

Japan Smaller Capitalization Fund, Inc.

As of October 31, 2025

Fund Facts

NYSE Ticker	JOF
CUSIP	47109U104
NYSE Market Price	\$10.36
Net Asset Value ("NAV") per share	\$11.35
Net Assets	\$321,676,599.16
Portfolio Holdings	91
Inception Date	March 21, 1990
Premium/Discount	-8.722%
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 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 <sup>(1)</sup>	JOF NYSE Market Price <sup>(2)</sup>	Russell/ Nomura Small Cap™ Index <sup>(3)</sup>
<b>1 Month</b>	-4.53%	-0.87%	-2.78%
<b>3 Month</b>	5.05%	9.75%	5.82%
<b>Calendar YTD</b>	24.29%	39.78%	23.40%
<b>1 Year</b>	29.39%	46.09%	23.95%
<b>3 Year</b>	22.66%	26.95%	18.43%
<b>5 Year</b>	7.76%	9.56%	6.95%
<b>10 Year</b>	7.76%	8.33%	6.83%
<b>Since Inception</b>	3.73%	3.25%	2.56%

<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	6.43%	0.07%
Daishi Hokuetsu Financial Group, Inc.	3.30%	0.25%
Yondenko Corporation	2.60%	0.03%
Ryoden Corporation	2.58%	0.03%
The 77 Bank Ltd.	2.40%	0.31%
BuySell Technologies Co., Ltd.	2.35%	0.02%
Nippon Seiki Co., Ltd.	2.30%	0.05%
The Musashino Bank, Ltd.	2.17%	0.09%
SWCC Corporation	2.03%	0.17%
Kanaden Corporation	1.87%	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.

## Market Commentary

While the US government shutdown has made it difficult to assess real-time economic indicators, underlying fundamentals seems to suggest that the American economy remains on a growth trajectory, underpinned by resilient consumption among affluent households and robust investment in data centers. That said, the expansion remains uneven. Labor markets continue to show signs of fragility, and the housing market remains stagnant amid persistently elevated interest rates. Furthermore, with cost-passthrough from the imposition of tariffs likely to prolong inflationary pressure, the Federal Reserve is expected to adopt a cautious approach to monetary easing. It could be a while therefore before we can see a broad-based acceleration of US economic growth.

In Japan, the incoming government of Prime Minister Takaichi has launched with historically strong approval ratings, yet the minority government structure implies that policy execution could be a challenge. While PM Takaichi herself leans towards an expansionary fiscal policy, the new coalition partner, Japan Innovation Party, places greater emphasis on fiscal discipline. Accordingly, near-term expansionary fiscal measures are likely to be confined to high-priority areas such as defense.

Regarding Bank of Japan ("BOJ") policy, although Prime Minister Takaichi has historically expressed a cautious view on interest rate tightening, we maintain our outlook that a continuation of gradual policy normalization is the most probable path forward. Indeed, should the central bank prolong its accommodative stance, this would risk reigniting inflation via further yen depreciation, thereby eroding household real incomes.

Notwithstanding these challenging fundamental realities, Japanese equities have surged to record highs in recent weeks. As a result, valuations now appear somewhat stretched; the 12-month forward price-to-earnings ("P/E") ratio for the TOPIX is trading at around 16, a level that pushes beyond the historical upper band of approximately 15. As investors become more focused on the economic

Source: Nomura Asset Management Co., Ltd.

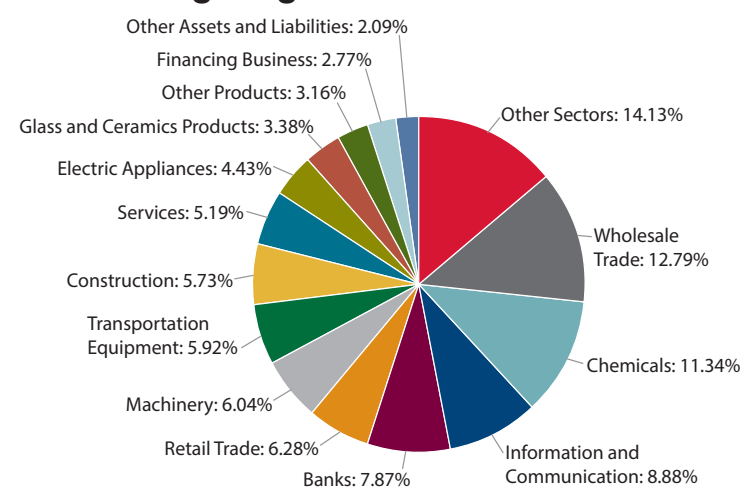
## Additional Information

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.

fundamentals, and enthusiasm moderates, then a period of near-term profit-taking seems more likely. However, our longer-term thesis – improving capital efficiency – remains unchanged. One notable example is the Financial Services Agency's planned enhancements to the Corporate Governance Code, introducing the first revision to the code in five years. Potential changes could include new requirements for companies to articulate comprehensive capital allocation strategies, including the deployment of cash reserves. In our view, such initiatives are steadily sharpening balance sheet discipline and are steering Japanese companies towards improved capital efficiency over time.

The TOPIX Index rallied by more than 6% in October. However, these index gains were driven by a select number of sectors, and 11 out of the 33 sectors actually declined. With the yen weakening further, investor interest in domestic demand-oriented sectors waned. Among small caps, the performance of growth stocks remained generally weak following on from the previous month, whereas value stocks were relatively firm. With initiatives to improve capital efficiency now firmly embedded, the correlation between earnings growth and stronger shareholder returns has become more evident. Activist investors continue to reinforce this trend. Many small-cap companies – particularly value stocks – still have substantial room to enhance shareholder returns, making this market segment an appealing investment universe.

One month into the new administration of Prime Minister Sanae Takaichi, our view on fiscal and monetary policy remains largely unchanged. We believe Prime Minister Takaichi's cautious stance on monetary tightening, along with her emphasis on government-BOJ coordination, do not necessarily imply a reversal of the BOJ's normalization path. Rising living costs will be directly reflected in her public approval rating, likely making it an urgent priority for her administration. We expect the BOJ to assess the progress of the spring wage negotiations (Shunto) and raise rates by 25 basis points by January at the latest. Rapid

yen depreciation and rising inflation concerns are unlikely to be welcomed, and because of this, the fundamental appeal of small-cap stocks remains unchanged. According to the latest forecasts, small-cap companies are expected to deliver earnings growth for the fiscal year ending March 2026, in stark contrast to the expected earnings contraction among large-cap names. Valuations also remain attractive, as the Russell/Nomura Small Cap Index trades at a P/E ratio of approximately 14 based on 12-month forward earnings, maintaining a discount relative to large caps. Confirmation of robust July–September earnings among small caps could become a catalyst for a reassessment of Japan's lagging small-cap stock market.

Within our portfolio, we have maintained a value-oriented stance while selectively increasing our allocation to domestic demand-focused growth stocks. Governance reform among small-cap companies is also gaining momentum. Stricter listing-maintenance requirements for the TSE Growth market—including a new 10 billion minimum market-cap rule—and the forthcoming TOPIX re-selection slated for October 2026 are encouraging management teams to enhance capital efficiency. This has led to more robust dividend policies, increased share buybacks, and even management buyout discussions in some cases. We intend to reinforce this trend through active engagement with issuers that possess strong balance sheets and underutilized cash reserves.

We will continue to maintain a balanced, value-oriented approach, prioritizing companies with robust balance sheets, clear catalysts for enhanced shareholder returns, and measurable progress in governance. Our bottom-up research will focus on businesses that are less vulnerable to tariff policy changes, those capable of sustaining high earnings visibility amid macroeconomic uncertainty, and under-researched companies where internal reforms are beginning to translate into tangible performance improvements. This positions the portfolio to benefit from both the cyclical tailwinds and structural re-rating opportunities.

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.