

3Q20 Quarterly Commentary

Portfolio Managers: Christopher J. Retzler

Investment Style: Small Cap Growth

MARKET REVIEW

- U.S. equities rallied for the second quarter in a row; S&P 500 returned 8.93% in 3Q20; Russell 2000 returned 4.93%. YTD at September 30, the S&P 500 returned 5.57%; Russell 2000 returned -8.69%.
- 3Q20 experienced significant improvement in economic activity and a recovery in the U.S. labor market. Companies were able to navigate and adapt business operations to the challenging environment. Investors are evaluating the sustainability of the stock market recovery and whether further fiscal stimulus will be required as the threat of a second wave of the virus increases.

PORTFOLIO REVIEW

- In 3Q20, Institutional (NESIX) and Retail classes (NESGX) returned 9.99% and 9.78%, respectively. YTD at September 30, NESIX returned 26.34% and NESGX 25.70%, considerably outperforming the S&P 500's 5.57% and Russell 2000's -8.69% YTD results.
- The Fund was recognized in the Wall Street Journal in July, August and September as a top-performing small cap fund. The Fund was also recognized earlier in the year with two Refinitiv Lipper 2020 Fund awards for delivering strong risk-adjusted returns over the 3 and 5 year time periods in the Small-Cap Core category. We are excited about these recognitions and appreciate the long-term support of our investors. Small cap investing requires committed capital with a longer investment horizon, and we believe patience pays off for those investors.
- The Fund's top 3Q20 contributions included Cambium Networks Corp. (CMBM), Aspen Aerogels, Inc. (ASPN), Fluidigm Corp. (FLDM), AXT, Inc. (AXTI) and FireEye, Inc. (FEYE). The Fund had no M&A announcements in 3Q20 as company managements evaluate the risk of closing and ability to integrate new acquisitions during the pandemic.
- We turned cautious on the markets during the summer and raised our cash position. Employing a flexible investment approach and disciplined risk management, we were rewarded as market volatility created opportunities to deploy capital, and we ended the quarter fully invested.
- Our long term relationships and due diligence process allowed us to remain confident in our best and most concentrated investments. We added to these positions on market pullbacks.

TOP TEN HOLDINGS	% OF NET ASSETS
Cambium Networks Corp.	7.19%
AXT, Inc.	5.67%
Limelight Networks, Inc.	5.10%
MaxLinear, Inc.	4.66%
Aspen Aerogels, Inc.	4.44%
Photronics, Inc.	4.35%
Infinera Corp.	4.26%
KVH Industries, Inc.	3.99%
Inseego Corp.	3.85%
ViaSat, Inc.	3.81%
Total	47.32%

OUTLOOK

- The U.S. election outcome will likely have significant implications for equity markets. However, an accommodative Federal Reserve continues to support the stock market and expanded multiple valuations.
- The technology sector remains strong, with major secular trends firmly in place to support continued growth. Industries and long-term themes we continue to like are semiconductors, semiconductor capital equipment, communications infrastructure, 5G devices, wireless connectivity, military modernization, software and security and specialty material manufacturing.
- Significant risks to company success and economic recovery that we continuously evaluate are: potential for a second wave of COVID-19; vaccine success and timing; increased COVID-19 testing; U.S. election outcomes; China trade policy and Huawei impacts; fiscal stimulus amount and timing; labor market strength.
- The automotive industry is experiencing a recovery, which benefits a vast supply chain and new technologies designed for new vehicles. Electric vehicles will continue to expand market share, which in turn expands traditional supply chain participants.

AVERAGE ANNUAL RETURNS AS OF 9/30/20

	3 MO	YTD	1YR	3YR	5YR	10YR	SINCE INCEPT.
Needham Small Cap Growth Fund Inst Class**	9.99%	26.34%	46.90%	22.78%	24.53%	13.37%	13.07%
After Taxes on Distributions	9.99%	26.34%	43.90%	18.51%	21.30%	11.44%	11.42%
After Taxes on Distributions & Redemptions	5.91%	15.59%	28.67%	15.95%	18.55%	10.23%	10.66%
Needham Small Cap Growth Fund Retail Class	9.78%	25.70%	45.90%	22.06%	23.82%	12.75%	12.45%
After Taxes on Distributions	9.78%	25.70%	42.86%	17.76%	20.58%	10.82%	10.81%
After Taxes on Distributions and Redemptions	5.79%	15.21%	28.10%	15.37%	17.95%	9.69%	10.11%
Russell 2000 Index	4.93%	-8.69%	0.39%	1.77%	8.00%	9.85%	7.71%
S&P 500 Index	8.93%	5.57%	15.15%	12.28%	14.15%	13.74%	8.53%

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](#) [Prospectus Link](#)

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

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

Investment returns and principal value will fluctuate, and when redeemed, shares may be worth more or less than their original cost. Performance data quoted represents past performance, and does not guarantee future results. Current performance may be higher or lower than these results. Performance current to the most recent month-end may be obtained by calling our transfer agent at 1-800-625-7071. Total return figures include reinvestment of all dividends and capital gains.

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

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

Portfolio holdings are subject to change. Needham Small Cap Growth Fund's ownership as a percentage of net assets in the stated securities as of 9/30/20: CMBM: 7.19%; ASPN: 4.44%; FLDM: 3.21%; AXTI: 5.67%; FEYE: 3.25%.

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