

## MARKET REVIEW

- U.S. markets moved sharply (although not broadly) higher from March lows in response to dramatic fiscal and monetary action.
- Social distancing drove very rapid business model change, rewarding companies that support virtual work, and harming service and high contact businesses.
- COVID-19 put enormous physical and economic strain on healthcare systems and providers, while healthcare solutions providers with exposure to diagnostics and vaccine development were embraced.

## PORTFOLIO REVIEW

- The Fund's Institutional (NESIX) and Retail classes (NESGX) returned 34.92% and 34.72%, respectively, in 2Q20, outperforming the Russell 2000's 25.42% results. YTD as of June 30, NESIX returned 14.87% and NESGX returned 14.50%, considerably outperforming the Russell 2000's -12.98% YTD results.
- Overweights in information technology and underweights in retail, financials, energy and utilities were all contributors to performance.
- Specific tech/software stocks accelerated due to the remote work transformation that will continue to drive investment in technology hardware, software and services.
- The Fund's top two contributors were GenMark Diagnostics, Inc. (GNMK) and MaxLinear, Inc. (MXL). GenMark's equipment and testing supplies were in high demand from healthcare facilities during the crisis. MaxLinear's stock recovered after announcing its intent to acquire certain Intel (INTC) assets; it also saw stronger demand for its connectivity and wireless products.

TOP TEN HOLDINGS	% OF NET ASSETS
FireEye, Inc.	5.99%
MaxLinear, Inc.	5.59%
Limelight Networks, Inc.	4.90%
8x8, Inc.	4.17%
Infinera Corp.	3.77%
Cambium Networks Corp.	3.62%
Mimecast Ltd.	3.62%
Pluralsight, Inc.	3.39%
AXT, Inc.	3.37%
Super Micro Computer, Inc.	3.29%
<b>Total</b>	<b>41.71%</b>

## OUTLOOK

- Data infrastructure delivery systems are experiencing heavy utilization, which requires investment and optimization to expand capacity for this increased demand; we see this as an acceleration within a long-term trend not yet fully recognized by the market.
- We continue to seek investments in communications infrastructure, data center content, 5G devices and infrastructure, military modernization, software and security and specialty material manufacturers, as interest in new U.S.-based semiconductor factories grows, and new material composites show broad industry promise for improvements in form factor, weight, durability, and safety. Note here our interest in diversification across end-users, not just sector representation within the portfolio.
- Markets are extended, and while economic activity has bottomed, it has not normalized. We anticipate the uncertainty of COVID-19 will cause volatile markets, likely to trade within a range generally responsive to health-related news and, over a longer period, specifically beneficial for that subset of businesses well-positioned for social and business model change. Thus, we will focus on finding those businesses likely to thrive during turmoil, while continuing to trade opportunistically.

## AVERAGE ANNUAL RETURNS AS OF 6/30/20

	3 MO	YTD	1YR	3YR	5YR	10YR	SINCE INCEPT.
Needham Small Cap Growth Fund Inst Class**	34.92%	14.87%	37.91%	21.30%	17.43%	13.95%	12.67%
After Taxes on Distributions	34.92%	14.87%	35.10%	17.08%	14.38%	12.01%	11.00%
After Taxes on Distributions & Redemptions	20.68%	8.80%	23.55%	14.94%	12.68%	10.82%	10.33%
Needham Small Cap Growth Fund Retail Class	34.72%	14.50%	37.05%	20.59%	16.77%	13.32%	12.06%
After Taxes on Distributions	34.72%	14.50%	34.20%	16.35%	13.72%	11.38%	10.39%
After Taxes on Distributions and Redemptions	20.55%	8.58%	23.06%	14.37%	12.13%	10.28%	9.78%
Russell 2000 Index	25.42%	-12.98%	-6.63%	2.01%	4.29%	10.50%	7.61%
S&P 500 Index	20.54%	-3.08%	7.51%	10.73%	10.73%	13.99%	7.64%

The Needham Small Cap Growth Fund inception date is 5/22/02.

\*\*Performance for any periods prior to the inception date of Institutional Class Shares are based on the historical performance of the Retail Class Shares adjusted to assume the expenses associated with Institutional Class Shares.

The Needham Small Cap Growth Fund's Gross Expense Ratio is 2.12% for the Retail Class and 1.88% for the Institutional Class. The Needham Small Cap Growth Fund's Net Expense Ratio is 1.90% for the Retail Class and 1.23% for the Institutional Class. The Net Expense Ratio reflects a contractual agreement by the Fund's investment adviser to waive its fee and/or reimburse the Fund through April 30, 2021 to the extent the Gross Expense Ratio exceeds 1.85% and 1.18% of the average daily net assets of Retail Class Shares and Institutional Class Shares (Expense Cap). The Expense Cap excludes taxes, interest, brokerage, dividends on short positions, fees and expenses of "acquired funds," extraordinary items and shareholder redemption fees but includes the management fee. Fact Sheet Link: [Needham Small Cap Growth Fund](#)

*The information presented in this commentary is not intended as personalized investment advice and does not constitute a recommendation to buy or sell a particular security or other investments.*

This message is not an offer of the Needham Growth Fund, the Needham Aggressive Growth Fund or the Needham Small Cap Growth Fund. Shares are sold only through the currently effective prospectus. Please read the prospectus or summary prospectus and consider the investment objectives, risks and charges and expenses of the Funds carefully before you invest. The prospectus and summary prospectus contain this and other information about the Funds and can be obtained on our website, [www.needhamfunds.com](http://www.needhamfunds.com).

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*All three of the Needham Funds have substantial exposure to small and micro capitalized companies. Funds holding smaller capitalized companies are subject to greater price fluctuation than those of larger companies.*

Needham & Company, LLC, member FINRA/SIPC, is the distributor of The Needham Funds, Inc.

Portfolio holdings are subject to change.

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