

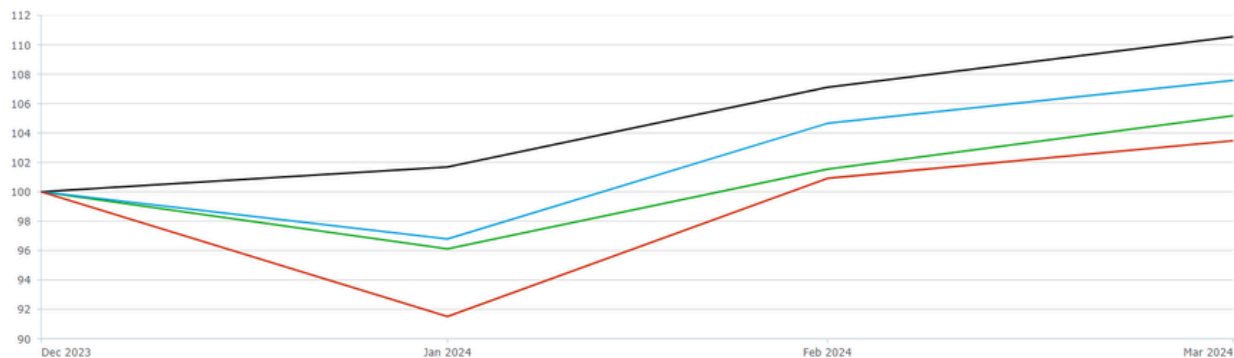
## 1Q24 Quarterly Commentary

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 a challenge. We anticipate the Federal Reserve has finished raising rates and will begin to cut rates later in the year.
- The next few quarters should allow the economy to continue to digest 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 significant recession.
- Corporate layoffs continue as management teams prepare for the possibility of a weaker economy and slower business opportunities. A higher unemployment landscape would benefit the argument for rate cuts later in 2024.
- Companies continue to adjust inventory levels to meet end-markets' lower demand and higher cost of capital 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 later in 2024 and into 2025.
- Unfortunately, geopolitical risks escalated, and we expect these risks to persist for an extended period. The U.S. political environment will also add volatility and uncertainty as investors begin gauging election outcomes in November.



|                                 | RETURN |
|---------------------------------|--------|
| Needham Small Cap Growth Retail | 3.48   |
| Russell 2000 Growth             | 7.58   |
| Russell 2000                    | 5.18   |
| S&P 500                         | 10.56  |

Source: Zephyr Informais

### PORTFOLIO PERFORMANCE

- The Fund's Institutional (NESIX) and Retail classes (NESGX) returned 3.63% and 3.48% in the fourth quarter compared to the Russell 2000 Growth's 7.58% and the Russell 2000's 5.18%.
- The Fund started the quarter under pressure; however, by mid-quarter, and into quarter-end, the appetite for small-cap stocks rallied substantially. We deployed the majority of our cash position on the market pullback and ended the quarter with a 3.9% cash position.
- Finally, we believe there is significant value within the asset class after years of selling pressure and investor avoidance. We look forward to the second half of 2024 as management teams continue to focus on improving cost

- structures and margins, accelerating revenue, and strengthening balance sheets.
- The Fund's top five performers in 1Q24 were: AXT, Inc. (AXTI), Aspen Aerogels, Inc. (ASPN), MKS Instruments, Inc. (MKSI), Pure Storage, Inc. (PSTG) and Infinera Corp. (INFN).
- The Fund's top five detractors on 1Q24 were: ADTRAN Holdings, Inc. (ADTN), Cambium Networks Corp. (CMBM), BigCommerce Holdings, Inc (BIGC), MaxLinear, Inc. (MXL) and Vicor Corp. (VICR).

## **OUTLOOK**

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- Higher interest rates and inflation will continue to impact economic activity as companies focus on their balance sheets and accumulate cash. Investments in innovation will be delayed and impact the recovery of supply chains. Higher interest rates may cause further stress within the economy as real interest rates increase and inflation decreases.
- Capital markets will remain challenged, and companies needing to raise funds are finding 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.
- Technology remains a long-term strength of the economy, and several major secular trends persist 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**   | 3.63%  | 3.63%  | 3.81%  | -7.20%  | 14.62% | 11.90% | 11.69%        |
| After Taxes on Distributions                 | 3.63%  | 3.63%  | 3.81%  | -9.69%  | 11.01% | 8.62%  | 9.61%         |
| After Taxes on Distributions & Redemptions   | 2.15%  | 2.15%  | 2.25%  | -5.88%  | 10.62% | 8.45%  | 9.36%         |
| Needham Small Cap Growth Fund Retail Class   | 3.48%  | 3.48%  | 3.61%  | -7.67%  | 13.97% | 11.28% | 11.08%        |
| After Taxes on Distributions                 | 3.48%  | 3.48%  | 3.61%  | -10.25% | 10.25% | 7.95%  | 8.99%         |
| After Taxes on Distributions and Redemptions | 2.06%  | 2.06%  | 2.13%  | -6.22%  | 10.07% | 7.92%  | 8.81%         |
| Russell 2000 Growth Index                    | 7.58%  | 7.58%  | 20.35% | -2.68%  | 7.38%  | 7.89%  | 8.50%         |
| Russell 2000 Index                           | 5.18%  | 5.18%  | 19.71% | -0.10%  | 8.10%  | 7.58%  | 8.35%         |
| S&P 500 Index                                | 10.56% | 10.56% | 29.88% | 11.49%  | 15.05% | 12.96% | 9.60%         |

Average Annual Returns as of March 31, 2024. 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 1.92% for the Retail Class and 1.61% for the Institutional Class. The Needham Small Cap Growth Fund's Net Expense Ratio is 1.83% for the Retail Class and 1.22% 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, 2025, 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](#) [Prospectus](#)

## 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, 2024: AXTI: 3.05%, ASPN: 12.64%, MKSI: 4.82%, PSTG: 1.88%, INFN: 2.55%, ADTN: 2.30%, CMBM: 1.84%, BIGC: 1.66%, MXL: 2.68% and VICR: 4.27%.

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