

Japan Smaller Capitalization Fund, Inc.

As of December 31, 2024

Fund Facts

NYSE Ticker	JOF
CUSIP	47109U104
NYSE Market Price	\$7.67
Net Asset Value ("NAV") per share	\$9.45
Net Assets	\$267,672,758.78
Portfolio Holdings	87
Inception Date	March 21, 1990
Premium/Discount	-18.836%
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	0.80%	1.72%	-1.30%
3 Month	-2.21%	-3.45%	-4.87%
Calendar YTD	6.35%	5.20%	4.16%
1 Year	6.35%	5.20%	4.16%
3 Year	3.97%	1.90%	2.09%
5 Year	2.15%	0.81%	1.57%
10 Year	7.22%	6.42%	5.89%
Since Inception	3.17%	2.34%	2.00%

⁽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.

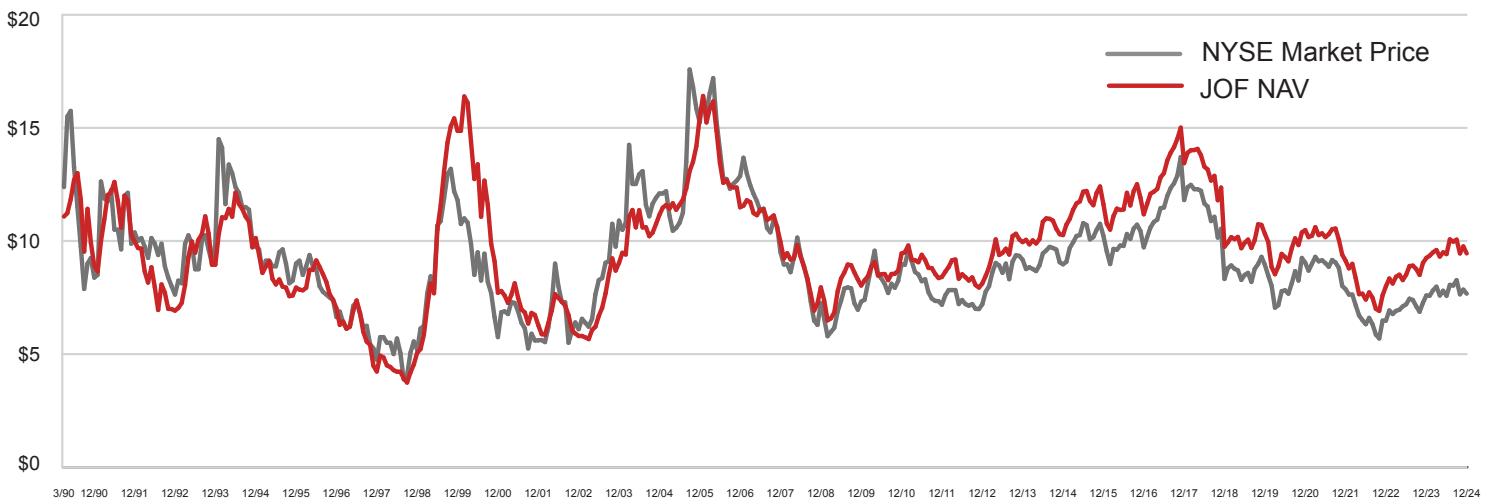
⁽³⁾From inception to 8/31/04, the benchmark was the Nikkei JASDAQ Stock Average Index, which is no longer in existence as a result of the Tokyo Stock Market reorganization of market segments on 4/4/2022. Since 9/1/04, the benchmark has been the Russell/Nomura Small Cap™ Index. All results are in U.S.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



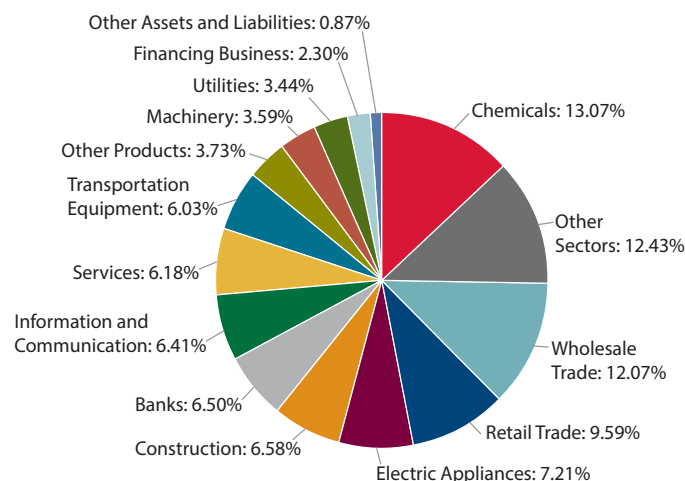
Top Ten Holdings Holdings may vary over time.

Security	% of Net Assets	% of Benchmark ⁽¹⁾
Sakata Inx Corporation	5.58%	0.06%
Shikoku Electric Power Company	3.44%	0.19%
Yondenko Corporation	3.06%	0.03%
Meiko Electronics Co., Ltd.	2.80%	0.17%
Ryoden Corporation	2.29%	0.03%
Takashimaya Co., Ltd.	2.28%	0.31%
Create SD Holdings Co., Ltd.	2.19%	0.06%
Adeka Corporation	2.13%	0.17%
Daishi Hokuetsu Financial Group, Inc.	2.13%	0.18%
Nishio Holdings Co., Ltd.	2.07%	0.08%

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.

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

As we enter 2025, moderate growth is expected to continue for the global economy scenario, primarily with support from robust US consumer spending. However, the outlook is also clouded by some uncertainty, especially in relation to political shifts under the incoming Trump administration. These include increased tariffs and stricter immigration measures, which could introduce new inflationary pressures and heighten the risk of stagflation. Should inflation prove stickier than anticipated, the Federal Reserve could slow the pace of currently anticipated rate cuts. Meanwhile, China's economic outlook remains challenging. Despite recent stimulus measures, fundamental reforms from Beijing will be necessary to revitalize the property sector and steer the economy back towards a sustainable growth trajectory.

Inevitably, these external fluctuations will also influence the Japanese economy. However, we believe that stable domestic growth can mitigate the risk of a severe economic downturn. Admittedly, the domestic economy still lacks robust momentum. This is also evident from the Bank of Japan's (BOJ) cautious approach to raising interest rates further, leaving the real interest rate in negative territory. The upcoming 'Shunto' spring wage negotiations between labor unions and major corporations could be pivotal and hold the potential to influence economic dynamics. Should unions succeed in securing their targeted wage rise of more than 5%, it could become a catalyst for a consumer-led recovery and facilitate a smoother transition toward domestically-driven economic growth. Meanwhile, the global markets are increasingly dominated by the prolonged outperformance of US equities, but we believe that Japan's unique domestic growth drivers mentioned above could be an upside catalyst for Japanese stocks.

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. Another driving force is the ongoing transformation of Japanese companies towards improved capital efficiency, a theme we have emphasized consistently. Major developments, such as the recent strategic merger proposals between Nissan and Honda, as well as a Canadian retailer's unsolicited takeover proposal for the Japanese convenience store giant "7-Eleven", are symbolic. Corporate deals of such scale and involving foreign bidders were previously inconceivable. Although it is unrealistic to expect such corporate deals to become the norm in Japanese corporate culture, we anticipate further industry consolidation, M&A activity, and bold business restructuring from this year onward.

In December, despite the significant depreciation of the yen, the underperformance of small-cap stocks was relatively minor. In response to rising costs of inputs such as raw materials and labor, domestic companies are working on increasing the prices of their products and services, and recent earnings reports confirm that any deterioration in profit margins has been limited. Overall, they have managed to avoid a decline in profits. This offers some reassurance regarding the earnings outlook for small-cap stocks, which tend to be more highly focused on domestic demand. 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 9.6% for FY24 (ending March 2025) and 10.0% for FY25, clearly outpacing the 6.2% and 4.7% projected 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 to large caps 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 starting in October 2026, which will exclude stocks with low liquidity and market capitalization, 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.

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. 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.