

Japan Smaller Capitalization Fund, Inc.

As of December 31, 2023

Fund Facts

NYSE Ticker	JOF
CUSIP	47109U104
NYSE Market Price	\$7.59
Net Asset Value ("NAV") per share	\$9.25
Net Assets	\$262,095,355
Portfolio Holdings	90
Inception Date	March 21, 1990
Premium/Discount	-17.946%
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	6.08%	8.12%	5.94%
3 Month	9.35%	10.55%	8.94%
Calendar YTD	19.74%	21.30%	15.51%
1 Year	19.74%	21.30%	15.51%
3 Year	-0.29%	-1.94%	-0.28%
5 Year	3.68%	2.87%	4.15%
10 Year	7.04%	5.81%	5.39%
Since Inception	3.08%	2.26%	1.94%

⁽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.

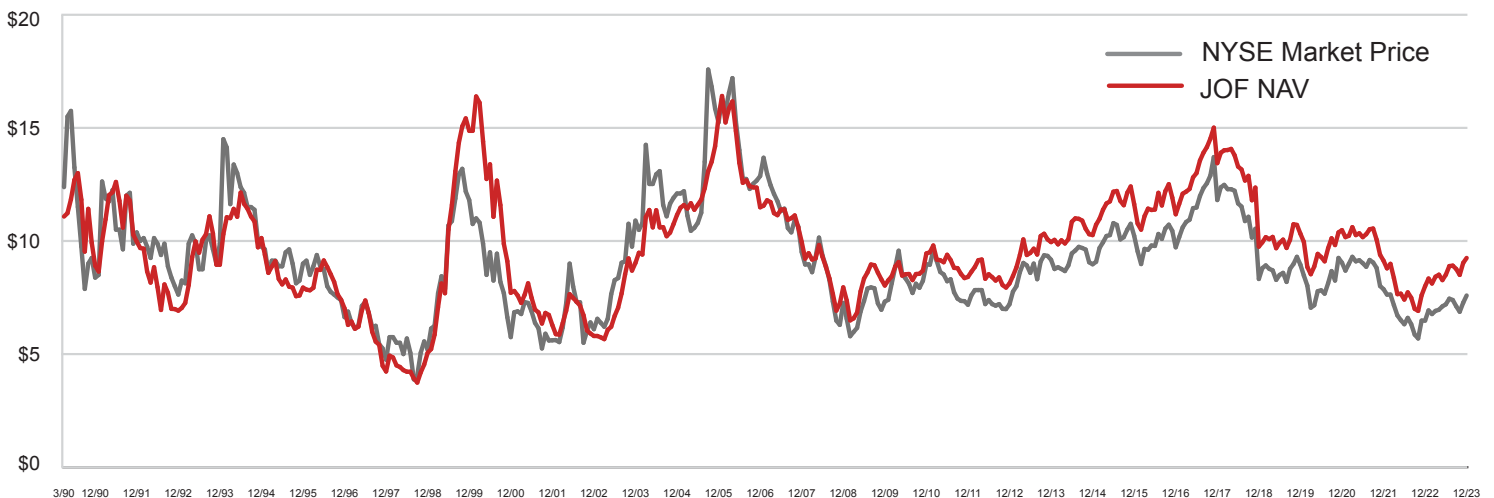
⁽³⁾From inception to 8/31/04, the benchmark was the Nikkei JASDAQ Stock Average Index, which is no longer in existence as a result of the Tokyo Stock Market reorganization of market segments on 4/4/2022. Since 9/1/04, the benchmark has been the Russell/Nomura Small Cap™ Index. All results are in U.S.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

Performance in excess of one year is annualized.

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

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 ⁽¹⁾
Sakata Inx Corporation	3.24%	0.06%
Shikoku Electric Power Company	2.90%	0.19%
Ryoden Corporation	2.67%	0.04%
Macnica Holdings, Inc.	2.59%	Not included
EXEO Group, Inc.	2.55%	0.32%
Create SD Holdings Co., Ltd.	2.38%	0.09%
Rakuten Bank, Ltd.	2.31%	Not included
Kanaden Corporation	2.10%	Not included
Nishio Holdings Co., Ltd.	2.07%	0.09%
Future Corporation	1.94%	0.09%

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.

Market Commentary

Inflationary pressures that have been troubling the global economy throughout 2023 are forecast to ease over the coming months. Some overheating in household consumption is also expected to ease gradually. As a result, 2024 is likely to see decelerating economic growth in a moderate inflationary environment, similar to pre-pandemic conditions. While this soft-landing outlook is our main scenario, we still see a risk that the economy could slow more than anticipated if there is evidence that the delayed effects of monetary tightening by the US Federal Reserve and the European Central Bank are beginning to have a strong impact on growth.

Tailwinds that contributed to the Japanese economy's growth in 2023 could also decelerate, with momentum reverting back to the potential growth rate. Although it resumed later than in other developed countries, economic activity has already approached pre-pandemic levels, and it is getting harder to identify further upside catalysts. On the other hand, the real income growth rate is expected to turn positive due to wage increases and a decline in commodity prices. While it is true that real income growth is not robust enough to boost consumer confidence at this point, we believe that even small improvements in household purchasing power could encourage Japanese companies to continue raising prices. This would bring the Japanese economy closer to breaking free from the low inflation and deflationary environment that has persisted for decades.

The Bank of Japan is likely to abandon some of its unconventional monetary easing measures this year, including those such as yield curve control and negative interest rates, which can have significant side effects. Efforts to normalize monetary policy would strengthen the yen by narrowing the interest rate differentials with other major economies. However, from the perspective of capital flows, the launch of the new Nippon Investment Savings Account (NISA), a tax incentive scheme for retail

Source: Nomura Asset Management Co., Ltd.

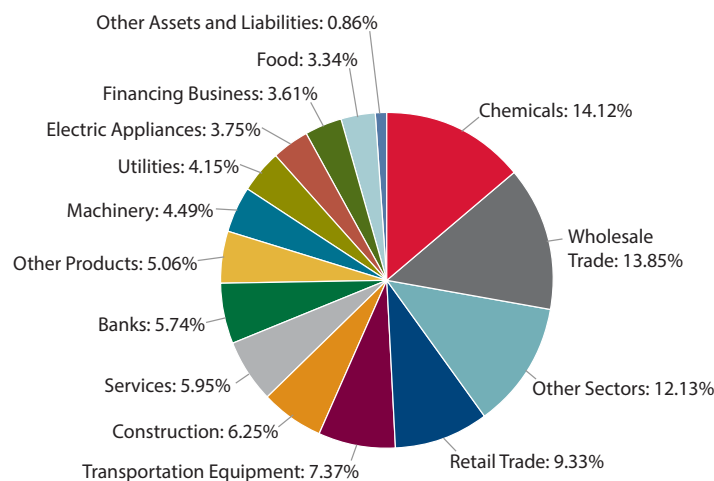
Additional Information

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.

investment, is likely to increase purchases of foreign equity mutual funds by domestic individual investors. This in turn could generate selling pressure on the yen and could help to drive volatility in the foreign exchange market.

As the cyclical macroeconomic recovery loses momentum, 2024 could see more market uncertainty given ongoing geopolitical conflicts as well as the US presidential and other important elections. Japan also started the New Year with a catastrophic earthquake on the Japan Sea coast, although we do not expect significant economic impact. In such a challenging situation, the Japanese stock market's continued advance in 2024 will depend on whether corporate governance reforms can go beyond formal compliance and begin to achieve measurable improvements in capital efficiency. Legacy industry giants are taking the lead in implementing measures to improve capital efficiency, such as the disposal of cross-shareholdings by major automaker groups and a major steelmakers' acquisition proposal for global industry consolidation. These initiatives can be expected to stimulate rival companies and accelerate a chain reaction of capital efficiency improvements.

Continuing with the November rebound, in December small-cap stocks again outperformed large-caps, driven mainly by growth stocks along with the fall in US bond yields. However, smaller companies overall have still been underperforming large-caps over the past twelve months as the weak yen has been more beneficial for large-cap stocks, which include many companies that are expanding globally.

Looking ahead, there are many favorable catalysts for small-cap stocks. Being focused mainly on domestic demand, their profit growth rate of 10.4% is expected to outpace the 7.6% for large-cap stocks. If the Bank of Japan's move towards normalizing its monetary policy leads to a stronger yen, the performance advantage

for small-cap stocks will become even more evident. Furthermore, small-cap stocks are currently undervalued, with a 12-month forward PER (price-to-earnings ratio) of 14.2, compared to 14.7 for large-cap stocks.

In 2023, the Tokyo Stock Exchange requested that companies focus on management aimed at realizing improvements in cost of capital and stock price, leading to an increase in stock prices for companies that implemented measures such as the disposal of cross-shareholdings, strengthening shareholder returns, and improving ROE (Return on Equity). The Tokyo Stock Exchange reforms are expected to continue in 2024 with various initiatives. For example, at the end of 2023 the Tokyo Stock Exchange issued a document requesting listed companies in parent-subsidary relationships to enhance the level of disclosure related to minority shareholder protection and group management; additionally, on January 15th a list of companies disclosing initiatives aimed at actualizing management focused on capital costs and stock prices for all listed companies on the Prime and Standard markets will be made public. These initiatives are expected to lead to an increase in the dissolution of parent-subsidary listings and corporate reorganizations. Market participants are paying attention to stocks that are likely targets for such reorganizations, even among small-caps.

We will continue our efforts to discover excellent companies that are undervalued relative to their growth prospects through bottom-up analysis of corporate fundamentals. We will select stocks from a wide range of industries, particularly companies that have not received much attention from the market despite their outstanding business strategies, companies where management has shown signs of change due to internal reforms, and companies where capital efficiency is expected to improve due to changes in their attitude toward shareholder returns.

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.