

Japan Smaller Capitalization Fund, Inc.

As of September 30, 2024

Fund Facts

NYSE Ticker	JOF
CUSIP	47109U104
NYSE Market Price	\$8.27
Net Asset Value ("NAV") per share	\$10.06
Net Assets	\$284,971,238.36
Portfolio Holdings	88
Inception Date	March 21, 1990
Premium/Discount	-17.793%
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 Hiroaki Tanaka, 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	0.90%	2.99%	2.43%
3 Month	6.79%	9.10%	11.07%
Calendar YTD	8.76%	8.96%	9.49%
1 Year	18.93%	20.45%	19.28%
3 Year	2.31%	0.87%	0.92%
5 Year	4.80%	3.55%	4.55%
10 Year	6.97%	6.13%	6.05%
Since Inception	3.26%	2.46%	2.17%

Past performance is not indicative of future results. There is a risk of loss.

⁽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.

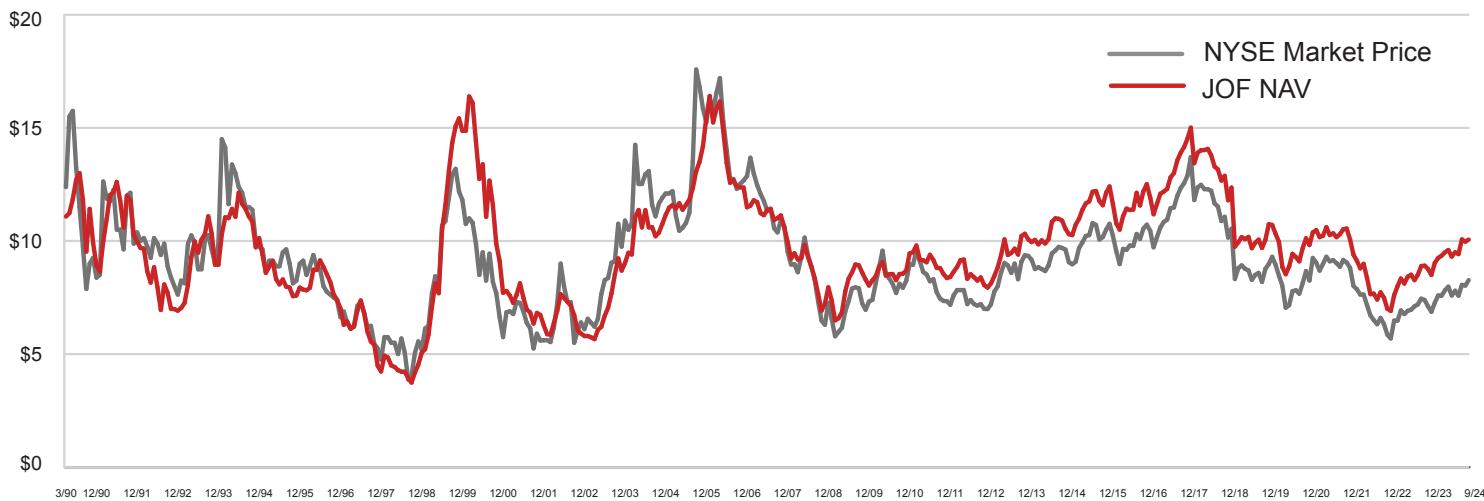
⁽²⁾Based on the New York Stock Exchange's market price, adjusted for reinvestment of income dividends, ordinary income distributions, and long-term capital gain distributions as per the dividend reinvestment policy of the Fund. JOF's performance does not represent sales commissions.

⁽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.

JOF NAV versus NYSE Market Price



Top Ten Holdings

Security	% of Net Assets	% of Benchmark ⁽¹⁾
Sakata Inx Corporation	4.95%	0.06%
Shikoku Electric Power Company	3.55%	0.22%
Meiko Electronics Co., Ltd.	2.67%	0.13%
Create SD Holdings Co., Ltd.	2.57%	0.09%
Yondenko Corporation	2.52%	0.03%
Ryoden Corporation	2.25%	0.03%
Adeka Corporation	2.18%	0.21%
Nishio Holdings Co., Ltd.	2.12%	0.08%
Macnica Holdings, Inc.	2.11%	Not included
Takashimaya Co., Ltd.	2.01%	0.34%

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.

⁽¹⁾Russell/Nomura Small Cap™ Index.

Market Commentary

The global economic situation presents a nuanced picture, with the US economy showing signs of deceleration. This has become particularly apparent in the manufacturing industries and labor market statistics, so the Federal Reserve's 50 basis point interest rate cut can be viewed in this context – as a proactive move to limit the risk of a severe economic downturn. Meanwhile, China has unveiled economic stimulus measures aimed at revitalizing the sluggish economy. Although it is too soon to gauge the full impact on the real economy, a potential bottoming out of the world's second-largest economy could provide some significant support for global economic stability.

Japan's newly appointed Prime Minister Shigeru Ishiba is widely expected to follow broadly the same economic policies initiated by the Kishida administration, focusing on achieving sustainable wage growth and moderate inflation. While Ishiba has previously advocated fiscal consolidation and monetary policy normalization, we expect the government to maintain capital market supportive policies, such as promoting Japan as a leading asset management center at least until the political foundations have become established.

The Japanese equity market has experienced some major challenges since early August, influenced by the unwinding of short yen positions and the somewhat surprising outcome of the Liberal Democratic Party leadership election. Consequently, the TOPIX is now trading at a forward P/E of around 14 based on 12-month consensus earnings estimates, which is close to its historical average. We believe this valuation

offers scope for re-rating over the medium term, underpinned by two key factors. Firstly, Japanese corporate fundamentals remain robust. Despite the yen's sometimes rapid appreciation, corporate earnings per share forecasts have seen only minor revisions, indicating resilience in core businesses. Secondly, we can soon expect the fruits of corporate governance reforms to materialize. Despite steady progress in corporate governance over the past two years, the TOPIX's Return on Equity (ROE) so far has remained stubbornly in single digits. However, this is largely due to robust profit growth and capital accumulation, which have led to a decline in financial leverage. In FY2024 ending March 2025, as major companies actively unwind cross-shareholdings, the total value of share buybacks in the first half of the fiscal year has already surpassed the previous full fiscal year record levels. This trend is expected to halt the decline in financial leverage and potentially drive ROE above 10% in the coming years.

Small-cap stocks have outperformed large-cap stocks for four consecutive months since June, but they still lag behind for the year-to-date. Factors that have created headwinds for small-cap stocks, which tend to have a higher ratio of domestic sales, include the weak yen trend, which favors large export-oriented companies, and negative real household income growth, which leads to a sluggish domestic consumption and economic growth. However, following the Bank of Japan's decision to raise interest rates at the end of July and its indication of a willingness to consider further hikes depending on economic conditions, the one-sided yen depreciation

trend may have ended for now. There have also been some nascent signs that wage growth is beginning to outpace inflation in certain months, offering a more optimistic outlook for domestic consumption. This could continue to support investor interest in small-cap stocks.

In fact, we believe that the relative attractiveness of small-cap stocks remains convincing. Being focused mainly on domestic demand, their profit growth rate of 11.0% is expected to outpace the 7.4% 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 undervalued, with a 12-month forward price-to-earnings ratio of around 13. As long as the uncertainty surrounding economic and monetary policies of Japan and the U.S. continues to create a lack of direction in the overall stock market, we expect small-cap stocks to continue narrowing the relative performance gap.

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.

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™

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.

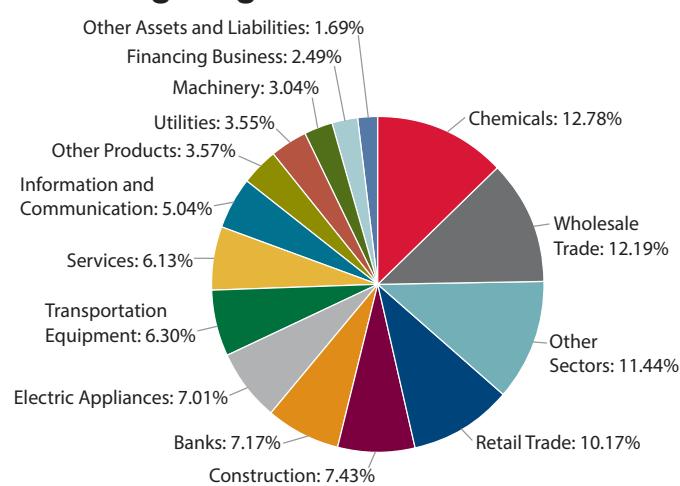
This material contains the current opinions of the Fund's manager, which are subject to change without notice. It should not be considered investment advice. Statements concerning financial market trends are based on current market conditions, which will fluctuate. There is no guarantee that these investment 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 fact sheet 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. 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.

Sector Weightings



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.