

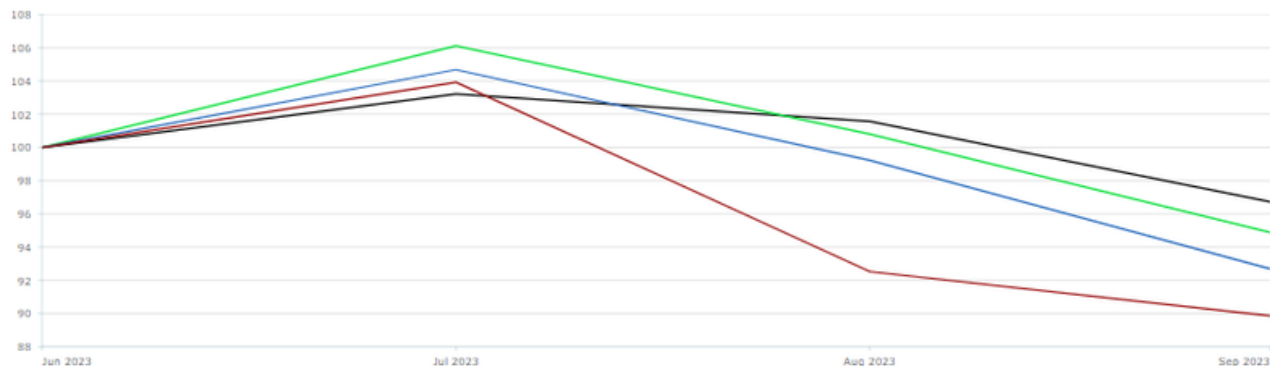
## 3Q23 Quarterly Commentary

Portfolio Manager: Christopher J. Retzler

Investment Style: Small Cap Growth

### MACRO OBSERVATIONS

- Inflation has improved, but the challenges of elevated costs in housing, food, and labor remain. We anticipate that the Federal Reserve may raise rates one more time, although the long end of the yield curve has risen substantially.
- The next few quarters should allow the economy to digest the impact of higher interest rates, and global economic growth should continue to slow as the impact of the higher capital costs filters throughout the economy. Liquidity and credit availability have been reduced, which puts pressure on risk assets.
- 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 lower demand and higher cost of capital.
- Unfortunately, geopolitical risks have escalated, which we expect will persist for an extended period.



	RETURN
Needham Small Cap Growth Institutional	(10.15)
Russell 2000 Growth	(7.32)
Russell 2000	(5.13)
S&P 500	(3.27)

Source: Zephyr Informais

### PORTFOLIO PERFORMANCE

- The Fund's Institutional (NESIX) and Retail classes (NESGX) returned -10.15% and -10.30%, respectively, in the third quarter, underperforming the Russell 2000 Growth's -7.32%.
- The Fund continued to be under pressure in the quarter, as small-cap companies remained out of favor with investors. The Fund maintained a high level of cash in expectation of more attractive valuation levels for deployment. We expect the upcoming earnings season to remain challenging and tax loss selling season to further pressure underperforming equities.
- Finally, after years of selling pressure and investor avoidance, we believe there is significant value within the asset class. We look forward to 2024, as management teams focus on improving cost structures and balance sheets. However, the transition to this improved profile is not over yet.

- The Fund's top five performers in 3Q23 were: Standard BioTools, Inc. (LAB), Vicor Corp. (VICR), New Relic, Inc. (NEWR), Aspen Aerogels, Inc. (ASPN) and SiTime Corp. (SITM).
- The Fund's top five detractors in 3Q23 were: Cambium Networks Corp. (CMBM), Akoustis Technologies, Inc. (AKTS), nLIGHT, Inc. (LASR), Adtran Holdings, Inc. (ADTN) and KVH Industries, Inc. (KVHI).

## **OUTLOOK**

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- Higher interest rates are impacting economic activity; companies are focused on their balance sheets and stockpiling cash. Investments are delayed, which impacts supply chains. The recent auto union strikes will pressure activity within their suppliers, and we are hopeful that a resolution will be reached soon.
- The financial meltdown we experienced in March reminded us of the fragility and interconnectedness of our financial system. Higher interest rates may cause further stress within the regional banking system, but it is hard to predict if we will experience a repeat of March. We remain concerned about the continued 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. Innovation within our portfolio companies continues, and over the long term, we believe these investments will benefit the Fund.

	3 MO	YTD	1YR	3YR	5YR	10YR	SINCE INCEPT.
Needham Small Cap Growth Fund Inst Class**	-10.15%	-7.74%	1.39%	-0.40%	10.22%	10.32%	11.07%
After Taxes on Distributions	-10.15%	-7.74%	0.38%	-4.93%	5.61%	7.08%	8.96%
After Taxes on Distributions & Redemptions	-6.01%	-4.58%	1.48%	-1.25%	6.78%	7.32%	8.90%
Needham Small Cap Growth Fund Retail Class	-10.30%	-7.81%	1.12%	-0.95%	9.58%	9.70%	10.46%
After Taxes on Distributions	-10.30%	-7.81%	0.05%	-5.62%	4.87%	6.42%	8.34%
After Taxes on Distributions and Redemptions	-6.09%	-4.62%	1.35%	-1.66%	6.27%	6.81%	8.36%
Russell 2000 Growth Index	-7.32%	5.24%	9.59%	1.09%	1.55%	6.72%	7.73%
Russell 2000 Index	-5.13%	2.54%	8.93%	7.16%	2.40%	6.65%	7.63%
S&P 500 Index	-3.27%	13.07%	21.62%	10.15%	9.92%	11.91%	8.75%

Average Annual Returns as of September 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 September 30, 2023: LAB: 2.41%, VICR: 4.94%, NEWR: 2.84%, ASPN: 7.96%, SITM: 0.09%, CMBM: 3.78%, AKTS: 0.26%, LASR: 4.00%, ADTN: 6.71%, KVHI: 1.75%.

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