

**THE NEEDHAM FUNDS, INC.**

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**NEEDHAM GROWTH FUND**

**Retail Class (NEEGX)**

**Institutional Class (NEEIX)**

**NEEDHAM AGGRESSIVE GROWTH FUND**

**Retail Class (NEAGX)**

**Institutional Class (NEAIX)**

**NEEDHAM SMALL CAP GROWTH FUND**

**Retail Class (NESGX)**

**Institutional Class (NESIX)**

250 Park Avenue, 10<sup>th</sup> Floor  
New York, New York 10177

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**STATEMENT OF ADDITIONAL INFORMATION**  
May 1, 2020

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This Statement of Additional Information is not a prospectus and should be read in conjunction with the current Prospectus for the Funds, dated May 1, 2020. It is intended to provide additional information regarding the activities and operations of The Needham Funds, Inc. A copy of the Prospectus may be obtained at no charge by contacting the Funds' administrator, U.S. Bank Global Fund Services, P.O. Box 701, Milwaukee, WI 53201-0701 or by calling 1-800-625-7071. This Statement of Additional Information is incorporated by reference into the Funds' Prospectus. The financial statements of each of the Funds for the fiscal year ended December 31, 2019, appearing in the Funds' [Annual Report](#) to Shareholders, are incorporated by reference herein.

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## DESCRIPTION OF THE FUNDS AND INVESTMENT OBJECTIVES AND POLICIES

The Needham Funds, Inc. is an open-end management investment company organized as a corporation under the laws of the State of Maryland on October 12, 1995. This Statement of Additional Information relates to the Growth Fund, the Aggressive Growth Fund and the Small Cap Growth Fund (each a “Fund” and collectively, the “Funds”), which are each a series of The Needham Funds, Inc. The Funds are also diversified as that term is defined in the Investment Company Act of 1940, as amended (the “1940 Act”). The Funds are each offered on a no-load basis.

The Growth Fund seeks long-term, tax-efficient capital appreciation by primarily investing in the equity securities of public companies with above-average prospective long-term growth rates at value prices. The Aggressive Growth Fund seeks long-term, tax-efficient capital appreciation by primarily investing in the equity securities of public companies with above-average prospective long-term growth rates. Under normal conditions, the Growth Fund and the Aggressive Growth Fund invest at least 65% of their respective total assets in the equity securities (principally, common stock) of domestic issuers listed on a nationally recognized securities exchange. The balance of the Growth and Aggressive Growth Funds’ assets may be invested in other securities, including other domestic and foreign equity securities, common stock equivalents (mainly securities exchangeable for common stock), options, futures and various debt instruments.

The Small Cap Growth Fund seeks long-term, tax-efficient capital appreciation by primarily investing in the equity securities of smaller growth companies which the Fund believes are trading at a discount to their underlying value yet have the potential for significant long-term growth. Under normal conditions, the Small Cap Growth Fund invests at least 80% of its net assets, plus the amount of any borrowings for investment purposes, in the equity securities (principally, common stock) of domestic issuers listed on a nationally recognized securities exchange that have market capitalizations not exceeding \$5 billion at the time of investment. The balance of the Small Cap Growth Fund’s assets may be invested in other securities, including equity securities of larger companies, foreign securities, common stock equivalents (mainly securities exchangeable for common stock), options, futures and various debt instruments.

In addition to the principal investment strategies and techniques and the principal risks of the Funds described in the Prospectus, the Funds may utilize other non-principal investment techniques and may be subject to the additional risks which are described below.

### ***Recent Market and Economic Developments***

A recent outbreak of respiratory disease caused by a novel coronavirus was first detected in Wuhan City, Hubei Province, China and has now been detected internationally. The virus, named “SARS-CoV-2” (sometimes referred to as the “coronavirus”) and the resulting disease, which is referred to as “COVID-19,” has been declared a pandemic by the World Health Organization and has resulted in border closings, enhanced health screenings, healthcare service preparation and delivery, quarantines, cancellations, disruptions to supply chains and customer activity, as well as general concern and uncertainty.

The United States and many other developed and emerging market countries and global debt and equity capital markets have been materially and adversely affected by the impact of, and the significant uncertainty about the future caused by, the pandemic spread of COVID-19. As a result, certain financial institutions as well as the global financial system are experiencing severe economic distress. There have been material and adverse impacts on the broader financial and credit markets and the debt and equity capital for the market as a whole, and certain risks discussed in the Prospectus and elsewhere in this SAI may be exacerbated, such as credit risk, liquidity risk, interest rate risk and the risks of investing in certain sectors. Liquidity for many instruments has been greatly reduced. Many interest rates are very low and in some cases yields are negative, and it is possible that, particularly during periods of low prevailing interest rates, the income from Fund securities will be reduced. These events have contributed, and may continue to contribute, to severe market volatility, which may adversely impact the Funds’ net asset values and result in heightened volatility in the performance of the Funds’ investments. In addition to these events having adverse consequences for the Funds and the Funds’ investments, the operations of the Adviser and its affiliates and the Funds’ other service providers have been impacted, and may continue to be impacted, perhaps significantly adversely impacted, as a result of the COVID-19 pandemic, such as restrictions on certain business operations, which may have long-term negative impacts on such operations generally or the ability of such operations to remain viable; more limited resources as the result of adverse market conditions that may negatively impact the cash flow and/or profitability of such businesses;

quarantine measures and travel restrictions imposed on such entities' personnel based or temporarily located in affected regions; or any related health issues of such entities' personnel.

Some sectors of the economy and individual issuers have experienced particularly large losses. For example, companies in the energy sector, including MLPs and energy infrastructure companies in which certain Funds invest, have been adversely impacted by reduced demand for oil and other energy commodities as a result of the slowdown in economic activity resulting from the pandemic spread of COVID-19 and by price competition among key oil producing countries.

The United States has responded to the COVID-19 pandemic and resulting economic distress with fiscal and monetary stimulus packages. In late March 2020, Congress passed, and President Trump signed, the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act"), a stimulus package providing for over \$2.2 trillion in resources to small businesses, state and local governments, and individuals that have been adversely impacted by the COVID-19 pandemic. The Trump administration has signaled that it intends to support additional legislation in response to COVID-19 in the coming months. In addition, in mid-March 2020 the Federal Reserve cut interest rates, taking the federal funds rate to a range of 0-0.25%, and has promised unlimited and open-ended quantitative easing, including purchases of corporate and municipal government bonds. The Federal Reserve also enacted various programs to support liquidity operations and funding in the financial markets, including massively expanding its reverse repurchase agreement operations, adding \$1.5 trillion of liquidity to the banking system; establishing swap lines with other major central banks to provide dollar funding; establishing a program to support money market funds; easing various bank capital buffers; providing funding backstop for businesses to provide bridging loans for up to four years; and providing funding to help credit flow in asset-backed securities markets. The Federal Reserve also plans to extend credit to small- and medium-sized businesses.

The current market conditions, as well as various social and political tensions in the United States and around the world, may continue to contribute to increased market volatility, may have long-term effects on the US and global financial markets, and may cause further economic uncertainties or deterioration in the United States and worldwide. The prolonged continuation or further deterioration of the current US and global economic downturn could adversely impact the Funds. The Adviser does not know how long the financial markets will continue to be affected by these events and cannot predict the effects of these or similar events in the future on the US economy, the securities markets and issuers held by a Fund. Fiscal stimulus packages such as the CARES Act serve to further increase the federal budget deficit, which could lead to the downgrading of the long-term sovereign credit rating for the United States. Federal Reserve policy in response to market conditions, including with respect to certain interest rates, may adversely affect the value, volatility and liquidity of dividend and interest paying securities. Market volatility, dramatic changes to interest rates and/or a return to unfavorable economic conditions may lower a Fund's performance or impair a Fund's ability to achieve its investment objective. The Adviser intends to monitor developments and seek to manage the Funds in a manner consistent with achieving each Fund's investment objective, but there can be no assurance that it will be successful in doing so.

### ***Debt Securities***

The Funds may buy debt securities of all types issued by both domestic and foreign issuers, including government securities, corporate bonds and debentures, commercial paper, and certificates of deposit. Under normal conditions, the Growth Fund and the Aggressive Growth Fund may invest a maximum of 35% of their total assets in debt securities and the Small Cap Growth Fund may invest a maximum of 20% of its net assets in debt securities.

### ***Lower-Rated Debt Securities***

The Funds may purchase lower-rated debt securities, sometimes referred to as "junk" or "high yield bonds" (those rated BB or lower by Standard & Poor's Ratings Group ("S&P") or Ba or lower by Moody's Investors Service, Inc. ("Moody's")). However, no more than 10% of each Fund's total assets (such 10% also being included in the 35% or 20% limitation, respectively, stated above) may be invested in non-investment grade debt securities. These securities are considered to be highly speculative, may have poor prospects of attaining investment standing and may be in default. Like those of other fixed-income securities, the value of lower-rated securities fluctuates in response to changes in interest rates. In addition, the values of such securities are also affected by changes in general economic conditions and business conditions affecting the specific industries of their issuers.

The lower ratings of certain securities held by the Funds reflect the greater possibility that adverse changes in the financial condition of the issuer, or in general economic conditions, or both may impair the ability of the issuer to make payments of interest and principal. A number of factors, including the ability of the issuer to make timely payments, could lessen liquidity and limit the Funds' ability to sell these securities at prices approximating the values placed on such securities. In the absence of a liquid trading market for securities held by the Funds, it may be difficult to establish the fair market value of these securities. The rating assigned to a security by Moody's or S&P does not reflect an assessment of the volatility of the security's market value or of the liquidity of an investment in the security.

Changes by recognized rating services in their ratings of any fixed-income security and in the ability of an issuer to make payments of interest and principal may also affect the value of these investments.

Issuers of lower-rated securities are often highly leveraged and, consequently, their ability to service their debt during an economic downturn or during sustained periods of rising interest rates may be impaired. In addition, such issuers may be unable to repay debt at maturity by refinancing. The risk of loss due to default is significantly greater because such securities frequently are unsecured and subordinated to senior indebtedness. Certain of the lower-rated securities in which the Funds may invest are issued to raise funds in connection with the acquisition of a company. The highly leveraged capital structure of such issuers may make them especially vulnerable to adverse changes in economic conditions.

In order to enforce its rights in the event of a default under such securities, a Fund may be required to take possession of and manage assets securing the issuer's obligations on such securities. This may increase the Fund's operating expenses and adversely affect the Fund's net asset value. The Funds may also be limited in their ability to enforce their rights and may incur greater costs in enforcing their rights in the event an issuer becomes the subject of bankruptcy proceedings.

#### ***Other Debt Securities***

Zero-coupon securities are debt securities which are usually issued at a deep discount and do not provide for payment of interest prior to maturity. The amount of this discount is accreted over the life of the security, and the accretion constitutes the income earned on the security for both accounting and tax purposes. Even though zero-coupon securities do not pay current interest in cash, the Funds are nonetheless required to accrue interest income on them and to distribute the amount of that interest at least annually to their respective shareholders. Thus, the Funds could be required at times to liquidate other investments in order to satisfy their distribution requirements. The market prices of these securities generally are more volatile and are likely to respond to a greater degree to changes in interest rates than the market price of securities that pay interest periodically having similar maturities and credit qualities.

When other debt obligations are stripped of their unmatured interest coupons by the holder, the stripped coupons are sometimes sold separately. The principal or corpus is then sold at a deep discount because the buyer receives only the right to receive a future fixed payment on the security and does not receive any rights to periodic cash interest payments. Purchasers of stripped principal obligations acquire, in effect, discount obligations that are economically identical to zero-coupon bonds.

#### ***Risks of Debt Securities***

**General.** Yield on debt securities, including municipal securities, are dependent on a variety of factors, including the general conditions of the debt securities markets, the size of a particular offering, the maturity of the obligation and the rating of the issue. Debt securities with longer maturities tend to produce higher yields and are generally subject to greater price movements than obligations with shorter maturities.

Certain debt securities may be subject to extension risk, which refers to the change in total return on a security resulting from an extension or abbreviation of the security's maturity. Issuers may prepay fixed rate debt securities when interest rates fall, forcing a Fund to invest in securities with lower interest rates. Issuers of debt securities are also subject to the provisions of bankruptcy, insolvency and other laws affecting the rights and remedies of creditors that may restrict the ability of the issuer to pay, when due, the principal of and interest on its debt securities. The

possibility exists therefore, that, as a result of bankruptcy, litigation or other conditions, the ability of an issuer to pay, when due, the principal of and interest on its debt securities may become impaired.

**Interest Rate Risk.** The market value of the interest-bearing debt securities held by a Fund will be affected by changes in interest rates. There is normally an inverse relationship between the market value of securities sensitive to prevailing interest rates and actual changes in interest rates. The longer the remaining maturity (and duration) of a security, the more sensitive the security is to changes in interest rates. All debt securities, including U.S. government securities, can change in value when there is a change in interest rates. As a result, an investment in a Fund is subject to risk even if all debt securities in the Fund's investment portfolio are paid in full at maturity.

**Credit Risk.** Changes in the ability of an issuer to make payments of interest and principal and in the markets' perception of an issuer's creditworthiness will also affect the market value of that issuer's debt securities. The financial condition of an issuer of a debt security held by a Fund may cause it to default on interest or principal payments due on a security. This risk generally increases as security credit ratings fall.

### ***Convertible Securities***

The Funds may invest in convertible securities: that is, bonds, notes, debentures, preferred stocks and other securities which are convertible into common stocks. Investments in convertible securities may provide incidental income through interest and dividend payments and/or an opportunity for capital appreciation by virtue of their conversion or exchange features.

Convertible debt securities and convertible preferred stocks, until converted, have general characteristics similar to both debt and equity securities. Although to a lesser extent than with debt securities generally, the market value of convertible securities tends to decline as interest rates increase and, conversely, tends to increase as interest rates decline. In addition, because of the conversion or exchange feature, the market value of convertible securities typically changes as the market value of the underlying common stocks changes and, therefore, also tends to follow movements in the general market for equity securities. As the market price of the underlying common stock declines, convertible securities tend to trade increasingly on a yield basis and so may not experience market value declines to the same extent as the underlying common stock. When the market price of the underlying common stock increases, the prices of the convertible securities tend to rise as a reflection of the value of the underlying common stock, although typically not as much as the underlying common stock. While no securities investments are without risk, investments in convertible securities generally entail less risk than investments in common stock of the same issuer.

As debt securities, convertible securities are investments which provide for a stream of income (or in the case of zero-coupon securities, accretion of income) with generally higher yields than common stocks. However, convertible securities generally offer lower yields than non-convertible debt securities of similar quality because of their conversion or exchange features.

Convertible securities are generally subordinated to other similar but non-convertible securities of the same issuer, although convertible bonds, as corporate debt obligations, enjoy seniority in right of payment to all equity securities, and convertible preferred stock is senior to common stock, of the same issuer. However, because of the subordination feature, convertible bonds and convertible preferred stock typically have lower ratings than similar non-convertible securities.

### ***Foreign Securities***

Under normal conditions, the Growth Fund and the Aggressive Growth Fund invest at least 65% of their total assets in the equity securities of domestic issuers listed on a nationally recognized securities exchange. Under normal conditions, the Small Cap Growth Fund invests at least 80% of its net assets in equity securities of domestic issuers listed on a nationally recognized securities exchange that have market capitalizations not exceeding \$5 billion at the time of investment. However, the Funds may invest the balance of their assets in foreign securities, including depositary receipts. Certain of the Funds' investments may be in securities of issuers located in countries having repatriation restrictions. Investment in securities subject to repatriation restrictions of more than seven days will be considered illiquid securities and will be subject to each Fund's 15% limitation on investment in illiquid securities.

Individual foreign economies may differ favorably or unfavorably from the U.S. economy in such respects as growth of gross national product, rate of inflation, capital reinvestment, resources, self-sufficiency and balance of payments position. Further, by investing in foreign securities, the Funds may encounter greater difficulties or be unable to pursue legal remedies or obtain judgments in foreign courts.

Because foreign securities typically will be denominated in foreign currencies, the value of such securities to the Funds will be affected by changes in currency exchange rates and in exchange control regulations and costs will be incurred in connection with conversions between currencies. A change in the value of a foreign currency against the U.S. dollar will result in a corresponding change in the U.S. dollar value of the Funds' securities denominated in that currency. Such changes will also affect the Funds' income and distributions to shareholders. The Funds may be affected either favorably or unfavorably by fluctuations in the relative rates of exchange between the currencies of different nations and the Funds therefore may engage in certain foreign currency hedging strategies. Such hedging strategies may include the purchase and sale of foreign currencies on a spot or forward basis or the purchase and sale of options or futures contracts with respect to foreign currencies. Such strategies involve certain investment risks and transaction costs to which the Funds might not otherwise be subject. These risks include dependence on the Adviser's ability to predict movements in exchange rates, as well as the difficulty of predicting, and the imperfect movements between, exchange rates and currency hedges.

Investments may be made from time to time in companies in developing countries as well as in developed countries. Although there is no universally accepted definition, a developing country is generally considered by the Adviser to be a country which is in the initial state of industrialization. Shareholders should be aware that investing in the equity and fixed income markets of developing countries involves exposure to unstable governments, economies based on only a few industries and securities markets which trade a small number of securities. Securities markets of developing countries tend to be more volatile than the markets of developed countries; however, such markets have in the past provided the opportunity for higher rates of return to investors. There are substantial risks involved in investing in securities issued by developing country companies which are in addition to the usual risks inherent in foreign investments. Some countries in which the Funds may invest may have fixed or managed currencies. Further, certain currencies may not be traded internationally. Certain of these currencies have experienced a steady devaluation relative to the U.S. dollar. Any devaluations in the currencies in which a Fund's portfolio securities are denominated may have a detrimental impact on that Fund.

With respect to certain foreign countries, there is the possibility of expropriation of assets, confiscatory taxation, political or social instability or diplomatic developments which could affect investment in those countries. There may be less publicly available information about a foreign financial instrument than about a U.S. instrument and foreign entities may not be subject to accounting, auditing, and financial reporting standards and requirements comparable to those of the United States. There is generally less government supervision and regulation for exchanges, financial institutions and issuers in foreign countries than there is in the United States. Moreover, certain foreign investments may be subject to foreign withholding taxes. Foreign markets have different clearance and settlement procedures and in certain markets there have been times when settlements have been unable to keep pace with the volume of securities transactions, making it difficult to conduct such transactions. Delays in settlement could result in temporary periods when assets of the Funds are uninvested and no return is earned thereon. The inability of the Funds to make intended securities purchases due to settlement problems could cause the Funds to miss attractive investment opportunities. Inability of the Funds to dispose of a security due to settlement problems could also result either in losses to the Funds due to subsequent declines in value of the security or, if the Funds have entered into a contract to sell the securities, could result in possible liability to the purchaser.

Foreign securities such as those purchased by the Funds may be subject to foreign government taxes, higher custodian fees and dividend collection fees which could reduce the yield on such securities. Trading in futures contracts traded on foreign commodity exchanges may be subject to the same or similar risks as trading in foreign securities.

In June 2016, the United Kingdom (the "UK") held a referendum resulting in a vote in favor of the exit of the UK from the European Union (the "EU"), known as "Brexit." On March 29, 2017, the UK triggered the withdrawal procedures in Article 50 of the Treaty of Lisbon which provides for a two-year negotiation period between the EU and the withdrawing member state. Accordingly, it was initially anticipated that the United Kingdom would cease to be a member of the EU by the end of March 2019; however, this was subsequently extended to January 31, 2020. Following this date, the UK ceased to be a member of the EU and the EU-UK Withdrawal Agreement came into force. The EU-

UK Withdrawal Agreement means that EU law still has effect in the UK during a transitional period which is expected to last until December 31, 2020 (unless an extension is agreed between the UK and the EU).

The terms of the UK's exit from the EU are not clear and the shape of the regulatory landscape is not yet defined. As a result, the resulting impact of the UK's withdrawal is uncertain as of the date of this SAI. The effect on the economies of the UK and the EU will likely depend on the nature of trade relations between the UK and the EU and other major economies following Brexit, which are matters to be negotiated. The current uncertainty and related future developments could have a negative impact on both the UK economy and the economies of other countries in Europe, as well as greater volatility in the global financial and currency markets.

The withdrawal process and the uncertainty concerning the UK's legal and economic relationship with the EU (as well as political divisions within the UK that have been highlighted by the Brexit referendum) could cause a period of instability and market volatility, and may adversely impact business in the UK and/or the EU, including with respect to opportunity, pricing, regulation and the tax treatment of any UK investments. It is not possible to ascertain the precise impact these events may have on the Funds or their investments from an economic, financial, tax or regulatory perspective but any such impact could have material consequences for the Funds and their investments.

Whether or not a Fund invests in securities of issuers located in Europe or has significant exposure to European issuers or countries, these events could negatively affect the value and liquidity of the Fund's investment.

### ***Foreign Currency Transactions***

Under normal circumstances, consideration of the prospects for currency exchange rates will be incorporated into the long-term investment decisions made for the Funds with regard to overall diversification strategies. Although the Funds value their respective assets daily in terms of U.S. dollars, they do not intend to physically convert their holdings of foreign currencies into U.S. dollars on a daily basis. The Funds may do so from time to time and investors should be aware of the costs of currency conversion. Although foreign exchange dealers do not charge a fee for conversion, they do realize a profit based on the difference (the "spread") between the prices at which they are buying and selling various currencies. Thus, a dealer may offer to sell a foreign currency to a Fund at one rate while offering a lesser rate of exchange should that Fund desire to resell that currency to the dealer. Each Fund may use forward contracts, along with futures contracts and put and call options, to "lock in" the U.S. dollar price of a security bought or sold and as part of its overall hedging strategy. The Funds will conduct their foreign currency exchange transactions, either on a spot (i.e., cash) basis at the spot rate prevailing in the foreign currency exchange market or through purchasing put and call options on, or by entering into, futures contracts or forward contracts to purchase or sell foreign currencies. See "Forward Foreign Currency Exchange Contracts" and "Futures and Options Transactions."

It is impossible to forecast the market value of a particular portfolio security at the expiration of the contract. Accordingly, it may be necessary for the Funds to purchase additional foreign currency on the spot market (and bear the expense of such purchase) if the market value of the security is less than the amount of foreign currency that the Funds are obligated to deliver and if a decision is made to sell the security and make delivery of the foreign currency.

If a Fund retains the portfolio security and engages in an offsetting transaction, the Fund will incur a gain or a loss to the extent that there has been movement in forward currency contract prices. Additionally, although such contracts tend to minimize the risk of loss due to a decline in the value of the hedged currency, at the same time they tend to limit any potential gain which might result should the value of such currency increase.

### ***Options, Futures and Forward Contracts***

The Funds may use hedging techniques, such as the buying and selling of options and futures contracts, where appropriate, to reduce some of the high volatility inherent to rapidly changing markets and industries. A Fund may also buy and sell options and futures contracts to manage its exposure to changing interest rates, currency exchange rates and precious metals prices. Additionally, the Funds may enter into forward contracts as a hedge against future fluctuations in foreign exchange rates. The Funds may buy and sell stock index futures contracts or related options in anticipation of general market or market sector movements. The Funds may also invest in indexed securities or related options, the value of which is linked to currencies, interest rates, commodities, indices, or other financial indicators. Options and futures may be combined with each other or with forward contracts in order to adjust the risk and return characteristics

of the overall strategy. The Funds may invest in options and futures based on any type of security, index, or currency related to their investments, including options and futures traded on domestic and foreign exchanges and options not traded on any exchange. However, a Fund will not engage in options, futures or forward transactions, other than for hedging purposes, if, as a result, more than 5% of its total assets would be so invested. The Funds may engage in these kinds of transactions to an unlimited extent for hedging purposes.

### ***Forward Foreign Currency Exchange Contracts***

The Funds may enter into forward contracts as a hedge against future fluctuations in foreign exchange rates. A forward foreign currency exchange contract (“forward contract”) involves an obligation to purchase or sell a fixed amount of U.S. dollars or foreign currency at a future date, which may be any fixed number of days from the date of the contract agreed upon by the parties, at the price set at the time of the contract. Unlike foreign currency futures contracts, which are standardized exchange-traded contracts, forward currency contracts are usually traded in the interbank market conducted directly between currency traders (usually large commercial banks) and their customers.

The Funds may enter into forward contracts under various circumstances. For example, a Fund may enter into a forward contract for the purchase or sale of a security denominated in a foreign currency in order to “lock-in” the price of the security in U.S. dollars or some other foreign currency which the Fund is holding. By entering into a forward contract for the purchase or sale of a fixed amount of U.S. dollars or other currency for the amount of foreign currency involved in the underlying security transactions, a Fund will be able to protect itself against any adverse movements in exchange rates between the time the security is purchased or sold and the date on which payment is made or received. The Funds may also purchase a forward contract to hedge against an anticipated rise in a currency versus the U.S. dollar or other currency, pending investment in a security denominated in that currency.

The Funds may enter into a forward contract to sell or purchase, for a fixed amount of U.S. dollars or other currency, an amount of foreign currency other than the currency in which the securities to be hedged or purchased are denominated approximating the value of some or all of the portfolio securities to be hedged or purchased. This method of hedging, called cross-hedging, will be used when it is determined that the foreign currency in which the portfolio securities are denominated has insufficient liquidity or is trading at a discount as compared with some other foreign currency with which it tends to move in tandem. The Funds are permitted to enter into forward contracts with respect to currencies in which certain of their respective portfolio securities are denominated and on which options have been written.

In certain of the above circumstances a Fund may have realized fewer gains than had that Fund not entered into the forward contracts. Moreover, the precise matching of the forward contract amounts and the value of the securities involved will not generally be possible since the future value of such securities in foreign currencies will change as a consequence of market movements in the value of those securities between the date the forward contract is entered into and the date it matures.

U.S. Bank, N.A., the Funds’ Custodian, will place cash or liquid equity or debt securities into a segregated account of each Fund in an amount equal to the value of that Fund’s total assets committed to the consummation of forward foreign currency contracts. If the value of the securities placed in the segregated account declines, additional cash or securities will be placed in the account on a daily basis so that the value of the account will equal the amount of that Fund’s commitments with respect to such contracts. At maturity of a forward currency contract, the Fund may either sell the portfolio security and make delivery of the foreign currency or it may retain the security and terminate its contractual obligation to deliver the foreign currency prior to maturity by purchasing an “offsetting” contract with the same currency trade obligating it to purchase, on the same maturity date, the same amount of the foreign currency. There can be no assurance, however, that a Fund will be able to effect such a closing purchase transaction.

### ***Futures and Options Transactions***

The use of financial futures contracts and options on such futures contracts may reduce the Funds’ exposure to fluctuations in the prices of portfolio securities and may prevent losses if the prices of such securities decline. Similarly, such investments may protect the Funds against fluctuations in the value of securities in which the Funds are about to invest.

The use of financial futures contracts and options on such futures contracts as hedging instruments involves several risks. First, there can be no assurance that the prices of the futures contracts or options and the hedged security will move as anticipated. If prices do not move as anticipated, the Funds may each incur a loss on their respective investment. Second, investments in options, futures contracts and options on futures contracts may reduce the gains which would otherwise be realized from the sale of the underlying securities which are being hedged. Third, the effective use of options and futures contracts also depends on the Funds' ability to terminate options and futures positions as desired. There can be no assurance that there will be a sufficiently liquid market for the Funds to effect closing transactions at any particular time or at an acceptable price. If a Fund cannot close a futures position, or if limitations imposed by an exchange or board of trade on which futures contracts are traded prevent that Fund from closing out a contract, that Fund may incur a loss or may be forced to make or take delivery of the underlying securities or currencies at a disadvantageous time.

In addition, the purchase or sale of futures contracts or sale of options on futures contracts involves the risk that the Funds could lose more than the original margin deposit required to initiate the transaction. The purchase of options on futures contracts involves less potential risk than the purchase or sale of futures contracts because the maximum amount at risk is the premium paid for the options plus transaction costs. Although the maximum amount at risk when the Funds purchase an option on a security, currency, index or futures contract is the premium paid for the option plus transaction costs, there may be circumstances when the purchase of an option would result in a loss to the Funds, whereas the purchase of the underlying security, currency or futures contract would not, such as when there is no movement in the level of the underlying security, currency or futures contract. The value of an options or futures position relating to a non-U.S. currency may vary with changes in the value of either the currency involved or the U.S. dollar or both and has no relationship to the investment merits of individual non-U.S. securities held in a hedged investment portfolio.

The Funds may write covered call options on underlying portfolio securities, whether equity or debt, on stock or bond indices and on currencies in which the Funds invest. Covered call writing may be used for hedging purposes and for closing long call positions and for achieving incremental income. A call option will be considered covered for a particular Fund if that Fund (i) owns the security or currency underlying the written option, (ii) holds a call option on the underlying security, currency or index with a similar exercise price or (iii) maintains sufficient cash, cash equivalents or liquid high-grade securities sufficient to cover the market value of the option.

The Funds may also write covered put options. This technique will be used when a Fund seeks to purchase a security, or group of securities in the case of an index option, at a price equal to or less than the prevailing market price at the time of the put sale. The Funds may also sell covered puts for achieving incremental income. A put will be considered covered for a particular Fund if that Fund (i) maintains cash, cash equivalents or liquid, high-grade debt obligations sufficient to cover the exercise price of the option, (ii) holds a put option on the underlying security with an exercise price equal to or greater than the exercise price of the written put or (iii) where the exercise price of the purchased put is lower than that of the written put, the Fund maintains sufficient cash, cash equivalents or liquid high-grade debt obligations equal to the difference. Puts may also be written in order to close long put positions. In calculating the 5% limitation on options, futures and forward transactions, other than for hedging purposes, each Fund shall include the premiums paid on options and options on futures (excluding in-the-money amounts on such options) and the initial margin deposits on its futures positions.

In order to fix the cost of future purchases, the Funds may purchase calls on equity and debt securities that the Adviser intends to include in the Funds' portfolios. Calls may also be used to participate in an anticipated price increase of a security without taking on the full risk associated with actually purchasing the underlying security. The Funds may purchase puts to hedge against a decline in the market value of portfolio securities.

### ***Investments in New Issues***

The Funds are permitted to invest in U.S. equity securities that are offered in initial public offerings (also referred to as "new issue" securities). New issue securities have no trading history, and there may be less public information about the companies. In addition, the prices of new issue securities may be highly volatile or may decline shortly after the initial public offering. New issues may also be subject to varying patterns of trading volume and may, at times, be difficult to sell. When an initial public offering is brought to the market, availability may be limited and the Funds may not be able to buy any shares at the offering price.

### ***Repurchase Agreements and Reverse Repurchase Agreements***

The Funds will only enter into repurchase agreements where (i) the underlying securities are of the type which the Funds' investment policies would allow the Funds to purchase directly, (ii) the market value of the underlying security, including accrued interest, will at all times be equal to or exceed the value of the repurchase agreement, and (iii) payment for the underlying securities is made only upon physical delivery or evidence of book-entry transfer to the account of the custodian or a bank acting as agent. A Fund will not enter into a repurchase agreement with a maturity of more than seven business days if, as a result, more than 15% of the value of its net assets would then be invested in such repurchase agreements and other illiquid securities.

The Funds may enter into reverse repurchase agreements in which the Funds sell securities and agree to repurchase them at a mutually agreed date and price. Generally, the Funds will be able to keep the interest income associated with those portfolio securities while the securities reside with the other party to the agreement. Such transactions are advantageous to a Fund if the interest cost to the Fund of the reverse repurchase transaction is less than the cost of otherwise obtaining the cash raised through the transaction.

Reverse repurchase agreements involve the risk that the market value of the securities that the Funds are obligated to repurchase under the agreement may decline below the repurchase price. In the event the other party under a reverse repurchase agreement becomes bankrupt or insolvent, the Funds' use of the proceeds of the agreement may be restricted pending a determination by the other party, or its trustee or receiver, whether to enforce the Funds' obligation to repurchase the securities.

### ***Securities Lending***

The Funds may lend their respective portfolio securities, provided that with regard to each Fund (i) the loan is secured continuously by collateral consisting of U.S. government securities, cash, or cash equivalents adjusted daily to have a market value at least equal to the current market value of the securities loaned, (ii) the Fund may at any time call the loan and regain the securities loaned, (iii) the Fund will receive any interest or dividends paid on the loaned securities, and (iv) the aggregate market value of securities loaned will not at any time exceed such percentage of the total assets of the Fund as the Directors may establish, but not to exceed 20%. In addition, it is anticipated that the Fund may share with the borrower some of the income received on the collateral for the loan or that it will be paid a premium for the loan.

Before a Fund enters into a loan, the Adviser considers the relevant facts including the creditworthiness of the borrower. The risks in lending portfolio securities consist of possible delay in recovery of the securities or possible loss of rights in the collateral should the borrower fail financially.

### ***Indexed Securities***

The Funds may purchase securities whose prices are indexed to the prices of other securities, securities indices, currencies, commodities, or other financial indicators. Indexed securities typically, but not always, are debt securities or deposits whose value at maturity or coupon rate is determined by reference to a specific instrument or statistic. The performance of indexed securities largely depends on the performance of the security, currency, commodity or other instrument to which they are indexed, as well as general economic factors in the U.S. or abroad. At the same time, indexed securities are subject to the credit risks associated with the issuer of the security and their values may decline substantially if the issuer's creditworthiness deteriorates. Indexed securities may be more volatile than the underlying instrument itself.

### ***Additional Risks Associated with Hedging Instruments***

The Funds' ability to hedge effectively all or a portion of their securities depends upon the ability of the Adviser to predict correctly the degree to which price movements of securities held in the Funds' portfolios correlate to the price movements of the relevant hedging instruments. In addition, the effectiveness of any hedging strategy using index options, index futures, interest rate options or interest rate futures depends upon the correlation between the components of the underlying index and the securities held by the Funds.

### ***Other Permitted Investments***

The Funds may invest in securities issued by other investment companies within the limits prescribed by the 1940 Act and applicable rules thereunder. As a shareholder of another investment company, each Fund would bear, along with other shareholders, its pro rata portion of the other investment company's expenses, including advisory fees. These expenses thus would be in addition to the advisory fees and other expenses that each Fund bears in connection with its own operations.

The Funds may invest in exchange-traded funds ("ETFs"). ETFs are investment companies that are bought and sold on a securities exchange. Many ETFs represent a portfolio of securities designed to track a particular market segment or index. The risks of owning an ETF generally reflect the risks of owning the underlying securities and ETFs have management fees that increase their costs versus the costs of owning the underlying securities directly.

The Funds may also purchase or sell portfolio securities on a when-issued or delayed delivery basis in compliance with applicable 1940 Act guidelines. When-issued or delayed delivery transactions involve a commitment by a Fund to purchase or sell securities with payment and delivery to take place in the future in order to secure what is considered to be an advantageous price or yield to that Fund at the time of entering into the transaction.

Each Fund may also invest up to 15% of its net assets in illiquid securities, including restricted securities, (i.e., securities that are not readily marketable without registration under the Securities Act of 1933, as amended (the "1933 Act")) and other securities that are not readily marketable. The Funds may purchase restricted securities that can be offered and sold to "qualified institutional buyers" under Rule 144A of the 1933 Act.

### ***Liquidity Risk***

The Funds may be subject to liquidity risk primarily due to investments in derivatives. Each Fund may invest up to 15% of its net assets in illiquid securities or instruments. Derivatives, such as swaps, options and warrants, may not be readily marketable and, therefore, may be deemed to be illiquid. Investments in illiquid assets involve the risk that the Fund may be unable to sell the asset or sell it at a reasonable price. In addition, the Fund may be required to liquidate positions or close out derivatives on unfavorable terms at a time contrary to the interests of the Fund in order to raise cash to pay redemptions.

Pursuant to Rule 22e-4 under the 1940 Act (the "Liquidity Rule"), the Funds have implemented a liquidity risk management program and related procedures to identify illiquid investments pursuant to the rule. In connection with the implementation of the Liquidity Rule, the term "illiquid security" is defined as a security which a Fund reasonably expects cannot be sold or disposed of in current market conditions in seven calendar days or less without the sale or disposition significantly changing the market value of the security. If the limitation on illiquid securities is exceeded, other than by a change in market values, the condition will be reported to the Board of Directors (the "Board") and, when required by the Liquidity Rule, to the Securities and Exchange Commission ("SEC").

The impact the Liquidity Rule will have on the Funds is not yet fully known, but the Liquidity Rule could impact a Fund's performance and its ability to achieve its investment objective.

An investment in derivatives is also subject to the risk that a Fund may not be able to terminate the derivatives effective on whatever date it chooses, or that the settlement of any early termination may depend on subsequent market movements. As a result, a Fund may be exposed to the risk of additional losses due to such delays.

### ***Cybersecurity Risk***

The Funds and their service providers are susceptible to operational and information security risks due to cybersecurity incidents. In general, cybersecurity incidents can result from deliberate attacks or unintentional events. Cybersecurity attacks include, but are not limited to, gaining unauthorized access to digital systems (e.g., through "hacking" or malicious software coding) for purposes of misappropriating assets or sensitive information, corrupting data or causing operational disruption. Cyber attacks also may be carried out in a manner that does not require gaining unauthorized access, such as causing denial-of-service attacks on websites (i.e., efforts to make services unavailable to intended users). Cybersecurity incidents affecting the Adviser, Transfer Agent or Custodian or other service providers

such as financial intermediaries have the ability to cause disruptions and impact business operations, potentially resulting in financial losses, including by interference with a Fund's ability to calculate its NAV; impediments to trading for a Fund's portfolio; the inability of Fund shareholders to transact business with the Fund; violations of applicable privacy, data security or other laws; regulatory fines and penalties; reputational damage; reimbursement or other compensation or remediation costs; legal fees; or additional compliance costs. Similar adverse consequences could result from cybersecurity incidents affecting issuers of securities in which a Fund invests, counterparties with which the Fund engages in transactions, governmental and other regulatory authorities, exchange and other financial market operators, banks, brokers, dealers, insurance companies and other financial institutions and other parties. While information risk management systems and business continuity plans have been developed which are designed to reduce the risks associated with cybersecurity, there are inherent limitations in any cybersecurity risk management systems or business continuity plans, including the possibility that certain risks have not been identified.

### ***Portfolio Holdings***

The Funds generally make their complete portfolio holdings available on their Web site, after a 10-day lag following the end of the most recent calendar quarter, at [www.needhamfunds.com](http://www.needhamfunds.com) under "Mutual Funds" and then "Portfolio". The ten largest equity holdings of each Fund also include the percentage of that Fund's total investments that each holding represents.

The Adviser and the Funds maintain portfolio holdings disclosure policies that govern the disclosure to shareholders and third parties of nonpublic information regarding the portfolio investments held by the Funds. These portfolio holdings disclosure policies have been approved by the Board. Disclosure of the Funds' complete holdings is required to be made quarterly within 60 days of the end of each fiscal quarter in the Annual Report and Semi-Annual Report to Fund shareholders and, for the first and third quarters of each fiscal year, as an exhibit to the Funds' reports on Form N-PORT (previously, the Funds' holdings were disclosed on Form N-Q). These reports are available, free of charge, on the EDGAR database on the SEC's website at [www.sec.gov](http://www.sec.gov), by contacting U.S. Bancorp Fund Services, LLC, P.O. Box 701, Milwaukee, WI 53201-0701 or by calling 1-800-625-7071.

These policies and procedures prohibit the release of nonpublic information concerning portfolio holdings of the Funds to individual investors, institutional investors, intermediaries that distribute the Funds' shares, rating and ranking organizations, third party service providers and all other parties that are not affiliated with the Adviser, except in the following circumstances:

(A) From time to time, fund-rating companies such as Morningstar, Inc. may request complete portfolio holdings information in connection with rating the Funds. The Funds believe that these third parties have legitimate objectives in requesting such portfolio holdings information. To prevent the potential misuse of any nonpublic portfolio holdings information, the Funds generally will permit the disclosure of such nonpublic information to fund-rating companies only as of the end of the most recent calendar quarter, with a lag of at least ten (10) days. In addition, the Funds' Chief Compliance Officer, on a case by case basis, may permit disclosure of nonpublic information regarding portfolio holdings to fund-rating companies at differing times, with a lag of at least ten (10) days.

(B) The Funds' service providers, such as its custodian, fund administrator, fund accountants, legal counsel, transfer agent, and liquidity classification agent, who are subject to duties of confidentiality, including a duty not to trade on nonpublic information, whether imposed by law or contract, may receive nonpublic portfolio holdings information in connection with their services to the Funds. The Funds' administrator and custodian have continuous access to the Funds' portfolio holdings and provide such information to the Funds, and the Funds' accountants receive the Funds' portfolio holdings on a semi-annual basis with no lag time.

(C) Circumstances in which the Funds are required by applicable law or regulation or by judicial or administrative process to disclose such information to a governmental authority.

(D) Other circumstances, but only after the Board has determined that disclosure of nonpublic information about the Funds' portfolio holdings may be permitted because (i) both the person requesting the selective disclosure and the Funds have legitimate business purposes for the disclosure; (ii) the selective disclosure is in the best interest of the Funds and their shareholders and does not compromise the integrity or performance of the Funds; and (iii) the Funds' Chief Compliance Officer has ensured that (A) the recipient is subject to an agreement that requires the recipient and, if applicable, its employees, to keep the nonpublic information confidential and not to purchase or sell the Funds'

shares or the Funds' portfolio holdings before the portfolio holdings become public; (B) the recipient will utilize the information to reach certain conclusions about the investment characteristics of the Funds and will not use the information to facilitate or assist in any investment program; (C) the recipient will not provide access to the nonpublic information to third parties, other than those Fund service providers who need access to such information in the performance of their contractual duties and responsibilities and are subject to duties of confidentiality; and (D) neither the Funds, the Adviser or any affiliate of the Adviser or any of their respective employees receives any compensation or other consideration in connection with the selective disclosure of the Funds' portfolio holdings information. In addition, the Funds' Chief Compliance Officer must have approved such selective disclosure.

There are currently no ongoing arrangements to make available information about the Funds' portfolio securities, other than as described above, except that the Funds may disclose summary and statistical information, including, but not limited to, sector weightings, that does not identify specific portfolio holdings, if such disclosure is otherwise in accordance with the general principles set forth in the Funds' policies. The Board receives and reviews at least annually a list of persons (in addition to those described above, if any) approved to receive nonpublic portfolio holdings information and the purpose for which it has been furnished. The Fund's Chief Compliance Officer monitors any dissemination of the Funds' portfolio holdings information to address potential conflicts of interest that could arise between the interests of the Funds' shareholders and the interests of the Adviser and its affiliates.

### **INVESTMENT RESTRICTIONS**

The following investment restrictions have been adopted by each Fund as fundamental policies and may only be changed with regard to each Fund by the affirmative vote of a majority of that Fund's outstanding shares. The term "majority of that Fund's outstanding shares" means the vote of (i) 67% or more of that Fund's shares present at a meeting, if the holders of more than 50% of the outstanding shares of that Fund are present or represented by proxy, or (ii) more than 50% of that Fund's outstanding shares, whichever is less.

These investment restrictions provide that each Fund may not:

1. Make investments for the purpose of exercising control or management of the issuer;
2. Purchase or sell real estate or real estate mortgage loans (provided that such restriction shall not apply to securities secured by real estate or an interest therein or issued by companies which invest in real estate or interests therein), commodities or commodity contracts (except that the Fund may deal in forward foreign exchange between currencies and the Fund may purchase and sell interest rate and currency options, futures contracts and related options and indexed notes and commercial paper), or interests or leases in oil, gas or other mineral exploration or development programs (provided that such restriction shall not apply to securities issued by companies which invest in oil, gas or other mineral exploration or development programs);
3. Except as described in the Prospectus, purchase any securities on margin, except for use of short-term credit necessary for clearance of purchases and sales of portfolio securities (the deposit or payment by a Fund of initial or variation margin in connection with futures contracts or options transactions is not considered the purchase of a security on margin);
4. Borrow amounts and pledge assets in connection therewith in excess of 25% of its total assets taken at market value (including the amount borrowed), and then only from banks as a temporary measure, including to meet redemptions or to settle securities transactions and provided further that no additional investments shall be made while borrowings exceed 5% of total assets;
5. Issue senior securities, as defined in the 1940 Act, except that this restriction shall not be deemed to prohibit the Fund from making any otherwise permissible borrowings, mortgages or pledges, short sales, or entering into permissible reverse repurchase agreements, and options and futures transactions;
6. Underwrite any issuance of securities (except to the extent that the Fund may be deemed to be an underwriter within the meaning of the 1933 Act in the disposition of restricted securities);
7. Make loans of its securities exceeding 20% of its total assets;

8. Invest 25% or more of its net assets in one or more issuers conducting their principal business in the same industry;

9. Hold more than 10% of the outstanding voting securities of any single issuer (this fundamental policy applies only with respect to 75% of the Fund's total assets and does not apply to securities issued or guaranteed by the U.S. Government, or its agencies or instrumentalities and securities of other investment companies); and

10. Invest more than 5% of its assets in the obligations of any single issuer, except that up to 25% of the value of the Fund's total assets may be invested, and securities issued or guaranteed by the U.S. Government or its agencies or instrumentalities and securities of other investment companies may be purchased, without regard to any such limitation.

As matters of non-fundamental policy, each Fund may not:

1. With respect to 75% of the value of its total assets, purchase more than 10% of the outstanding voting securities of any issuer;

2. Sell short securities the underlying value of which exceeds 25% of the value of the net assets of the Fund. Any short sale up to such limit must be fully collateralized and each Fund will also limit its short sales in any one issuer's securities to 2% of the value of the Funds' net assets and will not sell short more than 2% of any one class of the issuer's securities;

3. Invest in real estate limited partnerships not traded on a national securities exchange, except that a Fund may purchase or sell securities issued by entities engaged in the real estate industry or instruments backed by real estate;

4. Invest in warrants (other than warrants acquired by the Fund as a part of a unit or attached to securities at the time of purchase) if, as a result, such investment (valued at the lower of cost or market value) would exceed 5% of the value of the Fund's net assets, provided that any warrants in which the Fund is short "against the box" will be netted for purposes of this 5% limitation; and

5. Invest more than 35% (20% of net assets in the case of the Small Cap Growth Fund) of its total assets in debt securities and invest more than 10% of its total assets in non-investment grade debt securities (such 10% limitation to be included in the 35% (20% of net assets in the case of the Small Cap Growth Fund) limitation).

These restrictions are not fundamental policies and may be changed with respect to any Fund by the Board without a shareholder vote, to the extent permitted by applicable law including rules of the SEC. Except as otherwise may be specifically stated herein, the Funds' other investment policies stated in this Statement of Additional Information and in the Prospectus are not considered fundamental and may be changed by the Board at any time without a shareholder vote if and to the extent any such changes are consistent with the requirements of the 1940 Act.

Except with respect to the limitations on borrowing, if a percentage restriction is adhered to at the time of the investment, a later increase or decrease in percentage resulting from a change in values of portfolio securities or amount of net assets will not be considered a violation of any of the foregoing restrictions. The affected Fund shall, however, reduce its holdings of illiquid securities in an orderly fashion in order to maintain adequate liquidity.

## INVESTMENT ADVISER

The investment adviser of the Funds is Needham Investment Management LLC (the “Adviser”), a Delaware limited liability company, pursuant to a Restated Investment Advisory Agreement with The Needham Funds, Inc., dated as of October 21, 2004, together with a Fee Waiver and Expense Reimbursement Agreement between the Funds and the Adviser (the “Advisory Agreement”). The Adviser furnishes investment programs for the Funds and determines, subject to the overall supervision and review of the Board, what investments should be purchased, sold and held. The Adviser is one hundred percent (100%) owned by Needham Asset Management, LLC, which is wholly-owned by Needham Holdings, LLC (which in turn is wholly-owned by the parent holding company, The Needham Group, Inc.). George A. Needham may be deemed to be a control person of Needham Asset Management, LLC based upon his position as an officer, director and/or stockholder of that entity or a controlling entity. See “Management” and “The Distributor and Distribution of the Shares” in this Statement of Additional Information.

Under the terms of the Advisory Agreement, and at the direction of the Board, the Adviser maintains records and furnishes or causes to be furnished all required reports or other information concerning the Funds to the extent such records, reports and other information are not maintained by the Funds’ Administrator, Custodian or other agents.

The Adviser provides the Funds with office space, facilities and certain business equipment and provides the services of consultants and executive and clerical personnel for administering the affairs of the Funds. The Adviser compensates all executive and clerical personnel and Directors of The Needham Funds, Inc. if such persons are employees or affiliates of the Adviser or its affiliates.

The expenses borne by each Fund include: the charges and expenses of the shareholder servicing and dividend disbursing agent; custodian fees and expenses; legal and auditors’ fees and expenses; brokerage commissions for portfolio transactions; taxes, if any; the advisory fee; extraordinary expenses (as determined by the Board); expenses of shareholder and Director meetings, and of preparing, printing and mailing proxy statements, reports and other communications to shareholders; expenses of preparing and setting in type prospectuses and periodic reports and expenses of mailing them to current shareholders; expenses of registering and qualifying shares for sale (including compensation of the Adviser’s employees in relation to the time spent on such matters); expenses relating to the Amended and Restated Plan of Distribution (the “Plan”); fees of Directors who are not affiliated with the Adviser; fidelity bond and errors and omissions insurance premiums; the cost of maintaining the books and records of that Fund; and any other charges and fees not specifically enumerated as an obligation of the Distributor (as hereinafter defined) or Adviser.

The fee payable by each Fund to the Adviser is accrued daily and paid monthly.

For the fiscal years ended December 31, 2019, 2018, and 2017 the Funds paid the following advisory fees:

	<b>Fiscal Year Ended December 31,</b>		
	<b>2019</b>	<b>2018</b>	<b>2017</b>
<b>Growth Fund</b>			
Fees Accrued by Adviser	\$ 1,201,619	\$ 1,295,494	\$ 1,484,553
Fees Waived/Reimbursed	\$ 124,477	\$ 91,844	\$ 84,071
Fees Recouped	\$ —	\$ —	\$ —
Net Fees Paid to Adviser	\$ 1,077,142	\$ 1,203,650	\$ 1,400,482
<b>Aggressive Growth Fund</b>			
Fees Accrued by Adviser	\$ 574,866	\$ 697,841	\$ 789,757
Fees Waived/Reimbursed	\$ 122,828	\$ 107,345	\$ 75,500
Fees Recouped	\$ 2,588	\$ —	\$ —
Net Fees Paid to Adviser	\$ 454,626	\$ 590,496	\$ 714,257
<b>Small Cap Growth Fund</b>			
Fees Accrued by Adviser	\$ 507,282	\$ 392,323	\$ 398,063
Fees Waived/Reimbursed	\$ 165,856	\$ 115,149	\$ 97,975
Fees Recouped	\$ —	\$ —	\$ —
Net Fees Paid to Adviser	\$ 341,426	\$ 277,174	\$ 300,088

The Adviser has entered into an agreement with The Needham Funds, Inc. (the “Expense Limitation Agreement”) whereby the Adviser has contractually agreed to waive its investment advisory fee for, and to reimburse expenses of, each Fund in an amount that limits annual operating expenses to not more than 1.40% and 1.95% (or, for the Small Cap Growth Fund only, 1.18% and 1.85%) of the average daily net assets of each Fund’s Institutional Class and Retail Class, respectively (excluding taxes, interest, brokerage, dividends on short positions, acquired fund fees and expenses and extraordinary items but including the investment advisory fee stated in the Advisory Agreement). The Expense Limitation Agreement is effective for the period from May 1, 2020 through April 30, 2021. The Expense Limitation Agreement shall continue in effect from year to year thereafter only upon mutual agreement of The Needham Funds, Inc. and the Adviser. Similar agreements were in effect for certain prior periods.

Any reimbursements or fee waivers made by the Adviser in respect of a Fund are subject to recoupment by the Adviser, to the extent that the Fund is able to make the repayment within the expense limitation established in the Expense Limitation Agreement. Under the Expense Limitation Agreement, such recoupments must be made up to 36 months from the time in which the Adviser reduced its compensation and/or assumed expenses for the applicable Fund. The table below indicates the amount of fees that the Adviser has the potential to recoup from the Funds:

	<b>Recovery Expiring on</b>		
	<b>12/31/2022</b>	<b>12/31/2021</b>	<b>12/31/2020</b>
<b>Growth Fund</b>			
Retail Class	\$ 14,374	\$ —	\$ —
Institutional Class	\$ 110,106	\$ 91,844	\$ 84,701
<b>Aggressive Growth Fund</b>			
Retail Class	\$ 45,600	\$ 23,838	\$ 16,112
Institutional Class	\$ 77,228	\$ 83,507	\$ 65,936
<b>Small Cap Growth Fund</b>			
Retail Class	\$ 41,030	\$ 45,317	\$ 50,855
Institutional Class	\$ 124,826	\$ 69,832	\$ 48,693

## THE DISTRIBUTOR AND DISTRIBUTION OF THE SHARES

Shares of the Funds are offered on a continuous basis and are currently distributed through Needham & Company, LLC, 250 Park Avenue, 10<sup>th</sup> Floor, New York, New York 10177 (the “Distributor”). The Board has approved a Distribution and Services Agreement (the “Distribution Agreement”) appointing the Distributor as a distributor of shares of the Funds.

The Distribution Agreement provides that the Distributor will bear the cost and expense of printing and distributing any materials not prepared by the Funds and other materials used by the Distributor in connection with its offering shares of the Funds. Each Fund will pay all fees and expenses in connection with registering and qualifying its shares under Federal and state securities laws.

To compensate the Distributor and other service providers for the distribution and/or shareholder-related services provided by them, each Fund has adopted a Plan pursuant to Rule 12b-1 under the 1940 Act (the “Plan”) for Retail Class shares. Fees paid by the Funds under the Plan will be used for promotional, distribution and shareholder-related services with respect to Retail Class shares incurred only during the applicable year. Pursuant to the Plan, the service providers are required to provide the Funds at least quarterly with a written report of the amounts expended under the Plan and the purpose for which such expenditures were made. The Board reviews such reports on a quarterly basis.

The Plan has been approved on behalf of each Fund by the Board, including a majority of the Directors who are not “interested persons” (as that term is defined in the 1940 Act) of the Funds (the “Independent Directors”) and who have no direct or indirect financial interest in the operation of the Plan. The Plan continues in effect as to each Fund, provided such continuance is approved annually by a vote of the Directors in accordance with the 1940 Act. Information with respect to distribution revenues and expenses will be presented to the Directors each year for their consideration in connection with their deliberations as to the continuance of the Plan. In the review of the Plan, the Directors will be asked to take into consideration expenses incurred in connection with the distribution of shares. The Plan may not be amended to increase materially the amount to be spent for the services described therein with respect to any Fund without approval of the Retail Class shareholders of that Fund, and all material amendments of the Plan must also be approved by the Directors in the manner described above. The Plan may be terminated at any time, without payment of any penalty, by vote of a majority of the Independent Directors who have no direct or indirect financial interest in the operation of the Plan, or by a vote of a majority of the Retail Class outstanding voting securities (as defined in the 1940 Act) of the Fund on not more than 30 days written notice to any other party to the Plan. The Plan will automatically terminate in the event of its assignment (as defined in the 1940 Act). So long as the Plan is in effect, the election and nomination of Independent Directors shall be committed to the discretion of the Independent Directors. The Directors have determined that, in their judgment, there is a reasonable likelihood that the Plan will benefit the Funds and their respective Retail Class shareholders. The Funds will preserve copies of the Plan and any agreement or report made pursuant to Rule 12b-1 under the 1940 Act for a period of not less than six years from the date of the Plan or such agreement or report, the first two years in an easily accessible place.

Payments generally are made under the Plan at the annual rate of 0.25% of the value of each Fund’s Retail Class shares held in accounts maintained by each such service provider. In the case of certain of the Funds’ agreements, the Adviser is required to pay an additional 0.15% (or other percentage) of the value of all Retail Class Fund shares held in such accounts out of its financial resources other than 12b-1 fees. The Adviser is required to make these payments to the Funds’ service providers regardless of any actual expenses incurred by them.

During the last fiscal year, the Funds paid fees under the Plan in the amount of \$149,317; \$71,136; and \$50,032 for the Retail Class shares of the Growth Fund, Aggressive Growth Fund, and Small Cap Growth Fund, respectively. Of the total paid under the Plan, the following amounts were spent on the following services:

<b>Service</b>	<b>Growth Fund – Retail Class</b>	<b>Aggressive Growth Fund – Retail Class</b>	<b>Small Cap Growth Fund – Retail Class</b>
Advertising	\$0	\$0	\$0
Printing and mailing prospectus to other than current shareholders	\$0	\$0	\$0
Compensation to broker-dealers	\$149,317	\$71,136	\$50,032
Compensation to underwriters	\$0	\$0	\$0
Compensation to sales personnel	\$0	\$0	\$0
Interest, carrying, or other financing charges	\$0	\$0	\$0
Other	\$0	\$0	\$0

**ADMINISTRATION SERVICES  
FUND ACCOUNTING, TRANSFER AGENCY AND OTHER SERVICES**

*Administration*

Pursuant to a Fund Administration Servicing Agreement (the “Administration Agreement”), U.S. Bancorp Fund Services, LLC, doing business as U.S. Bank Global Fund Services (“Fund Services”), 615 East Michigan Street, Milwaukee, Wisconsin 53202 (the “Administrator”), acts as administrator for the Funds. The Administrator provides certain administrative services to the Funds, including, among other responsibilities, arranging for the computation of performance data, including net asset value and yield; acting as liaison among Fund service providers; supplying corporate secretarial services, office facilities and non-investment-related statistical and research data; coordinating the Board communications, including preparing meeting agendas and resolutions with the assistance of Fund counsel; preparing reports for the Board based on financial and administrative data; evaluating independent auditors; securing and monitoring fidelity bond and director and officer liability coverage and making related filings; preparing minutes of meetings; recommending dividend declarations; assisting independent auditors and facilitating the audit process; assisting in the overall operations of the Funds; paying Fund expenses upon written authorization; monitoring compliance with the 1940 Act; monitoring compliance with policies and investment limitations; monitoring applicable regulatory and operational service issues; complying with state securities requirements; assisting with SEC registration and reporting; monitoring for IRS compliance; calculating required distributions; financial reporting; tax reporting; responding to shareholder inquiries; and providing, at its own expense, office facilities, equipment and personnel necessary to carry out its duties. In this capacity, the Administrator does not have any responsibility or authority for the management of the Funds, the determination of investment policy, or for any matter pertaining to the distribution of Fund shares.

For its administration services, Fund Services is compensated based on a percentage of the market value of the Funds’ assets, subject to a minimum annual fee. Fund Services also is compensated for any out of pocket expenses that are reasonably incurred by Fund Services in carrying out its duties under the Administration Agreement. For the fiscal years ended December 31, 2019, 2018, and 2017, the Funds paid the Administrator the following amounts for its administration services:

<b>Fund</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>
Growth Fund	\$ 84,643	\$ 93,297	\$ 99,878
Aggressive Growth Fund	\$ 48,461	\$ 59,317	\$ 59,305
Small Cap Growth Fund	\$ 44,669	\$ 39,855	\$ 39,100

*Fund Accountant and Transfer Agent*

Fund Services also serves as the Funds’ accountant, transfer agent (“Transfer Agent”) and dividend disbursing agent under separate agreements with the Funds.

### *Custodian*

Pursuant to a custody agreement between the Funds and U.S. Bank, N.A., 1555 North Rivercenter Drive, Suite 302, Milwaukee, Wisconsin 53212 (the “Custodian”), the Custodian serves as the custodian of the Funds’ assets, holds the Funds’ portfolio securities in safekeeping and keeps all necessary records and documents relating to its duties. The Custodian is compensated with an asset-based fee plus transaction fees and is reimbursed for out-of-pocket expenses. The Custodian and its affiliates may participate in revenue sharing arrangements with service providers of mutual funds in which the Funds may invest.

The Administrator and Custodian are affiliated entities under the common control of U.S. Bancorp.

### **PORTFOLIO MANAGERS**

The following table shows information regarding other accounts managed by each portfolio manager as of December 31, 2019. Asset amounts are approximate and have been rounded.

Portfolio Manager	Number of Other Accounts Managed and Assets by Account Type			Number of Accounts and Assets for Which Advisory Fee is Performance Based		
	Registered Investment Companies	Other Pooled Investment Vehicles	Other Accounts	Registered Investment Companies	Other Pooled Investment Vehicles	Other Accounts
John O. Barr	None	None	None	None	None	None
Christopher J. Retzler	None	None	None	None	None	None

Mr. Barr and Mr. Retzler are compensated by the Adviser with an annual salary and bonus, both of which vary from year-to-year, based on a variety of factors, including overall profitability of the firm, the profitability of the asset management activities of the firm, and assessments by the senior management of the firm of the contributions of said individuals to the success of the firm. The portfolio managers’ compensation is not based on the Funds’ pre- or after-tax performance or on the value of assets held in each Fund’s portfolio.

One of the components of the bonus pool which both Mr. Barr and Mr. Retzler are eligible to participate in each year is the performance fees which may be received by affiliates of The Needham Group, Inc. for managing non-registered investment accounts. The bonus pool is also composed of profits from the other business units of The Needham Group, Inc.

The following table shows the range of equity securities beneficially owned by each portfolio manager in the Funds managed by the portfolio manager as of December 31, 2019 using the following ranges: none; \$1-\$10,000; \$10,001-\$50,000; \$50,001-\$100,000; \$100,001-\$500,000; \$500,001-\$1,000,000; and over \$1,000,000.

<b>Fund/Portfolio Manager</b>	<b>Dollar Range of Beneficial Ownership in the Fund as of 12/31/19</b>
<b>Growth Fund</b>	
John O. Barr	\$100,001-\$500,000
Christopher Retzler	\$1-\$10,000
<b>Aggressive Growth Fund</b>	
John O. Barr	Over \$1,000,000
<b>Small Cap Growth Fund</b>	
Christopher Retzler	Over \$1,000,000

#### **PORTFOLIO TRANSACTIONS AND BROKERAGE**

The Adviser is responsible for decisions to buy and sell securities and other investments for the Funds, the selection of brokers and dealers to effect the transactions and the negotiation of brokerage commissions, if any. In transactions on stock and commodity exchanges in the U.S., these commissions are negotiated, whereas on foreign stock and commodity exchanges these commissions are generally fixed and are generally higher than brokerage commissions in the U.S. In the case of securities traded on the over-the-counter markets, there are generally no stated commissions, but the price usually includes an undisclosed commission or markup. In underwritten offerings, the price includes a disclosed, fixed commission or discount. The Funds may invest in obligations which are normally traded on a “principal” rather than agency basis. This may be done through a dealer (e.g., securities firm or bank) who buys or sells for its own account rather than as an agent for another client, or directly with the issuer. A dealer’s profit, if any, is the difference, or spread, between the dealer’s purchase and sale price for the obligation.

In purchasing and selling each Fund’s portfolio investments, it is the Adviser’s policy to obtain best execution, which is considered to be the most favorable combination of price and quantity that can be traded at a given point in time, based on all circumstances related to the trade. The Adviser considers, among other factors, the liquidity, market conditions, and required urgency of execution. In selecting broker-dealers, the Adviser will consider various relevant factors, including, but not limited to: the size and type of the transaction; the nature and character of the markets for the security or asset to be purchased or sold; the execution efficiency, settlement capability, and financial condition of the broker-dealer’s firm; the broker-dealer’s execution services rendered on a continuing basis; and the reasonableness of any commissions.

The Adviser may cause each Fund to pay a broker-dealer who furnishes brokerage and/or research services a commission that is in excess of the commission another broker-dealer would have received for executing the transaction (“soft-dollar brokerage commissions”) if it is determined that such commission is reasonable in relation to the value of the brokerage and/or research services, as defined in Section 28(e) of the Securities Exchange Act of 1934, as amended, which have been provided. Such research services may include, among other things, analyses and reports concerning issuers, industries, securities, economic factors and trends, and portfolio strategy. Any such research and other information provided by brokers to the Adviser are considered to be in addition to and not in lieu of services required to be performed by the Adviser under the Advisory Agreement. The research services provided by broker-dealers can be useful to the Adviser in serving any other clients or clients of the Adviser’s affiliates. The Board periodically reviews the Adviser’s performance of its responsibilities in connection with the placement of portfolio

transactions on behalf of each Fund and reviews the commissions paid by each Fund over representative periods of time to determine if they are reasonable in relation to the benefits to the Funds.

For the year ended December 31, 2019, the total dollar value of transactions on which the Funds paid commissions for such brokerage and/or research services and the amount of the related commissions paid, were as follows:

<b>Fund</b>	<b>Dollar Value of Securities Traded</b>	<b>Related “Soft Dollar” Brokerage Commissions</b>
Growth Fund	\$0	\$ 0
Aggressive Growth Fund	\$0	\$ 0
Small Cap Growth Fund	\$0	\$ 0

Investment decisions for the Funds are made independently from those of the other investment accounts managed by the Adviser or affiliated companies. Occasions may arise, however, when the same investment decision is made for more than one client’s account. It is the practice of the Adviser to allocate such purchases or sales insofar as feasible among its several clients or the clients of its affiliates in a manner it deems equitable. The principal factors which the Adviser considers in making such allocations are the relative investment objectives of the clients, the relative size of the portfolio holdings of the same or comparable securities and the availability in the particular account of funds for investment. Portfolio securities held by one client of the Adviser may also be held by one or more of its other clients or by clients of its affiliates. When two or more of its clients or clients of its affiliates are engaged in the simultaneous sale or purchase of securities, transactions are allocated as to amount in accordance with formulae deemed to be equitable as to each client. There may be circumstances when purchases or sales of portfolio securities for one or more clients will have an adverse effect on other clients.

Consistent with the Rules of Fair Practice of the Financial Industry Regulatory Authority (“FINRA”) and subject to seeking the most favorable price and execution available and such other policies as the Board may determine, the Funds may employ Needham & Company, LLC (which is the Funds’ Distributor) as a broker consistent with the rules under the 1940 Act and the Funds’ Rule 17e-1 procedures. For the years ended December 31, 2019, 2018, and 2017, each Fund paid brokerage commissions on portfolio transactions as shown in the table below.

<b>Fund</b>	<b>Year Ended</b>	<b>Total Brokerage Commissions Paid</b>	<b>Total Brokerage Commissions Paid to the Distributor</b>
Growth Fund	2019	\$62,715	\$14,477
	2018	\$63,708	\$5,104
	2017	\$62,334	\$14,183
Aggressive Growth Fund	2019	\$37,796	\$5,505
	2018	\$42,013	\$6,473
	2017	\$49,984	\$11,990
Small Cap Growth Fund	2019	\$292,873	\$58,391
	2018	\$126,642	\$20,242
	2017	\$139,324	\$33,951

The total brokerage commissions paid has fluctuated in the last three fiscal years due to changing net assets and as a result of volatile market conditions that have caused the Adviser to make adjustments in the volume of trades effected in order to implement each Fund’s investment strategy.

For the year ended December 31, 2019, each Fund's portfolio transactions with the Distributor involved the percentages indicated in the following table:

<b>Fund</b>	<b>% of Total Brokerage Commissions Paid to the Distributor</b>	<b>% of Total Transactions Involving Commissions Paid to the Distributor</b>
Growth Fund	23.08%	28.79%
Aggressive Growth Fund	14.56%	20.38%
Small Cap Growth Fund	19.94%	23.31%

As of December 31, 2019, the Funds did not hold investment securities of their regular broker-dealers.

While it is the policy of the Funds generally not to engage in trading for short-term gains, the Funds will effect portfolio transactions without regard to the holding period (subject to compliance with certain tax requirements for qualification as a regulated investment company) if, in the judgment of the Adviser, such transactions are advisable in light of a change in circumstances of a particular company, within a particular industry or country, or in general market, economic or political conditions. The Funds may pay a greater amount in brokerage commissions than similar size funds with a lower turnover rate. In addition, since the Funds may have a high rate of portfolio turnover, the Funds may realize capital gains or losses. Capital gains will be distributed annually to the shareholders. Capital losses cannot be distributed to shareholders but may be used to offset capital gains at the Fund level and carried forward for up to eight years (and in certain cases, indefinitely) to the extent there are no gains to offset for a particular year. See "Taxes" in this Statement of Additional Information. Variations in turnover rate may be due to market conditions, fluctuating volume of shareholder purchases and redemptions or changes in the Investment Adviser's investment outlook. Each Fund's portfolio turnover rate for the last two fiscal years is shown in the table below.

<b>Fund</b>	<b>2019</b>	<b>2018</b>
Growth Fund	13%	8%
Aggressive Growth Fund	9%	8%
Small Cap Growth Fund	136%	103%

## **MANAGEMENT**

The Directors and officers of The Needham Funds, Inc., their addresses, ages, positions with The Needham Funds, Inc., term of office and length of time served, principal occupations during the past five years, the number of portfolios overseen by each of them and other directorships held by each of them are set forth below. The Directors are responsible for the overall supervision of the Funds and its affairs, as well as evaluating the Adviser, consistent with their duties as directors under the corporate laws of the State of Maryland and have approved contracts, as described above, under which certain companies provide essential management services to the Funds.

## INTERESTED DIRECTOR

Name, Address and Year of Birth	Position with Registrant	Term of Office and Length of Time Served	Number of Portfolios in Fund Complex Overseen by Director	Principal Occupation(s) and Other Directorships Held During Past 5 Years
<b>George A. Needham *</b> 250 Park Avenue New York, NY 10177 Year of Birth: 1943	President, Chairman and Director	Indefinite; since 1996	Three	Chairman of the Board and Chief Executive Officer of The Needham Group, Inc. and Needham Holdings, LLC since December 2004. President and Chief Executive Officer of Needham Asset Management, LLC since April 2006. Chairman of the Board from 1996 to December 2004 and Chief Executive Officer from 1985 to December 2004 of Needham & Company, LLC. Managing Member of Needham Capital Management, LLC since 2000.

## INDEPENDENT DIRECTORS

Name, Address and Year of Birth	Position with Registrant	Term of Office and Length of Time Served	Number of Portfolios in Fund Complex Overseen by Director	Principal Occupation(s) and Other Directorships Held During Past 5 Years
<b>John W. Larson</b> 250 Park Avenue New York, NY 10177 Year of Birth: 1935	Director	Indefinite; since 2006	Three	Currently retired. Partner at the law firm of Morgan, Lewis & Bockius LLP from 2003 until retiring in December 2009. Partner at the law firm of Brobeck, Phleger & Harrison LLP from 1969 until 2003. From 1971 to 1973 worked in government service as Assistant Secretary of the United States Department of the Interior and Counselor to George P. Schultz, Chairman of the Cost of Living Council. Director of Wage Works, Inc. (an employee benefits company) from 2000 until 2018 and its Chairman from 2006 to 2016. Director of Sangamo BioSciences, Inc. from 1996 to 2016. Trustee of Buck Institute for Research on Aging since 2013.
<b>F. Randall Smith</b> 250 Park Avenue New York, NY 10177 Year of Birth: 1938	Director	Indefinite; since 1996	Three	Founder, Member of Investment Committee, Investment Analyst, and Portfolio Manager of Capital Counsel LLC (a registered investment adviser) since September 1999; President from 1999-2014. Co-Founder and Chief Investment Officer of Train, Smith Counsel (a registered investment adviser) from 1975 to August 1999.

\* An “interested person”, as defined in the 1940 Act, of the Funds or the Funds’ investment adviser. Mr. Needham is deemed to be an interested person because he may be deemed to be an “affiliated person” of the Adviser and of the Distributor.

## OFFICERS

Name, Address and Age	Position with Registrant	Term of Office and Length of Time Served	Principal Occupation(s) During Past 5 Years
<b>John O. Barr</b> 250 Park Avenue New York, NY 10177 Year of Birth: 1956	Executive Vice President and Co-Portfolio Manager of Needham Growth Fund; Executive Vice President and Portfolio Manager of Needham Aggressive Growth Fund	One year; since 2010	Portfolio Manager of Needham Asset Management since 2010. Founding and Managing Member of Oliver Investment Management, LLC from 2008 to 2009. Manager and Analyst at Buckingham Capital, from 2002 to 2008. From 2000 to 2002, Managing Director and a Senior Analyst at Robertson Stephens following semiconductor technology companies. From 1995 to 2000, Managing Director and Senior Analyst at Needham and Company. He also served as Director of Research. Director of Coventor, Inc. from 2009 to 2017.
<b>Christopher J. Retzler</b> 250 Park Avenue New York, NY 10177 Year of Birth: 1971	Executive Vice President and Co-Portfolio Manager of Needham Growth Fund; Executive Vice President and Portfolio Manager of Needham Small Cap Growth Fund	One year; since 2008	Portfolio Manager of Needham Asset Management, LLC since 2008. Managing Director of Needham Asset Management, LLC since 2005. Head of Winterkorn, a healthcare manufacturing and distribution company, from 2002 to 2005.
<b>James W. Giangrasso</b> 250 Park Avenue New York, NY 10177 Year of Birth: 1962	Chief Financial Officer, Secretary and Treasurer	One year; since 2011	Chief Financial Officer of Needham Asset Management, LLC since 2011. Principal and Controller of Needham Asset Management, LLC since 2006.
<b>James M. Abbruzzese</b> 250 Park Avenue New York, NY 10177 Year of Birth: 1969	Chief Compliance Officer	One year; since 2004	Chief Compliance Officer of Needham Asset Management, LLC since April 2006. Chief Compliance Officer and Managing Director of Needham & Company, LLC from 2008 through 2012. Chief Administrative Officer of Needham & Company LLC since 2012. Chief Compliance Officer of Needham Capital Management, LLC since 2000.

## LEADERSHIP STRUCTURE AND BOARD OF DIRECTORS

The Board currently is comprised of three Directors, two of whom are Independent Directors. Thus, two-thirds of the Board is presently independent. George A. Needham, President and Chief Executive Officer of the Funds, acts as Chairman of the Board and is an “interested person” (as that term is defined in the 1940 Act) of the Funds. The Chairman presides at all meetings of the Board.

The Board has appointed F. Randall Smith, Chairman of the Funds’ Audit Committee, to serve as Lead Independent Director. The Lead Independent Director, among other things, chairs executive sessions of the Independent

Directors, serves as a spokesperson for the Independent Directors and serves as a liaison between the Funds' other Independent Director and the Funds' management, Chief Compliance Officer, service providers, auditors and counsel between Board meetings. The Funds believe this structure allows the Independent Director to participate in the full range of the Board's responsibilities with respect to its oversight of the Funds' management. The Board has determined that this leadership structure, including the role of the Lead Independent Director, is appropriate given the size and complexity of the Funds, the number of Directors overseeing the Funds and the Board's oversight responsibilities.

The Board holds four regular meetings each year to consider and address matters involving the Funds. The Board also may hold special meetings to address matters arising between regular meetings. These meetings may take place in person or by telephone. The Independent Directors also meet each quarter and additionally on an as-needed basis in executive sessions outside the presence of management. The Board has access to independent legal counsel for the Funds and the Independent Directors for consultation concerning any issues that may occur during or between regularly scheduled Board meetings. As discussed below, the Board has established an Audit Committee to assist the Board in performing its oversight responsibilities.

The specific experience, qualifications, attributes or skills that led to the conclusion that each Director should serve as a Director of the Funds are as follows:

The Chairman of the Board, George A. Needham, has been a Director of the Funds since their inception. Mr. Needham founded Needham & Company, Inc. (predecessor to The Needham Group, Inc.) in 1985. Mr. Needham is the Chairman of the Board and Chief Executive Officer of The Needham Group, Inc., President and Chief Executive Officer of Needham Holdings, LLC and President and Chief Executive Officer of Needham Asset Management, LLC. Mr. Needham received a B.S. degree from Bucknell University and an M.B.A. from the Stanford University Graduate School of Business. Mr. Needham is also a principal of the respective general partners of several private investment limited partnerships.

John W. Larson has been an Independent Director of the Funds since 2006. Mr. Larson was a partner at the law firm of Morgan, Lewis & Bockius LLP from 2003 until his retirement in December 2009. Mr. Larson served as partner at the law firm of Brobeck, Phleger & Harrison LLP ("Brobeck") from 1969 until 2003, except for the period from July 1971 to September 1973 when he was in government service as Assistant Secretary of the United States Department of the Interior and Counselor to George P. Shultz, Chairman of the Cost of Living Council. From 1988 until March 1996, Mr. Larson was Chief Executive Officer of Brobeck. Mr. Larson served on the board of Wage Works, Inc. (an employee benefits company) from 2000 until 2018, and was its Chairman from 2006 to 2016, and Sangamo BioSciences, Inc. from 1996 to 2016. He has served on the board of Buck Institute for Research on Aging since 2013. Mr. Larson holds a LL.B and a B.A. degree, with distinction, in economics from Stanford University.

F. Randall Smith, Lead Independent Director and Chairman of the Audit Committee, has been an Independent Director of the Funds since their inception. Mr. Smith is founder (and, formerly, President) of Capital Counsel LLC, a registered investment advisory firm. He was a co-founder and Chief Investment Officer of Train, Smith Counsel, a registered investment advisory firm, from 1975 to 1999. Before that he co-founded National Journal, a weekly publication on the U.S. Government, and served as Special Assistant to the Undersecretary of State for Economic Affairs prior to founding Train, Smith Counsel. Mr. Smith received a B.A. degree from Williams College and attended Fordham University. The Board has determined that Mr. Smith is an "audit committee financial expert."

As a result of Mr. Needham's extensive experience as an executive of an investment bank and asset management firm, Mr. Larson's extensive experience advising clients as a corporate securities lawyer, and Mr. Smith's extensive experience in the investment advisory business, the Funds believe the directors have demonstrated throughout their careers qualifications, attributes and skills that well qualify them to be directors of the Funds.

The Board annually performs a self-assessment on the current members, which includes a review of the size of the Board; use of committees and committee structure; number of committees; exposure and access to management; Board composition, including skills and diversity; committee member selection and rotation and criteria for selection of Board members.

## RISK OVERSIGHT

Consistent with its responsibility for oversight of the Funds, the Board, among other things, oversees risk management of the Funds' investment program and business affairs directly and through the committee structure that it has established. The Board, and particularly the Lead Independent Director, has substantial ongoing contacts with the Adviser to review its investment strategies, techniques, policies and procedures designed to manage these risks. At each quarterly Board meeting, a portion of the report of the Adviser, which includes a review of the portfolio for the previous quarter, relates to any positions which may represent an undue risk to the Funds.

The Board requires the Adviser and the Chief Compliance Officer of the Funds and the Adviser to report to the full Board on a variety of matters at regular meetings of the Board, including matters relating to risk management. The Audit Committee also receives regular reports from the Funds' independent registered public accounting firm on internal control and financial reporting matters. On a quarterly basis, the Board meets with the Funds' Chief Compliance Officer to discuss issues related to Fund compliance. On an annual basis, the Board receives a written report from the Chief Compliance Officer on the operation of the Funds' policies and procedures and those of its service providers. The report addresses the operation of the policies and procedures of the Funds and each service provider since the last report, any material changes to the policies and procedures since the last report, any recommendations for material changes to the policies and procedures as a result of the annual review and any material compliance matters since the date of the last report. These annual reviews are conducted in conjunction with the Board's risk oversight function and enable the Board to review and assess any material risks facing the Funds or their service providers.

In addition, at regular Board meetings, and on an as needed basis, the Board receives and reviews reports from the Adviser and the Administrator related to the investments, performance and operations of the Funds. The Board also requires the Adviser to report to the Board on other matters relating to risk management on a regular and as-needed basis. The Lead Independent Director periodically meets with representatives of the Funds' service providers, including the Adviser, Administrator, Transfer Agent, Custodian and independent registered public accounting firm, to review and discuss the activities of the Funds and to provide direction with respect thereto.

The Board has established an Audit Committee, comprised of the Independent Directors of The Needham Funds, Inc., which met three times during the fiscal year ended December 31, 2019. The Audit Committee operates under a written charter approved by the Board and reviews the audits of the Funds and recommends a firm to serve as independent registered public accounting firm of the Funds, among other things.

### *Share Ownership*

The following table shows the dollar range of each Director's "beneficial ownership" of the equity securities of the Funds and the aggregate dollar range of each Director's "beneficial ownership" interest in all series of The Needham Funds, Inc. overseen by the Director as of December 31, 2019. "Beneficial ownership" is determined in accordance with Rule 16a-1(a)(2) under the 1934 Act.

Director	Dollar Range of Equity Securities in the Needham Growth Fund	Dollar Range of Equity Securities in the Needham Aggressive Growth Fund	Dollar Range of Equity Securities in the Needham Small Cap Growth Fund	Aggregate Dollar Range of Equity Securities in All Registered Investment Companies Overseen by Director in Family of Investment Companies
<b>Interested Director</b>				
George A. Needham	Over \$100,000	Over \$100,000	Over \$100,000	Over \$100,000
<b>Independent Directors</b>				
John W. Larson	None	None	None	None
F. Randall Smith	None	None	None	None

As of December 31, 2019, no Independent Director owned, either directly or indirectly, any securities of the Adviser or Needham & Company, LLC.

### ***Remuneration***

Each Independent Director receives a quarterly retainer of \$3,000 and a per-meeting fee of \$500 for each Board meeting attended in person or by telephone. Each Independent Director is also a member of the Audit Committee and receives a fee of \$500 per meeting attended. No retirement benefits are received by any Director from the Funds. These fees are paid by The Needham Funds, Inc.

For the fiscal year ended December 31, 2019, the Directors received the following compensation from The Needham Funds, Inc.:

<b>Director</b>	<b>Aggregate Compensation from Registrant</b>	<b>Pension or Retirement Benefits Accrued As Part of Fund Expenses</b>	<b>Estimated Annual Benefits upon Retirement</b>	<b>Total Compensation from Registrant &amp; Fund Complex</b>
<b>Interested Director</b>				
George A. Needham	\$0	\$0	\$0	\$0
<b>Independent Directors</b>				
John W. Larson	\$15,000	\$0	\$0	\$15,000
F. Randall Smith	\$15,000	\$0	\$0	\$15,000

The officers of the Funds receive no compensation from The Needham Funds, Inc. for the performance of any duties with respect to the Funds.

### ***Proxy and Corporate Action Voting Policies and Procedures***

The Funds have adopted Proxy and Corporate Action Voting Policies and Procedures that govern the voting of proxies for securities held by the Funds. The Board has delegated to the Adviser full authority to vote proxies or act with respect to other shareholder actions on behalf of each Fund. The Adviser's primary consideration in voting proxies is the best interest of each Fund. The proxy voting procedures address the resolution of potential conflicts of interest and circumstances under which the Adviser will limit its role in voting proxies. Where a proxy proposal raises a material conflict between the Adviser's interests and a Fund's interests, the Adviser will resolve the conflict by following the policy guidelines. The proxy voting guidelines describe the Adviser's general position on proposals. The Adviser will generally vote for board approved proposals but will vote on a case-by-cases basis on board approved proposals relating to significant corporate transactions. The Adviser will vote on a case-by-case basis on all shareholder proposals. The Adviser will vote proxies of foreign issuers in accordance with the guidelines with a view toward enhancing corporate governance. Information regarding how the Funds voted proxies relating to portfolio securities during the most recent 12-month period ended June 30 is available on the SEC's website at [www.sec.gov](http://www.sec.gov), on the Funds' website at [www.needhamfunds.com](http://www.needhamfunds.com), or without charge, upon request by contacting the Funds' administrator, U.S. Bancorp Fund Services, LLC, P.O. Box 701, Milwaukee, WI 53201-0701 or by calling 1-800-625-7071.

### ***Codes of Ethics***

The Board and the Distributor have adopted a Code of Ethics pursuant to Rule 17j-1 under the 1940 Act. In addition, the Adviser has adopted a Code of Ethics which has been approved by the Board in accordance with standards set forth under the 1940 Act. Directors and employees of The Needham Funds, Inc., the Adviser and the Distributor are permitted to engage in personal securities transactions subject to the restrictions and procedures contained in the codes of ethics which were adopted by the Boards, the Adviser and the Distributor, as applicable, pursuant to federal securities laws. Each code of ethics is filed as an exhibit to the Funds' Registration Statement and available to the public.

## PURCHASE, REDEMPTION AND CONVERSION OF SHARES

Information relating to the purchase, redemption and conversion of shares of the Funds is located in the Prospectus.

### NET ASSET VALUE

The net asset value per share of each Fund will be determined on each day when the New York Stock Exchange (the “Exchange”) is open for regular business, generally as of the close of regular session trading on the Exchange (usually 4:00 p.m., Eastern Time, the “Regular Closing Time”). When trading on the Exchange is unexpectedly closed prior to the Regular Closing Time, or an earlier scheduled close (such as on certain days around holidays when the Exchange is scheduled to close before 4:00 p.m.), and remains closed through the time of the Regular Closing Time (or an earlier scheduled close), the net asset value per share of each class of a Fund may nonetheless be calculated as of the Regular Closing Time (or an earlier scheduled close) if, in the judgment of the Adviser, there is sufficient trading in other markets between the unexpected close and the Regular Closing Time (or an earlier scheduled close) for securities for which the Exchange is usually considered the primary market. The net asset value per share of each Fund will be computed by determining the aggregate market value of all assets of each class of a Fund less its liabilities, and then dividing that number by the total number of shares of the Fund outstanding. The determination of net asset value for a particular day is applicable to all applications for the purchase of shares as well as all requests for the redemption of shares received before the time at which net asset value is determined on that day. Shares of the Funds are sold at the public offering price which is determined once each day the Funds are open for business and is the net asset value per share. Each Fund may change the time at which the price of its shares is determined if the Exchange closes at a different time or an emergency or other extraordinary situation exists.

Portfolio securities positions for which market quotations are readily available are stated at the last sale price reported by the principal exchange for each such security as of the exchange’s close of business, as applicable. Securities for which no sale has taken place during the day and securities which are not listed on an exchange are valued at the mean of the highest closing bid and lowest asked prices. Foreign market closing prices are translated into U.S. dollar values at the mean of the bid and asked prices for the particular foreign currency as quoted on the valuation date. The value of a financial futures contract equals the unrealized gain or loss on the contract that is determined by marking it to the current settlement price for a like contract acquired on the day on which the commodity futures contract is being valued. A settlement price may not be used if the market makes a limit move with respect to the financial futures contract. In cases where securities are traded on more than one exchange, the securities are valued on the exchange designated by or under the authority of the Board as the primary market.

Short-term investments denominated in U.S. dollars that will mature in 60 days or less are stated at amortized cost; short-term investments denominated in foreign currencies are stated at amortized cost as determined in the foreign currency, translated to U.S. dollars at the current day’s exchange rate. All other securities for which market prices are not “readily available” are valued at their fair value in accordance with Fair Value Procedures established by the Board. The Fund’s Fair Value Procedures are implemented and monitored by the Valuation Committee of the Adviser (the “Committee”), which meets periodically and operates under procedures approved by the Board. When a security is valued in accordance with the Fair Value Procedures, the Committee determines a value after taking into consideration any relevant information that is reasonably available to the Committee. The Committee’s valuation determinations are reviewed by the Board. Some of the more common reasons that may necessitate that a security be valued pursuant to these Fair Value Procedures include, but are not limited to: the security’s trading has been halted or suspended; the security has been de-listed from a national exchange; the security’s primary trading market is temporarily closed at a time when under normal conditions it would be open; or the security’s primary pricing source is not able or willing to provide a price. The assets of each Fund may also be valued on the basis of valuations provided by pricing services approved by the Board.

Generally, trading in foreign securities and futures contracts, as well as corporate bonds, U.S. government securities and money market instruments, is substantially completed each day at various times prior to the close of the Exchange. The values of such securities used in determining the net asset value of the shares of the Funds may be computed as of such times. Foreign currency exchange rates are also generally determined prior to the close of the Exchange. Occasionally, events affecting the value of such securities and such exchange rates may occur between such times and the close of the Exchange which will not be reflected in the computation of each Fund’s net asset value. If

events materially affecting the value of such securities occur during such period, then these securities will be valued at their fair market value as described in the preceding paragraph.

## **TAX-ADVANTAGED RETIREMENT PLANS**

Certain tax-advantaged retirement plans are available through which shares may be purchased, including IRAs (and “rollovers” from existing retirement plans) for individuals and their spouses, SEP-IRAs and Roth IRAs. Shares of the Funds may also be purchased by Qualified Retirement Plans, such as profit-sharing and money purchase plans, 401(k) Plans and other Defined Contribution Plans and by Defined Benefit Plans. Persons who wish to establish a tax-advantaged retirement plan should consult their own tax advisers or attorneys regarding their eligibility to do so and the laws applicable thereto, such as the fiduciary responsibility provisions and diversification requirements and the reporting and disclosure obligations under the Employee Retirement Income Security Act of 1974. The Funds are not responsible for compliance with such laws. Further information regarding the retirement plans, including applications and fee schedules, may be obtained upon request to the Funds.

## **TAXES**

### ***Taxation of the Funds – In General***

Each Fund intends to remain qualified each year as a “regulated investment company” under Subchapter M of the United States Internal Revenue Code of 1986, as amended (the “Code”), so long as doing so remains in the best interests of its shareholders. To so qualify, each Fund, among other things, must (i) derive at least 90% of its gross income from dividends, interest, payments with respect to securities loans, gains from the sale or other disposition of stock, securities or foreign currencies, or certain other income (including gains from options, futures or forward contracts) derived with respect to its business of investing in such stock, securities or currencies; and (ii) pursuant to Section 851(b)(3) of the Code (a) at the close of each quarter of the taxable year, have at least 50% of the value of the Fund’s assets represented by cash, U.S. government securities and other securities limited in respect of any one issuer to an amount not greater than 5% of the value of the Fund’s assets and 10% of the outstanding voting securities of such issuer, and (b) not have more than 25% of the value of its assets invested in the securities of any one issuer (other than U.S. government securities and the securities of other regulated investment companies).

In addition, each Fund must satisfy the distribution requirements of the Code, including the requirement that it distribute at least 90% of its “investment company taxable income” annually. By qualifying as a regulated investment company, the Funds will not be subject to Federal income tax on their investment company taxable income and net capital gain that it distributes to shareholders. However, if for any taxable year a Fund does not satisfy the requirements of Subchapter M of the Code, all of its taxable income will be subject to tax at regular corporate rates without any deduction for distributions to shareholders, and such distributions will be taxable to shareholders as ordinary dividend income to the extent of the Fund’s current or accumulated earnings or profits.

Each Fund will be liable for a non-deductible 4% excise tax on amounts not distributed on a timely basis in accordance with a calendar year distribution requirement. To avoid the tax, during each calendar year each Fund must distribute (i) at least 98% of its ordinary income realized during such calendar year, (ii) at least 98.2% of its capital gain net income for the twelve month period ending on October 31 (or December 31, if the Fund so elects), and (iii) any income or gain from the prior year that was neither distributed to shareholders nor taxed to the Fund for such year. The Funds intend to make sufficient distributions to avoid this 4% excise tax.

As long as each Fund qualifies as a regulated investment company for U.S. Federal income tax purposes and distributes all of its investment company taxable income and net capital gain, it will not be subject to any corporate tax in the State of Maryland and generally will also not be liable for New York State income taxes, other than a nominal corporation franchise tax (as adjusted by the applicable New York State surtaxes).

### ***Capital Loss Carry-Forwards***

A Fund is permitted to carry forward a net capital loss attributable to tax years that began before December 22, 2010 to offset its capital gains, if any, realized during the eight years following the year of the loss. A Fund is permitted to carry forward indefinitely a net capital loss attributable to taxable years that began after December 22, 2010 to offset future capital gains of the Fund, and such loss retains its character as either short-term or long-term. Pursuant to a new ordering rule, however, net capital losses incurred in taxable years of the Fund beginning before December 22, 2010 may not be used to offset the Fund's future capital gains until all net capital losses incurred in taxable years of the Fund beginning after December 22, 2010 have been utilized. As a result, certain net capital losses incurred in taxable years of the Fund beginning before December 22, 2010 may expire unutilized, even while future, unrestricted capital losses may be required to be utilized first against capital gains in future years.

If future capital gains are offset by carried forward capital losses, such future capital gains are not subject to Fund-level federal income taxation, regardless of whether they are distributed to shareholders. Additionally, any future capital gains offset by carried forward capital losses would generally be treated as ordinary dividends (rather than capital gains dividends) to shareholders. Accordingly, the Funds do not expect to distribute such capital gains. The Funds cannot carry back or carry forward any net operating losses.

Any losses incurred in the taxable year subsequent to October 31 ("post-October capital loss") will be deferred to the next taxable year and used to reduce subsequent year distributions. As of December 31, 2019, the Funds did not have any accumulated capital loss carryovers.

### ***Taxation of the Funds' Investments***

Ordinarily, gains and losses realized from portfolio transactions are treated as capital gains or losses. However, all or a portion of the gain or loss from the disposition of non-U.S. dollar denominated securities (including debt instruments, certain financial forward, futures and option contracts, and certain preferred stock) may be treated as ordinary income or loss under Section 988 of the Code. In addition, all or a portion of the gain realized from the disposition of market discount bonds is treated as ordinary income under Section 1276 of the Code. Generally, a market discount bond is defined as any bond bought by a Fund after its original issuance at a price below its principal amount. In addition, all or a portion of the gain realized from engaging in "conversion transactions" is treated as ordinary income under Section 1258 of the Code. "Conversion transactions" are defined to include certain forward, futures, option and straddle transactions, transactions marketed or sold to produce capital gains, or transactions described in applicable Treasury regulations. Also, gains or losses attributable to fluctuations in foreign currency exchange rates which occur between the time a Fund accrues income or other receivables or accrues expenses or other liabilities denominated in a foreign currency and the time a Fund actually collects such receivables or pays such liabilities generally are treated as ordinary income or ordinary loss.

Under Section 1256 of the Code, any gain or loss a Fund realizes from certain futures or forward contracts and options transactions is treated as 60% long-term capital gain or loss and 40% short-term capital gain or loss. Absent an election to the contrary, gain or loss arises upon exercise or lapse of such contracts and options as well as from closing transactions. In addition, any such contracts or options remaining unexercised at the end of the Fund's taxable year are treated as sold for their then fair market value, resulting in additional gain or loss to the Fund characterized in the manner described above.

Offsetting positions held by a Fund involving certain financial forward, futures or options contracts (including certain foreign currency forward contracts or options) may constitute “straddles.” “Straddles” are defined to include “offsetting positions” in actively traded personal property. The tax treatment of “straddles” is governed by Sections 1092 and 1258 of the Code, which, in certain circumstances, override or modify the provisions of Sections 1256 and 988 of the Code. If a Fund was treated as entering into “straddles” by reason of its engaging in certain forward contracts or options transactions, such “straddles” generally would be characterized as “mixed straddles” if the forward contracts or options transactions comprising a part of such “straddles” were governed by Section 1256 of the Code. However, a Fund may make one or more elections with respect to “mixed straddles.” Depending on which election is made, if any, the results to that Fund may differ. If no election is made, to the extent the “straddle” rules apply to positions established by that Fund, losses realized by that Fund will be deferred to the extent of unrealized gain in the offsetting position. Moreover, as a result of the “straddle” rules, short-term capital losses on “straddle” positions may be recharacterized as long-term capital losses, and long-term capital gains may be treated as short-term capital gains or ordinary income.

If a Fund makes a “constructive sale” of an “appreciated financial position,” the Fund will recognize gain but not loss as if the position were sold at fair market value on the date of such constructive sale. Constructive sales include short sales of substantially identical property, offsetting notional principal contracts with respect to substantially identical property and futures and forward contracts to deliver substantially identical property. However, transactions that otherwise would be treated as constructive sales are disregarded if closed within 30 days after the close of the taxable year and that Fund holds the position and does not hedge such position for 60 days thereafter. In addition, to the extent provided in regulations (which have not yet been promulgated), a constructive sale also occurs if a taxpayer enters into one or more other transactions (or acquires one or more positions) that have “substantially the same effect” as the transactions described above. Appreciated financial positions include positions with respect to stock, certain debt instruments or partnership interests if gain would be recognized on a disposition at fair market value. If the constructive sale rules apply, adjustments are made to the basis and holding period of the affected financial position, and a Fund would recognize gain but would not have cash available to make distributions. Accordingly, the gain realized under the constructive sale provisions would impact the amount of distributions required by that Fund so as to avoid the imposition of the 4% excise tax.

The Funds may invest in non-U.S. corporations that could be classified as “passive foreign investment companies” as defined for federal income tax purposes. For federal income tax purposes, such an investment may, among other things, cause the Funds to recognize income or gain without a corresponding receipt of cash, to incur an interest charge on taxable income that is deemed to have been deferred and/or to recognize ordinary income that would otherwise have been treated as capital gain.

### ***Taxation of the Shareholders***

Distributions of net investment income and the excess of net short-term capital gain over net long-term capital loss generally are taxable as ordinary income to shareholders. A Fund may also make distributions of net capital gain (the excess of net long-term capital gain over net short-term capital loss). In general, a non-corporate shareholder’s net capital gains will be taxed at a maximum rate of 20%. A Fund will provide information relating to the portions of any net capital gain distribution that may be treated by non-corporate shareholders as eligible for the maximum long-term capital gains rate. Such treatment would apply regardless of the length of time the shares of that Fund have been held by such shareholders. Distributions of net investment income and net capital gains are taxable as described above whether received in cash or reinvested in additional shares.

Under current law, “qualified dividend income” received by non-corporate shareholders from certain domestic and foreign corporations may be taxed at the same rates as long-term capital gains. Because the Funds intend to invest in common stocks, a portion of the ordinary income dividends paid by the Funds should be eligible for this reduced rate, provided the Funds satisfy certain requirements including holding period limitations. A shareholder would also have to satisfy a 61-day holding period with respect to any distribution of qualifying dividends in order to obtain the benefit of the lower rate.

In addition, a 3.8% Medicare tax is imposed on the “net investment income” of certain U.S. individuals, estates and trusts. For this purpose, “net investment income” generally includes taxable dividends and redemption proceeds from investments in regulated investment companies such as the Funds.

Dividends from domestic corporations may comprise some portion of a Fund's gross income. To the extent that such dividends constitute a portion of a Fund's gross income, a portion of the income distributions received by corporations from a Fund may be eligible for the 70% deduction for dividends received. Taxable corporate shareholders will be informed of the portion of dividends which so qualify. Receipt of dividends that qualify for the dividends-received deduction may result in the reduction of a corporate shareholder's tax basis in its shares by the untaxed portion of such dividends if they are treated as "extraordinary dividends" under Section 1059 of the Code. The dividends-received deduction is reduced to the extent the shares of a Fund with respect to which the dividends are received are treated as debt-financed under Federal income tax law and is eliminated if the shares are deemed to have been held for less than 46 days (91 days for preferred stock) during the 90-day period (180-day period for preferred stock) beginning on the date which is 45 days (90 days for preferred stock) before the ex-dividend date (for this purpose, holding periods are reduced for periods where the risk of loss with respect to shares is diminished). The same restrictions apply to a Fund with respect to its ownership of the dividend-paying stock. In addition, the deducted amount is included in the calculation of the Federal alternative minimum tax, if any, applicable to such corporate shareholders. In contrast, distributions of net capital gains are not eligible for the dividends-received deduction for corporate shareholders.

Distributions by a Fund result in a reduction in the net asset value of that Fund's shares. Should a distribution reduce the net asset value below a shareholder's tax basis, such distribution nevertheless is taxable to the shareholder as ordinary income or long-term capital gain as described above, even though, from an investment standpoint, it may constitute a partial return of capital. In particular, investors should be careful to consider the tax implications of buying shares just prior to a distribution. The price of shares purchased at that time includes the amount of any forthcoming distribution. Those investors purchasing shares just prior to a distribution receive a return of investment upon such distribution which is nevertheless taxable to them.

A redemption of Fund shares by a shareholder generally will result in the recognition of taxable gain or loss depending upon the difference between the amount realized and his tax basis in his Fund shares. Generally, such gain or loss is treated as a capital gain or loss if the shares are held as capital assets. In the case of a non-corporate shareholder, if such shares were held for more than one year at the time of disposition, such gain will be long-term capital gain and if such shares were held for one year or less at the time of disposition, such gain will be short-term capital gain and will be taxed at the applicable ordinary income tax rate. In addition, as noted above, for U.S. individuals, estates and trusts, any capital gains recognized from a redemption of Fund shares generally will be included in the calculation of "net investment income" subject to the 3.8% Medicare tax. Any loss realized upon a taxable disposition of shares within six months from the date of their purchase is treated as a long-term capital loss to the extent of long-term capital gain distributions received from a Fund during such six-month period. Finally, all or a portion of any loss realized upon a taxable disposition of a Fund's shares may be disallowed if other shares of the same Fund are purchased (including a purchase by automatic reinvestment) within 30 days before or after such disposition. In such a case, the tax basis of the shares acquired is adjusted to reflect the disallowed loss.

Taxation of a shareholder who, as to the U.S., is a nonresident alien individual, foreign trust or estate, foreign corporation or foreign partnership (a "Foreign Shareholder"), as defined in the Code, depends, in part, on whether the Foreign Shareholder's income from a Fund is "effectively connected" with a U.S. trade or business carried on by such shareholder.

If the income from a Fund is not effectively connected with a U.S. trade or business carried on by the Foreign Shareholder, Fund distributions other than net capital gain distributions and distributions not out of earnings and profits generally are subject to a 30% (or lower treaty rate) U.S. withholding tax. Net capital gain distributions to, and capital gains realized by, such a Foreign Shareholder upon the sale of shares or receipt of distributions which are in excess of its tax basis and not made from earnings and profits are not subject to U.S. federal income tax unless (i) such capital gains are effectively connected with a U.S. trade or business carried on by such shareholder or (ii) the Foreign Shareholder is an individual and is present in the U.S. for 183 days or more during the taxable year in which the gain was realized, and certain other conditions are satisfied. A Foreign Shareholder will be required to satisfy certification requirements in order to claim treaty benefits or otherwise claim a reduction of or exemption from withholding under the foregoing rules. These requirements will require identification of the Foreign Shareholder and must be made under penalties of perjury. A Foreign Shareholder that is eligible for a reduced rate of U.S. withholding tax pursuant to a tax treaty may obtain a refund of any excess amounts withheld by filing an appropriate claim for refund with the IRS.

If dividends or distributions from a Fund are effectively connected with a U.S. trade or business carried on by the Foreign Shareholder, then Fund distributions and any gains realized with respect to the shares are subject to U.S. federal income tax at the rates applicable to U.S. citizens or residents or domestic corporations, as appropriate. Foreign Shareholders that are corporations may also be subject to an additional “branch profits tax” with respect to income from a Fund that is effectively connected with a U.S. trade or business. The value of shares held by an individual Foreign Shareholder, even though he is a nonresident at his death, is includible in his gross estate for U.S. Federal estate tax purposes.

The tax consequences to a Foreign Shareholder entitled to claim the benefits of an applicable tax treaty may be different from those described above. Such shareholders may be required to provide appropriate documentation to establish their entitlement to the benefits of such a treaty. Foreign Shareholders are advised to consult their own tax advisers with respect to (i) whether their income from a Fund is or is not effectively connected with a U.S. trade or business carried on by them, (ii) whether they may claim the benefits of an applicable tax treaty, and (iii) any other tax consequences to them of an investment in that Fund.

Federal regulations generally require a Fund to withhold (“backup withholding”) and remit to the U.S. Treasury 24% of dividends, distributions from net realized securities gains and the proceeds of any redemption paid to shareholders, regardless of the extent to which gain or loss may be realized, if (i) the shareholder fails to furnish the Funds with the shareholder’s correct taxpayer identification number or social security number, (ii) the IRS notifies the shareholder or the Funds that the shareholder has failed to report properly certain interest and dividend income to the IRS and to respond to notices to that effect, or (iii) when required to do so, the shareholder fails to certify that he or she is not subject to backup withholding. Any amounts withheld may be credited against the shareholder’s federal income tax liability. The Funds must also report annually to the IRS and to each shareholder (other than a Foreign Shareholder) the amount of ordinary income dividends, capital gain dividends or redemption proceeds paid to such shareholder and the amount, if any, of tax withheld pursuant to the backup withholding rules with respect to such amounts. In the case of a Foreign Shareholder, the Funds must report to the IRS and such shareholder the amount of ordinary income dividends, capital gain dividends or redemption proceeds paid that are subject to withholding (including backup withholding, if any) and the amount of tax withheld with respect to such amounts. This information may also be made available to the tax authorities in the Foreign Shareholder’s country of residence.

Pursuant to legislation passed by Congress in 2008, the Funds are required to report their shareholders’ cost basis, gain or loss, and holding period to the Internal Revenue Service on the Consolidated Form 1099 provided to the shareholders of the Funds when “covered” shares of the Funds are redeemed. Covered shares are any shares acquired (including shares acquired through reinvestment of the Funds’ distributions) on or after January 1, 2012. Each of the Funds has chosen the “average cost” method as its default tax method. The Funds will use this method for purposes of reporting a shareholder’s cost basis unless a shareholder instructs the relevant Fund in writing to use a different calculation method. A shareholder may choose a method different from the default method chosen by the Funds at the time of purchase or sale of covered shares. Shareholders should consult their tax advisors with regard to their particular circumstances.

### ***The Hiring Incentives to Restore Employment Act***

Under the Foreign Account Tax Compliance Act provisions enacted as part of The Hiring Incentives to Restore Employment Act, P.L. 111-147 (the “HIRE Act”), a 30% withholding tax will be imposed on dividends paid by a Fund, and on long-term capital gain dividends and redemption proceeds paid after December 31, 2016, to: (i) a foreign financial institution (as that term is defined in Section 1471(d)(4) of the Code) unless that foreign financial institution enters into an agreement with the U.S. Treasury Department to collect and disclose information regarding U.S. account holders of that foreign financial institution (including certain account holders that are foreign entities that have U.S. owners) and satisfies other requirements; and (ii) specified other foreign entities unless such entity certifies that it does not have any substantial U.S. owners or provides the name, address and taxpayer identification number of each substantial U.S. owner and such entity satisfies other specified requirements. To comply with these requirements, a Fund may, in appropriate circumstances, require shareholders to provide information and tax documentation regarding their direct and indirect owners, and direct and indirect owners of certain entity shareholders may be required to waive the application of any non-U.S. laws which, but for such waiver, would prevent such entity from reporting information in respect of U.S. accounts in accordance with the applicable provisions of the HIRE Act or any agreement described in Section 1471(b) of the Code. The HIRE Act also imposes information reporting requirements on individuals (and, to the extent provided in future regulations, certain domestic entities) that hold any interest in a “specified foreign financial asset”

if the aggregate value of all such assets held by such individual exceeds \$50,000. Significant penalties can apply upon a failure to make the required disclosure and in respect of understatements of tax attributable to undisclosed foreign financial assets. The scope of this reporting requirement is not entirely clear and all shareholders should consult their own tax advisors as to whether reporting may be required in respect of their indirect interests in certain investments of a Fund. Foreign Shareholders should consult their own tax advisors regarding the application of this legislation to them.

### ***Transfer on Death Registration***

The Funds generally permit transfer on death (“TOD”), registration of shares, so that on the death of the shareholder the shares are transferred to a designated beneficiary or beneficiaries. If you wish to register your account in the name of one or more beneficiaries for the purpose of transferring the account upon your death, you may do so by completing a TOD Agreement and Beneficiary Designation. To obtain a TOD Agreement and Beneficiary Designation, please contact Shareholder Services at 1-800-625-7071 or you may download a copy at [www.needhamfunds.com](http://www.needhamfunds.com). With the TOD Agreement and Beneficiary Designation you will receive a copy of the Rules Governing TOD Registration which specify how the registration becomes effective and operates. By registering your account, you agree to be bound by these rules.

The foregoing discussion is a general summary of certain of the current federal income tax laws affecting the Funds and investors in the shares. This summary is based on the provisions of the Code, final, temporary and proposed U.S. Treasury Regulations promulgated thereunder, and administrative and judicial interpretations thereof, all as in effect on the date hereof, and all of which are subject to change, possibly with retroactive effect. Accordingly, shareholders should consult their tax advisers about the application of the provisions of tax law described in this Statement of Additional Information in light of their particular tax situations, as well as the effects of state, local and foreign tax law. Foreign Shareholders should also consult their tax advisers with respect to the applicability of a 30% withholding tax (which may be reduced or eliminated under certain income tax treaties) upon Fund distributions of ordinary income.

## **ORGANIZATION AND CAPITALIZATION**

### ***General***

The Needham Funds, Inc. was incorporated in Maryland on October 12, 1995 and is registered with the SEC under the 1940 Act as an open-end management investment company. The business and affairs of The Needham Funds, Inc. are managed under the direction of its Board. Needham Investment Management LLC, the investment adviser of the Funds, is an affiliate of Needham & Company, LLC, which is wholly-owned by Needham Holdings, LLC (which in turn is wholly-owned by the parent holding company, The Needham Group, Inc.).

The authorized capital stock of The Needham Funds, Inc. consists of one billion shares of common stock having a par value of one-tenth of one cent (\$0.001) per share. The Board is authorized to divide the unissued shares into separate classes and series of stock, each series representing a separate, additional investment portfolio. The Needham Funds, Inc. is currently comprised of three portfolios, Needham Growth Fund, Needham Aggressive Growth Fund and Needham Small Cap Growth Fund, each of which is designated as a separate series of stock. On November 3, 2016, the shares of each Fund were designated as Retail Class shares. On December 29, 2016, each Fund began offering Institutional Class shares. Each share of any class or series of shares when issued has equal dividend, distribution, and liquidation rights within the series for which it was issued. Each share of a Fund is entitled to such dividends and distributions out of the income earned on the assets belonging to that Fund as are declared in the discretion of the Board.

There are no preemptive or, except as described in the Prospectus, conversion rights in connection with any shares of the Funds, and the shares are freely transferable. All shares, when issued and paid for in accordance with the terms of the offering, will be fully paid and non-assessable. Shares are redeemable at net asset value, at the option of the investor. In the event of liquidation of a particular series, the shareholders of the series being liquidated shall be entitled to receive the excess of the assets belonging to that series over the liabilities belonging to that series. The holders of any shares of any series shall not be entitled thereby to any distribution upon liquidation of any other series.

Each share of the Funds shall have equal voting rights with every other share of every other series of The Needham Funds, Inc. and all shares of all such series shall vote as a single group except where a separate vote of any class or series is required by the 1940 Act, the laws of the State of Maryland, the Articles of Incorporation of The Needham Funds, Inc. or as the Board may determine in its sole discretion. Fractional shares shall be entitled to fractional votes.

Maryland law does not require annual meetings of shareholders, except under certain specified circumstances, and it is anticipated that shareholder meetings will be held only when required by Federal or Maryland law. Shareholders do have the right under the Articles of Incorporation to call a vote for the removal of directors. The Needham Funds, Inc. will be required to call a special meeting of shareholders in accordance with the requirements of the 1940 Act.

### ***Control Persons and Principal Holders of Securities***

A principal shareholder is any person who owns of record or beneficially 5% or more of the outstanding shares of a Fund. A control person is one who owns beneficially or through controlled companies more than 25% of the voting securities of a company or acknowledges the existence of control.

As of April 1, 2020, to the knowledge of management, the following persons held of record or beneficially owned 5% or more of the Growth Fund's outstanding common stock:

#### **Retail Class**

<b>Name and Address</b>	<b>Percent Held</b>	<b>Nature of Ownership</b>
National Financial Services Corp. 200 Liberty Street New York, NY 10281	28.42%	Record
Charles Schwab & Co., Inc. 211 Main Street San Francisco, CA 94105-1905	26.62%	Record
TD Ameritrade Inc. P.O. Box 2226 Omaha, NE 68103-2226	6.56%	Record

#### **Institutional Class**

<b>Name and Address</b>	<b>Percent Held</b>	<b>Nature of Ownership</b>
National Financial Services Corp. 200 Liberty Street New York, NY 10281	27.81%	Record
George A. Needham New York, NY 10177-1099	16.64%	Beneficial
Pershing LLC 1 Pershing Plaza, Floor 14 Jersey City, NJ 07399-2052	7.24%	Record
Cormorant Cove Trust Richard C. Wallace TR Middletown, RI 02842-5730	5.61%	Beneficial

As of April 1, 2020, to the knowledge of management, the following persons held of record or beneficially owned 5% or more of the Aggressive Growth Fund's outstanding common stock:

**Retail Class**

<b>Name and Address</b>	<b>Percent Held</b>	<b>Nature of Ownership</b>
National Financial Services Corp. 200 Liberty Street New York, NY 10281	39.81%	Record
Charles Schwab & Co., Inc. 211 Main Street San Francisco, CA 94105-1905	23.29%	Record
TD Ameritrade Inc. P.O. Box 2226 Omaha, NE 68103-2226	8.99%	Record

**Institutional Class**

<b>Name and Address</b>	<b>Percent Held</b>	<b>Nature of Ownership</b>
George A. Needham New York, NY 10177-1099	24.50%	Beneficial
Barrett Foundation Richard & Elaine Barrett TR Boulder, CO 80306-1701	11.82%	Beneficial
National Financial Services Corp. 200 Liberty Street New York, NY 10281	11.76%	Record
Steven B. Thorton Trust of 1990 La Jolla, CA 92037-3542	10.09%	Beneficial
Pershing LLC 1 Pershing Plaza, Floor 14 Jersey City, NJ 07303	8.74%	Record
Charles Schwab & Co., Inc. 211 Main Street San Francisco, CA 94105-1905	8.25%	Record

As of April 1, 2020, to the knowledge of management, the following persons held of record or beneficially owned 5% or more of the Small Cap Growth Fund's outstanding common stock:

**Retail Class**

<b>Name and Address</b>	<b>Percent Held</b>	<b>Nature of Ownership</b>
National Financial Services Corp. 200 Liberty Street New York, NY 10281	51.61%	Record
Charles Schwab & Co., Inc. 211 Main Street San Francisco, CA 94105-1905	25.22%	Record
TD Ameritrade Inc. P.O. Box 2226 Omaha, NE 68103-2226	15.40%	Record

**Institutional Class**

<b>Name and Address</b>	<b>Percent Held</b>	<b>Nature of Ownership</b>
National Financial Services Corp. 200 Liberty Street New York, NY 10281	28.31%	Record
Charles Schwab & Co., Inc. 211 Main Street San Francisco, CA 94105-1905	15.72%	Record
Constantine S. Macricostas Jupiter, FL 33458-3449	10.43%	Beneficial
Wells Fargo Clearing Services, LLC 1 N. Jefferson Ave. Saint Louis, MO 63103-2254	8.55%	Record
Pershing LLC 1 Pershing Plz Fl 14 Jersey City, NJ 07399-2052	7.54%	Record
Steven B. Thorton Trust of 1990 La Jolla, CA 92037-3542	6.66%	Beneficial
Benefit Trust Company P.O. Box 12765 Overland Park, KS 66282-2765	6.40%	Record

As of March 31, 2020, the Directors and officers of The Needham Funds, Inc. as a group owned approximately 8.31% of the outstanding shares of the Growth Fund, approximately 14.80% of the outstanding shares of the Aggressive Growth Fund and approximately 1.72% of the outstanding shares of the Small Cap Growth Fund.

## OTHER INFORMATION

### Legal Counsel

Proskauer Rose LLP serves as legal counsel for the Funds and the Funds' Independent Directors.

### Independent Registered Public Accounting Firm

KPMG LLP serves as the independent registered public accounting firm for the Funds. KPMG LLP provides audit services, tax return preparation and assistance, and consultation in connection with certain SEC filings. Its office is located at 345 Park Avenue, New York, New York 10154.

## FINANCIAL STATEMENTS

The financial statements of each of the Funds for the fiscal year ended December 31, 2019, appearing in the [Funds' Annual Report to Shareholders](#), have been audited by KPMG LLP and are incorporated by reference herein. A copy of the Funds' Annual Report may be obtained without charge from U.S. Bancorp Fund Services by calling 1-800-625-7071.