

Japan Smaller Capitalization Fund, Inc.

As of February 28, 2025

Fund Facts

NYSE Ticker	JOF
CUSIP	47109U104
NYSE Market Price	\$7.91
Net Asset Value ("NAV") per share	\$9.46
Net Assets	\$267,960,776.78
Portfolio Holdings	91
Inception Date	March 21, 1990
Premium/Discount	-16.385%
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	-0.42%	2.99%	-0.22%
3 Month	0.90%	4.90%	-0.12%
Calendar YTD	0.11%	3.13%	1.20%
1 Year	3.66%	5.30%	4.29%
3 Year	4.54%	4.02%	3.82%
5 Year	5.36%	3.65%	5.64%
10 Year	6.51%	5.93%	5.37%
Since Inception	3.16%	2.42%	2.03%

⁽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



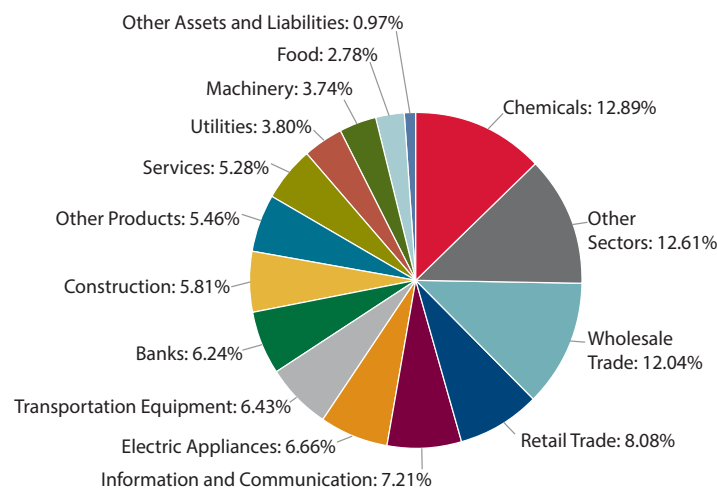
Top Ten Holdings Holdings may vary over time.

Security	% of Net Assets	% of Benchmark ⁽¹⁾
Sakata Inx Corporation	6.29%	0.06%
Shikoku Electric Power Company	3.80%	0.18%
Yondenko Corporation	2.77%	0.03%
Nishikawa Rubber Co., Ltd.	2.71%	Not included
Daishi Hokuetsu Financial Group, Inc.	2.39%	0.18%
Ryoden Corporation	2.33%	0.03%
Create SD Holdings Co., Ltd.	2.28%	0.07%
Meiko Electronics Co., Ltd.	2.25%	0.13%
Future Corporation	2.14%	0.07%
Morita Holdings Corporation	2.09%	0.06%

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

Impulsive and unpredictable policy making from the Trump administration is clouding visibility on the global economic outlook. Although the US economy remains robust for now and continues to drive global growth, it seems prudent to acknowledge the risk of a temporary slowdown in economic expansion if the latest tariffs result in a wider trade war. Meanwhile, inflation rates also risk a temporary overshoot due to the combined effects of tariffs, immigration restrictions, and fiscal expansion. Although the Federal Reserve can be expected to persist in its attempts to lower policy interest rates, the pace of rate cuts might be more gradual than initially anticipated.

In contrast to other major central banks, the Bank of Japan is expected to implement two additional policy rate hikes by the end of next year, as implied by Japanese interest rate futures. This is partly attributable to the fact that inflation has become more entrenched in Japan. However, it is worth emphasizing that the economic fundamentals have recovered to a sufficiently healthy condition to withstand interest rate hikes. This month will see major Japanese companies disclosing the outcomes of their annual wage negotiations for the fiscal year starting in April. Encouraged by strong corporate earnings, we expect a large number of companies to agree to wage increases that exceed the current inflation rate. Although Japan's nominal Gross Domestic Product ("GDP") has begun to rise, breaking free from the stagnation of the past 30 years, real GDP growth still lacks vigor. However, once the rise in real wages begins to translate into an improvement in real consumption, Japan's GDP growth is expected to escape from its past stagnation, even after adjusting for inflation.

Despite this broadly encouraging medium-term outlook for the domestic economy, Japanese stocks have underperformed the European and Chinese markets since the beginning of the year due to the lack of clear and immediate catalysts. As a result, the price-to-earnings

ratio based on the 12-month forward consensus earnings estimates has adjusted to 13.5 times, which is at the lower end of the historical range. Given the extremely uncertain nature of future US policy announcements, it could take a while for global investor sentiment to improve. However, we believe that the potential for re-evaluation is gradually expanding, driven by the robust earnings outlook for Japanese companies and their continuous efforts to improve capital efficiency. Several years have passed since the start of corporate governance reforms among Japanese companies, yet stock buybacks continue to increase, contributing to improvements in Return on Equity ("ROE").

In February, the Japanese small-cap stock market declined but was resilient. There are signs that investor interest is gradually shifting toward small-cap stocks, as indicated by the four consecutive months of gains in the Growth 250 stock index, despite a 25 basis point rate hike by the Bank of Japan. The investment environment remains attractive for small-cap stocks in terms of the corporate earnings outlook and valuations. In addition, the Bank of Japan's slightly more hawkish view regarding interest rate hikes has limited the prospects for a weaker yen, further enhancing the appeal of small-cap stocks. While a stronger yen might have a somewhat negative impact on the overall performance of Japanese companies, including large-cap stocks, it might also help to suppress inflationary pressures from rising prices of imported goods, which could have a positive effect on domestic demand. In an environment of international instability, the attention of market participants is likely to focus on the resilience of Japan's domestic demand. We believe small-cap stocks could benefit from this, and we therefore see further upside for these stock prices. Regarding the outlook for corporate earnings performance, ordinary profit growth rates for small-cap stocks (excluding financials), is projected to be 11.4% for FY2025 (ending March 2026), clearly outpacing the 3.4% projected growth rates for large-cap stocks. On the other hand, the price-to-

earnings ratio ("P/E") valuation remains heavily discounted. At the current P/E valuation of less than 13 times, small caps are trading at their widest discount margin to large caps in the past 10 years.

In order to improve corporate governance and capital efficiency, companies have been proactively implementing shareholder return measures. While large-cap stocks have been leading efforts to enhance shareholder returns, significant changes are also emerging among small-cap stocks. An example of this is Nishikawa Rubber, a Standard Market listed company that is part of our investment portfolio. In February, as part of a measure to achieve a target ROE of 9%, the company announced its intent to substantially increase dividends per share by about four times. This effort resulted in a sharp stock price rally. 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 a 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. We will also look at companies that have shown signs of improvement through management-led internal reforms, and companies that can be expected to improve capital efficiency through changes relating to 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 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.