Japan Smaller Capitalization Fund, Inc.

As of July 31, 2023

Fund Facts

NYSE Ticker	JOF
CUSIP	47109U104
NYSE Market Price	$7.45
Net Asset Value ("NAV") per share	$8.89
Net Assets	$251,802,988
Portfolio Holdings	101
Inception Date	March 21, 1990
Premium/Discount	-16.198%
Shares Outstanding	28,333,893
Benchmark Since inception to 8/31/04: Nikkei JASDAQ Stock Average Index. 9/1/04 onwards: Russell/Nomura Small Cap™ Index.	
Portfolio Managers Atsushi Katayama, Lead Portfolio Manager Makoto Ito, Portfolio Manager	

Fund Objectives

Japan Smaller Capitalization Fund, Inc. ("JOF" or the "Fund") is a closed-end management investment company listed on the New York Stock Exchange ("NYSE"). The Fund operates as diversified as defined under the Investment Company Act of 1940. 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 and Nagoya Stock Exchanges, 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

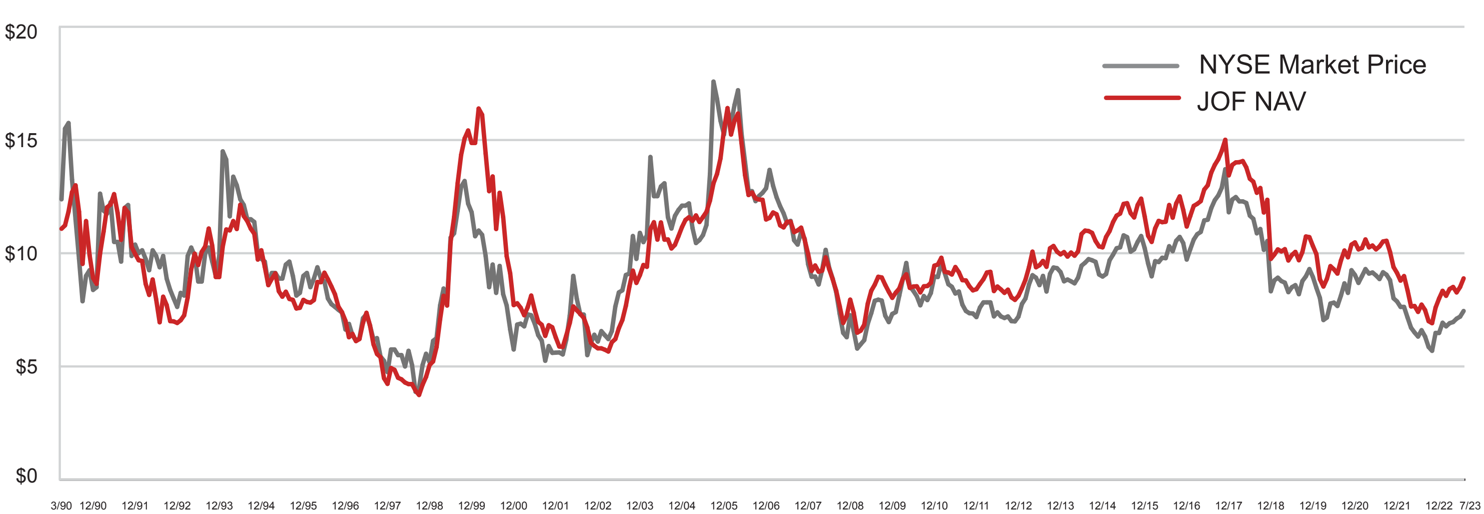
	JOF NAV[1]	JOF NYSE Market Price[2]	Russell/ Nomura Small Cap™ Index[3]
1 Month	4.47%	3.47%	4.30%
3 Month	4.47%	7.04%	4.33%
Calendar YTD	11.13%	14.97%	9.58%
1 Year	15.83%	13.69%	11.94%
3 Year	3.25%	3.05%	4.35%
5 Year	-0.14%	-1.01%	-0.48%
10 Year	6.79%	5.67%	5.70%
Since Inception	2.89%	2.12%	1.81%

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

[1] 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.
[2] 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.
[3] From inception to 8/31/04, the benchmark was the Nikkei JASDAQ Stock Average Index, which is no longer in existence as a result of the Tokyo Stock Market reorganization of market segments on 4/4/2022. 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.

JOF NAV versus NYSE Market Price



Top Ten Holdings

Holdings may vary over time.

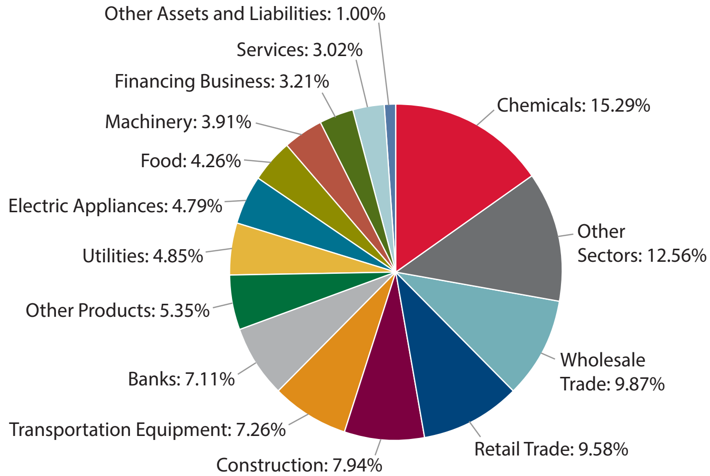
Security	% of Net Assets	% of Benchmark[1]
Shikoku Electric Power Company	3.06%	0.19%
Sakata Inx Corporation	2.73%	0.05%
EXEO Group, Inc.	2.48%	0.31%
Sekisui Jushi Corporation	2.32%	0.06%
Rakuten Bank, Ltd.	2.32%	Not included
Create SD Holdings Co., Ltd.	2.31%	0.10%
Nichirei Corporation	2.25%	0.35%
Macnica Holdings, Inc.	2.14%	0.34%
Nitto Kohki Co., Ltd.	2.14%	0.02%
Fujikura Kasei Co., Ltd.	2.02%	Not included

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.

[1] 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

While we are working on the assumption that monetary tightening by the Federal Reserve (Fed) will eventually slow the global economy, steady economic growth could persist for a while yet, with support from strong wage growth amid tight labor market conditions. Japan's gross domestic product (GDP) growth could even surpass the global rate of economic expansion. Structural factors, such as a consumption boost from the return of incoming tourists, accelerated corporate investment for productivity improvements, and rising wages are expected to drive Japan's economy.

Despite this robust economic recovery, we believe the Bank of Japan (BOJ) will wait a while longer before taking steps towards normalizing monetary policy beyond the recent adjustments to its yield curve control (YCC) policy. The BOJ has revised its year-over-year core Consumer Price Index (CPI) forecast for 2023 to +2.5%, but it still appears less confident about achieving the 2% target for the next year onwards. Indeed, its forecasts for 2024 and 2025 remain at +1.9% and +1.6% respectively. Thus, we expect the ultra-low interest rate policy to persist at least until the end of the year. The foreign exchange market experienced increased volatility following the BOJ's decision to adjust the YCC policy and allow greater flexibility in Japanese government bond (JGB) yields. However, given the time it will still take for the BOJ to embark on further monetary policy normalization, we believe the pace of monetary tightening by the Fed will have a greater impact on the USD/JPY exchange rate going forward.

Based on the favorable economic environment and reasonable market valuations, we upheld our positive outlook for the Japanese equity market. Although we are still in the midst of the corporate earnings reporting season for the first quarter (April-June) period, with the yen's depreciation contributing to expanded foreign exchange gains and the full resumption of domestic economic activity, profit growth of Japanese companies over the latest quarter is expected to exceed prior market expectations overall. Consequently, consensus earnings forecasts for this fiscal year ending March 2024 are likely to be revised upward. On the other hand, valuations remain within the historical average range, as indicated by the TOPIX index Price/Earnings Ratio (PER) of around 14 based on the consensus earnings forecast for the next 12 months. We believe the relative valuation discount of the Japanese stock market compared to other major developed countries is due to lower capital efficiency. As foreign investors have turned net buyers of Japanese equities since this April, attention on the Japanese stock market has increased globally. However, the sustainability of these elevated expectations from global investors will depend on further improvements in financial performance metrics such as return on equity (ROE), hinging on whether Japanese companies can undertake bold structural reforms. We observe signs of strengthening efforts by Japanese companies towards improving capital efficiency, triggered by demands from the Tokyo Stock Exchange. If these initiatives continue, we expect the valuation discount relative to other major stock markets to narrow.

Small cap stocks have been outpaced during the rapid large cap equity rally since April. However, we have started to see some signs of demand for small cap stocks as they outperformed TOPIX for the first time in five months. We expect the catch up to continue given that they are forecast to generate higher recurring profit growth than their large cap counterparts this fiscal year. This expected improvement in profitability will be driven by product or service price increases and the ongoing rebound in the number of international visitors to Japan. Market reforms by the Tokyo Stock Exchange should also provide a tailwind for small cap stocks, especially as they tend to comprise a higher proportion of value stocks whereas large caps are biased towards growth stocks. At the end of July, Sekisui Jushi Corporation, one of the Fund's top securities holdings, announced a large share repurchase plan from the parent company and the share price has performed well since then. We expect an increased number of companies to announce capital efficiency improvement plans towards the end of this fiscal year. This would lead to some revaluation of small cap stocks. We will continue to select stocks from a wide range of industries, particularly companies that have not received much attention from the market despite their excellent business strategies, companies where management has shown signs of change due to internal reforms, and companies where capital efficiency is projected to improve due to changes in their attitude toward shareholder returns. We aim to generate returns by carefully identifying those undervalued companies via thorough bottom-up research.

Source: Nomura Asset Management Co., Ltd.

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 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 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.