

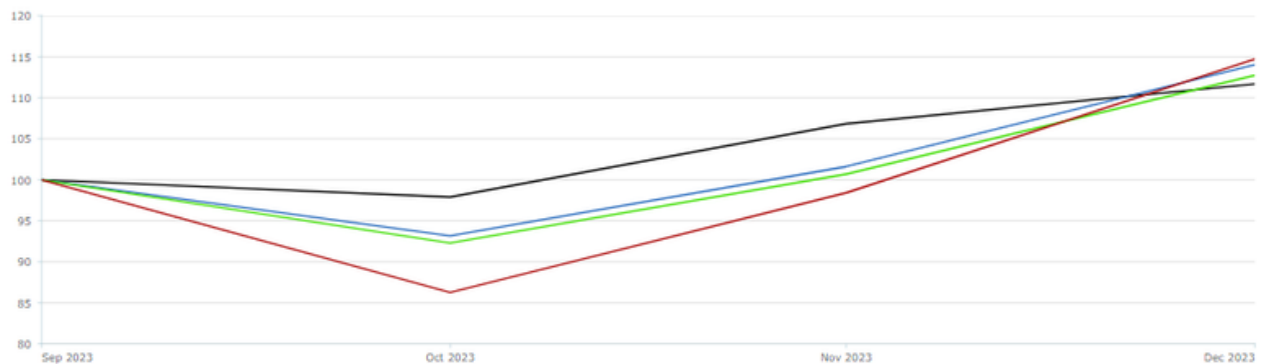
## 4Q23 Quarterly Commentary

Portfolio Manager: Christopher J. Retzler

Investment Style: Small Cap Growth

### MACRO OBSERVATIONS

- Inflation has significantly improved, but the headwinds of elevated costs in housing, food, and labor remain. We believe the Federal Reserve is finished raising rates and will begin to cut rates in summer 2024.
- The next few quarters should allow the economy to continue digesting the impact of higher interest rates. Global economic growth should continue to slow as the impact of the higher cost of capital filters throughout the economy. We do not expect a major recession.
- Corporate layoffs continue as management teams prepare for the possibility of a weaker economy and slower business opportunities. Higher unemployment would support the argument for interest rate cuts later in 2024.
- Companies continue to adjust inventory levels to meet lower demand and the higher cost of capital needed to retain inventory levels. We expect inventory levels to stabilize over the first half of 2024, leading to a more balanced supply and demand relationship.
- Unfortunately, geopolitical risks around the world have escalated, and we expect will persist for an extended period. The U.S. presidential election in November will also add volatility and uncertainty.



	RETURN
Needham Small Cap Growth Institutional	14.73
Russell 2000 Growth	12.75
Russell 2000	14.03
S&P 500	11.69

Source: Zephyr Informais

### PORTFOLIO PERFORMANCE

- The Fund's Institutional (NESIX) and Retail classes (NESGX) returned 14.73% and 14.63% in the fourth quarter, compared to the Russell 2000 Growth's 12.75%.
- The Fund started the quarter under pressure. However, by mid-quarter and into year-end, the appetite for small-cap stocks rallied substantially. We deployed the majority of our cash position on the market pullback in October and ended the year with a historically low cash position.
- We believe there is significant value within the small-cap asset class after years of selling pressure and investor avoidance. We look forward to 2024 and investing in management teams that focus on improving cost structures and

- strengthening balance sheets. However, the transition to this improved profile is not over yet.
- The Fund's top five performers in 4Q23 were: Aspen Aerogels, Inc. (ASPN), TTM Technologies, Inc. (TTMI), nLIGHT, Inc. (LASR), Alteryx, Inc. (AYX), and Frequency Electronics, Inc. (FEIM).
- The Fund's top five detractors in 4Q23 were: Vicor Corp. (VICR), ADTRAN Holdings, Inc. (ADTN), Cambium Networks Corp. (CMBM), Standard BioTools, Inc (LAB), and Akoustis Technologies, Inc. (AKTS).

## OUTLOOK

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- Higher interest rates are impacting economic activity as companies are focused on their balance sheets and hoarding cash. Investments are being delayed, which impacts supply chains. The financial meltdown we experienced last March highlighted the fragility of our financial system and the interconnectedness of financial institutions. Higher interest rates may cause further stress within the economy, as real interest rates increase as inflation decreases.
- 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. We expect capital markets to show signs of recovery in 2024, as the expectation of lower Fed Funds rates is more visible on the horizon.
- 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, wireless connectivity, software and security, and specialty material manufacturers. Innovation within our portfolio companies continues, and 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**	14.73%	5.85%	5.85%	-6.02%	17.33%	11.32%	11.64%
After Taxes on Distributions	14.73%	5.85%	5.85%	-8.54%	13.63%	8.05%	9.55%
After Taxes on Distributions & Redemptions	8.72%	3.46%	3.46%	-4.97%	12.94%	7.99%	9.33%
Needham Small Cap Growth Fund Retail Class	14.63%	5.68%	5.68%	-6.51%	16.68%	10.70%	11.04%
After Taxes on Distributions	14.63%	5.68%	5.68%	-9.13%	12.87%	7.39%	8.92%
After Taxes on Distributions and Redemptions	8.66%	3.36%	3.36%	-5.34%	12.38%	7.47%	8.78%
Russell 2000 Growth Index	12.75%	18.66%	18.66%	-3.50%	9.22%	7.16%	8.23%
Russell 2000 Index	14.03%	16.93%	16.93%	2.22%	9.97%	7.16%	8.19%
S&P 500 Index	11.69%	26.29%	26.29%	10.00%	15.69%	12.03%	9.20%

Average Annual Returns as of December 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 1.89% 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](#)

## 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 December 31, 2023: ASPN: 12.72%, TTMI: 6.18%, LASR: 4.46%, AYO: 4.50%, FEIM: 2.12%, VICR: 4.32%, ADTN: 4.19%, CMBM: 2.66%, LAB: 1.45% and AKTS: 0.00%.

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