

2Q23 Quarterly Commentary

Portfolio Manager: Christopher J. Retzler

Investment Style: Small Cap Growth

MACRO OBSERVATIONS

- Inflation has improved, but the headwinds of elevated costs in housing, food, and labor remain. We anticipate that the Federal Reserve will end rate increases in the coming months, which should allow the economy to digest the impact of higher interest rates.
- Global economic growth should continue to slow as the impact of the higher cost of capital slowly filters throughout the economy. The inversion of the interest rate yield curve indicates a higher probability of a recession, although the timing is difficult to predict.
- Corporate layoffs continue as management teams prepare for the possibility of a weaker economy and slower business opportunities.
- Companies continue to adjust inventory levels to meet new end demand and higher cost of capital to retain inventory levels. Lingering disruptions from the pandemic continue to have ripple effects throughout supply chains, and we expect that a downturn would rebalance inventories.
- Unfortunately, geopolitical risks will persist for an extended period.



	RETURN
Needham Small Cap Growth Institutional	(2.83)
Russell 2000 Growth	7.05
Russell 2000	5.21
S&P 500	8.74

Source: Zephyr Informais

PORTFOLIO PERFORMANCE

- The Fund’s Institutional (NESIX) and Retail classes (NESGX) returned -2.83% and -2.63%, respectively, in the second quarter, significantly underperforming the Russell 2000 Growth’s 7.05%.
- I want to address the extreme disappointment the Fund suffered from ViewRay (VRAY), a long-time holding of the Fund, and an unprecedented event in my 18 years of portfolio management. ViewRay experienced a perfect storm of liquidity pressures. We were hopeful that the announced strategic review would have led to a sale of the company to a larger platform; however, after months of efforts, that was not the final result. The rapid and shocking decline of VRAY serves as a valuable lesson for future high-growth small-cap companies that may encounter liquidity risks in a tightening economic environment.

- The market sold off in March, recovered in April, and the theme of artificial intelligence (AI) became a household name. Semiconductors are at the center of this technological advancement, and we believe this theme is one that will persist. Semiconductor capital equipment suppliers should also benefit long-term from AI and from the geographical expansion of semiconductor manufacturing plants away from Taiwan.
- Companies with solid management teams capable of capitalizing on revenue prospects should provide leverage in business models and drive earnings and cash flow. Strong balance sheets are crucial during economic downturns.
- Finally, small-cap stocks have begun to share in the market upturn that larger-cap companies have enjoyed year-to-date. We believe there is significant value within the asset class after years of selling pressure and investor avoidance.
- The Fund's top five performers in 2Q23 were nLight, Inc. (LASR), Vicor Corp. (VICR), Veeco Instruments, Inc. (VECO), Aspen Aerogels, Inc. (ASPN) and Photronics, Inc. (PLAB).
- The Fund's top five detractors on 2Q23 were ViewRay, Inc. (VRAY), Intevac, Inc. (IVAC), Adtran Holdings, Inc. (ADTN), KVH Industries, Inc. (KVHI) and Cambium Networks Corp. (CMBM).

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 that the system did not collapse like in 2008, we remain concerned about potential ripple effects from the crisis and the lower expected liquidity for both retail investors and the financial markets.
- Capital markets continue to face challenges, and companies needing to raise funds are finding that the cost of capital is substantially higher than in past years. The higher cost of capital weighs substantially on equity valuations.
- Technology remains a long-term strength of the economy, and several major secular trends 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**	-2.83%	2.68%	9.94%	6.54%	14.38%	12.61%	11.77%
After Taxes on Distributions	-2.83%	2.68%	8.84%	1.69%	9.60%	9.31%	9.63%
After Taxes on Distributions & Redemptions	-1.67%	1.59%	6.45%	3.74%	9.91%	9.15%	9.44%
Needham Small Cap Growth Fund Retail Class	-2.63%	2.77%	9.60%	5.95%	13.73%	11.99%	11.17%
After Taxes on Distributions	-2.63%	2.77%	8.44%	0.96%	8.84%	8.64%	9.00%
After Taxes on Distributions and Redemptions	-1.56%	1.64%	6.28%	3.27%	9.37%	8.62%	8.89%
Russell 2000 Growth Index	7.05%	13.55%	18.53%	6.10%	4.22%	8.83%	8.21%
Russell 2000 Index	5.21%	8.09%	12.31%	10.82%	4.21%	8.26%	7.99%
S&P 500 Index	8.74%	16.89%	19.59%	14.60%	12.31%	12.86%	9.03%

Average Annual Returns as of June 30, 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 1.89% for the Retail Class and 1.65% for the Institutional Class. The Needham Small Cap Growth Fund's Net Expense Ratio is 1.88% for the Retail Class and 1.21% 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, 2024, 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), respectively. 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 June 30, 2023: VRAY: 0.49%, LASR: 5.51%, VICR: 4.45%, VECO: 0.75%, ASPN: 6.08%, PLAB: 0.00%, IVAC: 1.72%, ADTN: 5.97%, KVHI: 2.62% and CMBM: 3.98%.

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