

MACRO OBSERVATIONS

- In 2Q21, the Russell 2000 returned 4.29%. Value stocks narrowly outperformed relative to growth, as the long end of the yield curve reversed its rapid and significant ascent in February and early March.



	RETURN
Needham Small Cap Growth Institutional	11.68
Russell 2000 Value	4.56
Russell 2000 Growth	3.92
Russell 2000	4.29

Source: Informa Intelligence, Inc.

- We believe accommodative Central Bank policies will continue. However, discussions began on tapering bond purchases. The balance between economic growth, inflation, and tapering will be an ongoing discussion and will create headline volatility.
- As world economies continue to reopen, we expect supply chains to remain volatile and challenging. Lowered predictability and disruptions of supply chains will have an impact on production levels to meet demand. We expect this to remain a risk for at least the next 12 months.
- Inflation risk remains, but the big question is whether inflation is short-term or more long-lasting. Currently, we believe near-term inflationary pressures will continue but that inflation will ultimately be transitory.

PORTFOLIO REVIEW

- In 2Q21, Institutional (NESIX) and Retail classes (NESGX) returned 11.68% and 11.51%, respectively, compared to the Russell 2000's 4.29%. After a volatile Q1, the Fund experienced a resurgence in many of its holdings.
- The Fund's top 2Q21 contributors included Aspen Aerogels (ASPN), Fluidigm (FLDM), ViewRay (VRAY), EMCORE Corp. (EMKR), and Cornerstone OnDemand, Inc. (CSOD).
- The technology sector continues to perform well and major secular trends remain in place to support its continued growth. Our investment focus remains on industries such as semiconductor manufacturing equipment, communications infrastructure, artificial intelligence, cloud computing, 5G devices, and wireless connectivity, software, and security.

PORTFOLIO REVIEW (continued)

- The Fund continued to benefit from its exposure to Materials manufacturers:
 - The Fund's third-largest holding, Aspen Aerogels (ASPN), manufactures aerogel-based insulation. In October, Aspen announced a contract to supply its Pyrothin thermal barriers to a major North American automobile manufacturer to prevent thermal runaway in Lithium-ion batteries for Electric Vehicles (EVs).
 - Long-time portfolio holding II-VI, Inc. (IIVI) is a leader in engineered materials for multiple end markets. II-VI is in process of acquiring Coherent, Inc. (COHR), a leading manufacturer of lasers, sensors, and optics. The acquisition will expand II-VI's capabilities in the industrial laser market.
 - Another long-term holding, AXT Industries (AXTI), develops substrate wafers from leading-edge materials for end markets such as 5G infrastructure, data center connectivity, LED lighting, lasers, sensors, power amplifiers for wireless devices and satellite solar cells. In April, AXT announced the shipment of its first 8" gallium arsenide substrates to a major customer and is predicting a broad scaling of demand for these wafers.

OUTLOOK

- The semiconductor industry continues to face supply shortages that impact a variety of end markets, and the demand for additional manufacturing capacity lends a significant tailwind to our portfolio. As of June 30, investments in semiconductor and semiconductor capital equipment companies were approximately one-fourth of the Fund's net assets.
- High-yield bonds are a key market indicator with similar characteristics to small-cap investing. Currently, these markets are calm and reassuring to our bullish investment outlook.
- Labor cost pressures, logistical transportation disruptions, and low supply chain inventory have been negative factors and are limiting the ability to fulfill orders, which in turn can impact a company's forward-looking revenue, margin, and earnings guidance. These supply constraints and wage pressures will lead to higher near-term inflation.
- We expect capital investment to increase over the next 12 months, which should help alleviate supply constraints; however, in the meantime inflationary pressures and execution risks are substantial. Semiconductor capital equipment makers will benefit from this increased demand for semiconductor manufacturing.
- We expect M&A to continue in 2021 as larger companies seek to purchase higher-growth opportunities combined with the threat of higher capital gains tax rate.

Average Annual Returns as of 6/30/21. 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.

	3 MO	YTD	1YR	3YR	5YR	10YR	SINCE INCEPT.
Needham Small Cap Growth Fund Inst Class**	11.68%	20.20%	80.52%	42.98%	33.21%	17.42%	15.48%
After Taxes on Distributions	11.68%	20.20%	70.33%	36.82%	28.41%	14.81%	13.52%
After Taxes on Distributions & Redemptions	6.92%	11.96%	45.81%	31.20%	24.75%	13.17%	12.56%
Needham Small Cap Growth Fund Retail Class	11.51%	19.77%	79.24%	42.08%	32.42%	16.75%	14.84%
After Taxes on Distributions	11.51%	19.77%	68.85%	35.83%	27.57%	14.13%	12.88%
After Taxes on Distributions and Redemptions	6.82%	11.70%	45.04%	30.41%	24.04%	12.57%	11.97%
Russell 2000 Index	4.29%	17.54%	62.03%	13.52%	16.47%	12.34%	9.86%
S&P 500 Index	8.55%	15.25%	40.79%	18.67%	17.65%	14.84%	9.64%

The Needham Small Cap Growth Fund's Gross Expense Ratio is 1.89% for the Retail Class and 1.61% for the Institutional Class. The Needham Small Cap Growth Fund's Net Expense Ratio is 1.89% for the Retail Class and 1.22% 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, 2022, 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.

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

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

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Portfolio holdings are subject to change. Needham Small Cap Growth Fund's ownership as a percentage of net assets in the stated securities as of 6/30/21: ASPN: 5.20%; FLDM: 7.42%; VRAY: 4.37%; EMKR: 0.03%; CSOD: 3.88%.

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