

**Japan Smaller Capitalization Fund, Inc.**

As of March 31, 2022

**Fund Facts**

|   |                |
|---|----------------|
| NYSE Ticker   | JOF            |
| CUSIP   | 47109U104      |
| NYSE Market Price   | \$7.16         |
| Net Asset Value ("NAV") per share   | \$8.36         |
| Net Assets  | \$236,792,207  |
| Portfolio Holdings  | 100            |
| Inception Date  | March 21, 1990 |
| Premium/Discount  | -14.35%        |
| Shares Outstanding  | 28,333,893     |
| <b>Benchmark</b>  |                |
| Since inception to 8/31/04: Nikkei JASDAQ Stock Average Index. 9/1/04 onwards: Russell/Nomura Small Cap™ Index. |                |
| <b>Portfolio Managers</b>   |                |
| Hiromitsu Daimon CMA CIAA, Lead Portfolio Manager<br>Makoto Ito, Portfolio Manager                              |                |

**Fund Objectives**

**Japan Smaller Capitalization Fund, Inc. ("JOF" or the "Fund")** is a non-diversified, closed-end management investment company listed on the New York Stock Exchange ("NYSE"). The Fund's investment objective is to provide shareholders with long-term capital appreciation and to invest, under normal circumstances, at least 80% of its total assets in smaller capitalization Japanese equity securities traded on the Tokyo, Nagoya, and JASDAQ Stock Exchanges, the Mothers, Centex Markets, and other indices

or markets determined by the investment adviser to be appropriate indices or markets for smaller capitalization companies in Japan. Nomura Asset Management U.S.A. Inc. has served as the Fund's Manager since the Fund's inception in 1990. Nomura Asset Management Co., Ltd. has served as the Fund's Investment Adviser since the Fund's inception. The Manager and Investment Adviser are subsidiaries of Nomura Holdings, Inc. and affiliates of Nomura Securities Co., Ltd., Tokyo, Japan.

**Performance Overview**

|                        | JOF NAV <sup>(1)</sup> | JOF NYSE Market Price <sup>(2)</sup> | Russell/Nomura Small Cap™ Index <sup>(3)</sup> | Nikkei JASDAQ Stock Avg. <sup>(3)</sup> |
|------------------------|------------------------|--------------------------------------|--|---|
| <b>1 Month</b>         | -7.01%                 | -6.16%                               | -4.24%   | -2.99%                                  |
| <b>3 Month</b>         | -8.43%                 | -9.02%                               | -7.86%   | -10.61%                                 |
| <b>Calendar YTD</b>    | -8.43%                 | -9.02%                               | -7.86%   | -10.61%                                 |
| <b>1 Year</b>          | -15.16%                | -17.10%                              | -13.18%  | -15.43%                                 |
| <b>3 Year</b>          | 0.14%                  | -0.39%                               | 1.40%  | -1.08%                                  |
| <b>5 Year</b>          | 2.95%                  | 2.17%                                | 2.76%  | 1.96%                                   |
| <b>10 Year</b>         | 6.76%                  | 6.77%                                | 6.36%  | 6.12%                                   |
| <b>Since Inception</b> | 2.79%                  | 2.06%                                | 1.72%  | 1.56%                                   |

<sup>(1)</sup>Based on NAV price, adjusted for reinvestment of income dividends, ordinary income distributions, and long-term capital gain distributions as per the dividend reinvestment policy of the Fund.

<sup>(2)</sup>Based on the New York Stock Exchange's market price, adjusted for reinvestment of income dividends, ordinary income distributions, and long-term capital gain distributions as per the dividend reinvestment policy of the Fund. JOF's performance does not represent sales commissions.

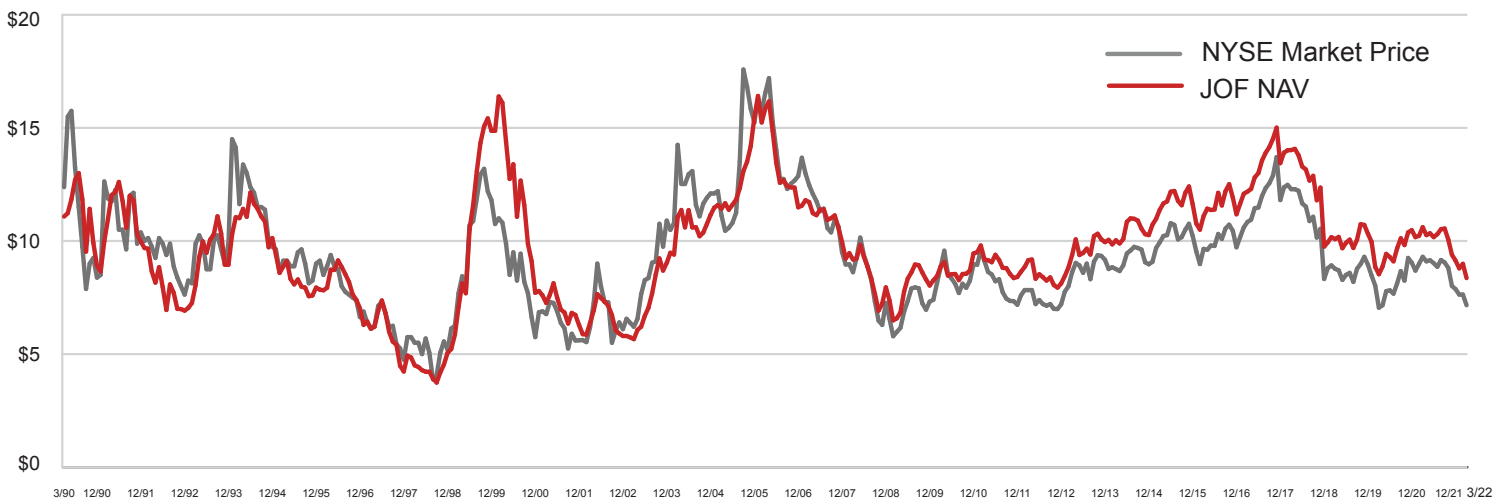
<sup>(3)</sup>From inception to 8/31/04, the benchmark was Nikkei JASDAQ Stock Average Index. Since 9/1/04, the benchmark has been the Russell/Nomura Small Cap™ Index. All results are in U.S. dollars.

Performance in excess of one year is annualized.

Sources: Nomura Asset Management U.S.A. Inc. and Bloomberg L.P.

Past performance is not indicative of future results. There is a risk of loss.

**JOF NAV versus NYSE Market Price**



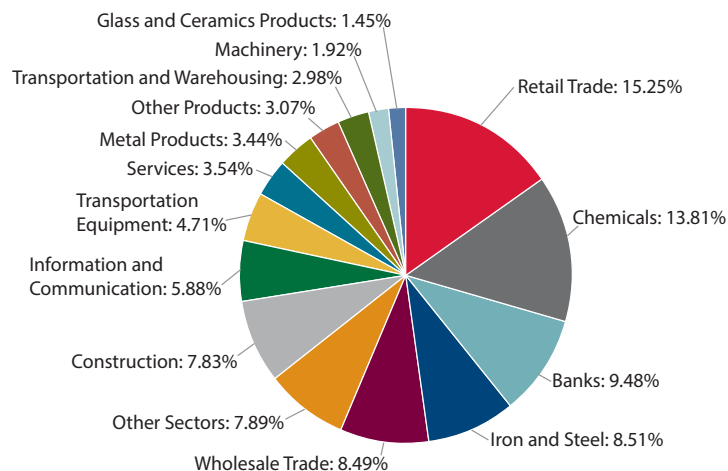
## Top Ten Holdings Holdings may vary over time.

| Security                           | % of Net Assets | % of Benchmark <sup>(1)</sup> |
|------------------------------------|-----------------|-------------------------------|
| Osaka Steel Co., Ltd.              | 4.64%           | Not included                  |
| Okinawa Cellular Telephone Company | 4.07%           | 0.08%                         |
| Ryoden Corporation                 | 3.49%           | 0.03%                         |
| Amiyaki Tei Co., Ltd.              | 2.66%           | Not included                  |
| Fujikura Kasei Co., Ltd.           | 2.49%           | Not included                  |
| Seria Co., Ltd.                    | 2.40%           | 0.15%                         |
| JM Holdings Co., Ltd.              | 2.38%           | 0.02%                         |
| T&K Toka Co., Ltd.                 | 2.33%           | Not included                  |
| Piolax, Inc.                       | 2.10%           | 0.06%                         |
| The Akita Bank, Ltd.               | 2.05%           | 0.03%                         |

The ten largest holdings by fair value reflect the Fund's investments on the date indicated and may not be representative of the Fund's current or future holdings. Holdings may combine more than one security from the issuer and related depository receipts.

<sup>(1)</sup>Russell/Nomura Small Cap™ Index.

## Sector Weightings Weightings may vary over time.



The industry diversification reflects the Fund's investments on the date indicated and may not be representative of the Fund's current or future holdings.

## Market Commentary

In the wake of an abnormally prolonged period of ultra-low interest rate policy, the equity market has at times reflected conditions resembling an asset bubble. It now appears that this 10 year period of accumulating pressure could be released, causing major shifts in market conditions. On the other hand, according to forecasts from Nomura Securities, the market's average P/E ratio for both large and small-cap stocks is currently around 13, so it does not appear to be overvalued. Judging from past experience; however, it is difficult to determine an appropriate market average P/E ratio since P/E valuations of around 10 are common during periods of both rising and high interest rates. This suggests that, at the very least, the market is likely to experience a period of polarization in terms of equity selection. The small cap market has also been experiencing an increased preference for value stocks since late November of last year.

Since February 2022, however, the outperformance of small-cap value stocks has subsided. It has been argued that this may be due to

Source: Nomura Asset Management Co., Ltd. All returns in the Market Commentary are quoted in Japanese Yen.

## Additional Information

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 Japanese Yen/U.S. Dollar exchange rate.

This report is for informational purposes only. The financial information is taken from the records of the Fund without examination by independent accountants. The portfolio information found in this report is as of the date of this brochure and is subject to change at any time without notice. This report is not a prospectus, circular or representation intended for use in the sale of shares of the Fund or of any securities mentioned in this report. Past performance is not indicative of future results. Current performance may be lower or higher than the performance presented. Investment products offered are not FDIC insured, may lose value, and are not bank guaranteed.

The Russell/Nomura Small Cap™ Index represents approximately 15% of the total market capitalization of the Russell/Nomura Total

the elevated level of geopolitical risk from the Russia-Ukraine conflict which could soften the Federal Reserve Board's conviction towards monetary tightening. We do not necessarily agree with this view. Rising inflation had been an ongoing trend long before the Russian invasion of Ukraine. Since then, the conflict and the resulting sanctions on Russia have added to the inflationary pressure. Over the long term, therefore, inflationary and monetary tightening trends are likely to continue.

We remain bullish on the outlook for small-cap value stocks for the following reasons:

First, there is still a wide gap between valuations of value and growth stocks. This has expanded to a historical level. As we have stated in the past, this gap will converge further due to the higher than expected global inflationary trends and the corresponding rise in interest rates.

Next, the negative impact of the pandemic on the stock market is expected to come to an end gradually. Unlike large-cap stocks, small-caps

Market™ Index. It measures the performance of the smallest Japanese equity securities in the Russell/Nomura Total Market™ Index. The Nikkei JASDAQ Stock Average Index is a capitalization-weighted index of all Japanese over-the-counter stocks. The TOPIX is a market capitalization-weighted index of all companies listed on the First Section of the Tokyo Stock Exchange. Any performance quoted should not be viewed as a representation of future investment performance. There is a risk of loss. One cannot invest directly in an index.

This material contains the current opinions of the Fund's manager, which are subject to change without notice. It 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.

Forward Looking Statements. Certain information discussed in this factsheet may constitute forward-looking statements within the meaning of the U.S. federal securities laws. Although the Investment

are heavily influenced by domestic demand and had been deprived of investor attention due to the specific impact of the pandemic on domestic spending. Furthermore, although the Omicron variant has caused further outbreaks of Covid-19, the availability of vaccines and new treatments has reduced the number of severe Covid-19 cases, so hospitalization and mortality rates could continue to decline. Many companies are adapting to a "new normal" in terms of labor practices and lifestyles. This makes it plausible to say Covid-19 can gradually transition to becoming a manageable endemic illness like seasonal influenza.

Lastly, as specialist investors, we can find many small-cap value stocks with solid financial and earnings bases among major niche companies across various industries. The fact that many stocks in this category have low beta could reflect their low risk fundamentals. We believe a time will come when these stocks will be revalued. This trend is just beginning and might turn out to be a long one.

Manager of the Fund believes that the expectations reflected in such forward-looking statements are based on reasonable assumptions, it can give no assurance that its 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 Fund may participate in new issuances of securities ("New Issues"), and a portion of the Fund's returns consequently may be attributable to its investment in New Issues. The market value of New Issues may fluctuate considerably due to factors such as the absence of a prior public market, unseasoned trading, and the limited availability for trading and limited information about the issuer. When a fund's asset base is small, New Issues may have a magnified impact on the Fund's performance. As a fund's assets grow, it is probable that the effect of the fund's investment in New Issues on its total returns may not be as significant, which could reduce the Fund's performance. There is no guarantee that the availability or economic attractiveness of New Issues will be consistent from year to year.