

Japan Smaller Capitalization Fund, Inc.

As of May 31, 2024

Fund Facts

NYSE Ticker	JOF
CUSIP	47109U104
NYSE Market Price	\$7.80
Net Asset Value ("NAV") per share	\$9.50
Net Assets	\$269,245,544
Portfolio Holdings	84
Inception Date	March 21, 1990
Premium/Discount	-17.895%
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	2.04%	2.77%	0.23%
3 Month	0.00%	-0.26%	-1.93%
Calendar YTD	2.70%	2.77%	-0.88%
1 Year	18.96%	13.60%	11.92%
3 Year	1.05%	-1.44%	-0.61%
5 Year	4.38%	3.53%	3.46%
10 Year	7.19%	6.39%	5.38%
Since Inception	3.12%	2.31%	1.89%

⁽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.

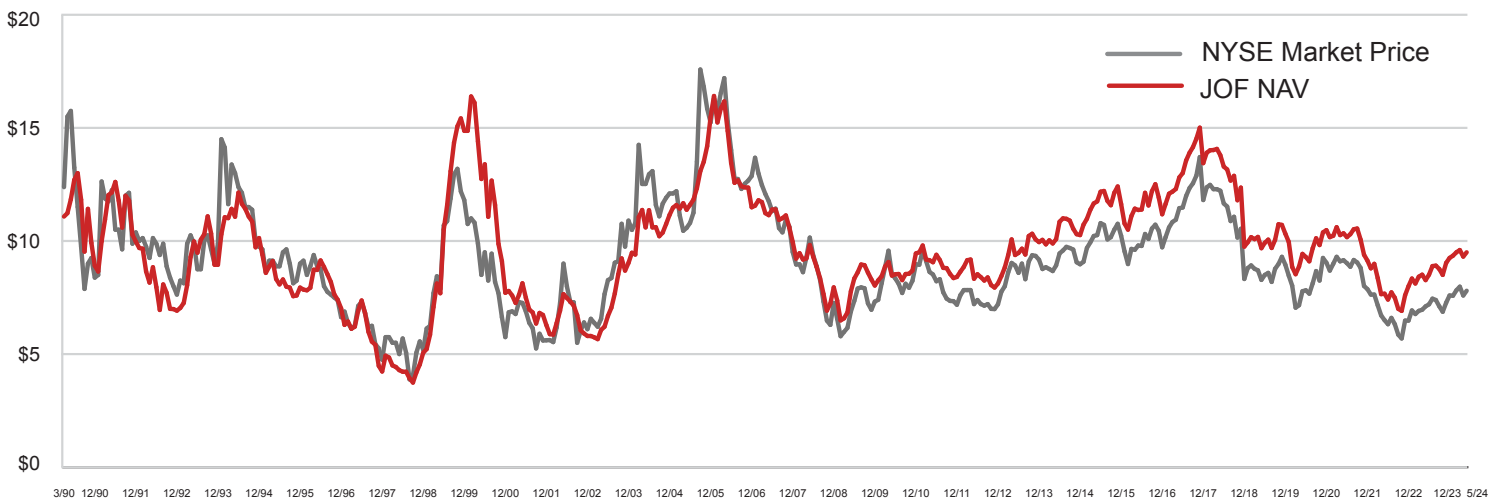
⁽³⁾From inception to 8/31/04, the benchmark was the Nikkei JASDAQ Stock Average Index, which is no longer in existence as a result of the Tokyo Stock Market reorganization of market segments on 4/4/2022. Since 9/1/04, the benchmark has been the Russell/Nomura Small Cap™ Index. All results are in U.S. 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	4.82%	0.08%
Shikoku Electric Power Company	4.14%	0.26%
EXEO Group, Inc.	2.47%	0.30%
Create SD Holdings Co., Ltd.	2.28%	0.09%
Meiko Electronics Co., Ltd.	2.25%	0.15%
Ryoden Corporation	2.22%	0.03%
Adeka Corporation	2.18%	0.24%
Yondenko Corporation	2.13%	0.03%
Macnica Holdings, Inc.	2.05%	Not included
Takashimaya Co., Ltd.	2.00%	0.39%

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

Developed western economies have been gradually returning to the normal growth rates we saw pre-pandemic. In the United States, despite persistent upside risks to both economic growth and inflation, recent employment data suggests that wage growth and new job creation are decelerating, hinting that a higher-for-longer monetary policy is beginning to gently slow the economy. In the Eurozone, where the effects of monetary tightening are becoming more apparent, the European Central Bank has been preparing for a first interest rate cut.

Japan stands in contrast to these regions in several respects. Firstly, regarding inflation expectations, Japan is in the process of exiting decades of deflation and low inflation, triggered by the inflationary pressure of imported goods and commodities. Looking ahead, wage increases are expected to replace import inflation as the main driver of domestically generated price rises, enhancing the likelihood of achieving the Bank of Japan's (BOJ) target of a sustained 2% inflation rate. Secondly, in terms of economic growth prospects, Japan has lagged behind the western economies over recent quarters, but we anticipate some opportunities for Japan to catch-up. Consumer spending should recover modestly as wage increases are expected to outpace inflation. In addition, with real interest rates remaining at very accommodative levels, domestic capital investment is likely to continue its robust trend. Digital transformation aimed at improving productivity, and supply chain restructuring to adapt to shifting and more diversified world trade patterns should also accelerate corporate investment.

In response to these structural changes in the domestic economy, the BOJ is set to continue raising policy interest rates, in contrast to other major central banks. Given that the BOJ envisions a long-term neutral policy rate of around 1.5%, the current policy rate, which remains close to zero, offers significant scope for higher interest rates unless the economy slows down markedly.

The Japanese stock market is likely to continue experiencing

Source: Nomura Asset Management Co., Ltd.

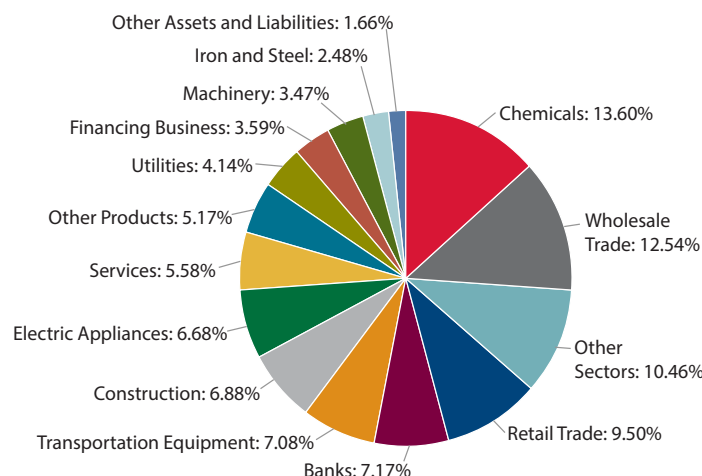
Additional Information

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™

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.

volatility in the short term, influenced by the volatile foreign exchange market and interest rate fluctuations. The TOPIX's current 12-month forward consensus P/E ratio is trading near the upper end of its historical range at 15 times, therefore valuations may also weigh on investor sentiment. However, from a longer-term perspective of one to two years, we believe there is a potential for upside in valuations due to improvements in capital efficiency. Despite profit margin improvements, the aggregate Return on Equity (ROE) for the TOPIX index has remained below 9%, constrained by very conservative financial leverage. Recent advancements in corporate governance reform have encouraged companies to give more serious consideration to their capital structures. This has resulted in more aggressive share buyback activity and increased dividend payout ratios, making it less likely for excess capital to remain idle. Consequently, if the favorable economic environment persists, there is ample potential for ROE to exceed 10% within a few years, creating some upside potential for valuation.

Small-cap stocks have underperformed large-caps for a fifth consecutive month since the beginning of the calendar year, mainly due to weakness in small-cap growth stocks. We believe the rise in US interest rates is likely to lead to a valuation adjustment eventually and that depreciation of the yen caused by the US-Japan interest rate differential is exerting downward pressure on Japanese domestic demand vis-à-vis increasing domestic prices. On the other hand, even small-cap investors are shifting to a more favorable view of companies that have greater awareness of capital efficiency and stronger shareholder returns, leading to good performance.

Due to large-cap stocks underperforming since the beginning of the year, market participants are increasingly perceiving small-cap stocks as being currently undervalued with a 12-month forward P/E Ratio of 14. In addition, with expectations of domestic demand recovering due to stabilizing price increases and wage growth on the corporate performance front, this fiscal year small-caps are

expected to report higher earnings growth rates than their large-cap counterparts. We anticipate an earnings growth rate of +7.9% for small-cap stocks compared to +4.5% for large-caps. With market expectations that the yen's depreciation phase might be coming to an end, we are hopeful that investors will begin to focus on the attractive features that Japanese small-caps offer.

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 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. Since then, the number of companies working on improving capital efficiency has been steadily increasing. We recognize that improving governance is an important investment theme. Therefore, as of the end of May 2024, and based on portfolio weightings, approximately 80% of companies in the portfolio were included in this Tokyo Stock Exchange list. 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.

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. The Fund is a closed-end fund whose shares of common stock trade on the NYSE. Vision 4 Fund Distributors, LLC ("Vision 4") is a member of FINRA and has filed this material with FINRA on behalf of the Fund. Vision 4 does not serve as a distributor or as an underwriter to the Fund. Unlike open-end funds, shares are not continually offered. Vision 4 is contracted by NAM-USA to promote the Fund and provide secondary market support services.