

**Japan Smaller Capitalization Fund, Inc.**

As of October 31, 2023

**Fund Facts**

NYSE Ticker	JOF
CUSIP	47109U104
NYSE Market Price	\$6.87
Net Asset Value ("NAV") per share	\$8.50
Net Assets	\$240,939,964
Portfolio Holdings	90
Inception Date	March 21, 1990
Premium/Discount	-19.176%
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>	
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 <sup>(1)</sup>	JOF NYSE Market Price <sup>(2)</sup>	Russell/ Nomura Small Cap™ Index <sup>(3)</sup>
<b>1 Month</b>	-2.97%	-3.38%	-3.92%
<b>3 Month</b>	-4.39%	-7.79%	-7.03%
<b>Calendar YTD</b>	6.25%	6.02%	1.87%
<b>1 Year</b>	23.89%	21.60%	13.97%
<b>3 Year</b>	-0.83%	-2.10%	-1.34%
<b>5 Year</b>	1.15%	-0.10%	0.01%
<b>10 Year</b>	5.62%	4.40%	4.09%
<b>Since Inception</b>	2.73%	1.86%	1.57%

<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.

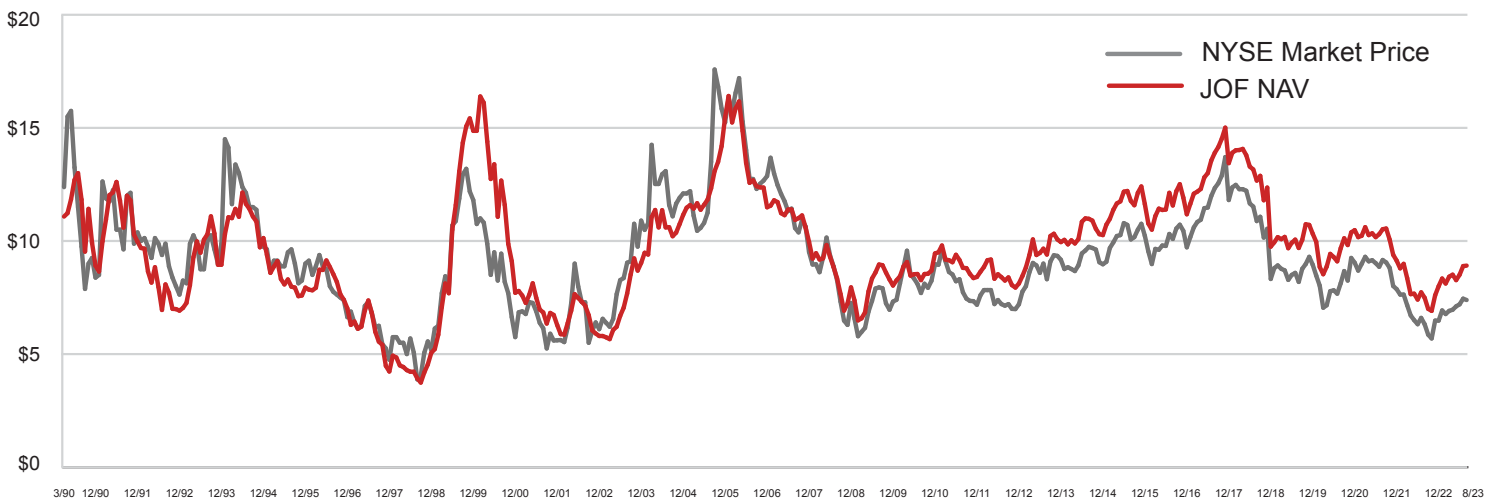
<sup>(3)</sup>From inception to 8/31/04, the benchmark was the Nikkei JASDAQ Stock Average Index, which is no longer in existence as a result of the Tokyo Stock Market reorganization of market segments on 4/4/2022. Since 9/1/04, the benchmark has been the Russell/Nomura Small Cap™ Index. All results 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.

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>
Shikoku Electric Power Company	3.11%	0.20%
Rakuten Bank, Ltd.	3.05%	Not included
Sakata Inx Corporation	3.02%	0.06%
EXEO Group, Inc.	2.57%	0.34%
Create SD Holdings Co., Ltd.	2.50%	0.10%
Sekisui Jushi Corporation	2.41%	0.07%
Ryoden Corporation	2.37%	0.03%
Macnica Holdings, Inc.	2.13%	0.35%
Nichirei Corporation	2.10%	0.36%
Paltac Corporation	2.08%	0.17%

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.

## Market Commentary

While the latest gross domestic product (GDP) data points to a somewhat overheated US economy, growth will likely slow down at some point in the near future as higher interest rates curb consumer spending. In contrast, the Chinese economy faces growing uncertainty due to the decline in its property sector, but growth is expected to gradually bottom out with the help of government stimulus measures. Taking these factors into account, we expect the global economy to return to a moderate growth trajectory over the next year.

The Japanese economy is expected to enjoy a relatively steady period of growth in the near term as economic activity normalizes later than has been the case for other countries. However, whether it can shift to a more sustainable growth trajectory beyond the short-term rebound, depends on whether it can achieve real growth in wages. Nominal wages are increasing at a faster pace than in previous years, but they are still falling behind the pace of inflation. Unless the Japanese labor unions take a more aggressive negotiating position, they are unlikely to achieve wage increases that meaningfully exceed consumer price rises.

The Bank of Japan (BOJ) will be able to raise its short-term policy rate into positive territory only when it is confident that sustained inflation accompanied by wage growth is leading to a virtuous cycle of economic growth. At this stage, the central bank is likely to prioritize boosting the economy by deliberately suppressing real interest rates rather than by rushing to normalize monetary policy. If monetary policy normalization becomes apparent, the Japanese yen, which has fallen

Source: Nomura Asset Management Co., Ltd.

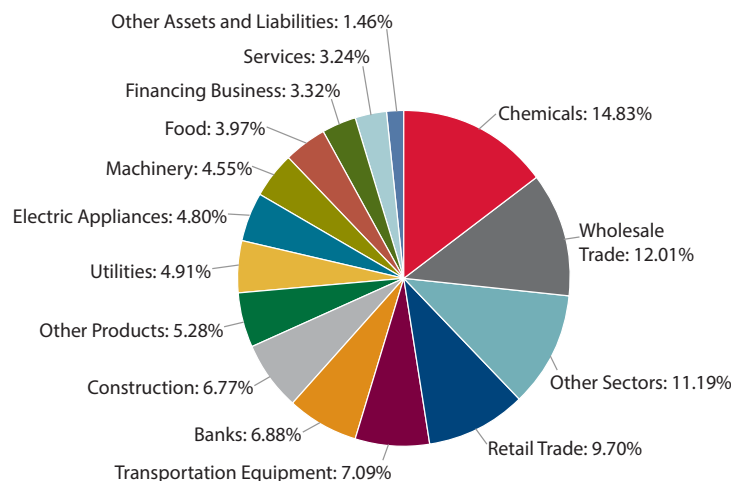
## Additional Information

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

## 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.

sharply against the US dollar since the beginning of the year, could bounce back again along with the narrowing of interest rate differentials between the two countries.

The Japanese stock market has stumbled in recent months, nearly cancelling out the gains of the first half of this year in US dollar terms due to increased volatility of global stock markets and the rapid depreciation of the yen. However, we believe that the structural upside catalysts for the Japanese stock market remain intact. The current P/E ratio stands at 13.7 times for the TOPIX based on earnings estimates, which is in line with historical average levels and still has some potential for revaluation. As for the first catalyst, although it could take a while longer, the Japanese economy is gradually escaping from the vicious cycle of low inflation and low economic growth that has lasted for almost three decades. Secondly, corporate governance reform among Japanese companies is expected to gain momentum. The Tokyo Stock Exchange has decided to publish a list of companies that are conducting measures to improve capital efficiency in January next year. Until now, structural reforms aimed at improving capital efficiency have been led by companies that trade below book value. Going forward, we expect pressure from investors to increase across a wider range of companies.

Given concerns about a future economic slowdown due to rising global interest rates and other factors, including the weakness of the Chinese economy, the rally in large cap stock prices has leveled out and also suffered a reversal in recent weeks.

Accordingly, small cap Japanese stocks have outperformed the TOPIX index since July. We expect this catch up process to continue given that small cap companies are forecast to generate higher recurring profit growth than their large cap counterparts towards next fiscal year. The BOJ is forecast to make a decision to abandon its policy of negative interest rates on certain bank deposits as early as the first half of next year. If this happens and there is some easing or reversal of the yen's depreciation trend, we believe the advantages of domestic demand-driven small-cap stocks will become even more evident. 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.

Stock selection will be executed 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. With the upcoming release of interim financial results, we expect the corporate earnings performance, particularly for domestic demand-oriented companies, to surpass initial forecasts thanks to a backdrop of robust domestic demand. We will thoroughly analyze their earnings reports and continue our efforts to identify undervalued stocks with strong profitability through bottom-up fundamental equity research.

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.