

Japan Smaller Capitalization Fund, Inc.

As of March 31, 2024

Fund Facts

NYSE Ticker	JOF
CUSIP	47109U104
NYSE Market Price	\$7.98
Net Asset Value ("NAV") per share	\$9.60
Net Assets	\$272,039,371
Portfolio Holdings	89
Inception Date	March 21, 1990
Premium/Discount	-16.875%
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>	1.05%	2.05%	3.03%
<b>3 Month</b>	3.78%	5.14%	4.14%
<b>Calendar YTD</b>	3.78%	5.14%	4.14%
<b>1 Year</b>	18.07%	19.59%	14.76%
<b>3 Year</b>	0.53%	-1.23%	0.08%
<b>5 Year</b>	3.76%	2.82%	3.78%
<b>10 Year</b>	7.36%	6.83%	5.98%
<b>Since Inception</b>	3.17%	2.39%	2.05%

<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.

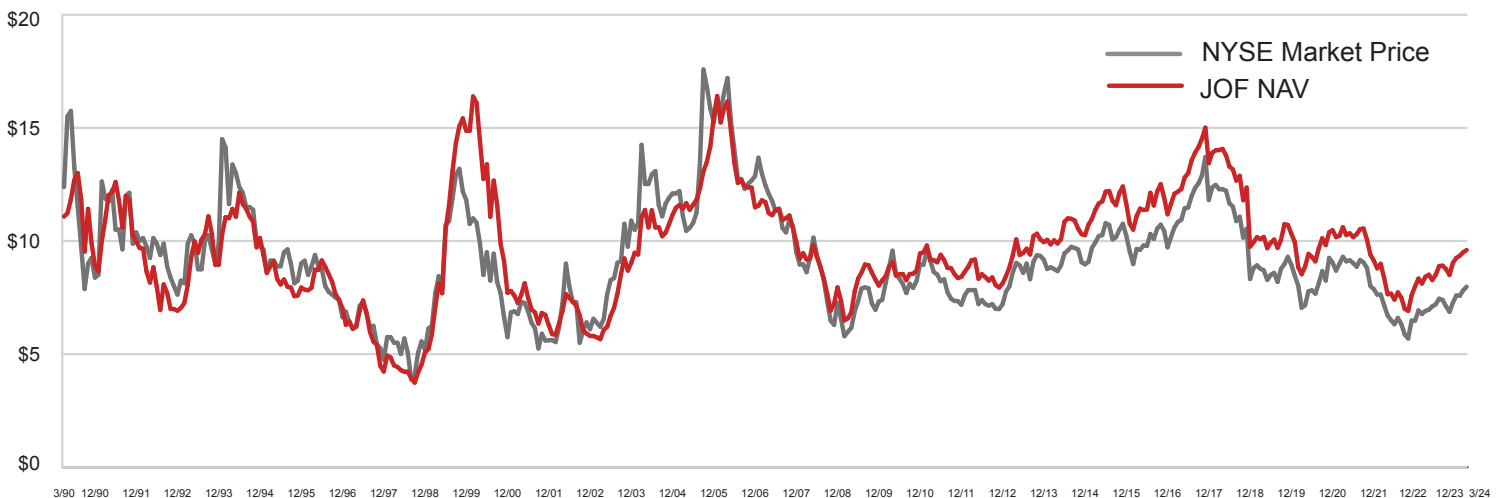
<sup>(3)</sup>From inception to 8/31/04, the benchmark was the Nikkei JASDAQ Stock Average Index, which is no longer in existence as a result of the Tokyo Stock Market reorganization of market segments on 4/4/2022. Since 9/1/04, the benchmark has been the Russell/Nomura Small Cap™ Index. All results 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>
Sakata Inx Corporation	3.76%	0.06%
Shikoku Electric Power Company	3.33%	0.20%
Rakuten Bank, Ltd.	2.66%	Not included
Ryoden Corporation	2.51%	0.04%
EXEO Group, Inc.	2.44%	0.30%
Macnica Holdings, Inc.	2.37%	Not included
Create SD Holdings Co., Ltd.	2.29%	0.09%
Adeka Corporation	2.07%	0.23%
S Foods, Inc.	1.89%	0.03%
Kanaden Corporation	1.87%	0.06%

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

The world economy has managed to navigate this period of higher interest rates without falling into recession and seems to be maintaining a dynamic trajectory that could continue for the foreseeable future. In the US, the economic environment remains robust to the extent that the Federal Reserve might need to keep policy interest rates on hold at higher levels for a while longer. Meanwhile, the Chinese government is emphasizing economic stability in order to achieve a sustained 5% GDP growth rate.

Within Japan, the domestic economy stands at a pivotal moment; the Bank of Japan ("BOJ") decided to raise the overnight interest rate target from a negative rate at the March 18-19 policy meeting, the first interest rate hike in 17 years. Given that real interest rates remain below the neutral rate, the BOJ is likely to attempt further steps to normalize its accommodative monetary policy stance. Our assessment suggests that the fundamentals of the Japanese economy have improved sufficiently to withstand this normalization process. Notably, wage increases well above expectations, resulting from the annual spring labor negotiations, are poised to boost consumer spending in the near term.

However, for Japan's economy to enter a virtuous cycle driven by rising prices and wages, wage growth must extend beyond large corporations to reach workers in small and medium-sized enterprises. Moreover, the key variable is whether productivity improvements can generate sustained real wage increases. While achieving this transformation could take several years, recent progress has been steady and encouraging.

The Japanese stock market has entered uncharted territory, fueled by both the evolving economic landscape and progress in corporate governance  
Source: Nomura Asset Management Co., Ltd.

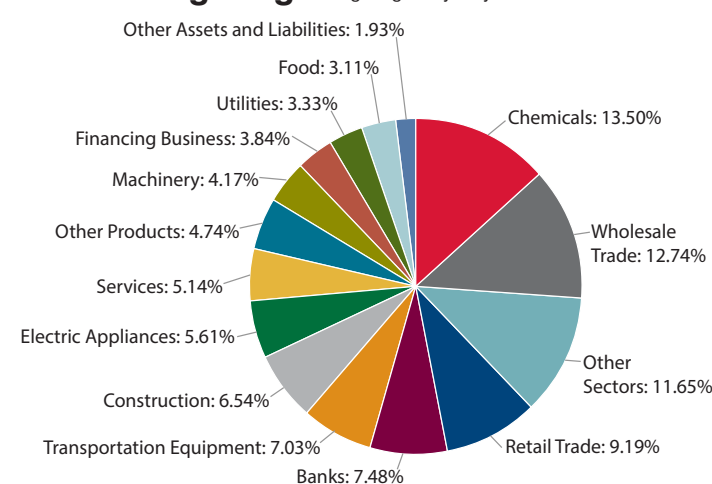
## Additional Information

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.

reforms. Yet, despite the recent stock market rally, the TOPIX price-to-earnings ratio ("P/E") based on consensus earnings estimates for the next 12 months hovers around 15.3. Although this is approaching the high end of the historical range, it does not indicate overheating. Earnings Per Share ("EPS") growth for Japanese companies as a whole has so far been driven primarily by globally competitive manufacturing industries. Looking ahead, if the domestic economy embarks on a full-fledged recovery, non-manufacturing sectors could become part of the economic driving force and create further upside potential for the stock market.

In March, similar to January and February, there was continued mild depreciation of the yen against a backdrop of factors such as the interest rate differential between Japan and the United States, leading to small-cap stocks underperforming against large-cap stocks. With the start of the new NISA program (Nippon Individual Saving Account), a tax-exempt investment scheme similar to the IRA program in the US, small-cap value stocks with high dividends, which are popular among retail investors, continued to show relatively good performance. On the other hand, small-cap growth stocks with high valuations underperformed as there were increasing expectations for the Bank of Japan to lift its negative interest rates.

Looking ahead, there are many favorable catalysts for small-cap stocks. Being focused mainly on domestic demand, their profit growth rate of 10.6% is expected to outpace the 6.2% for large-cap stocks. If the BOJ'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 slightly undervalued, with a 12-month forward PER of around 15.0.

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 share prices for companies that implemented measures such as the disposal of cross-shareholdings, strengthening shareholder returns, and improving Return on Equity ("ROE"). On January 15th, the Tokyo Stock Exchange announced a list of companies that had responded to these requests for management to focus on capital costs and stock prices. The list 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 were included in this Tokyo Stock Exchange list. Three more portfolio companies were added to the list in the February update and five more in the March update. We will monitor the management and capital efficiency of our investment targets and also work to improve governance through engagement activities targeting companies that are not yet 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.