Small Cap Growth Fund Inst Class**	-14.87%	-14.87%	13.53%	11.77%	9.93%	9.86%	10.98%
After Taxes on Distributions	-14.87%	-14.87%	11.21%	7.88%	7.07%	7.99%	9.32%
After Taxes on Distributions & Redemptions	-8.80%	-8.80%	9.71%	8.01%	6.93%	7.51%	8.97%
Needham Small Cap Growth Fund Retail Class	-15.01%	-15.01%	12.80%	11.13%	9.32%	9.26%	10.38%
After Taxes on Distributions	-15.01%	-15.01%	10.46%	7.22%	6.46%	7.39%	8.72%
After Taxes on Distributions and Redemptions	-8.89%	-8.89%	9.31%	7.51%	6.44%	7.00%	8.44%
Russell 2000 Index	-30.61%	-30.61%	-23.99%	-4.64%	-0.25%	6.90%	6.28%
S&P 500 Index	-19.60%	-19.60%	-6.98%	5.10%	6.73%	10.53%	7.13%

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 May 1, 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](#)

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 3/31/20: MXL: 4.84%; IIVI: 4.73%; FEYE: 3.60%; GNMK: 3.60%; TREE: 3.20%; LLNW: 2.59%; VG: 0.36%; MRNA: 0.89%; INGN: 2.65%; NVGS: 0.79%.