

Japan Smaller Capitalization Fund, Inc.

As of November 30, 2024

Fund Facts

NYSE Ticker	JOF
CUSIP	47109U104
NYSE Market Price	\$7.85
Net Asset Value ("NAV") per share	\$9.76
Net Assets	\$276,558,698.35
Portfolio Holdings	87
Inception Date	March 21, 1990
Premium/Discount	-19.570%
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	3.28%	2.75%	1.78%
3 Month	-2.11%	-2.24%	-1.26%
Calendar YTD	5.51%	3.43%	5.53%
1 Year	11.93%	11.82%	11.81%
3 Year	5.29%	3.25%	2.95%
5 Year	2.85%	1.28%	2.29%
10 Year	7.25%	6.29%	6.12%
Since Inception	3.16%	2.30%	2.05%

⁽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.

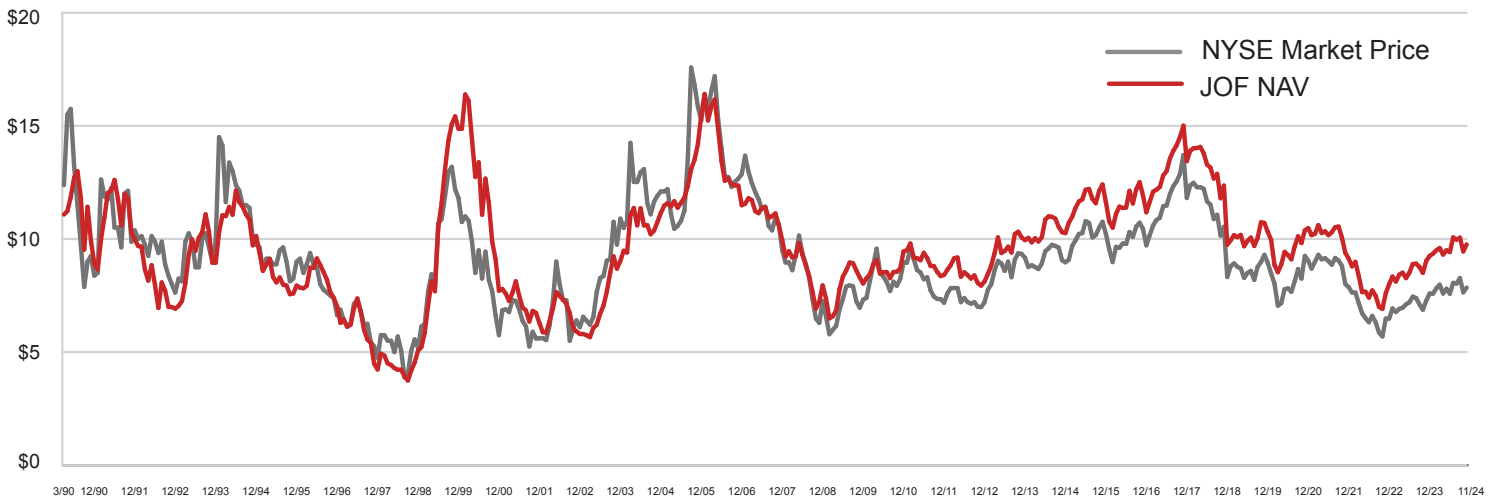
⁽³⁾From inception to 8/31/04, the benchmark was the Nikkei JASDAQ Stock Average Index, which is no longer in existence as a result of the Tokyo Stock Market reorganization of market segments on 4/4/2022. Since 9/1/04, the benchmark has been the Russell/Nomura Small Cap™ Index. All results are in U.S. 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	4.92%	0.05%
Shikoku Electric Power Company	3.40%	0.19%
Meiko Electronics Co., Ltd.	3.30%	0.17%
Yondenko Corporation	2.88%	0.03%
Create SD Holdings Co., Ltd.	2.26%	0.07%
Takashimaya Co., Ltd.	2.18%	0.30%
Adeka Corporation	2.10%	0.17%
Ryoden Corporation	2.04%	0.03%
Daishi Hokuetsu Financial Group, Inc.	2.04%	0.18%
Future Corporation	2.01%	0.07%

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

While economists attempt to assess both, the potential positive and negative implications from the US presidential election outcome, the substantial uncertainty surrounding future policy implementation means it is still too early to quantify the precise economic impact. Possible scenarios include headwinds such as a global trade slowdown due to tariff hikes, and dampened consumer spending and labor shortages due to restrictive immigration policies. However, expansionary fiscal policies might offset these effects, at least partially. Consequently, our base case scenario assumes a relatively modest impact on the global economy from the second Trump administration when viewed over the next few years.

Although Japan may face some tariff increases, we expect these to be less severe compared to those potentially imposed on China and US neighboring countries like Mexico and Canada. We remain focused on domestic catalysts that could drive Japan's economic transformation. Recently, domestic-oriented companies, particularly in the food sector, have begun to implement price hikes in anticipation of sustained labor cost increases. While currently limited to nominal changes, this suggests the emergence of a positive wage-price spiral. Should companies successfully leverage this environment to enhance productivity and product value-addition, it could pave the way for economic growth in real terms.

Near-term market volatility is likely to persist, driven by US trade policies and potential normalization of the Bank of Japan's monetary policy stance. Furthermore, China's economic deceleration continues to delay a full-fledged recovery in Japan's manufacturing sector. However, the recent underperformance of the Japanese market relative to major US indices suggests these Source: Nomura Asset Management Co., Ltd.

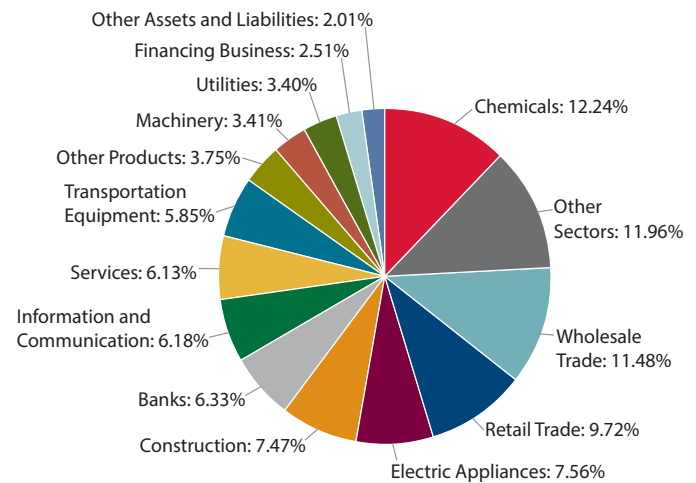
Additional Information

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.

factors have been discounted already to some extent. The TOPIX's forward P/E ratio of 13.7 times based on 12-month consensus earnings forecasts indicates reasonable valuations in comparison to historical levels.

Looking beyond the near-term fluctuations, the structural transformation of Japan's corporate sector remains firmly on track. Activist investor engagement continues to promote the accelerated unwinding of cross-shareholdings and enhanced shareholder returns through optimal capital allocation strategies. Moreover, companies are increasingly pursuing inorganic growth through industry consolidation and strategic acquisitions. This has been particularly evident in the IT sector's recent surge in tender offers for mid-sized system developers. These bold capital allocation decisions are poised to unlock upside potential in future Return on Equity (ROE) levels, defying the current market expectations of a stagnant ROE trajectory.

In November, the yen appreciated as investors considered the implications of a more aggressive tariff and trade policy from the incoming administration of President-elect Trump and speculation that the Bank of Japan would soon raise interest rates again. Share prices in Tokyo declined as a result, particularly among large-cap stocks. With election events in Japan and the U.S. now behind us, we believe that a similar investment environment is likely to prevail for the time being, which could allow this catch-up phase for small-cap stocks to continue. In fact, we believe that the relative attractiveness of small-cap stocks remains convincing. Regarding the outlook for corporate earnings performance, the ordinary profit growth rate for small-cap stocks (excluding financials), is projected to be 10.2% for FY24 (ending March 2025) and 9.4% for FY25, surpassing the 7.1% and 5.5% growth rates for large-

cap stocks. On the other hand, the price-to-earnings ratio (PER) valuation remains heavily discounted. At a PER of 13 times, small caps are trading at the widest discount margin in the past 10 years. Looking ahead to 2025, there are expectations that inflation rates will have peaked, while wage growth could continue amid chronic labor shortages. In an environment of international instability, attention is likely to focus on the resilience of Japan's domestic demand. We anticipate that small-cap stocks could benefit from this, and therefore we see further scope for rising stock prices in this market.

Another factor potentially driving small cap outperformance is the growing number of tender offers by parent companies for their subsidiaries. We have also seen growth in management buyout (MBO) activity in the small-cap stock market recently. With the Tokyo Stock Exchange's TOPIX reforms, which will exclude stocks with low liquidity and market capitalization starting in October 2026, there is a possibility that the trend towards delisting undervalued small-cap stocks will accelerate. We will continue to explore investment opportunities from 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 changing attitudes towards 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.