



**JAPAN SMALLER
CAPITALIZATION FUND, INC.**

**ANNUAL REPORT
FEBRUARY 28, 2023**



JAPAN SMALLER CAPITALIZATION FUND, INC.

April 27, 2023

To Our Shareholders:

We present the Annual Report of Japan Smaller Capitalization Fund, Inc. (the “Fund”) for the fiscal year ended February 28, 2023.

The net asset value (“NAV”) per share of the Fund decreased by 9.0% and the closing market price of the Fund (on the New York Stock Exchange) decreased by 10.6% after giving effect to the reinvestment of income dividends and ordinary income distributions for the fiscal year ended February 28, 2023. The closing market price of the Fund on February 28, 2023 was \$6.77, representing a discount of 16.6% to the NAV of \$8.12. The net assets of the Fund totaled \$229,950,704 on February 28, 2023.

The Russell/Nomura Small Cap™ Index, the Fund’s benchmark (“Benchmark”), decreased by 7.0% in United States (“U.S.”) dollar terms. During the fiscal year ended February 28, 2023, the Fund underperformed the Benchmark by 2.0% on a NAV basis. The Tokyo Price Index (the “TOPIX”), a capitalization-weighted index of all companies listed on the First Section of the Tokyo Stock Exchange (the “TSE”), decreased by 10.7% and the Nikkei Stock Average Index (“Nikkei”), a price-weighted index of the 225 leading stocks on the TSE, decreased by 12.5% in U.S. dollar terms for the fiscal year ended February 28, 2023. The Benchmark increased by 11.3% and outperformed the TOPIX index, which increased by 7.6% in local currency terms, for the fiscal year ended February 28, 2023. The Japanese yen (“Yen”) depreciated by 18.3% against the U.S. dollar during the fiscal year ended February 28, 2023.

For the quarter ended February 28, 2023, the Benchmark increased by 3.8%, the TOPIX increased by 2.8%, and the Nikkei increased by 0.4% in U.S. dollar terms. The NAV of the Fund increased by 7.6% and outperformed the Benchmark by 3.8%. The closing market price of the Fund increased by 5.2% and the Yen appreciated by 2.3% against the U.S. dollar during the quarter ended February 28, 2023.

Investment Strategy

The Fund aims to invest in undervalued stocks that offer fundamental strength and potential for improvement. The Fund performs extensive fundamental research to identify stocks that can create shareholder value. The Fund focuses on companies that are leaders in certain niche markets, companies with large or expanding market shares, stocks with superior shareholder distribution policies, and stocks that offer good growth prospects. In the Japanese small cap equity market, valuation anomalies do exist and can be exploited through active management. There are a number of factors that the Fund considers when selling an investment including a stock which appears fully valued, unexpected deterioration in earnings or a substantial loss that impairs the company’s net assets, and a stock’s diminishing potential given declining competitiveness due to a change of business environment or failure of business strategy.

Performance

In terms of the sector allocation strategy during the fiscal year ended February 28, 2023, overweight positions in the Banks and Iron and Steel sectors generated the largest positive contributions. Sector returns were eroded by overweight positions in the Utilities and the Chemicals sectors.

Relative performance was positively impacted by PAL GROUP Holdings Co., Ltd. in the Retail Trade sector, JVckenwood Corporation in the Electric Appliances sector, and

Asia Pile Holdings Corporation in the Glass and Ceramics Products sector. Conversely, relative performance was negatively impacted by Kyushu Electric Power Company in the Utilities sector, Nishikawa Rubber Co., Ltd. in the Other Products sector, and Seria Co., Ltd. in the Retail Trade sector.

Market Review

Volatility in the Tokyo stock market remained high throughout the last year. The stock market fell sharply at times due to the onset of the Russia and Ukraine conflict in February 2022, supply concerns caused by the Chinese lockdown, concerns over the Bank of Japan's revised monetary policy, market gyrations in reaction to rising inflation, and the resulting tightening of central bank monetary policies. However, the Tokyo stock market rallied towards the end of the year, partly due to a decline in long-term interest rates following indications that the inflation outlook might be easing and due to expectations that a weak Yen will support corporate earnings.

In March 2022, the Japanese stock market suffered a sharp sell-off amid concerns about the outlook for the global economy. Market anxiety grew following a surge in crude oil prices amid sanctions against Russia in reaction to its invasion of Ukraine. However, despite a 0.25% rate hike by the Federal Open Market Committee in mid-March, the Japan equity market rebounded strongly as market participants were reassured by the expected 2022 interest rate outlook. The widening gap between Japanese and U.S. interest rates, which pushed the Yen down to the 125-Yen level against the U.S. dollar, was also positively received.

In April 2022, the market faced headwinds due to concerns about inflation and the expectation that the U.S. would be more aggressive in raising interest rates in the future. Furthermore, the continued lockdown in Shanghai and concerns about a prolonged global economic downturn due to supply chain disruption added to the market's woes. As a result, the market experienced a sharp drop.

From late May 2022, the domestic stock market rebounded, primarily due to the gradual lifting of the lockdown in Shanghai and the Yen's depreciation against the U.S. dollar. These factors led to widespread buying of export-related stocks, further boosting the market. However, concerns about the global economic slowdown caused by significant monetary tightening in Europe and the U.S. led to a decline in the domestic stock market.

From mid-June 2022, the market experienced another rebound, mainly in high-tech stocks that had experienced significant declines due to the continuation of the Bank of Japan's current monetary easing policy. In July 2022, the market rose due to the stabilization of the long-term interest rate rise in the U.S. and the expectations of economic stimulus policies resulting from the Liberal Democratic Party's overwhelming victory in the Upper House election.

In August 2022, the market faced moments of decline due to concerns about the deterioration of U.S.-China relations caused by Nancy Pelosi's visit to Taiwan. However, the market rebounded due to economic indicators such as the slower increase in July's U.S. Consumer Price Index, which raised awareness of the peak out of inflation, and the retreat of expectations of significant U.S. interest rate hikes. Additionally, reports of relaxed entry restrictions related to COVID-19 into Japan further bolstered the Japanese market.

In September 2022, concerns about the future of the global economy increased due to expectations of prolonged U.S. monetary tightening. Central banks in various European countries also began to raise interest rates, and investor risk tolerance decreased due to the pound sterling's decline in response to distrust of the new United Kingdom government's policies. These factors led to a significant drop in the Japanese stock market.

However, the market rebounded from October through November 2022, with investors becoming optimistic about the stabilization of long-term interest rate rises in the U.S., expectations of upward earnings revisions for export-related companies, and the temporary Yen depreciation beyond 150-Yen per U.S. dollar.

In December 2022, a partial revision of the monetary easing policy was decided at the Bank of Japan's monetary policy meeting, causing a wide range of industries, excluding financials, to fall sharply.

For the first two months of 2023, the Japanese equity markets advanced. In January 2023, the Japanese stock market rebounded sharply on the back of a rebound in global investor sentiment, driven in part by lower long-term interest rates on expectations of milder inflation in the U.S. and expectations that China's lifting of the zero-coronavirus policy will boost the Chinese economy in the future. In February 2023, the Japanese stock market continued to rise, supported by a weaker Yen against the U.S. dollar.

Outlook and Future Strategy

Following the collapse of Silicon Valley Bank and the subsequent takeover of Credit Suisse by UBS, swift action by central banks and regulators appears to have proved effective in managing the latest outbreak of financial sector turmoil. It is expected financial markets to regain stability sooner rather than later. Nevertheless, in the process of normalizing the excess liquidity introduced during the pandemic, there is still the potential for sudden risk events to occur and trigger further surges in market volatility.

While a challenging macroeconomic climate will also cast a shadow over the economic recovery process in Japan, it is also expected the Japanese economy to prove relatively resilient in a global economic context. Firstly, Japan's major financial institutions have maintained high capital levels under strict supervision by financial regulators, which has helped to minimize the potential risk of serious banking failures. Secondly, from a geographical perspective, Japan is expected to benefit from the economic reopening of Asia and especially China.

Furthermore, there are signs of a longer-term shift in the Japanese economy. Real wages are expected to rise by around 1% compared to the previous fiscal year. Sustained wage growth could alter price norms and affect the behavior of Japanese consumers. Therefore, unlike in other developed countries where elevated inflation rates are hurting consumer confidence, moderate price increases could fuel a positive economic cycle in the Japanese economy.

On the other hand, valuations in the Japanese stock market remain close to the low end of their historical range, with a Price-to-Earnings ratio of around 13 based on 12-month forward consensus earnings forecasts. Over the past year, the continued outflow of funds from foreign investors, spurred by concerns over currency depreciation, appear to have weighed on the market. However, as the inflation rate approaches the Bank of Japan's target level of 2%, the central bank is expected to gradually move away from its ultra-loose monetary policy under the guidance of incoming Governor Kazuo Ueda. As a result, selling pressure on the Yen that resulted from a widening gap between domestic and foreign interest rates should diminish as interest rate spreads start to narrow. There is also increasing investor pressure on companies to improve capital efficiency. In response, more are beginning to implement enhanced shareholder returns and set ambitious Return on Equity targets, creating catalysts that would usher in a reassessment of the Japanese stock market.

We believe that small cap stocks with a higher sensitivity to domestic demand could outperform large cap stocks, despite the possibility that some investors will avoid small caps due their perceived higher risk at a time of uncertainty in the global economy. We expect small cap stocks to generate higher recurring profit growth than large caps for the fiscal year ending March 2024 with Small Cap stocks at 14.5% versus Large Cap stocks at 4.4%, due to the expected improvement in profitability resulting from an end of the weakening Yen trend and the expected rebound in the number of international visitors to Japan. We aim to generate returns by carefully identifying undervalued companies through thorough bottom-up research, even though financial tightening may make it difficult for stock prices to rise without considering valuations.

The Fund appreciates your continuing support.

Sincerely,

A handwritten signature in black ink, appearing to read 'Yuichi Nomoto', with a long horizontal flourish extending to the right.

Yuichi Nomoto
President

JAPAN SMALLER CAPITALIZATION FUND, INC.

PERFORMANCE (Unaudited)

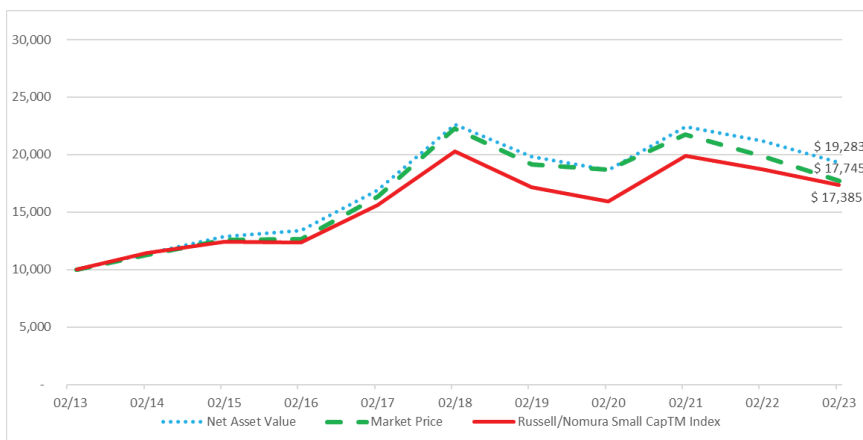
ANNUALIZED RETURNS AS OF FEBRUARY 28, 2023

	<u>1 Year</u>	<u>5 Year</u>	<u>10 Year</u>
Net Asset Value (a)	(9.0%)	(3.2%)	6.8%
Market Price (a)	(10.6%)	(4.4%)	5.9%
Russell/Nomura Small Cap™ Index	(7.0%)	(3.0%)	5.7%

(a) Reflects the percentage change in share price adjusted for reinvestment of income dividends, ordinary income distributions, and long-term capital gain distributions.

Performance of a \$10,000 Investment (as of February 28, 2023)

The graph shows the change in value of a hypothetical investment of \$10,000 in the Fund for the period indicated. For comparison, the same investment is shown in the indicated index. The graph and table do not reflect the deduction of taxes that a shareholder would pay on Fund distributions or the sale of Fund shares.



DISCLOSURES

Sources: Nomura Asset Management U.S.A. Inc., Nomura Asset Management Co., Ltd., and Bloomberg L.P. Past performance is not indicative of future results. There is a risk of loss.

The NAV price is adjusted for reinvestment of income dividends, ordinary income distributions, and long-term capital gain distributions. The New York Stock Exchange's closing market price is adjusted for reinvestment of income dividends, ordinary income distributions, and long-term capital gain distributions. The Fund's performance does not reflect sales commissions.

This material contains the current opinions of the Fund's manager, which are subject to change without notice. This material should not be considered investment advice. Statements concerning financial market trends are based on current market conditions, which will fluctuate. There is no guarantee that these investment strategies will work under all market conditions, and each investor should evaluate their ability to invest for the long term.

Comparisons between changes in the Fund's net asset value or market price per share and changes in the Fund's benchmark should be considered in light of the Fund's investment policy and objective, the characteristics and quality of the Fund's investments, the size of the Fund, and variations in the Yen/U.S. Dollar exchange rate. This report is for informational purposes only. Investment products offered are not FDIC insured, may lose value, and are not bank guaranteed.

Indices are unmanaged. An index cannot be directly invested into.

Certain information discussed in this report may constitute forward-looking statements within the meaning of the U.S. federal securities laws. The Fund believes that the expectations reflected in such forward-looking statements are based on reasonable assumptions and can give no assurance that the Fund's expectations will be achieved. Forward-looking information is subject to certain risks, trends and uncertainties that could cause actual results to differ materially from those projected.

The Russell/Nomura Small Cap™ Index represents approximately 15% of the total market capitalization of the Russell/Nomura Total Market™ Index. It measures the performance of the smallest Japanese equity securities in the Russell/Nomura Total Market™ Index. As of February 28, 2023, there are 1,196 securities in the Russell/Nomura Small Cap™ Index.

PORTFOLIO MANAGER

On April 1, 2023, Mr. Atsushi Katayama became the new Lead Portfolio Manager of the Fund. Since April 1, 2023, Mr. Katayama along with Mr. Makoto Ito, a Portfolio Manager since July 1, 2013, are primarily responsible for the day-to-day portfolio management of the fund. Mr. Katayama is Head of the Japan Small Cap team in Nomura Asset Management Co., Ltd. ("NAM Tokyo"), the Fund's Investment Adviser. He started his equity investment career in 2006 at NAM Tokyo, where he provided fundamental research on Japanese small to mid-cap stocks. In 2008, Mr. Katayama joined TPG-Axon as an equity analyst covering Retail, Capital Goods, Financials, and Internet sectors. He worked at Point 72 Asia from 2014 to 2019 and at Dymon Asia Capital from 2019 to 2021, where he was a portfolio manager managing long-short Japan equity products and returned to NAM Tokyo as a senior portfolio manager in 2021.

SHAREHOLDERS ACCOUNT INFORMATION

Shareholders whose accounts are held in their own name may contact the Fund's registrar, Computershare Trust Company, N.A., at 1-800-426-5523 for information concerning their accounts.

PROXY VOTING

A description of the policies and procedures that the Fund uses to vote proxies relating to portfolio securities is available (1) without charge, upon request, by calling toll-free 1-800-833-0018; (2) on the website of the Securities and Exchange Commission ("SEC") at <http://www.sec.gov>; and (3) on the website of the Fund at <http://www.nomura-asset.com/investment-solutions/funds/closed-end-funds/jof>.

Information about how the Fund voted proxies relating to securities held in the Fund's portfolio during the most recent 12-month period ended June 30 is available (1) without charge, upon request, by calling toll-free 1-800-833-0018; and (2) on the SEC's website at <http://www.sec.gov>.

Additional information about the Fund's Board of Directors is available (1) without charge, upon request, by calling toll-free 1-800-833-0018; and (2) on the website of the SEC at <http://www.sec.gov> in the Fund's most recent proxy statement filing.

AVAILABILITY OF QUARTERLY SCHEDULE OF INVESTMENTS

The Fund files a schedule of investments with the SEC for the first and third quarters of each fiscal year on Form N-PORT. The Fund's Forms N-PORT are available on the SEC's website at <http://www.sec.gov>.

FUND CERTIFICATIONS

In December 2022, the Fund filed its Principal Executive Officer Certification with the New York Stock Exchange pursuant to Section 303A.12(a) of the New York Stock Exchange Corporate Governance Listing Standards.

The Fund's Principal Executive Officer and Principal Financial Officer Certifications pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 were filed with the Fund's Form N-CSR and are available on the SEC's website at <http://www.sec.gov>.

SHARE REPURCHASES

Notice is hereby given in accordance with Section 23(c) of the Investment Company Act of 1940 that from time to time the Fund may repurchase shares of its common stock in the open market.

INTERNET WEBSITE

Nomura Asset Management U.S.A. Inc. has established an Internet website which highlights its history, investment philosophy and process and products, which include the Fund.

The Internet web address is <http://www.nomura-asset.com/investment-solutions/funds/closed-end-funds/jof>.

JAPAN SMALLER CAPITALIZATION FUND, INC.

FUND HIGHLIGHTS—FEBRUARY 28, 2023 (Unaudited)

KEY STATISTICS

Net Assets	\$229,950,704
Net Asset Value per Share	\$8.12
Market Price	\$6.77
Percentage Change in Net Asset Value per Share(a)(b)	(9.0%)
Percentage Change in Market Price(a)(b)	(10.6%)

MARKET INDICES

Percentage change in market indices:(a)	<u>YEN</u>	<u>U.S.\$</u>
Russell/Nomura Small Cap™ Index	11.3%	(7.0%)
Tokyo Price Index	7.6%	(10.7%)
Nikkei Stock Average Index	5.8%	(12.5%)

(a) From March 1, 2022 through February 28, 2023.

(b) Reflects the percentage change in share price adjusted for reinvestment of income dividends and ordinary income distributions.

INDUSTRY DIVERSIFICATION

	<u>% of Net Assets</u>		<u>% of Net Assets</u>
Chemicals	16.5	Transportation and Warehousing	3.4
Retail Trade	12.2	Information and Communication	2.5
Construction	11.1	Iron and Steel	2.5
Banks	7.9	Electric Appliances	2.2
Wholesale Trade	7.9	Metal Products	1.6
Transportation Equipment	6.8	Glass and Ceramics Products	1.2
Utilities	4.1	Financing Business	1.1
Machinery	4.1	Pharmaceutical	1.1
Services	4.0	Precision Instruments	1.0
Food	3.8	Real Estate	0.6
Other Products	3.6		

TEN LARGEST EQUITY HOLDINGS

<u>Security</u>	<u>% of Net Assets</u>
JM Holdings Co., Ltd.	3.0
Sekisui Jushi Corporation	2.8
EXEO Group, Inc.	2.7
Sakata Inx Corporation	2.6
Kandenko Co., Ltd.	2.6
Seria Co., Ltd.	2.4
Nitto Kohki Co., Ltd.	2.3
Fujikura Kasei Co., Ltd.	2.3
Create SD Holdings Co., Ltd.	2.1
Izumi Co., Ltd.	2.0

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and the Board of Directors of Japan Smaller Capitalization Fund, Inc.

Opinion on the Financial Statements

We have audited the accompanying statement of assets and liabilities of Japan Smaller Capitalization Fund, Inc. (the “Fund”), including the schedule of investments, as of February 28, 2023, and the related statement of operations for the year then ended, the statements of changes in net assets for each of the two years in the period then ended, the financial highlights for each of the four years in the period then ended and the related notes (collectively referred to as the “financial statements”). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Fund at February 28, 2023, the results of its operations for the year then ended, the changes in its net assets for each of the two years in the period then ended and its financial highlights for each of the four years in the period then ended, in conformity with U.S. generally accepted accounting principles.

The financial highlights for year in the period ended February 28, 2019 were audited by another independent registered public accounting firm whose report, dated April 26, 2019, expressed an unqualified opinion on those financial highlights.

Basis for Opinion

These financial statements are the responsibility of the Fund’s management. Our responsibility is to express an opinion on the Fund’s financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (“PCAOB”) and are required to be independent with respect to the Fund in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Fund is not required to have, nor were we engaged to perform, an audit of the Fund’s internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Fund’s internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our procedures included confirmation of securities owned as of February 28, 2023, by correspondence with the custodian and brokers. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Ernst + Young LLP

We have served as the auditor of one or more Nomura investment companies since 2020.

New York, New York
April 27, 2023

JAPAN SMALLER CAPITALIZATION FUND, INC.

SCHEDULE OF INVESTMENTS FEBRUARY 28, 2023

	Shares	Fair Value
JAPANESE EQUITY SECURITIES		
Banks — 7.9%		
Daishi Hokuetsu Financial Group, Inc.	66,900	\$ 1,597,715
Okinawa Financial Group, Inc.	158,900	2,789,522
The Akita Bank, Ltd.	267,400	3,892,563
The Bank of Saga Ltd.	61,300	837,394
The Hyakugo Bank, Ltd..	194,200	597,934
The Keiyo Bank, Ltd..	376,600	1,793,267
The Musashino Bank, Ltd.	64,900	1,209,438
The Nanto Bank, Ltd..	32,800	648,601
The Taiko Bank, Ltd.	347,000	3,248,543
The Yamanashi Chuo Bank, Ltd.	163,400	1,604,162
		18,219,139
Chemicals — 16.5%		
Adeka Corporation.	103,600	1,682,447
Aica Kogyo Company, Limited	150,400	3,420,568
C.I. Takiron Corporation	327,400	1,222,171
Fujikura Kasei Co., Ltd.	1,608,900	5,296,596
Fuso Chemical Co., Ltd.	126,500	3,448,690
Moriroku Holdings Company, Ltd.	38,700	526,674
Nichireki Co., Ltd.	146,800	1,597,610
Nippon Soda Co., Ltd.	17,600	597,509
Riken Technos Corporation	115,400	495,232
Sakai Chemical Industry Co., Ltd	169,500	2,263,155
Sakata Inx Corporation	789,600	5,999,533
Sekisui Jushi Corporation	437,800	6,357,003
Shikoku Chemicals Corporation.	256,900	2,405,045
Soken Chemical & Engineering Co., Ltd.	42,500	559,026
T&K Toka Co., Ltd.	43,800	361,124
Yushiro Chemical Industry Co., Ltd.	267,500	1,682,625
		37,915,008

See notes to financial statements

JAPAN SMALLER CAPITALIZATION FUND, INC.

SCHEDULE OF INVESTMENTS (Continued) FEBRUARY 28, 2023

	Shares	Fair Value
Construction — 11.1%		
Dai-Dan Co., Ltd.	27,300	\$ 477,853
EXEO Group, Inc.	349,300	6,132,033
Fudo Tetra Corporation.	9,900	120,254
Kandenko Co., Ltd.	904,400	5,941,387
MIRAIT ONE Corporation	214,400	2,401,041
The Nippon Road Co., Ltd.	11,400	588,074
Toenec Corporation	84,200	2,109,873
Totetsu Kogyo Co., Ltd.	174,200	3,509,986
Yondenko Corporation	99,600	1,384,014
Yurtec Corporation.	505,800	2,809,897
		25,474,412
Electric Appliances — 2.2%		
AOI Electronics Co., Ltd.	91,400	1,216,338
I-PEX Inc.	61,000	584,069
Mabuchi Motor Co., Ltd.	50,500	1,399,015
Nisshinbo Holdings Inc.	79,600	590,778
Shindengen Electric Manufacturing Co., Ltd.	46,800	1,213,977
		5,004,177
Financing Business — 1.1%		
Mizuho Leasing Company, Limited	66,000	1,777,492
Ricoh Leasing Company, Ltd.	27,100	801,539
		2,579,031
Food — 3.8%		
Nichirei Corporation.	224,200	4,428,479
S Foods, Inc.	215,200	4,407,263
		8,835,742
Glass and Ceramics Products — 1.2%		
Asia Pile Holdings Corporation	268,900	1,440,483
Nichiha Corporation.	73,300	1,417,685
		2,858,168

See notes to financial statements

JAPAN SMALLER CAPITALIZATION FUND, INC.

SCHEDULE OF INVESTMENTS (Continued) FEBRUARY 28, 2023

	Shares	Fair Value
Information and Communication — 2.5%		
OBIC Co., Ltd.	6,800	\$ 996,376
Okinawa Cellular Telephone Company	48,600	1,142,815
Otsuka Corporation	109,900	3,706,808
		5,845,999
Iron and Steel — 2.5%		
Kyoei Steel Ltd.	220,300	2,638,711
Godo Steel, Ltd.	1,581,500	3,195,889
		5,834,600
Machinery — 4.1%		
Miura Co., Ltd.	98,200	2,370,482
Nitto Kohki Co., Ltd.	403,900	5,297,876
Sodick Co., Ltd.	164,000	921,924
TPR Co., Ltd.	72,200	740,118
		9,330,400
Metal Products — 1.6%		
Maruzen Co., Ltd.	86,500	1,165,749
Miyaji Engineering Group, Inc.	4,100	111,023
Rinnai Corporation.	19,900	1,396,517
Shinpo Co., Ltd.	2,300	20,805
Topre Corporation	98,200	863,043
		3,557,137
Other Products — 3.6%		
Kawai Musical Instruments Manufacturing Co., Ltd.	21,900	434,508
Komatsu Wall Industry Co., Ltd.	27,200	401,349
Nishikawa Rubber Co., Ltd.	312,900	2,708,573
Pigeon Corporation	46,300	713,799
The Pack Corporation.	183,800	4,051,879
		8,310,108
Pharmaceutical — 1.1%		
Nippon Shinyaku Co., Ltd.	52,300	2,344,344
Santen Pharmaceutical Co., Ltd.	28,800	220,098
		2,564,442

See notes to financial statements

JAPAN SMALLER CAPITALIZATION FUND, INC.

SCHEDULE OF INVESTMENTS (Continued) FEBRUARY 28, 2023

	Shares	Fair Value
Precision Instruments — 1.0%		
Nakanishi Inc.	109,500	\$ 2,268,292
		2,268,292
Real Estate — 0.6%		
FJ Next Holdings Co., Ltd.	31,200	231,561
Starts Corporation Inc.	58,800	1,111,317
		1,342,878
Retail Trade — 12.2%		
Amiyaki Tei Co., Ltd.	6,600	145,449
Cosmos Pharmaceutical Corporation.	17,900	1,641,562
Create SD Holdings Co., Ltd.	196,700	4,878,293
Izumi Co., Ltd.	212,500	4,647,096
JM Holdings Co., Ltd.	502,700	6,789,599
PAL GROUP Holdings Co., Ltd.	63,400	1,296,093
San-A Co., Ltd.	50,900	1,570,930
Seria Co., Ltd.	287,500	5,581,622
Yossix Holdings Co., Ltd.	90,600	1,414,741
		27,965,385
Services — 4.0%		
Kanamoto Co., Ltd.	199,700	3,326,744
Nippon Koei Co., Ltd.	21,600	522,203
Nishio Rent All Co., Ltd.	145,300	3,400,672
Step Co., Ltd.	155,700	2,116,655
		9,366,274
Transportation and Warehousing — 3.4%		
Meiko Trans Co., Ltd.	275,100	2,425,837
SG Holdings Co., Ltd.	86,100	1,241,976
Trancom Co., Ltd.	84,500	4,147,849
		7,815,662

See notes to financial statements

JAPAN SMALLER CAPITALIZATION FUND, INC.

SCHEDULE OF INVESTMENTS (Continued) FEBRUARY 28, 2023

	Shares	Fair Value
Transportation Equipment — 6.8%		
Hi-Lex Corporation	453,000	\$ 4,364,059
Kyokuto Kaihatsu Kogyo Co., Ltd.	206,400	2,218,931
Morita Holdings Corporation	289,500	2,588,981
Nichirin Co., Ltd.	80,000	1,291,546
Nippon Seiki Co., Ltd.	414,000	2,704,530
NOK Corporation	26,300	258,004
Tokai Rika Co., Ltd.	186,700	2,140,221
		15,566,272
Utilities — 4.1%		
Keiyo Gas Co., Ltd.	31,200	551,849
Kyushu Electric Power Company	767,700	4,084,321
Shikoku Electric Power Company	760,000	4,082,448
The Okinawa Electric Power Company	104,390	790,874
		9,509,492
Wholesale Trade — 7.9%		
Central Automotive Products, Ltd.	68,900	1,361,950
Kanaden Corporation	361,900	3,023,701
Kohsoku Corporation	169,600	2,369,178
Nagase & Co., Ltd.	85,300	1,268,045
Paltac Corporation	115,400	4,197,597
Ryoden Corporation	277,300	3,910,341
Sugimoto & Co., Ltd.	137,800	2,000,902
		18,131,714
TOTAL INVESTMENTS — 99.2% (cost \$267,230,088)		\$228,294,332
TOTAL FOREIGN CURRENCY — 0.6% (cost \$1,286,513)(a)		\$ 1,288,735
TOTAL INVESTMENTS AND FOREIGN CURRENCY — 99.8%		
(cost \$268,516,601)		\$229,583,067
TOTAL OTHER ASSETS AND LIABILITIES — 0.2%		\$ 367,637
TOTAL NET ASSETS — 100.0%		\$229,950,704

(a) Japanese Yen - Interest bearing account.

JAPAN SMALLER CAPITALIZATION FUND, INC.

STATEMENT OF ASSETS AND LIABILITIES FEBRUARY 28, 2023

ASSETS:

Investments in Japanese equity securities, at fair value (cost—\$267,230,088) . . .	\$228,294,332
Foreign currency, at fair value (cost—\$1,286,513)	1,288,735
Receivable for investments sold	773,864
Receivable for dividends	585,863
Prepaid expenses	14,552
Cash	<u>77,514</u>
Total Assets	<u>231,034,860</u>

LIABILITIES:

Payable for investments purchased	718,595
Accrued management fee	160,325
Accrued audit and tax fees	116,982
Accrued directors' fees and expenses	8,000
Other accrued expenses	<u>80,254</u>
Total Liabilities	<u>1,084,156</u>

NET ASSETS:

Capital stock (28,333,893 shares of capital stock outstanding, 100,000,000 shares authorized, par value \$0.10 each)	2,833,389
Paid-in capital	286,055,217
Total distributable loss	<u>(58,937,902)</u>
Net Assets	<u>\$229,950,704</u>
Net asset value per share	<u>\$ 8.12</u>

JAPAN SMALLER CAPITALIZATION FUND, INC.

STATEMENT OF OPERATIONS FOR THE YEAR ENDED FEBRUARY 28, 2023

INCOME:

Dividend income (net of \$676,228 withholding taxes)	\$ 6,086,030
Interest income	<u>3,195</u>
Total Income	<u>\$ 6,089,225</u>

EXPENSES:

Management fee	2,051,554
Legal fees	406,273
Custodian fee	255,490
Directors' fees and expenses	247,864
Other expenses	<u>280,843</u>
Total Expenses	<u>3,242,024</u>

INVESTMENT INCOME—NET	<u>2,847,201</u>
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REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS AND FOREIGN CURRENCY:

Realized gain (loss) on investments and foreign currency transactions:	
Net realized loss on investments	(14,212,792)
Net realized loss on foreign currency transactions	<u>(358,787)</u>
Net realized loss on investments and foreign currency transactions	<u>(14,571,579)</u>
Net change in unrealized appreciation on investments	10,360,133
Net change in unrealized depreciation on foreign currency transactions and translation	<u>(22,025,439)</u>
Net realized and unrealized loss on investments and foreign currency transactions and translation	<u>(26,236,885)</u>
NET DECREASE IN NET ASSETS RESULTING FROM OPERATIONS	<u>(\$ 23,389,684)</u>

See notes to financial statements

JAPAN SMALLER CAPITALIZATION FUND, INC.

STATEMENTS OF CHANGES IN NET ASSETS

	For the Year Ended February 28, 2023	For the Year Ended February 28, 2022
FROM OPERATIONS:		
Net investment income	\$ 2,847,201	\$ 3,015,980
Net realized gain (loss) on investments	(14,212,792)	5,982,268
Net realized loss on foreign currency transactions	(358,787)	(292,170)
Net change in unrealized appreciation (depreciation) on investments	10,360,133	(6,578,747)
Net change in unrealized depreciation on foreign currency transactions and translation	<u>(22,025,439)</u>	<u>(20,069,502)</u>
Net decrease in net assets resulting from operations	<u>(23,389,684)</u>	<u>(17,942,171)</u>
FROM DISTRIBUTIONS TO SHAREHOLDERS:		
Distributions to shareholders	<u>(1,306,192)</u>	<u>(17,173,173)</u>
Decrease in net assets derived from distributions to shareholders	<u>(1,306,192)</u>	<u>(17,173,173)</u>
NET ASSETS:		
Beginning of year	<u>254,646,580</u>	<u>289,761,924</u>
End of year	<u>\$229,950,704</u>	<u>\$254,646,580</u>

See notes to financial statements

JAPAN SMALLER CAPITALIZATION FUND, INC.

NOTES TO FINANCIAL STATEMENTS

1. Significant Accounting Policies

Japan Smaller Capitalization Fund, Inc. (the “Fund”) is registered under the Investment Company Act of 1940, as amended (the “Investment Company Act”), as a closed-end management investment company. The Fund operates as diversified as defined under the Investment Company Act. The Fund was incorporated in Maryland on January 25, 1990 and investment operations commenced on March 21, 1990. The Fund’s investment objective is to seek long-term capital appreciation through investments primarily in smaller capitalization Japanese equity securities.

The accompanying financial statements have been prepared in accordance with United States (“U.S.”) generally accepted accounting principles (“GAAP”) and are stated in U.S. dollars. The Fund is an investment company that follows the accounting and reporting guidance in accordance with the Financial Accounting Standards Board (“FASB”) Accounting Standards Codification Topic 946 *Financial Services – Investment Companies*. The following is a summary of the significant accounting and reporting policies used in preparing the financial statements.

(a) Valuation of Securities—Investments traded in the over-the-counter market are fair valued at the last reported sales price as of the close of business on the day the securities are being valued or, if none is available, at the most recent quoted bid price or, if none is available, the last reported sales price. Portfolio securities which are traded on stock exchanges are fair valued at the last sales price on the principal market on which securities are traded or, lacking any sales, at the last available bid price. Securities and other assets, including futures contracts and related options, that cannot be fair valued using one of the previously mentioned methods are stated at fair value as determined in good faith by or under the direction of the Board of Directors of the Fund.

(b) Foreign Currency Transactions—Transactions denominated in Japanese yen (“Yen”) are recorded in the Fund’s records at the prevailing exchange rate at the time of the transaction. Asset and liability accounts that are denominated in Yen are adjusted to reflect the current exchange rate at the end of the period. Transaction gains or losses resulting from changes in the exchange rate during the reporting period or upon settlement of foreign currency transactions are included in the results of operations for the current period.

The net assets of the Fund are presented at the exchange rates and fair values on February 28, 2023. The Fund does isolate that portion of the results of operations arising as a result of changes in the foreign exchange rates on investments from the fluctuations arising from changes in the market prices of securities held at February 28, 2023. Net realized gains or losses on investments include gains or losses arising from sales of portfolio securities and sales and maturities of short-term securities. Net realized gains or losses on foreign currency transactions arise from sales of foreign currencies, currency gains or losses realized on securities transactions between trade and settlement date, and the difference between the amounts of dividends, interest, and foreign withholding taxes recorded on the Fund’s books and the U.S. dollar equivalent of the amounts actually received or paid.

JAPAN SMALLER CAPITALIZATION FUND, INC.

NOTES TO FINANCIAL STATEMENTS (Continued)

(c) Security Transactions, Investment Income and Distributions to Shareholders—Security transactions are accounted for on the trade date. Dividend income and distributions are recorded on the ex-dividend dates and interest income is recorded on the accrual basis. Realized gains and losses on the sale of investments are calculated on the first in, first out basis.

Distributions from net investment income and net realized capital gains are determined in accordance with Federal income tax regulations, which may differ from U.S. GAAP. To the extent these “book/tax” differences are permanent in nature (i.e., that they result from other than timing of recognition—“temporary”), such accounts are reclassified within the capital accounts based on their Federal tax-basis treatment; temporary differences do not require reclassification.

Pursuant to a securities lending agreement with Brown Brothers Harriman & Co., the Fund may lend securities to qualified institutions. It is the Fund’s policy that, at origination, all loans shall be secured by collateral of at least 102% of the value of U.S. securities loaned and 105% of the value of foreign securities loaned. It is the Fund’s policy that collateral equivalent to at least 100% of the fair value of securities on loan must be maintained at all times (when applicable). Collateral is provided in the form of cash, which would be invested in certain money market funds. The Fund is entitled to receive all income on securities loaned, in addition to a portion of the income earned as a result of the lending transaction. Although each security loan is fully collateralized, there are certain risks. On November 21, 2008, the Fund suspended its participation in the securities lending program. The Fund may resume its participation in the future. During the fiscal year ended February 28, 2023, the Fund did not earn any fees from lending fund portfolio securities, pursuant to the securities lending agreement.

(d) Income Taxes—A provision for U.S. income taxes has not been made since it is the intention of the Fund to continue to qualify as a regulated investment company under the Internal Revenue Code and to distribute within the allowable time limit all taxable income to its shareholders.

Under Japanese tax laws, a withholding tax is imposed on dividends at a rate of 15.315% and such withholding taxes are reflected as a reduction of the related revenue. The withholding tax rate of 15.315% was reduced to 10% upon the submission of Form 17 - Limitation on Benefits Article. There is no withholding tax on realized gains.

In accordance with U.S. GAAP requirements regarding accounting for uncertainties in income taxes, management has analyzed the Fund’s tax positions taken or expected to be taken on federal and state income tax returns for all open tax years (the current and the prior three tax years), and has concluded that no provision for income tax is required in the Fund’s financial statements. The Fund recognizes interest and penalties, if any, related to uncertain tax positions as income tax expense in the statement of operations. During the current year and for the prior three tax years, the Fund did not incur any interest or penalties.

(e) Use of Estimates in Financial Statement Preparation—The preparation of financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts and disclosures in the financial statements. Actual results could differ from these estimates.

JAPAN SMALLER CAPITALIZATION FUND, INC.

NOTES TO FINANCIAL STATEMENTS (Continued)

(f) Concentration of Risk—A significant portion of the Fund’s net assets consists of Japanese securities which involve certain considerations and risks not typically associated with investments in the U.S. In addition to the smaller size, and greater volatility, there is often substantially less publicly available information about Japanese issuers than there is about U.S. issuers. Future economic and political developments in Japan could adversely affect the value of securities in which the Fund is invested. Further, the Fund may be exposed to currency devaluation and other exchange rate fluctuations.

(g) Indemnifications—Under the Fund’s organizational documents, its officers and directors are indemnified against certain liabilities arising from the performance of their duties to the Fund. Additionally, in the normal course of business, the Fund enters into contracts that contain a variety of representations which provide general indemnifications. The Fund’s maximum exposure under these agreements is unknown as this would involve future claims that may be made against the Fund that have not yet occurred. However, based on experience, the Fund expects the risk of loss to be remote and as such no additional accruals were recorded on the Statement of Assets and Liabilities.

2. Management Agreement and Transactions With Affiliated Persons

Nomura Asset Management U.S.A. Inc. (“NAM-U.S.A.” or the “Manager”) acts as the Manager of the Fund pursuant to a management agreement. Under the management agreement, the Manager provides all office space, facilities and personnel necessary to perform its duties. Pursuant to such management agreement, the Manager has retained its parent company, Nomura Asset Management Co., Ltd. (“NAM” or the “Investment Adviser”), as Investment Adviser to the Fund.

From March 1, 2022 through December 30, 2022, as compensation for its services to the Fund, the Manager received a monthly fee at the annual rate of 1.10% of the value of the Fund’s average weekly net assets not in excess of \$50 million, 1.00% of the Fund’s average weekly net assets in excess of \$50 million but not exceeding \$100 million, 0.90% of the Fund’s average weekly net assets in excess of \$100 million but not exceeding \$175 million, 0.80% of the Fund’s average weekly net assets in excess of \$175 million but not exceeding \$250 million, 0.70% of the Fund’s average weekly net assets in excess of \$250 million but not exceeding \$325 million, 0.60% of the Fund’s average weekly net assets in excess of \$325 million but not exceeding \$425 million and 0.50% of the Fund’s average weekly net assets in excess of \$425 million. Under a new management agreement, from December 31, 2022 through February 28, 2023, the Manager received a monthly fee at the annual rate of 0.90% of the value of the Fund’s average weekly net assets not in excess of \$250 million and 0.80% of the Fund’s average weekly net assets in excess of \$250 million. Under the management agreements, the Fund incurred fees to the Manager of \$2,051,554 for the fiscal year ended February 28, 2023. Under the investment advisory agreement, the Investment Adviser earned investment advisory fees of \$924,746 from the Manager, not the Fund, for the fiscal year ended February 28, 2023. At February 28, 2023, the management fee payable to the Manager by the Fund was \$160,325.

Certain officers and/or directors of the Fund are officers and/or directors of the Manager. Affiliates of Nomura Holdings, Inc. (the Manager’s indirect parent) did not earn any fees in commissions on the execution of portfolio security transactions for the fiscal year ended February 28, 2023. The Fund pays each Director not affiliated with the Manager an annual fee of \$30,000. In addition, the Fund pays each Director not affiliated with the Manager \$3,000 per in-person or virtually held meeting attended, \$2,000 per

JAPAN SMALLER CAPITALIZATION FUND, INC.

NOTES TO FINANCIAL STATEMENTS (Continued)

telephone meeting attended, and Director expenses related to attendance at meetings. The Chairman of the Board, presently Rodney A. Buck, is paid an additional annual fee of \$8,000. The Chairman of the Audit Committee, presently David B. Chemidlin, is paid an additional annual fee of \$4,000. Such fees and expenses for unaffiliated Directors aggregated \$247,864 for the fiscal year ended February 28, 2023.

3. Purchases and Sales of Investments

Purchases and sales of investments, exclusive of foreign currency and investments in short-term securities, for the fiscal year ended February 28, 2023 were \$101,542,098 and \$99,571,988, respectively.

4. Federal Income Tax

As of February 28, 2023, net unrealized depreciation on investments, exclusive of foreign currency, for federal income tax purposes was \$41,431,758, of which \$13,309,030 related to appreciated securities and \$54,740,788 related to depreciated securities. The cost of investments, exclusive of foreign currency of \$1,286,513, at February 28, 2023 for federal income tax purposes was \$269,726,090.

At February 28, 2023, the components of accumulated earnings on a tax basis consisted of unrealized depreciation on investments and foreign currency transactions of \$41,439,704, undistributed ordinary income of \$1,426,011, and a capital loss carryforward of \$18,924,032. The differences between book basis and tax basis for unrealized appreciation on investments and foreign currency transactions are attributable to the tax deferral of losses on wash sales and the tax treatment of passive foreign investment companies.

At February 28, 2023, for federal tax purposes, the Fund has a long-term capital loss carryforward of \$18,924,032 available to offset future capital gains.

The Fund paid an ordinary income distribution of \$1,306,192, which represents \$0.0461 per share, to shareholders of record as of December 20, 2022. The distribution was paid on December 28, 2022.

The Fund paid an ordinary income distribution of \$14,033,778, which represents \$0.4953 per share and a long-term capital gains distribution of \$3,139,395 which represents \$0.1108 per share, to shareholders of record as of December 17, 2021. The distribution was paid on December 28, 2021.

5. Fair Value Measurements

In accordance with U.S. GAAP, fair value is defined as the price that the Fund would receive to sell an asset or pay to transfer a liability in an orderly transaction between market participants at the measurement date. U.S. GAAP also establishes a frame work for measuring fair value, and a three-level hierarchy for fair value measurements based upon the transparency of inputs to the valuation of an asset or liability. Inputs may be observable or unobservable and refer broadly to the assumptions that market participants would use in pricing the asset or liability. Observable inputs reflect the assumptions market participants would use in pricing the asset or liability based on market data obtained from sources independent of the Fund. Unobservable inputs reflect the Fund's own assumptions about the assumptions that market participants would use in pricing the asset or liability

JAPAN SMALLER CAPITALIZATION FUND, INC.

NOTES TO FINANCIAL STATEMENTS (Continued)

developed based on the best information available in the circumstances. Each investment is assigned a level based upon the observability of the inputs which are significant to the overall valuation. The three-tier hierarchy of inputs is summarized below.

- Level 1 — quoted prices in active markets for identical investments
- Level 2 — other significant observable inputs (including quoted prices for similar investments, interest rates, prepayment speeds, credit risk, etc.)
- Level 3 — significant unobservable inputs (including the Fund's own assumptions in determining the fair value of investments)

At February 28, 2023, all of the Fund's investments were determined to be Level 1 securities.

During the fiscal year ended February 28, 2023, the Fund did not hold any instrument which used significant unobservable inputs (Level 3) in determining fair value.

6. Subsequent Events

The Fund has evaluated subsequent events through the date the financial statements were issued, and has determined that there were no subsequent events that require recognition or disclosure in the financial statements.

JAPAN SMALLER CAPITALIZATION FUND, INC.

FINANCIAL HIGHLIGHTS

For a share of common stock outstanding throughout each year:

	For the Year Ended				
	February 28,		February 29,	February 28,	
	2023	2022	2021	2020	2019
Net asset value, beginning of year:	\$ 8.99	\$ 10.23	\$ 8.85	\$ 10.17	\$ 14.01
Investment Operations:					
Net investment income (1).	0.10	0.11	0.10	0.11	0.09
Net realized and unrealized gain (loss) on investments and foreign currency.	(0.92)	(0.74)	1.63	(0.69)	(2.22)
Total from investment operations	(0.82)	(0.63)	1.73	(0.58)	(2.13)
Less Distributions:					
Distributions from ordinary income	(0.05)	(0.21)	(0.13)	(0.27)	(0.09)
Distributions from capital gains.	—	(0.40)	(0.22)	(0.47)	(1.62)
Total from distributions	(0.50)	(0.61)	(0.35)	(0.74)	(1.71)
Net asset value, end of year	\$ 8.12	\$ 8.99	\$ 10.23	\$ 8.85	\$ 10.17
Market value, end of year	\$ 6.77	\$ 7.63	\$ 8.99	\$ 8.03	\$ 8.92
Total investment return (2).	(10.6%)	(8.6%)	16.3%	(2.6%)	(13.8%)
Ratio/Supplemental Data:					
Net assets, end of year (000)	\$229,951	\$254,647	\$289,762	\$250,887	\$288,109
Ratio of expenses to average net assets . . .	1.47%	1.20%	1.23%	1.21%	1.13%
Ratio of net income to average net assets . .	1.29%	1.07%	0.99%	1.09%	0.67%
Portfolio turnover rate	46%	27%	38%	30%	24%

(1) Based on average shares outstanding.

(2) Based on market value per share, adjusted for reinvestment of income dividends, ordinary income distributions, and long-term capital gain distributions. Total return does not reflect sales commissions.

See notes to financial statements

JAPAN SMALLER CAPITALIZATION FUND, INC.

SUPPLEMENTAL SHAREHOLDER INFORMATION (Unaudited)

The 2022 annual meeting of the shareholders of the Fund was held in virtual meeting format on December 15, 2022 (“the Meeting”). The purpose of the Meeting was (1) to elect five Directors to serve for a term of one year and until their successors are duly elected and qualify (2) to approve a change to the compensation structure of the Fund so that so that at the Fund’s current asset level (and at asset levels below \$325 million) the Fund will pay a lower management fee, although if the Fund’s asset level goes above \$325 million the Fund would pay a higher management fee (3) to consider and vote upon a shareholder proposal to establish a special committee to investigate suitable alternatives to replace the Fund’s current investment manager, if properly presented at the Meeting and (4) to transact such other business as may properly come before the Meeting or any adjournment or postponement thereof.

1. To elect five Directors:

At the Meeting, Rodney A Buck, David B. Chemidlin, Marcia L. MacHarg, Paige P. Ouimet, and Yuichi Nomoto were re-elected to serve as Directors of the Fund for a term expiring at the annual meeting of shareholders to be held in 2023 and until their successors are duly elected and qualify. The results of the voting at the Meeting were as follows:

	<u>Shares Voted For</u>	<u>Shares Withhold Authority</u>	<u>Votes Abstained</u>
Rodney A. Buck	19,872,074	5,763,072	398,023
David B. Chemidlin	19,861,857	5,780,367	390,944
Marcia L. MacHarg	19,875,714	5,767,246	390,208
Yuichi Nomoto	19,890,478	5,746,878	395,812
Paige P. Ouimet	24,275,529	1,340,222	417,418

2. To approve a change to the compensation structure of the Fund for the management fee:

At the Meeting, a change to the compensation structure of the Fund so that so that at the Fund’s current asset level (and at asset levels below \$325 million) the Fund will pay a lower management fee, although if the Fund’s asset level goes above \$325 million the Fund would pay a higher management fee was approved. The results of the voting at the Meeting were as follows:

<u>Votes For</u>	<u>Votes Against</u>	<u>Votes Abstained</u>
17,451,623	4,904,833	52,313

3. To consider and vote upon a shareholder proposal:

At the Meeting, a shareholder proposal to establish a special committee to investigate suitable alternatives to replace the Fund’s current investment manager, if properly presented at the Meeting, was not approved. The results of the voting at the Meeting were as follows:

<u>Votes For</u>	<u>Votes Against</u>	<u>Votes Abstained</u>
6,112,778	16,146,098	149,893

JAPAN SMALLER CAPITALIZATION FUND, INC.

SUPPLEMENTAL SHAREHOLDER INFORMATION (Continued) (Unaudited)

INDEPENDENT DIRECTORS

Name, Age, Position(s) Held with the Fund,
Length of Service, Other Directorships Held
by Director, Number of Portfolios in Fund
Complex/Outside Fund Complexes Currently
Overseen by Director

Principal Occupation(s) During Past 5 Years:

Rodney A. Buck (75)

Director and Chairman of the Board
Director since: 2006
Chairman of the Board since: 2010
Director of one fund in the Fund Complex

Owner, Buck Capital Management (private investment management firm) since 2005; Chairman of the Dartmouth-Hitchcock Health Care Investment Committee since 2011.

David B. Chemidlin (66)

Director and Chairman of the Audit Committee
Director and Chairman of the Audit Committee since: 2006
Director of one fund in the Fund Complex

Owner and President of AbidesWorks LLC (accounting and business support services) since 2016; Corporate Controller, Advance Magazine Publishers, Inc. (d/b/a Conde Nast) from 1995-2016.

Marcia L. MacHarg (74)

Director
Director since: 2013
Director of one fund in the Fund Complex

Partner, Debevoise & Plimpton LLP (an international firm) from 1987-2012; Of Counsel, Debevoise & Plimpton LLP since 2013; Trustee, Board of Trustees of Smith College from 2014-2022 and Chair of the Audit Committee of the Board of Trustees from 2016-2022; Member of the Executive Committee of the Friends of Smith College Libraries from 2013-2015.

Paige P. Ouimet (47)

Director
Director since: 2021
Director of one fund in the Fund Complex

Kenan-Flagler Business School Professor at the University of North Carolina at Chapel Hill since January 2021; Associate Professor from 2016-2020; Assistant Professor from 2008-2015; Associate Dean of the PhD Program since 2022; Research Director of the Kenan Institute of Private Enterprise since 2022.

JAPAN SMALLER CAPITALIZATION FUND, INC.

SUPPLEMENTAL SHAREHOLDER INFORMATION (Continued) (Unaudited)

INTERESTED DIRECTOR

Name, Age, Position(s) Held with the Fund,
Length of Service, Other Directorships Held
by Director, Number of Portfolios in Fund
Complex/Outside Fund Complexes Currently
Overseen by Director

Principal Occupation(s) During Past 5 Years:

Yuichi Nomoto (50)*

President and Director

President and Director since: 2019

Director of one fund in the Fund complex

President and Chief Executive Officer of NAM-U.S.A. since 2019; Head of Global Business Strategy Department of NAM since 2022; Managing Director of NAM-U.S.A. since 2018; Head of Client Services and Marketing of NAM-U.S.A. from 2016-2020; Executive Director of NAM-U.S.A. from 2016-2018.

* Mr. Nomoto is an “interested person,” as defined in the Investment Company Act, of the Fund based on his positions with NAM-U.S.A. and NAM.

Committees and Directors’ Meetings. The Board of Directors has a standing Audit Committee, a standing Nominating Committee, and a standing Governance and Compliance Committee, each of which consists of the Directors who are not “interested persons” of the Fund within the meaning of the Investment Company Act and are “independent” as defined in the New York Stock Exchange listing standards. Currently, Rodney A. Buck, David B. Chemidlin, Marcia L. MacHarg, and Paige P. Oiumet are members of these Committees. The Fund has no standing Compensation Committee.

Each incumbent director attended at least 75% of the aggregate number of meetings of the Board of Directors held during the period for which they served and, if a member, of the aggregate number of meetings of the Audit and Special Committees held during the period for which they served.

JAPAN SMALLER CAPITALIZATION FUND, INC.

SUPPLEMENTAL SHAREHOLDER INFORMATION (Continued) (Unaudited)

OFFICERS OF THE FUND

Name, Address*, Age, Position(s) Held with the Fund, Term of Office ** and Length of Time Served

Principal Occupation(s) During Past 5 Years:

Yuichi Nomoto (50)

President and Director
President and Director since: 2019
Director of one fund in the Fund complex

President and Chief Executive Officer of NAM-U.S.A. since 2019; Head of Global Business Strategy Department of NAM since 2022; Managing Director of NAM-U.S.A. since 2018; Head of Client Services and Marketing of NAM-U.S.A. from 2016-2020; Executive Director of NAM-U.S.A. from 2016-2018.

Shinichi Masuda (52)

Vice President
Vice President since: September 2022

Chief Administrative Officer of NAM-U.S.A. since September 2022; Chief Project Manager, Asset Management Research Center of NAM from 2020 to 2022; Managing Director of the Product Planning and Development Department of NAM from 2018 to 2020; General Manager/Deputy General Manager of Nomura Bank (Luxembourg) S.A. from 2012 to 2018.

Michael A. Morrongiello (63)

Vice President
Vice President since: 2021

Executive Director of NAM-U.S.A. since 2007; Head of Operations of NAM-U.S.A. since 1998.

Maria R. Premole (61)

Vice President
Vice President since: 2013

Vice President in the Business Strategy Department since April 2022; Vice President of NAM-U.S.A. since 2013.

Neil A. Daniele (62)

Secretary and Chief Compliance Officer
Secretary since: 2002
Chief Compliance Officer since: 2005

Chief Compliance Officer of NAM-U.S.A. since 2005 and Managing Director of NAM-U.S.A. since 2007; Chief Compliance Officer of Nomura Corporate Research and Asset Management Inc. since 2009; Corporate Secretary of NAM-U.S.A. since 2013.

Amy J. Robles (45)

Treasurer
Treasurer since: 2013
Assistant Treasurer from 2011-2013

Executive Director of NAM-U.S.A. since 2015; Controller and Treasurer of NAM-U.S.A. since 2013; Vice President of NAM-U.S.A. from 2009-2015.

* The address of each officer listed above is Worldwide Plaza, 309 West 49th Street, New York, New York 10019.

** Elected and appointed by the Board of Directors and hold office until they resign, are removed or are otherwise disqualified to serve.

OFFICERS OF THE FUND (Continued)

Name, Address*, Age, Position(s) Held with
the Fund, Term of Office ** and Length of
Time Served

Principal Occupation(s) During Past 5 Years:

Melanie D. Malc (31)

Assistant Treasurer

Assistant Treasurer since: 2021

Vice President of NAM-U.S.A. since December
2021; Audit and Business Advisory staff-
supervisor at Citrin Cooperman & Co, LLP from
2014-2021.

* The address of each officer listed above is Worldwide Plaza, 309 West 49th Street, New York,
New York 10019.

** Elected and appointed by the Board of Directors and hold office until they resign, are removed
or are otherwise disqualified to serve.

JAPAN SMALLER CAPITALIZATION FUND, INC.

INVESTMENT OBJECTIVE AND POLICIES (Unaudited)

The investment objective of the Fund is long-term capital appreciation through investments in Japanese smaller capitalization companies. The Fund's investment policy is to invest, under normal market conditions, at least 80% of its total assets in smaller capitalization Japanese equity securities traded on the Tokyo, Nagoya, Fukuoka and Sapporo Stock Exchanges and included or traded on other indices or markets, as applicable, determined by the Investment Adviser to be appropriate indices or markets, for smaller capitalization companies in Japan ("Smaller Capitalization Companies"). Neither the Fund's investment objective nor its investment policy may be changed without the approval of the holders of a majority of the outstanding Shares. A majority vote, as defined by the 1940 Act, means the affirmative vote of the lesser of (i) 67% of the shares represented at a meeting at which more than 50% of the outstanding shares are represented, or (ii) more than 50% of the outstanding shares.

Under normal market conditions, at least 80% of the Fund's total assets are invested in equity securities of Smaller Capitalization Companies. Currently, the Investment Adviser considers Smaller Capitalization Companies to be those companies whose equity securities are included, at the time of purchase, in the Russell/Nomura Small Cap™ Index and certain other companies described below that are not represented in the Russell/Nomura Small Cap™ Index. The Russell/Nomura Small Cap™ Index measures the performance of small companies (in terms of adjusted market capitalization) and as of February 28, 2023 consists of 1,196 of the equity securities of the smallest companies included in the Russell/Nomura Total Index, representing the bottom 15% of the total market capitalization of the Russell/Nomura Total Market™ Index. The Russell/Nomura Total Market™ Index as of February 28, 2023 is comprised of 1,495 of the largest Japanese equity securities as determined by total market capitalization (in terms of adjusted market capitalization) and measures the performance of the broad Japanese equity market. Companies representing the bottom 2% of the total Japanese equity market (in terms of adjusted market capitalization) are not included in the Russell/Nomura Total Index and therefore are not included in the Russell/Nomura Small Cap™ Index. However, because the companies that belong to this bottom 2% have small market capitalizations, the Investment Adviser considers these companies to be Smaller Capitalization Companies. In addition, the Investment Adviser may deem other companies to be Smaller Capitalization Companies. As of February 28, 2023, the largest of the Smaller Capitalization Companies in the Russell/Nomura Total Index has an approximate market capitalization of 767 billion Yen which is approximately 5.6 billion in U.S. dollars terms. The market capitalizations of companies in the Russell/Nomura Small Cap™ Index change with market conditions and the composition of the Russell/Nomura Small Cap™ Index.

The Fund may invest its assets in a broad spectrum of industries. The Fund seeks to identify and invest in companies it believes offer potential for long-term capital appreciation. In evaluating prospective investments, the Investment Adviser utilizes internal financial, economic and credit analysis resources as well as information obtained from other sources. In selecting industries and companies for investment, the Investment Adviser considers overall growth prospects, financial conditions, competitive position, technology, research and development, productivity, labor costs and sources, profit margins, return on investment, structural changes in local economies, capital resources, the degree of government regulation or deregulation, management and other factors. There can be no assurance that the Fund will realize its investment objective.

Securities of Smaller Capitalization Companies are traded in a number of separate markets in Japan that have been developed in response to increased attention to this section of the securities market. At the time the Fund commenced operations in 1990, securities of emerging Japanese companies were traded primarily on the Japanese over-the-counter market and securities of these companies were not generally eligible for listing on major securities exchanges.

JAPAN SMALLER CAPITALIZATION FUND, INC.

INVESTMENT OBJECTIVE AND POLICIES (Continued) (Unaudited)

The Fund has adopted certain other policies as set forth below:

Assets Not Invested in Smaller Capitalization Companies, Other than Cash. The Fund may invest in equity securities of companies not considered Smaller Capitalization Companies, and also invest in fixed income securities. These fixed-income securities include non-convertible preferred stock, debt securities, obligations issued or guaranteed by the U.S. or Japanese government or their agencies or instrumentalities and money market instruments (such as short term obligations issued or guaranteed by the U.S. or Japanese government, commercial paper and time deposits, certificates of deposit and bankers' acceptances of U.S. or Japanese banks).

Repurchase Agreements. Repurchase agreements are contracts pursuant to which the seller of a security agrees at the time of sale to repurchase the security at an agreed upon date and price in a specified currency, thereby determining the yield during the term of the agreement. When the Fund enters into a repurchase agreement, the seller is required to maintain the value of the securities subject to the repurchase agreement, marked to market daily, at not less than their repurchase price. This results in a fixed rate of return for the Fund that is insulated from market fluctuation during such period although the rate of return may be affected by currency fluctuations.

Lending Portfolio Securities. In order to increase income, the Fund is authorized to lend portfolio securities from time to time to brokers, dealers and financial institutions and receive collateral in the form of cash or U.S. government securities. The Fund currently has suspended its securities lending program but may resume participation in the future. Under the Fund's procedures, collateral for such loans must be maintained at all times in an amount equal to at least 100% of the current market value of the loaned securities (including interest accrued on the loaned securities). The interest accruing on the loaned securities will be paid to the Fund, and the Fund will have the right, on demand, to call back the loaned securities. The Fund may pay fees to arrange the loans. The Fund will neither lend portfolio securities in excess of 30% of the values of its assets nor lend its portfolio securities to any officer, director, employee or affiliate of the Fund, the Manager or the Investment Adviser. Although the Fund is authorized to lend portfolio securities, it does not currently do so. However, it may resume the practice at any time.

Borrowings. The Fund is authorized to borrow money in amounts of up to 10% of the value of its total assets at the time of such borrowings.

Hedging Foreign Currency. The Fund is authorized to deal in forward foreign exchange between the U.S. dollar and the Yen as a hedge against possible variations in the foreign exchange rate between these currencies. This is accomplished through contractual agreements to purchase or sell a specified currency at a specified future date (up to one year) and price at the time of the contract. The Fund's dealings in forward foreign exchange are limited to hedging involving either specific transactions or portfolio positions. The Fund does not intend to utilize hedging techniques to a significant extent.

The Fund is also authorized to purchase or sell listed or over the counter foreign currency options, foreign currency futures and related options on foreign currency futures as a short or long hedge against possible variations in foreign exchange rates. Such transactions may be effected with respect to hedges on non-U.S. dollar-denominated securities owned by the Fund, sold by the Fund but not yet delivered, or committed or anticipated to be purchased by the Fund.

Hedging against a decline in the value of a currency does not eliminate fluctuations in the prices of portfolio securities or prevent losses if the prices of such securities decline, and it precludes the opportunity for gain if the value of the hedged currency should rise. Moreover, it may not be possible for the Fund to hedge against a devaluation that is so

JAPAN SMALLER CAPITALIZATION FUND, INC.

INVESTMENT OBJECTIVE AND POLICIES (Continued) (Unaudited)

generally anticipated that the Fund is not able to contract to sell the currency at a price above the devaluation it anticipates. The cost to the Fund of engaging in foreign currency transactions varies with such factors as the currency involved, the length of the contract period and the market conditions then prevailing. Since transactions in foreign currency exchange are usually conducted on a principal basis, no fees or commissions are involved.

JAPAN SMALLER CAPITALIZATION FUND, INC.

RISK FACTORS AND SPECIAL CONSIDERATIONS (Unaudited)

Risks of Investing in Equity Securities

Common and preferred stocks represent equity ownership in a company. Stock markets are volatile. The price of equity securities will fluctuate and can decline and reduce the value of a portfolio investing in equities. The value of equity securities purchased by the Fund could decline if the financial condition of the companies the Fund invests in declines or if overall market and economic conditions deteriorate. The value of equity securities may also decline due to factors that affect a particular industry or industries or due to general market conditions that are not specifically related to a company or industry, such as real or perceived adverse economic conditions, changes in the general outlook for corporate earnings, changes in interest or currency rates or generally adverse investor sentiment.

One or more markets in which the Fund invests may go down in value, with the possibility that the markets will go down sharply and unpredictably. The value of a security or other asset may decline due to changes in general market conditions, economic trends or events that are not specifically related to the issuer of the security or other asset, or factors that affect a particular issuer or issuers, exchange, country, group of countries, region, market, industry, group of industries, sector or asset class. Local, regional or global events such as war, acts of terrorism, the spread of infectious illness or other public health issues like pandemics or epidemics, recessions, or other events could have a significant impact on the Fund and its investments. Securities selected by Fund management may underperform the markets, the relevant indices or the securities selected by other funds with similar investment objectives and investment strategies.

Risks of Investing in Japan

General. There are special risks associated with investments in Japan and the value of the Fund's shares may vary widely in response to political and economic factors affecting companies in Japan. Political, social or economic disruptions in Japan or in other countries in the region may adversely affect the values of Japanese securities and thus the Fund's holdings.

Japan's economy could be negatively impacted by many factors, including rising interest rates, tax increases and budget deficits. In the longer term, Japan will have to address the effects of an aging population, such as a shrinking workforce and higher welfare costs. To date, Japan has had restrictive immigration policies that, combined with other demographic concerns, appear to be having a negative impact on the economy. Japan's growth prospects appear to be dependent on its export capabilities. Japan's neighbors, in particular China, have become increasingly important export markets. Despite a deepening in the economic relationship between Japan and China, the countries' political relationship has at times been strained in recent years. Should political tension increase, it could adversely affect the economy, especially the export sector, and destabilize the region as a whole. Japan also remains heavily dependent on oil imports, and higher commodity prices could therefore have a negative impact on the economy. Japan is located in a region that is susceptible to natural disasters, which could also negatively impact the Japanese economy.

The growth of Japan's economy historically has lagged that of its Asian neighbors and other major developed economies. The Japanese economy is heavily dependent on international trade and has been adversely affected by trade tariffs, other protectionist measures, competition from emerging economies, and the economic conditions of its trading partners.

JAPAN SMALLER CAPITALIZATION FUND, INC.

RISK FACTORS AND SPECIAL CONSIDERATIONS (Continued) (Unaudited)

Currency Risks. The value of the Fund's securities as measured in U.S. dollars may be affected by fluctuations in the value of the Yen relative to the U.S. dollar. The Yen has shown volatility over the past two decades. Such volatility could affect returns in the future. The Yen may also be affected by currency volatility elsewhere in Asia, especially Southeast Asia. Depreciation of the Yen will decrease the value of the Fund's holdings. Japan has, in the past, intervened in the currency markets to attempt to maintain or reduce the value of the Yen. Japanese intervention in the currency markets could cause the value of the Yen to fluctuate sharply and unpredictably and could cause losses to investors.

The Fund's assets will be invested principally in securities of Japanese issuers and substantially all of the income received by the Fund will be in Yen. However, the Fund will compute and distribute its income in U.S. dollars. Currency exchange rate fluctuations can decrease or eliminate income available for distribution. For example, if the value of the Yen falls relative to the U.S. dollar between the earning of the income and the time at which the Fund converts the Yen to U.S. dollars, the Fund may be required to liquidate securities in order to make distributions if the Fund has insufficient cash in U.S. dollars to meet distribution requirements. Furthermore, the Fund may incur costs in connection with conversions between U.S. dollars and the Yen.

The Fund's ability to hedge against foreign currency risks may adversely affect the Fund's net asset value. The Fund may engage in a variety of foreign currency exchange transactions. Hedging involves special risks, including possible default by the other party to the transaction, illiquidity and, to the extent the Investment Adviser's view as to certain market movements is incorrect, the risks that the use of hedging could result in losses greater than if they had not been used.

Regulatory and Judicial Risks. Issuers in Japan are subject to accounting, auditing and financial standards and requirements that differ, in some cases significantly, from those applicable to U.S. issuers. In particular, the assets and profits appearing on the financial statements of a Japanese issuer may not reflect its financial position or results of operations in the way they would be reflected had such financial statements been prepared in accordance with U.S. generally accepted accounting principles.

Legal principles relating to corporate affairs and the validity of corporate procedures, directors' fiduciary duties and liabilities and shareholders' rights for issuers in Japan may differ from those that may apply in the U.S. Shareholders' rights under Japanese law may not be as extensive as those that exist under the laws of the U.S. The Fund may therefore have more difficulty asserting its rights as a shareholder of a Japanese company in which it invests than it would as a shareholder of a comparable U.S. company.

It may be difficult for the Fund to obtain a judgment in a court outside the U.S. with respect to any claim that the Fund may have against any such issuer or its directors and officers. As a result, even if the Fund initiates a suit against the issuer in a U.S. court, it may be difficult for the Fund to effect service of process in Japan. Moreover, if the Fund obtains a judgment in a U.S. court, it may be difficult to enforce such judgment in Japan.

The Investment Adviser is a Japanese corporation with its principal place of business in Tokyo, Japan. Therefore, it may not be possible for shareholders to effect service of process within the U.S. upon the Investment Adviser or to enforce against the Investment Adviser, in U.S. courts or foreign courts, judgments obtained in U.S. courts predicated upon the civil liability provisions of the federal securities laws of the U.S. In addition, it is not certain that a foreign court would enforce, in original actions, liabilities against the Investment Adviser predicated solely upon the securities laws of the U.S.

JAPAN SMALLER CAPITALIZATION FUND, INC.

RISK FACTORS AND SPECIAL CONSIDERATIONS (Continued) (Unaudited)

The Fund may hold its foreign securities and cash in foreign banks and securities depositories. There may be less regulatory oversight over their operations than in the case of U.S. financial institutions. Also, certain Japanese laws may put limits on the Fund's ability to recover its assets if a foreign bank, depository or issuer of a security, or any of their agents, goes bankrupt.

Concentration Risk. From time to time, the Fund may invest a greater proportion of its assets in the securities of companies that are part of specific sectors and related industries of the Japanese economy. The Fund is therefore subject to greater risk of loss with respect to its portfolio securities as a result of its focus on such sectors and related industries.

Investing in a significantly reduced number of issuers may result in greater performance volatility, as the Fund will be more exposed to the risks associated with and developments affecting an individual issuer than if the Fund's investments were less concentrated.

Risks of Investing in Smaller Capitalization Companies

The Fund invests a substantial portion of its assets in the securities of smaller capitalization companies in Japan. Investments in the securities of these companies may present greater opportunities for growth, but also involve greater risks than are customarily associated with investments in securities of more established and larger capitalization companies. The securities of smaller capitalization companies have fewer market makers and wider price spreads, which may in turn result in more abrupt and erratic market price movements and make the Fund's investments more vulnerable to adverse general market or economic developments than would investments only in large, more established Japanese companies. It is more difficult to obtain information about smaller capitalization companies because they tend to be less well known and have shorter operating histories and because they tend not to have significant ownership by large investors or be followed by many securities analysts. Additionally, these companies may have limited product lines, markets or financial resources, or they may be dependent upon a limited management group that may lack depth and experience. Investments in larger and more established companies present certain advantages in that such companies generally have greater financial resources, more extensive research and development, manufacturing, marketing and service capabilities, more stability and greater depth of management and technical personnel.

Additional Risks

Russia launched a large-scale invasion of Ukraine in February 2022. The extent and duration of the military action, resulting sanctions and resulting future market disruptions in the region are impossible to predict, but could be significant and have a severe adverse effect on the region, including significant negative impacts on the economy and the markets for certain securities and commodities, such as oil and natural gas, as well as other sectors.

An outbreak of an infectious coronavirus (COVID-19) that was first detected in December 2019 developed into a global pandemic that has resulted in numerous disruptions in the market and has had significant economic impact leaving general concern and uncertainty. The impact of this coronavirus, and other epidemics and pandemics that may arise in the future, could affect the economies of many nations, individual companies and the market in general ways that cannot necessarily be foreseen at the present time.

War, terrorism, geopolitical uncertainties, public health issues and other business interruptions have caused and could cause damage or disruption to international commerce and the global economy, and thus could have a material adverse effect on the Fund. The Fund's business operations are subject to interruption by, among others, natural disasters, whether as a result of climate change or otherwise, fire, power shortages, nuclear power plant accidents and other industrial accidents, terrorist attacks and other hostile acts, labor disputes, public health issues and other events beyond its control. Should major public health issues, including pandemics, arise, the Fund could be adversely affected by market downturns.

JAPAN SMALLER CAPITALIZATION FUND, INC.

TAX INFORMATION (Unaudited)

We are required by subchapter M of the Internal Revenue Code of 1986, as amended, to advise you within 60 days of the Fund's fiscal year ended February 28, 2023 as to the federal tax status of distributions received by shareholders during such fiscal year. Accordingly, the Fund designates \$676,228 as foreign tax credit with the associated foreign gross income of \$6,762,258.

Shareholders should not use the above information to prepare their tax returns. The information necessary to complete your income tax returns will be included with your Form 1099 DIV which was sent to you separately in January 2023.

REVIEW OF THE FUND'S MARKET PRICE COMPARED TO NET ASSET VALUE (Unaudited)

Shares of closed-end investment companies, including funds focusing on a single country, have at various times traded at both premiums and discounts to their net asset value ("NAV"). Although the shares of the Fund have traded at such a premium, they also have traded at a discount from NAV.

Since the Fund was established, the Board of Directors on a quarterly basis has reviewed the market price of the Fund's shares. The purpose of such review has been to determine whether a discount exists and, if so, whether it would be in the shareholders' overall best interests for the Fund to conduct share repurchases, make an issuer tender offer for shares or consider another means of possibly reducing the discount. For example, the Board of Directors has also considered whether it would be in the best interests of the Fund to convert to an open-end fund or to an interval fund, which is a form of investment company that makes periodic share repurchases at prices based on NAV.

In addition, on May 26, 2016, the Board of Directors approved a Discount Management Plan. Under the plan, the Fund is authorized to make open-market share repurchases on the New York Stock Exchange. Such repurchases may be made from time to time as authorized by the Board of Directors.

To date, the Board of Directors has not authorized open-market share repurchases or a tender offer for shares of the Fund. The Board of Directors also has not felt that it would be in the best interests of the Fund or its shareholders to convert to an open-end fund or an interval fund. As a "country fund" emphasizing a smaller capitalization segment of the market, the Fund's NAV is more volatile than might be the case for a fund with a broader investment focus. The Board of Directors believes that converting the Fund to either an open-end or interval fund would subject the Fund to redemptions or repurchases at times when liquidation of portfolio securities could disadvantage remaining shareholders, and the Directors believe that the recent volatility of the financial markets in Japan supports their view. Additionally, since an open-end fund has a limited ability to invest in illiquid securities, such a conversion could hinder the Fund's ability to pursue its investment objectives. The Board of Directors intends to continue to review, on a quarterly basis, the trading market for the Fund's shares.

JAPAN SMALLER CAPITALIZATION FUND, INC.

BOARD REVIEW OF THE MANAGEMENT AND INVESTMENT ADVISORY AGREEMENTS (Unaudited)

The Board of Directors of the Fund (the “Board”) consists of five directors, four of whom are independent or non-interested directors (the “Independent Directors”). The Board considers matters relating to the Fund’s management and investment advisory agreements throughout the year. On an annual basis, the Board specifically considers whether to approve the continuance of these agreements for an additional one-year period. The specific agreements (the “Agreements”) consist of the Fund’s management agreement (the “Management Agreement”) with Nomura Asset Management U.S.A. Inc. (the “Manager”) and the investment advisory agreement between the Manager and its parent, Nomura Asset Management Co., Ltd. (the “Investment Adviser”).

The Board, including the Independent Directors, most recently approved the continuance of the Agreements at a meeting held on November 21, 2022. In connection with their deliberations at that meeting and at a separate meeting of the Independent Directors held on November 16, 2022, the Independent Directors received materials that included, among other items, information provided by the Manager including (i) copies of the current Agreements, a copy of the proposed new Management Agreement setting out a new management fee structure the Independent Directors approved at a meeting held on May 19, 2022 and that Fund shareholders subsequently approved at the December 15, 2022 annual shareholder meeting, and actions taken regarding such Agreements including approval history, (ii) a presentation on the Investment Adviser, the Fund’s investment strategy, Nomura Japan Small Cap Value Equity Strategy, and Other Accounts under Management, (iii) the organizational structure of the Investment Adviser and Manager including biographical information about the personnel performing management and investment advisory services for the Fund, (iv) responses to questionnaires from the Manager and the Investment Adviser concerning their respective resources, services they provide to the Fund, and other current matters, (v) the most current financial statements and profitability of the Manager and the Investment Adviser including the management fee paid by the Fund to the Manager and the advisory fee paid by the Manager to the Investment Adviser, (vi) historical performance of the Fund, performance of comparative small-cap funds, and performance of the Fund’s benchmark, (vii) historical fund and financial highlights and historical ratio of expenses to average net assets, (viii) an analysis of the management fee structure compared to closed-end funds with Asia Equity strategies including assumed economies of scale, assets under management, and expense ratio. The Independent Directors were advised by, and received materials (including a detailed memorandum reviewing the applicable legal standards and factors to be taken into account in considering the renewal of investment management agreements, as set forth by the Supreme Court and other relevant court decisions) from their independent counsel in considering these matters and the continuance of the Agreements. Based on their discussion at their meeting on November 16, 2022, the Independent Directors requested additional information from the Manager. The Manager responded to these questions either prior to or at the meeting held on November 21, 2022.

In considering the continuance of the Agreements (including consideration of the new management fee structure for the Management Agreement) at the meeting held on November 21, 2022, the Board, including the Independent Directors, did not identify any single factor as determinative. Matters considered by the Directors in connection with their review of the Agreements included the following:

The nature, extent and quality of the services provided to the Fund under the Agreements. The Board considered the nature, extent and quality of the services provided to the Fund by the Manager and the Investment Adviser and the resources dedicated by the Manager and the Investment Adviser. These services included both investment advisory services and related services such as the compliance oversight provided by the Manager.

JAPAN SMALLER CAPITALIZATION FUND, INC.

BOARD REVIEW OF THE MANAGEMENT AND INVESTMENT ADVISORY AGREEMENTS (Continued) (Unaudited)

Based on its review of all of the services provided by the Manager and the Investment Adviser, the Board, including the Independent Directors, concluded that the nature, extent and quality of these services supported the continuance of the Agreements.

Performance. The Board considered performance information provided by the Manager regarding the Fund's performance over a number of time periods, including the three-month, year to date, one-year, three-year, five-year, and ten-year periods ended September 30, 2022. The Manager provided information about the performance of the Fund compared to the Fund's benchmark and comparative small-cap funds, Fund highlights and Fund financial highlights for the last three fiscal year ends, data on the Fund's expense ratio and summary of expenses for the last semi-annual period and prior five fiscal year ends, and comparative management fee structure, expense ratio, and other information on other closed-end funds with Asian Equity strategies.

The costs of the services to be provided and the profits to be realized by the Manager and its affiliates from their advisory relationships with the Fund. The Board considered the fee under the Fund's management agreement in connection with other information provided for the Directors' consideration. The Board considered information provided by the Manager regarding fees charged by the Manager and its affiliates to institutional accounts and other investment companies having investment objectives similar to the Fund's investment objective, including Japanese retail unit trusts. The Board recognized that the nature of the services provided by the Manager and the Investment Adviser to other investment vehicles and separate accounts differed from the range of services provided to the Fund.

The Manager also provided the Board with information prepared by the Manager and the Investment Adviser indicating the profitability of the Agreements to these respective advisers. This presentation included information regarding methodologies used to allocate expenses in considering the profitability of the Agreements to the Manager and the Investment Adviser. The Independent Directors reviewed this information with the Manager to understand expense allocation methodology utilized by the Investment Adviser.

After reviewing the information described above including investment performance and fee structures of comparative funds, the Independent Directors concluded that the management fee proposed to be charged to the Fund was reasonable and the profitability of the Agreements to the Manager and the Investment Adviser supported the continuance of the Agreements.

Based on an evaluation of all factors deemed relevant, including the factors described above and taking into account information received throughout the preceding year, the Board, including each of the Independent Directors, concluded that the Agreements should be continued through December 31, 2023.

JAPAN SMALLER CAPITALIZATION FUND, INC.

DIVIDEND REINVESTMENT PLAN (Unaudited)

The Dividend Reinvestment Plan (the “Plan”) is available automatically for any holder of Common Stock with shares registered in his/her own name who wishes to purchase additional shares with income dividends or long-term capital gain distributions received on shares owned, unless such shareholder elects to receive all dividends and capital gain distributions in cash, paid by check and mailed to the shareholder. If a shareholder holds shares in his/her own name, communications regarding the Plan should be addressed to Computershare Trust Company, N.A., (the “Plan Agent”), P.O. Box 505000 Louisville, KY 40233. Under the Plan, shareholders appoint the Plan Agent to reinvest dividends and distributions in shares of the Fund. Such shares will be acquired by the Plan Agent for shareholders either through open market purchases if the Fund is trading at a discount or through the issuance of authorized but unissued shares if the Fund is trading at net asset value or a premium. If the market price of a share on the payable date of a dividend or distribution is at or above the Fund’s net asset value per share on such date, the number of shares to be issued by the Fund to each shareholder receiving shares in lieu of cash dividends or distributions will be determined by dividing the amount of the cash dividends or distributions to which such shareholder would be entitled by the greater of the net asset value per share on such date or 95% of the market price of a share on such date. If the market price of a share on such distribution date is below the net asset value per share, the number of shares to be issued to such shareholders will be determined by dividing such amount, less brokerage commission, by the per share market price.

Purchases will be made by the Plan Agent from time to time on the New York Stock Exchange (the “Exchange”) or elsewhere to satisfy dividend and distribution investment requirements under the Plan. Purchases will be suspended on any day when the closing price (or the mean between the closing bid and ask prices if there were no sales) of the shares on the Exchange on the preceding trading day was higher than the net asset value per share. If on the dividend payable date, purchases by the Fund are insufficient to satisfy dividend or distribution investments and on the last trading day immediately preceding the dividend payable date the closing price or the mean between the closing bid and ask prices of the shares is lower than or the same as the net asset value per share, the Plan Agent will continue to purchase shares until all investments by shareholders have been completed or the closing price or the mean between the bid and ask prices of the shares becomes higher than the net asset value, in which case the Fund will issue the necessary additional shares from authorized but unissued shares. If on the last trading day immediately preceding the dividend payable date, the closing price or the mean between the bid and ask prices of the shares is higher than the net asset value per share and if the number of shares previously purchased on the Exchange or elsewhere is insufficient to satisfy dividend investments, the Fund will issue the necessary additional shares from authorized but unissued shares. There will be no brokerage charges with respect to shares issued directly by the Fund to satisfy the dividend investment requirements. However, each participant will pay a pro rata share of brokerage commissions incurred with respect to the Fund’s open market purchases of shares. In each case, the cost per share of shares purchased for each shareholder’s account will be the average cost, including brokerage commissions, of any shares purchased in the open market plus the cost of any shares issued by the Fund. For the fiscal year ended February 28, 2023, the Fund issued no new shares for dividend reinvestment purposes.

Shareholders who elect to hold their shares in the name of a broker or other nominee should contact such broker or other nominee to determine whether they may participate in the Plan. To the extent such participation is permitted, the Plan Agent will administer the Plan on the basis of the number of shares certified from time to time by the broker as representing the total amount registered in the shareholder’s name and held for the account of beneficial owners who are participating in such Plan. Shareholders that participate in

JAPAN SMALLER CAPITALIZATION FUND, INC.

DIVIDEND REINVESTMENT PLAN (Continued) (Unaudited)

the Plan holding shares in a brokerage account may not be able to transfer the shares to another broker and continue to participate in the Plan. Shareholders who are participating in the Plan may withdraw from the Plan at any time.

There will be no penalty for withdrawal from the Plan, and shareholders who have previously withdrawn from the Plan may rejoin it at any time. Changes in participation in the Plan should be made by contacting the Plan Agent if the shares are held in the shareholder's own name and must be in writing and should include the shareholder's name and address as they appear on the account registration. If the shares are held in the name of a broker or other nominee, such person should be contacted regarding changes in participation in the Plan. Upon withdrawal from the Plan, the appropriate number of full shares will be reflected in the Fund records and a cash payment for any fractional shares will be issued. The shareholder may also request the Plan Agent to sell part or all of the shareholder's shares at the market price and remit the proceeds to the shareholder, net of any brokerage commissions. A \$2.50 fee plus \$0.15 per share sold will be charged by the Plan Agent upon any cash withdrawal or termination. An election to withdraw from the Plan will, until such election is changed, be deemed to be an election by a shareholder to take all subsequent distributions in cash. An election will be effective only for a dividend or distribution if it is received by the Plan Agent not less than 10 days prior to such record date.

The Plan Agent will maintain all shareholders' accounts in the Plan, and furnish written confirmation of all transactions in such account, including information needed by shareholders for tax records. Shares in the account of each Plan participant may be held by the Plan Agent in non-certificated form in the name of the participant, and each shareholder's proxy will include those shares purchased or received pursuant to the Plan.

The automatic reinvestment of dividends will not relieve participants of any income taxes that may be payable (or required to be withheld) on such dividends. Shareholders receiving dividends or distributions in the form of additional shares pursuant to the Plan should be treated for Federal income tax purposes as receiving a distribution in an amount equal to the amount of money that the shareholders receiving cash dividends or distributions will receive and should have a cost basis in the shares received equal to such amount.

The Fund reserves the right to amend or terminate the Plan as applied to any dividend paid subsequent to written notice of the change sent to participants in the Plan at least 90 days before the record date for such dividend. There is no service charge to participants in the Plan; however, the Fund reserves the right to amend the Plan to include a service charge payable by the participants. All correspondence concerning the Plan, including requests for additional information about the Plan, should be directed to the Trust Company, at Computershare Trust Company, N.A. P.O. Box 505000 Louisville, KY 40233.

BOARD OF DIRECTORS

Rodney A. Buck
David B. Chemidlin
Marcia L. MacHarg
Yuichi Nomoto
Paige P. Ouimet

OFFICERS

Yuichi Nomoto, President
Zheng Liu, Vice President from 2018 to August 2022
Shinichi Masuda, Vice President since September 2022
Michael A. Morrongiello, Vice President
Maria R. Premole, Vice President
Neil A. Daniele, Secretary and Chief Compliance Officer
Amy J. Robles, Treasurer
Melanie D. Malc, Assistant Treasurer

MANAGER

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Worldwide Plaza
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New York, New York 10019-7316

INTERNET ADDRESS

<http://www.nomura-asset.com/investment-solutions/funds/closed-end-funds/jof>

INVESTMENT ADVISER

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Tokyo 135-0061, Japan

DIVIDEND PAYING AGENT, TRANSFER AGENT AND REGISTRAR

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P.O. Box 505000
Louisville, KY 40233

CUSTODIAN

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