

Japan Smaller Capitalization Fund, Inc.

As of January 31, 2024

Fund Facts

| | |
|-----------------------------------|---|
| NYSE Ticker | JOF |
| CUSIP | 47109U104 |
| NYSE Market Price | \$7.58 |
| Net Asset Value ("NAV") per share | \$9.35 |
| Net Assets | \$264,898,864 |
| Portfolio Holdings | 91 |
| Inception Date | March 21, 1990 |
| Premium/Discount | -18.93% |
| 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 | 1.08% | -0.13% | 0.31% |
| 3 Month | 13.91% | 14.26% | 13.74% |
| Calendar YTD | 1.08% | -0.13% | 0.31% |
| 1 Year | 16.10% | 13.27% | 11.15% |
| 3 Year | 1.07% | -0.69% | 0.18% |
| 5 Year | 3.50% | 1.70% | 3.26% |
| 10 Year | 7.05% | 6.28% | 5.45% |
| Since Inception | 3.10% | 2.25% | 1.95% |

⁽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.

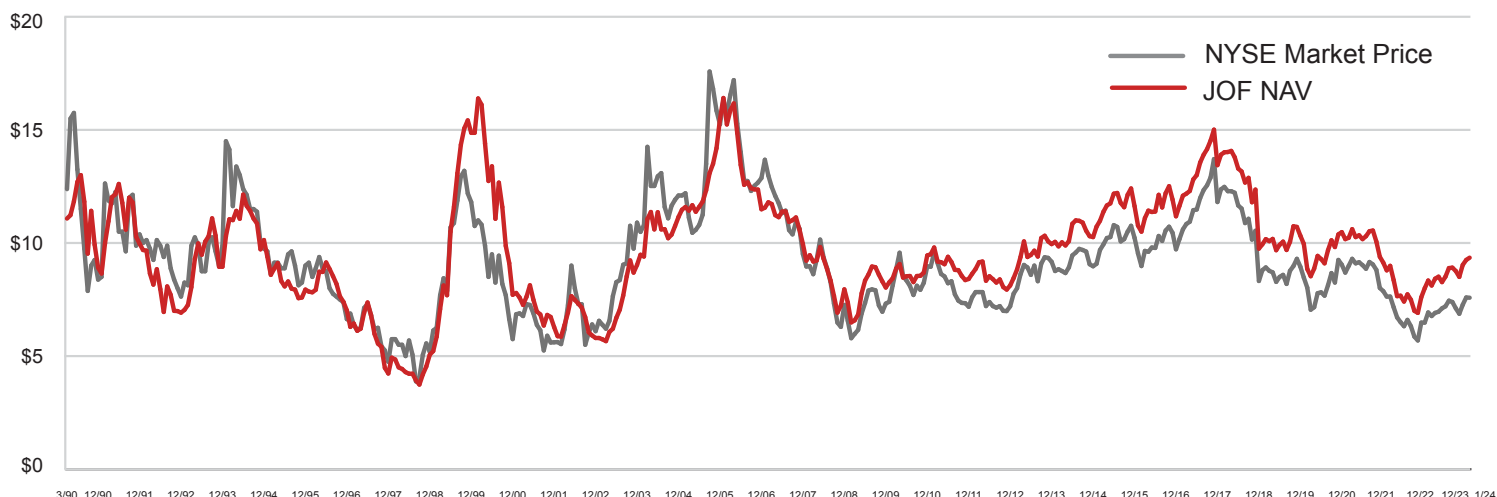
⁽³⁾From inception to 8/31/04, the benchmark was the Nikkei JASDAQ Stock Average Index, which is no longer in existence as a result of the Tokyo Stock Market reorganization of market segments on 4/4/2022. Since 9/1/04, the benchmark has been the Russell/Nomura Small Cap™ Index. All results are in U.S. 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 | 3.27% | 0.06% |
| Shikoku Electric Power Company | 2.85% | 0.18% |
| Macnica Holdings, Inc. | 2.63% | Not included |
| Ryoden Corporation | 2.63% | 0.04% |
| EXEO Group, Inc. | 2.56% | 0.32% |
| Rakuten Bank, Ltd. | 2.40% | Not included |
| Create SD Holdings Co., Ltd. | 2.38% | 0.09% |
| Adeka Corporation | 2.01% | 0.22% |
| Kanaden Corporation | 2.01% | Not included |
| Nishio Holdings Co., Ltd. | 1.98% | 0.08% |

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

Despite the efforts of the Federal Reserve Board (the “Fed”) to cool down the economy, US economic growth has remained surprisingly robust, raising the possibility that it could avoid a negative real GDP (“Gross Domestic Product”) growth reading altogether and defy our original forecasts. Although we still expect the Fed to shift to interest rate cuts at some point this year, the timing could be delayed to prevent the economy from overheating again. On the other hand, although the Japanese economy is also on the path to recovery, wage growth is currently not keeping up with inflation. As a result, consumer spending has recently been losing some momentum. However, following annual wage negotiations between managers of major corporations and labor unions, which usually take place in the spring, real income is expected to turn positive year-on-year, potentially helping to boost consumer confidence.

Subtle changes in tone regarding domestic and external economic conditions have some implications for our outlook on the foreign exchange market. Initially, we thought that the Japanese yen would appreciate against other major currencies, given the prospect of a narrowing interest rate differential as a result of the expected rate cuts from the Fed and the Bank of Japan’s (the “BOJ”) exit from its ultra-loose monetary policy. However, considering that the Fed’s rate cut timing has been pushed back, and that the BOJ’s policy rate is still in negative territory, the yen’s recovery in the next few months is likely to be limited.

While the Japanese stock market has exhibited a strong rally since the beginning of the year, the 12-month forward consensus earnings-based P/E (price-to-earnings ratio) remains at 14.3, still within the historical range. This is largely thanks to the strong overseas economies and the yen’s depreciation, which have boosted the earnings prospects for export-oriented Source: Nomura Asset Management Co., Ltd.

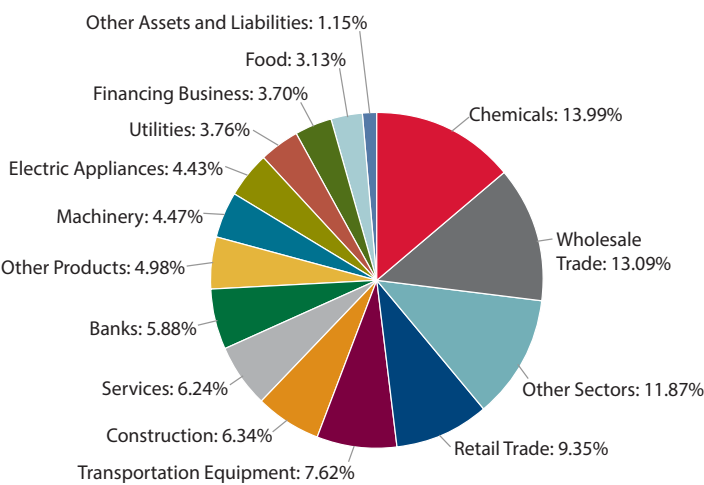
Additional Information

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.

manufacturers. Looking ahead, we can still reasonably expect the stock market to enjoy further upside, in line with future earnings growth potential. In addition, with demands for capital efficiency improvements from activists and the Tokyo Stock Exchange increasing further, companies are showing more willingness to proactively respond to these demands. For example, even in the TV broadcasting industry, which is a typical legacy industry protected by regulation, there have been some changes recently. A company that owns one of the largest TV stations in Japan announced a change to its articles of incorporation to enable dividend payments to a category of foreign shareholders who had been excluded from dividend payments due to foreign capital restrictions. This measure will make the company’s capital policy more flexible. As companies are even starting to review policies that had been implicitly considered taboo until now in order to optimize the use of their cash holdings, we believe there may be plenty of scope for ongoing improvements in capital efficiency.

In January, due to the progressively depreciating yen, overseas investors bought large-cap stocks while selling off small-caps, resulting in the latter’s underperformance. With the start of the new NISA program (Nippon Individual Saving Account, a tax-exempt investment scheme similar to the IRA program in the U.S.), small-cap value stocks with high dividends, which are popular among individual investors, showed relatively good performance.

Looking ahead, there are many favorable catalysts for small-cap stocks. Being focused mainly on domestic demand, their profit growth rate of 10.5% is expected to outpace the 6.2% for large-cap stocks. If the BOJ 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 P/E of 14.6, compared to 15.8 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”). On January 15th, the Tokyo Stock Exchange announced a list of companies that responded to requests for management focused on capital costs and stock prices. It was revealed that 49% of companies on the Prime Market and 18% of the Standard Market had included the necessary criteria in disclosures. We recognize that improving governance is an important investment theme, and as of the end of January approximately 60% of portfolio companies based on investment weight have been included in this Tokyo Stock Exchange list. We will monitor the management efficiency of our investment targets and also work to improve governance through engagement activities for companies not included in the list.

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.