

**Japan Smaller Capitalization Fund, Inc.**

As of July 31, 2024

**Fund Facts**

NYSE Ticker	JOF
CUSIP	47109U104
NYSE Market Price	\$8.06
Net Asset Value ("NAV") per share	\$10.07
Net Assets	\$285,460,666
Portfolio Holdings	83
Inception Date	March 21, 1990
Premium/Discount	-19.960%
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>	6.90%	6.33%	7.87%
<b>3 Month</b>	8.16%	6.19%	7.52%
<b>Calendar YTD</b>	8.86%	6.19%	6.33%
<b>1 Year</b>	17.30%	12.04%	12.09%
<b>3 Year</b>	3.16%	0.72%	1.39%
<b>5 Year</b>	4.80%	3.45%	4.21%
<b>10 Year</b>	6.88%	5.98%	5.36%
<b>Since Inception</b>	3.28%	2.40%	2.09%

<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.

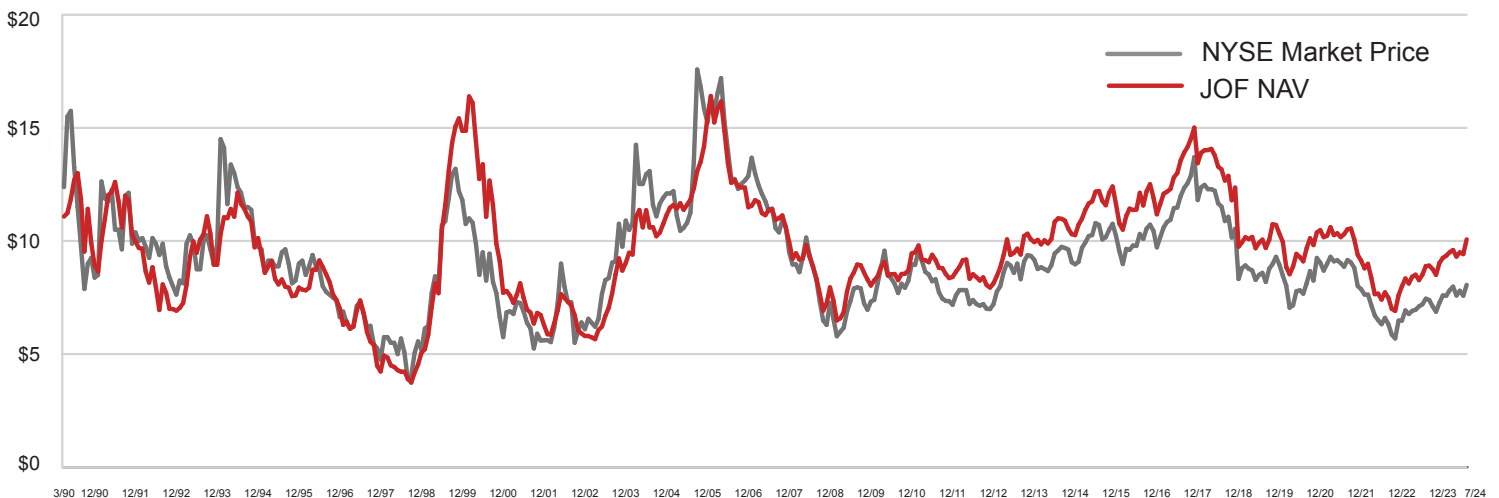
<sup>(3)</sup>From inception to 8/31/04, the benchmark was the Nikkei JASDAQ Stock Average Index, which is no longer in existence as a result of the Tokyo Stock Market reorganization of market segments on 4/4/2022. Since 9/1/04, the benchmark has been the Russell/Nomura Small Cap™ Index. All results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



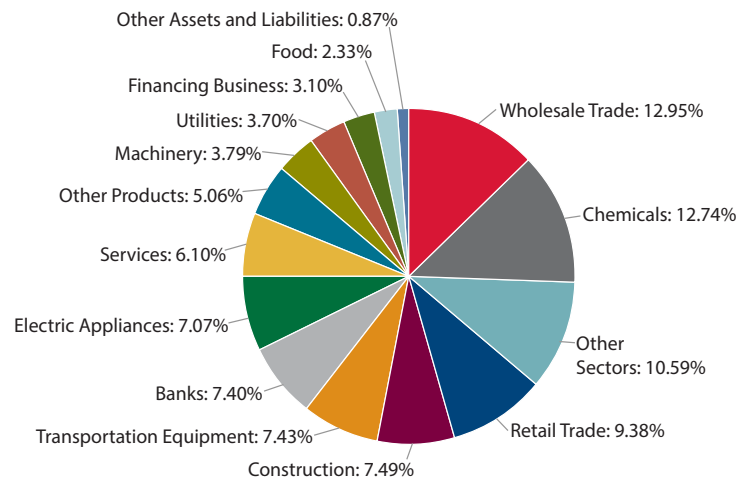
## Top Ten Holdings Holdings may vary over time.

Security	% of Net Assets	% of Benchmark <sup>(1)</sup>
Sakata Inx Corporation	4.85%	0.07%
Shikoku Electric Power Company	3.70%	0.22%
EXEO Group, Inc.	2.58%	0.30%
Ryoden Corporation	2.48%	0.04%
Create SD Holdings Co., Ltd.	2.41%	0.09%
Yondenko Corporation	2.36%	0.03%
Takashimaya Co., Ltd.	2.31%	0.41%
Adeka Corporation	2.18%	0.23%
Meiko Electronics Co., Ltd.	2.10%	0.13%
Macnica Holdings, Inc.	2.06%	Not included

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.

<sup>(1)</sup> Russell/Nomura Small Cap™ Index.

## 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.

## Market Commentary

Several economic indicators released in early August have cast a sudden shadow on the widely anticipated "soft landing" scenario for the US economy. At this stage we maintain our view that an appropriate pivot by the Federal Reserve towards monetary easing should help avoid a major recession.

As evidenced by the Bank of Japan (BOJ)'s recent decision to raise interest rates, meanwhile, Japan is at a different stage of its economic cycle compared to the US and Europe, having just embarked on a path to recovery. Wages are beginning to rise, albeit gradually, raising hopes for improved consumer spending. Despite increasing uncertainties, we maintain that it is unnecessary to turn too pessimistic about the fundamental health of the Japanese economy.

The Nikkei 225, Japan's most widely recognized index, has recorded its most substantial decline since the Black Monday crash in 1987, painting a picture of market panic. During such times, it is crucial for us as investors to rigorously analyze the situation and identify potential investment opportunities. The recent sharp correction in Japanese equities can be attributed to two primary factors: valuation adjustments and concerns about diminishing profits due to the strengthening yen. Firstly, the price-to-earnings (P/E) ratio of TOPIX, based on 12-month forward consensus earnings estimates, has historically fluctuated within the 12-15x range over the past decade. However, the market rally in the first half of the year had pushed the P/E ratio above 15x, a top end of the valuation range with limited room for further valuation expansion. Secondly, the yen's sharp appreciation following the BOJ's rate hike has heightened concerns about the negative impact on profit growth for export-oriented manufacturers, which had previously benefited from the weak yen.

As a result of a market correction of nearly 20% since 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™

its July peak, the TOPIX forward P/E ratio has adjusted to around 12.5x, falling to the lower end of the historical average. In addition, given that Japanese corporations typically adopt conservative currency forecasts, it is unlikely that earnings per share (EPS) forecasts will require substantial downward revision unless the yen strengthens significantly beyond the current level of around 145 yen per US dollar. On the other hand, structural positive changes within Japanese companies are expected to persist: corporate governance reforms and efforts to improve capital efficiency are likely to continue, irrespective of external macroeconomic shocks.

In July, the foreign exchange market saw the yen appreciate as a result of intermittent intervention by Japanese financial authorities, while the performance of small-cap stocks remained on par with that of large-cap stocks. Concerns about rising prices have made it difficult to maintain expectations for sustained growth in domestic demand. In addition, there is deepening speculation about a potential interest rate hike by the Bank of Japan, making it difficult to hold positive expectations regarding the valuation outlook.

In this investment environment, we are focusing on companies with high market shares due to strong technological capabilities and proven business models, and those that can expect successful price pass-through measures and organic growth. We also look for companies that are striving to improve capital efficiency through strengthening shareholder returns and withdrawing from unprofitable businesses. Fortunately, small-cap valuations are trading around a 12-month forward P/E ratio of 14, so there is no sense of overheated valuations and they are currently even trading at a discount compared to large-caps. Therefore, we believe that stock prices of such companies have significant room to advance, even with some increase in

domestic interest rates.

In 2023, the Tokyo Stock Exchange requested that companies focus on management aimed at improvements in the cost of capital and stock price, leading to appreciating share prices for companies that implemented measures such as unwinding cross-shareholdings, bolstering shareholder returns, and enhancing ROE levels. We recognize that cultivating better governance practices can be a consequential investment theme. Accordingly, as of the end of July 2024 and based on portfolio weightings, approximately 86% of our investee companies have already begun initiatives to augment corporate value. Tokyo Stock Exchange reforms continue, and the group announced in June a revised policy for the TOPIX index. Starting from July 2028 and regardless of market listing (Prime, Growth, Standard), the top 96% of stocks by market capitalization will be included in the TOPIX index, effectively reducing the number of constituent stocks from the current number of approximately 2100 to around 1200. This will create incentives for small-cap stocks that are near to the inclusion cut off point to enhance their corporate value, and our investment research will consider this perspective as well.

We will continue our efforts in looking for opportunities with good quality 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.