

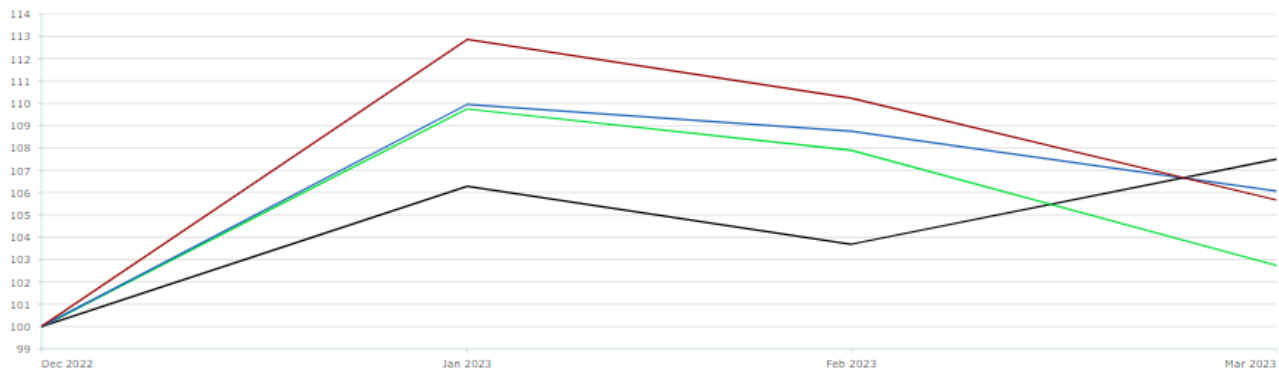
## 1Q23 Quarterly Commentary

Portfolio Manager: Christopher J. Retzler

Investment Style: Small Cap Growth

### MACRO OBSERVATIONS

- Inflation continues to improve from extremely high levels and we expect the Federal Reserve to end rate increases in the coming months. Global economic growth should continue to slow, and the inversion of the interest rate yield curve indicates a higher probability of a global recession. Energy, housing, food, and labor costs remain significant headwinds to lower inflation.
- Recent U.S. dollar weakness should positively impact the future corporate earnings of companies that sell overseas. As we've mentioned previously, a weak dollar should improve the outlook for U.S. risk assets.
- Corporate layoffs have accelerated as management teams prepare for a weaker economy and slower business opportunities.
- 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 are expected to persist for an extended period.



	RETURN
■ Needham Small Cap Growth Institutional	5.67
■ Russell 2000 Growth	6.07
■ Russell 2000	2.74
■ S&P 500	7.50

Source: Zephyr Informais

## PORTFOLIO PERFORMANCE

## 1Q23 Quarterly Commentary

- The Fund's Institutional (NESIX) and Retail classes (NESGX) returned 5.67% and 5.55%, respectively, in the first quarter, slightly underperforming the Russell 2000 Growth's 6.07%.
- Small-cap stocks have been in a bear market since March 2021. However, we became more constructive on equities over the last few months as equity valuations collapsed, the dollar weakened, and tax loss selling abated in 2023.
- The Fund experienced a significant, positive market move in January. We raised cash levels starting in February and continued to reduce exposure throughout the remainder of the quarter. Unfortunately, the January outperformance evaporated as the small-cap asset class sold off and the Fund experienced some negative stock-specific news.
- Companies with solid 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 in 1Q23 were: Sumo Logic, Inc. (SUMO), Zuora, Inc. (ZUO), Standard BioTools, Inc. (LAB), Yext, Inc. (YEXT), and FormFactor, Inc. (FORM).
- The Fund's top five detractors on 1Q23 were: Aspen Aerogels, Inc. (ASPN), Telos Corp. (TLS), ViewRay, Inc. (VRAY), Upland Software, Inc. (UPLD), and ADTRAN Holdings, Inc. (ADTN).
- In January 2023, Sumo Logic, Inc. announced its acquisition by Francisco Partners. This is a perfect example of a management team that was improving operations but realized that it is more prudent to consolidate based on economic circumstances and higher costs of capital.

## OUTLOOK

- The financial meltdown we experienced in March reminded us of the fragility of our financial system and the interconnectedness of financial institutions. While we are relieved the system did not collapse like in 2008, we are still concerned about ripple effects from the crisis and the lower expected liquidity for both retail investors and the financial markets.
- Capital markets remain challenged, and companies needing to raise funds are finding that the cost of capital is substantially higher than in past years. This higher cost of capital weighs substantially on equity valuations.
- The CHIPS and Science Act passed in July 2022 has not provided the benefit we had expected, as government conditions have kept companies from applying for the program. Until these conditions are amended, we don't expect a significant boost from this Act.
- 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**	5.67%	5.67%	-16.31%	18.86%	16.04%	13.78%	12.08%
After Taxes on Distributions	5.67%	5.67%	-17.15%	13.45%	11.18%	10.44%	9.90%
After Taxes on Distributions & Redemptions	3.36%	3.36%	-9.25%	13.29%	11.20%	10.13%	9.67%
Needham Small Cap Growth Fund Retail Class	5.55%	5.55%	-16.86%	18.05%	15.29%	13.11%	11.45%
After Taxes on Distributions	5.55%	5.55%	-17.74%	12.49%	10.33%	9.72%	9.25%
After Taxes on Distributions and Redemptions	3.28%	3.28%	-9.55%	12.65%	10.59%	9.55%	9.11%
Russell 2000 Growth Index	6.07%	6.07%	-10.60%	13.36%	4.26%	8.49%	7.96%
Russell 2000 Index	2.74%	2.74%	-11.61%	17.51%	4.71%	8.04%	7.83%
S&P 500 Index	7.50%	7.50%	-7.73%	18.60%	11.19%	12.24%	8.71%

Average Annual Returns as of March 31, 2023. 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.

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.

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](#)

## Definitions and Disclosures

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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 March 31, 2023: SUMO: 0.00%, ZUO: 5.60%, LAB: 2.76%, YEXT: 2.97%, FORM: 1.63%, ASPN: 4.60%, TLS: 1.43%, VRAY: 4.28%, UPLD: 1.44% and ADTN: 4.57%.

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