

1Q22 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 and geopolitical conflicts continue to exacerbate global supply issues. We still expect to see some of these risks and pressures begin to alleviate, however the recovery has been delayed beyond our original expectations.
- Semiconductor shortages continue to have widespread negative implications for many end markets, including automotive, medical, industrial, and defense. To date, demand remains robust, which gives us confidence that we will continue to see a recovery throughout the year. We expect semiconductor shortages to stay elevated for an extended period, which supports our long-term bullish investment thesis in semiconductor capital equipment stocks.
- Supply chain interruptions have negatively impacted global growth while simultaneously supporting persistent inflationary pressures. Inflation has remained elevated beyond our original estimates as geopolitical conflicts has exacerbated pressures for commodities. The Federal Reserve has pivoted to more aggressively address inflationary pressures and has generally outlined a plan for higher interest rates and a reduction in their balance sheet holdings which have been and remain headwinds for risk assets.

YEAR-TO-DATE PERFORMANCE AS OF MARCH 31, 2022



	RETURN
■ Needham Small Cap Growth Institutional	(11.39)
■ S&P 500	(4.60)
■ Russell 2000	(7.53)

Source: Informa Intelligence, Inc.

IMPACTS ON PORTFOLIO PERFORMANCE

- The Fund's Institutional (NESIX) and Retail classes (NESGX) returned -11.39% and -11.56% respectively in 1Q22, underperforming the Russell 2000 Index's -7.53%.
- Primary contributors to the Fund's 1Q22 performance were Limelight Networks, Inc. (LLNW) and Benefitfocus (BNFT). Limelight, a content delivery network provider, continued to benefit from its operational transformation. Under a new CEO, it has added security, realigned the sales team, and adopted a customer-centric approach over the past year. Benefitfocus, a software company that manages employee benefits programs, has also transformed under new leadership and has attracted value-oriented investors.
- As an asset class, small-cap growth stocks have been under selling pressure since the highs set last February. We hope to see supply chain complications improve and inflation risks abate.
- The Fund exited many of its small positions to reduce the number of portfolio holdings and raised cash.

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 continue 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 3/31/22. 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**	-11.39%	-11.39%	-8.00%	31.57%	22.88%	15.23%	13.74 %
After Taxes on Distributions	-11.39%	-11.39%	-14.35%	25.15%	17.22%	11.96%	11.48 %
After Taxes on Distributions & Redemptions	-6.74%	-6.74%	-3.34%	22.87%	16.07%	11.22%	11.01 %
Needham Small Cap Growth Fund Retail Class	-11.56%	-11.56%	-8.61%	30.69%	22.12%	14.57%	13.11 %
After Taxes on Distributions	-11.56%	-11.56%	-15.17%	24.10%	16.36%	11.26%	10.82%
After Taxes on Distributions and Redemptions	-6.84%	-6.84%	-3.64%	22.09%	15.41%	10.62%	10.42%
Russell 2000 Index	-7.53%	-7.53%	-5.79%	11.74%	9.74%	11.04%	8.91%
S&P 500 Index	-4.60%	-4.60%	15.65%	18.92%	15.99%	14.64%	9.61%

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 May 1, 2023, 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 3/31/22: LLNW: 1.82%, BNFT: 6.13%, IVAC: 3.77%, IIVI: 3.86%, FORM: 3.79%, VECO: 2.90%, MKSI: 2.46% and INFN: 3.91%.

The source of the data for each of the Russell 2000 Index and the Russell 3000 Index (together, the "Indexes") is the London Stock Exchange Group plc and its group undertakings (collectively, the "LSE Group"). © LSE Group 2022. All rights in the Indexes vest in the relevant LSE Group company which owns the Index. The Indexes are calculated by or on behalf of FTSE International Limited or its affiliate, agent or partner. Neither the LSE Group nor its licensors accept any liability for any errors or omissions in the Indexes; no party may rely on the Index returns shown; and the LSE Group makes no claim, prediction, warranty or representation about the Fund or the suitability of the Indexes with respect to the Fund. No further distribution of data from the LSE Group is permitted without the relevant LSE Group company's express written consent. The LSE Group is not connected to the Fund and does not promote, sponsor or endorse the Fund or the content of this prospectus.