

2Q22 Quarterly Commentary

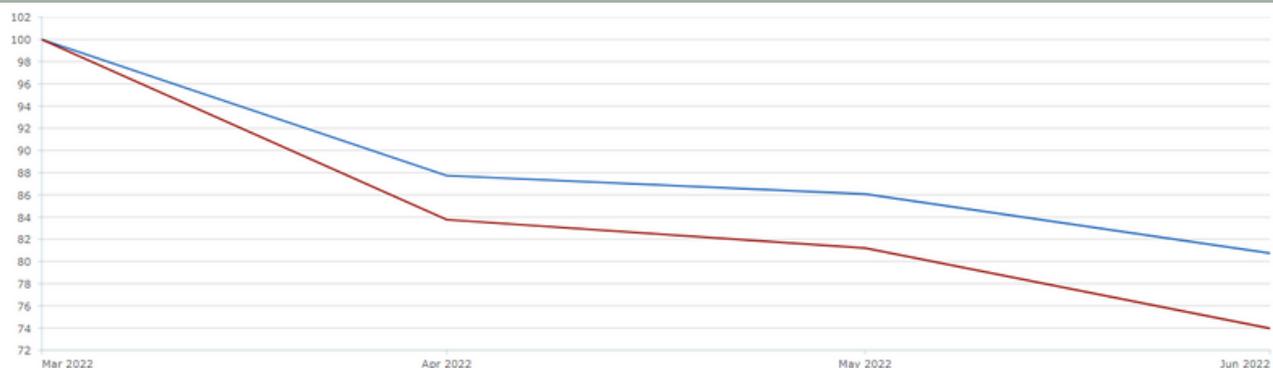
Portfolio Manager: Christopher J. Retzler

Investment Style: Small Cap Growth

MACRO OBSERVATIONS

- Historic global inflation continued to dominate the headlines in 2Q22. Year-over-year inflation in June 2022 was 9.1%, the highest level in 41 years.¹ The inflation we are experiencing is due to a variety of reasons including supply constraints, component shortages, government regulations, environmental policies, energy supplies, food production costs, and transportation and logistical complications.
- Energy costs remain one of the largest contributors to inflation; the price of gasoline increased 59.9% year-over-year.² We have not yet seen the height of food inflation.
- The Federal Reserve is attempting to control inflation by slowing the economy and tightening monetary policy. The Fed has begun to raise interest rates, which impacts risk assets. The interest rate yield curve has flattened and will begin to invert as the economy slows and future inflation fears abate.
- The stronger U.S. dollar could affect corporate earnings as exports become relatively more expensive.
- Economic growth is weakening, and the probability of a recession is increasing.
- Geopolitical risks will persist for an extended period as the war in Ukraine does not seem to be ending anytime soon. Side effects of this atrocity are higher input costs and disruptions to global supply chains.

YEAR-TO-DATE PERFORMANCE AS OF JUNE 30, 2022



	RETURN
■ Needham Small Cap Growth Institutional	(26.03)
■ Russell 2000 Growth	(19.25)

Source: Informa Intelligence, Inc.

IMPACTS ON PORTFOLIO PERFORMANCE

- The Fund's Institutional (NESIX) and Retail classes (NESGX) returned -26.03% and -26.13% respectively in 2Q22, underperforming the Russell 2000 Growth's -19.25%.
- Small cap stocks have been in a bear market since March 2021 and larger cap stocks have been weakening. We are hopeful that this correction is in the later innings; however, we have yet to experience the impacts of monetary tightening, a capitulatory market sell-off, and extreme volatility.
- The fund's top five performers were: Photronics Inc. (PLAB), Inogen Inc. (INGN), TTM Technologies Inc. (TTMI), Western Digital Corp. (WDC) and Alteryx Inc. (AYX).
- The Fund's bottom five performers were: Standard BioTools Inc (LAB), Benefitfocus Inc. (BNFT), Infinera Corp. (INFN), NLight Inc. (LASR) and Edgio Inc. (EGIO).
- Given the fund's under-allocation to the energy sector, we were not able to pick up on the tailwinds of surging oil prices, while also seeing further losses from an overweight in technology.

OUTLOOK

- We expect the market selloff may overshoot to the downside and growth at reasonable prices should provide interesting entry points for long term investors to buy high-quality stocks that have good managements, strong balance sheets and earnings and cash flows. Investment patience and conviction are needed in these volatile and uncertain times.
- Earnings season is soon to begin in July, and the impact of component shortages and overall supply chain challenges remain a significant issue for technology companies. The shutdown of Shanghai in China will have significant near-term impacts on company results.
- Labor issues, logistical transportation, higher commodity prices and supply chain constraints have hampered earnings and forward guidance for many companies.
- If supply chain risks can improve combined with lower energy costs, inflation may decline more rapidly than currently projected. If we do see an improvement in these inflationary pressures, it would help to alleviate the monetary actions currently contemplated by the Federal Reserve.
- Congress needs to pass the CHIPS Act to help accelerate semiconductor development within the US. It has enormous geopolitical benefits to the nation.

[1] <https://www.usinflationcalculator.com/inflation/u-s-inflation-near-41-year-high-as-cpi-hits-9-1-in-june/100022937/>

[2] <https://www.bls.gov/news.release/cpi.nr0.htm>

	3 MO	YTD	1YR	3YR	5YR	10YR	SINCE INCEPT.
Needham Small Cap Growth Fund Inst Class**	-26.03%	-34.46%	-39.07%	14.90%	14.44%	12.49%	11.87%
After Taxes on Distributions	-26.03%	-34.46%	-43.27%	9.29%	9.17%	9.30%	9.67%
After Taxes on Distributions & Redemptions	-15.41%	-20.40%	-21.00%	10.82%	10.03%	9.19%	9.53%
Needham Small Cap Growth Fund Retail Class	-26.13%	-34.67%	-39.46%	14.14%	13.73%	11.84%	11.24%
After Taxes on Distributions	-26.13%	-34.67%	-43.81%	8.39%	8.37%	8.61%	9.03%
After Taxes on Distributions and Redemptions	-15.47%	-20.52%	-21.15%	10.22%	9.46%	8.65%	8.97%
Russell 2000 Growth Return	-19.25	-29.45%	-33.43%	1.40%	4.80%	9.30%	7.72%
Russell 2000 Index	-17.20%	-23.43%	-25.20%	4.21%	5.17%	9.35%	7.78%
S&P 500 Index	-16.10%	-19.96%	-10.62%	10.60%	11.31%	12.96%	8.53%

Average Annual Returns as of 6/30/22. 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.

The Needham Small Cap Growth Fund's Gross Expense Ratio is 1.83% for the Retail Class and 1.54% for the Institutional Class. The Needham Small Cap Growth Fund's Net Expense Ratio is 1.85% for the Retail Class and 1.18% 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 29, 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.

[Needham Small Cap Growth Fund Fact Sheet Link](#) [Prospectus Link](#)

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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 Small Cap Growth Fund's ownership as a percentage of net assets in the stated securities as of 6/30/22: PLAB: 0.00%, INGN: 0.00%, TTMI: 0.65%, WDC: 0.00%, AYY: 0.52%, LAB: 3.30%, BNFT: 5.24%, INFN: 6.36%, LASR: 3.90% and EGIO: 2.09%.

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