

4Q21 Quarterly Commentary

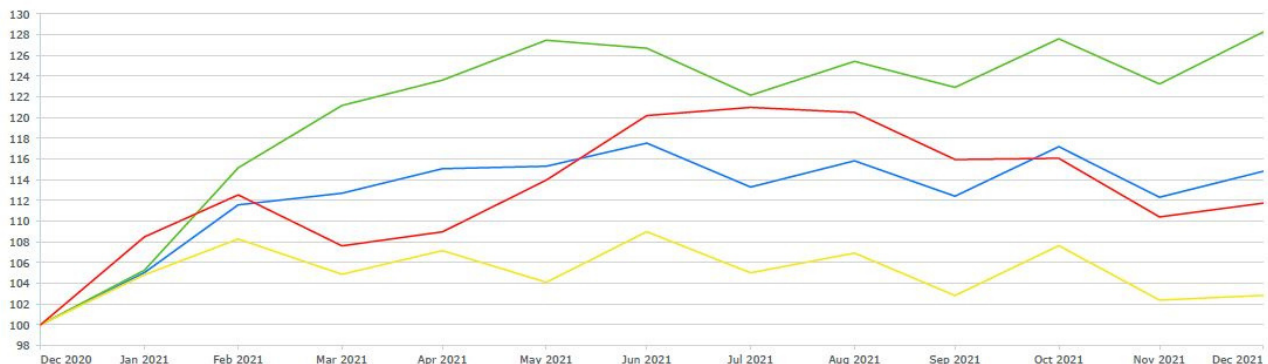
Portfolio Manager: Christopher J. Retzler

Investment Style: Small Cap Growth

MACRO OBSERVATIONS

- Wage pressure, logistical transportation, higher commodity prices, and supply chain constraints continued to hamper earnings and forward guidance for many companies. The pandemic continues to exacerbate supply issues in developing countries, where many suppliers and manufacturers are located. We expect to see some of these risks and pressures begin to alleviate in 2022 as the Omicron variant abates.
- Semiconductor shortages have had widespread negative implications for many end markets, including automotive, medical, industrial, and defense. However, demand remains robust, which gives us confidence that we will continue to see a recovery in 2022. We expect semiconductor shortages to stay elevated for an extended period, which supports our bullish investment thesis in semiconductor capital equipment stocks.
- Supply chain interruptions have negatively impacted global growth while simultaneously supporting persistent inflationary pressures. We expect inflation to remain elevated in 2022 but expect a reduction in the inflation rate after that, as economic activity normalizes from the pandemic aftershocks.

YTD SMALL CAP PERFORMANCE AS OF 12/31/21



	RETURN
■ Needham Small Cap Growth Institutional	11.74
■ Russell 2000 Growth	2.83
■ Russell 2000 Value	28.27
■ Russell 2000	14.82

Source: Informa Intelligence, Inc.

IMPACTS ON PORTFOLIO PERFORMANCE

- The Fund's Institutional (NESIX) and Retail classes (NESGX) returned -3.63% and -3.79% respectively in 4Q21, underperforming the Russell 2000 Growth Index's 0.01 return%.
- For the year ended December 31, 2021, the Fund's Institutional (NESIX) and Retail classes (NESGX) returned 11.74% and 10.98%, respectively, outperforming the Russell 2000 Growth Index's 2.83%.
- Contributors to the Fund's 4Q21 performance were Neophotonics (NPTN), Limelight Networks (LLNW), Aspen Aerogels (ASPN), and Photonics (PLAB).
- Fluidigm Corp. (FLDM) was the most significant detractor in 4Q21, as it evaluates long-term strategic options for its business. The other underperformer of significance was Telos Corp. (TLS). Its new CFO reset guidance, and the implementation of the announced TSA contract is slow to deploy.
- As an asset class, small-cap growth stocks have been under selling pressure since the highs set last February. Small-cap value stocks outperformed small-cap growth throughout 2021. Energy and financial sectors continued to outperform technology and other growth industries.
- The Fund exited many small positions to reduce the number of portfolio holdings and redeployed the capital into our concentrated best ideas.

OUTLOOK

- Following the current market repricing and near-term multiple contractions, small-cap companies should benefit longer-term from improved global growth; revenue prospects should provide leverage in business models and drive improved earnings and cash flow.
- We continue to like the semiconductor capital equipment industry, including portfolio holdings FormFactor (FORM), Veeco Instruments (VECO), and MKS Instruments (MKSI), and the Fund's many small-cap holdings that are suppliers to these businesses. Investment in semiconductors has many growth drivers that provide nice long-term tailwinds to the sector.
- The recently passed Infrastructure Investment and Jobs Act will provide substantial funding for expansion in industries such as broadband, wireless communications, and optical components. Optical suppliers such as portfolio holdings Infinera (INFN) and II-VI (IIVI) should also benefit from this buildout.
- The Federal Reserve has communicated its more hawkish stance and will raise interest rates and taper monetary accommodation. We expect multiple compression to occur along with higher volatility. We will be patient during this process and will look to invest in companies with strong management teams, solid balance sheets, and an ability to generate cash flow and profits.

Average Annual Returns as of 12/31/21. 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**	-3.63%	11.74%	11.74%	44.13%	26.30%	18.63%	14.63%
After Taxes on Distributions	-10.31%	4.00%	4.00%	37.08%	20.47%	15.26%	12.32%
After Taxes on Distributions & Redemptions	-1.32%	7.91%	7.91%	32.84%	18.71%	14.11%	11.72%
Needham Small Cap Growth Fund Retail Class	-3.79%	10.98%	10.98%	43.21%	25.53%	17.95%	13.99%
After Taxes on Distributions	-10.71%	3.00%	3.00%	35.98%	19.61%	14.54%	11.66%
After Taxes on Distributions and Redemptions	-1.38%	7.49%	7.49%	32.00%	18.02%	13.49%	11.13%
Russell 2000 Index	2.14%	14.82%	14.82%	20.02%	12.02%	13.23%	9.47%
S&P 500 Index	11.03%	28.71%	28.71%	26.07%	18.47%	16.55%	10.00%

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.

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 12/31/21: NPTN: 4.29%; LLNW: 3.29%; ASPN: 2.43%; PLAB: 1.36%; FLDM: 4.68%; TLS: 4.48%; FORM: 2.71%; VECO: 2.48%; MKSI: 2.43%; INFN: 3.35%; IIVI: 2.15%.

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