

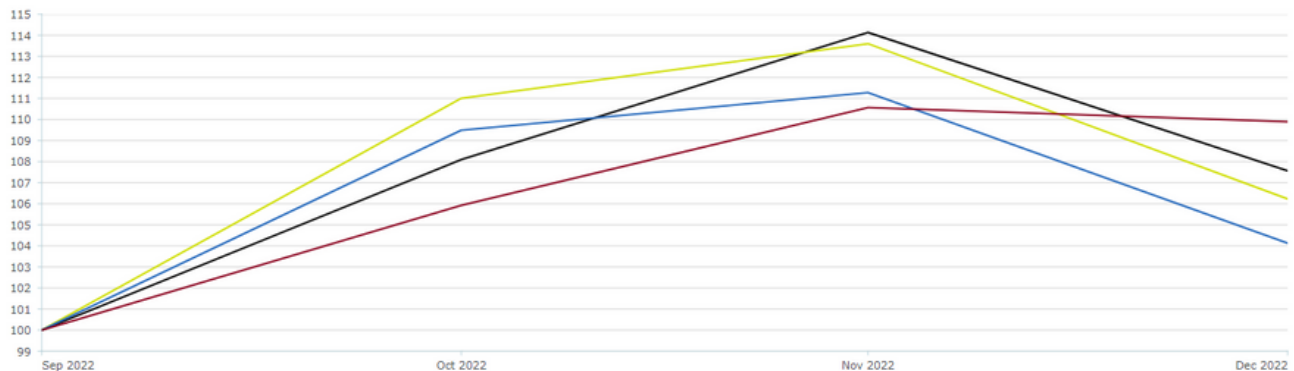
4Q22 Quarterly Commentary

Portfolio Manager: Christopher J. Retzler

Investment Style: Small Cap Growth

MACRO OBSERVATIONS

- Inflation expectations have improved significantly, which encourages the Federal Reserve to slow the pace of future interest rate hikes. While energy, food, and labor costs remain a significant headwind to lower inflation, we expect this interest rate rising cycle to end in early 2023. Global economic growth should continue to slow, and the inversion of the interest rate yield curve indicates a higher probability of a global recession.
- Recent dollar weakness will positively impact corporate earnings of companies that sell overseas, which may lift U.S. equity markets. As we mentioned last year, we needed the dollar to weaken to improve the outlook for U.S. risk assets.
- Corporate layoffs have accelerated as management teams prepare for a weaker economy and slower business opportunities. While this process is painful for those directly impacted by employment reductions, it is necessary to improve the financial health of the companies and lay the groundwork for the next economic cycle. We expect mergers and acquisitions to increase as companies recognize the impact of higher capital costs and the need for consolidation.
- 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.



	RETURN
■ Needham Small Cap Growth Institutional	9.90
■ Russell 2000 Growth	4.13
■ Russell 2000	6.23
■ S&P 500	7.56

Source: Zephyr Informais

PORTFOLIO PERFORMANCE

4Q22 Quarterly Commentary

- The Fund's Institutional (NESIX) and Retail classes (NESGX) returned 9.90% and 9.68%, respectively, in the fourth quarter, outperforming the Russell 2000 Growth's 4.13%.
- Small cap stocks have been in a bear market since March 2021. However, we became more constructive on equities in the fourth quarter of 2022 as equity valuations collapsed, the dollar weakened, and tax loss selling abated in 2023. As we have mentioned previously, small-cap companies should benefit long term as the global economy recovers from its rolling slowdown.
- Company management teams that can capitalize on revenue prospects should provide leverage in business models and drive earnings and cash flow. Strong balance sheets are extremely important during economic downturns.
- The Fund's top five performers were: Benefitfocus, Inc. (BNFT), Infinera Corp. (INFN), Intevac, Inc. (IVAC), Yext, Inc. (YEXT), and Cambium Networks Corp. (CMBM).
- The Fund's bottom five performers were: Telos Corp. (TLS), AXT, Inc. (AXTI), Edgio, Inc. (EGIO), Sientra, Inc. (SIEN), and Zuora, Inc. (ZUO).
- In November 2022, the Fund's long-time holding Benefitfocus (BNFT) announced its acquisition by Voya Financial. This is a perfect example of a management team that was improving their operations; however, they realized that it is more prudent to consolidate based on economic circumstances and higher costs of capital. We expect more transactions like this one in 2023.

OUTLOOK

- While many companies still highlight the missing "Golden Screw" to fully finish products, component shortages and overall supply chain challenges have significantly improved. The global economic slowdown has helped improve these headwinds as inventories recover and management teams adjust production lines to minimize future operational disruptions. The reopening of China and the end of the "zero-COVID" approach should also help.
- We expect the market to ultimately settle out. More reasonable prices should provide interesting entry points for long-term investors to buy high-quality companies with good management and strong balance sheets, earnings, and cash flows. Investment patience and conviction are needed in these volatile and uncertain times.
- Inflation expectations have substantially improved, which 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 effects on the semiconductor industry. However, we believe that long term, investors will realize value in the sector.
- The July 2022 passage of the CHIPS and Science Act should drive investment in the semiconductor industry and should also benefit semiconductor capital equipment suppliers.
- Technology remains a long-term strength of the economy, and there are major secular trends that remain firmly in place to support continued growth in 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**	9.90%	-29.82%	-29.82%	10.60%	14.93%	13.51%	11.93%
After Taxes on Distributions	8.80%	-30.53%	-30.53%	5.57%	10.11%	10.17%	9.73%
After Taxes on Distributions & Redemptions	6.46%	-17.27%	-17.27%	6.94%	10.41%	9.97%	9.57%
Needham Small Cap Growth Fund Retail Class	9.68%	-30.33%	-30.33%	9.83%	14.19%	12.84%	11.30%
After Taxes on Distributions	8.52%	-31.07%	-31.07%	4.66%	9.27%	9.46%	9.08%
After Taxes on Distributions and Redemptions	6.36%	-17.55%	-17.55%	6.33%	9.80%	9.40%	9.00%
Russell 2000 Growth Index	4.13%	-26.36%	-26.36%	0.65%	3.51%	9.20%	7.75%
Russell 2000 Index	6.23%	-20.44%	-20.44%	3.10%	4.13%	9.01%	7.79%
S&P 500 Index	7.56%	-18.11%	-18.11%	7.66%	9.42%	12.56%	8.44%

Average Annual Returns as of December 31, 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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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 Small Cap Growth Fund's ownership as a percentage of net assets in the stated securities as of 12/31/22: BNFT: 0.00%, INFN: 3.77%, IVAC: 5.29%, YEXT: 3.66%, CMBM: 3.86%, TLS: 3.11%, AXTI: 2.23%, EGIO: 0.40%, SIEN: 0.07%, ZUO: 2.35%.

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