

3Q22 Quarterly Commentary

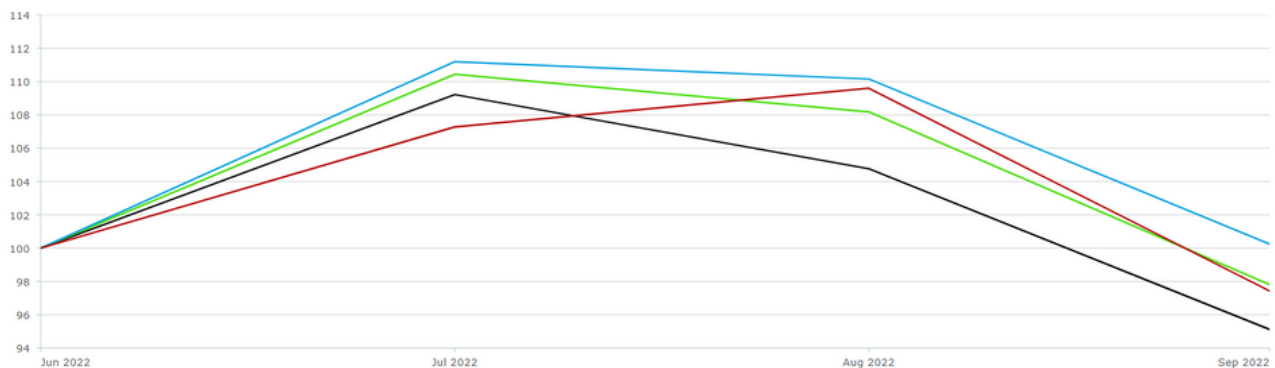
Portfolio Manager: Christopher J. Retzler

Investment Style: Small Cap Growth

MACRO OBSERVATIONS

- Inflation remains stubbornly high, which encourages the Federal Reserve to set higher interest rates that impact risk assets. Global economic growth is slowing, and the inversion of the interest rate yield curve indicates a higher probability of a global recession.
- Dollar strength is weighing on U.S. equity markets, which will impact the corporate earnings of companies that sell overseas. Until the Dollar weakens, we are cautious about U.S. risk assets. “Don’t fight the Fed,” as the saying goes.
- Energy costs remain one of the largest contributors to the historic inflation we face, and we have not seen the peak of food inflation. A true long-term, independent energy policy is needed for the U.S.; the recent further release of the Strategic Petroleum Reserve was a short-term benefit at the expense of the future.
- Volatility continues as the markets digest earnings and future monetary policy risks. Labor issues, logistical transportation, higher commodity prices, and supply chain constraints have hampered earnings and forward guidance for many companies.
- Unfortunately, geopolitical risks will persist for an extended period.

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



	RETURN
■ Needham Small Cap Growth Institutional	(2.57)
■ Russell 2000 Growth	0.24
■ Russell 2000	(2.19)
■ S&P 500	(4.88)

Source: Zephyr Informais

PORTFOLIO PERFORMANCE**3Q22 Quarterly Commentary**

- The Fund's Institutional (NESIX) and Retail classes (NESGX) returned -2.57% and -2.77%, respectively, in 3Q22, underperforming the Russell 2000 Growth's 0.24%.
- Small-cap stocks have been in a bear market since March 2021, and near-term caution is necessary because it is not over. After a repricing of the market and multiple contractions, small-cap companies should benefit longer-term from improved global growth. Revenue prospects should provide leverage in business models and drive earnings and cash flow.
- The Fund's top five performers were: Viewray Inc. (VRAY), AXT Inc. (AXTI), Edgio Inc. (EGIO), Telos Corp. (TLS), and Vicor Corp. (VICR).
- The Fund's bottom five performers were: Upland Software Inc. (UPLD), Standard BioTools Inc. (LAB), 8x8 Inc. (EGHT), Benefitfocus Inc. (BNFT), and Zoura Inc. (ZUO).
- Given the Fund's under allocation to the energy sector, we were not able to benefit from the tailwinds of surging oil prices. The Fund's overweight in technology also detracted from performance.

OUTLOOK

- Component shortages and overall supply chain challenges remain significant issues for technology companies. The shutdowns in China as a result of its "zero-COVID" approach have had significant near-term impacts on company results.
- If supply chain risks improve and energy costs decrease, inflation may decline more rapidly than currently projected. If we see improvement in these inflationary pressures, it should help alleviate the monetary actions of the Federal Reserve.
- Semiconductor shortages have had widespread negative implications for many industries, including automotive, medical, industrial, and defense. Recently, we have observed weakness in PC and handsets, which had negative implications for the semiconductor industry. However, we believe that long term, investors will realize value in the industry.
- Technology remains a long-term strength of the economy, and there are major secular trends that remain firmly in place to support continued growth. Areas of long-term investment that we continue to like are mobile electrification, communications infrastructure, defense, AI, cloud computing, 5G devices and wireless connectivity, software and security, and specialty material manufacturers.

	3 MO	YTD	1YR	3YR	5YR	10YR	SINCE INCEPT.
Needham Small Cap Growth Fund Inst Class**	-2.57%	-36.14%	-38.46%	12.70%	12.52%	12.16%	11.57%
After Taxes on Distributions	-2.57%	-36.14%	-42.71%	7.19%	7.33%	8.98%	9.40%
After Taxes on Distributions & Redemptions	-1.52%	-21.40%	-20.50%	9.18%	8.54%	8.94%	9.30%
Needham Small Cap Growth Fund Retail Class	-2.77%	-36.48%	-38.89%	11.92%	11.81%	11.51%	10.94%
After Taxes on Distributions	-2.77%	-36.48%	-43.27%	6.28%	6.54%	8.28%	8.76%
After Taxes on Distributions and Redemptions	-1.64%	-21.60%	-20.65%	8.58%	7.99%	8.46%	8.74%
Russell 2000 Growth Index	0.24%	-29.28%	-29.27%	2.94%	3.60%	8.81%	7.64%
Russell 2000 Index	-2.19%	-25.10%	-23.50%	4.29%	3.55%	8.55%	7.57%
S&P 500 Index	-4.88%	-23.87%	-15.47%	8.16%	9.24%	11.70%	8.16%

Average Annual Returns as of September 30, 2022. The Needham Small Cap Growth Fund inception date is May 22, 2002.

**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 9/30/22: VRAY: 4.94%, AXTI: 3.06%, EGIO: 0.95%, TLS: 5.32%, VICR: 1.88%, UPLD: 3.36%, LAB: 2.29%, EGHT: 2.36%, BNFT: 4.31% and ZOU: 3.37%.

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