

# Japan Smaller Capitalization Fund, Inc.

As of December 31, 2025

## Fund Facts

NYSE Ticker	JOF
CUSIP	47109U104
NYSE Market Price	\$11.08
Net Asset Value ("NAV") per share	\$12.09
Net Assets	\$342,577,510.10
Portfolio Holdings	92
Inception Date	March 21, 1990
Premium/Discount	-8.354%
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 <sup>(1)</sup>	JOF NYSE Market Price <sup>(2)</sup>	Russell/ Nomura Small Cap™ Index <sup>(3)</sup>
<b>1 Month</b>	2.24%	3.80%	0.59%
<b>3 Month</b>	3.36%	7.75%	1.20%
<b>Calendar YTD</b>	34.56%	51.94%	28.44%
<b>1 Year</b>	34.56%	51.94%	28.44%
<b>3 Year</b>	19.66%	24.69%	15.61%
<b>5 Year</b>	7.24%	8.55%	5.82%
<b>10 Year</b>	8.17%	8.62%	7.00%
<b>Since Inception</b>	3.94%	3.48%	2.66%

<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	6.31%	0.07%
BuySell Technologies Co., Ltd.	3.38%	0.04%
Daishi Hokuetsu Financial Group, Inc.	3.33%	0.26%
Ryoden Corporation	2.68%	0.03%
Yondenko Corporation	2.68%	0.03%
Nippon Seiki Co., Ltd.	2.59%	0.06%
SWCC Corporation	2.58%	0.22%
The Musashino Bank, Ltd.	2.55%	0.10%
JM Holdings Co., Ltd.	1.83%	0.03%
Sangetsu Corporation	1.77%	0.10%

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

Our baseline scenario assumes that the US economy will remain the primary engine of global economic growth in 2026, although elevated uncertainty is likely to persist. On the surface, several tailwinds appear supportive for the markets: tariff burdens are set to ease based on year-over-year comparisons, tax cuts under the One Big Beautiful Bill Act are beginning to take effect, the Federal Reserve's ongoing rate-cutting cycle is alleviating short-term debt-servicing costs, and Artificial Intelligence ("AI")-related capital expenditure is expected to accelerate further. However, as the raid by the US military in Venezuela at the start of the year demonstrated, geopolitical risks remain inherently difficult to anticipate until they materialize. Furthermore, several important political events, including US midterm elections in November and nomination of the next Federal Reserve chair could also introduce potential sources of policy volatility with the potential to rattle market volatility.

Japan's economy is likely to maintain its modest growth trajectory, provided the global economy remains stable. Easing of inflationary pressures on staples such as food, combined with gasoline tax cuts and electricity subsidies may offer some relief to consumer sentiment by mitigating cost-push factors. Whether temporary inflation relief can translate into sustainable growth depends on two critical factors Japan has long struggled to deliver consistently: measurable productivity improvements and a sustained rise in real wages. While Japan's shrinking working-age population typically acts as a structural headwind to growth, Japanese companies have responded by ramping up investment in IT systems and factory automation to drive productivity improvements. Concurrently, amid an increasingly severe labor shortage, firms are beginning to embed a culture of wage increases as a means of securing talent.

The TOPIX is currently trading near the upper end of its historical range, with a 12-month forward price-to-earnings ratio of 15.5. That said, the robust rally in the latter half of 2025 was largely underpinned by upward earnings revisions, suggesting current valuations might be justified so long as corporate profit growth remains solid. In the near term, the durability of the AI investment boom is still the primary swing factor for Japan, as it is for other major markets. While we believe the ongoing AI revolution is only in its early stages yet and expect AI-related investment to continue growing, valuations for many associated names already incorporate

Source: Nomura Asset Management Co., Ltd.

Additional Information

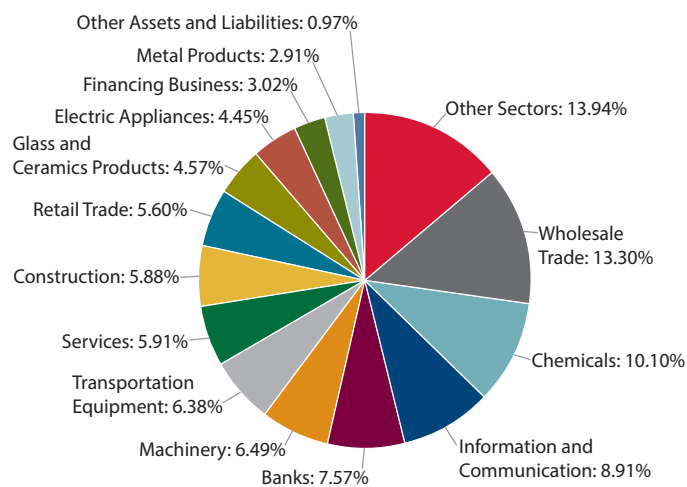
Comparisons between changes in the Fund's net asset value or market price per share and changes in the Fund's benchmark should be considered in light of the Fund's investment policy and objective, the characteristics and quality of the Fund's investments, the size of the Fund, and variations in the Japanese 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.

elevated expectations. A risk scenario worth monitoring is the potential for market consolidation as competition in generative AI services intensifies, with weaker players dropping out. Such a scenario could then trigger credit events among financially vulnerable participants in the AI ecosystem, and equity markets could face bouts of profit-taking.

Meanwhile, market reform initiatives, a long-term investment theme for Japan, are expected to make progress this year. In October 2026, the Tokyo Stock Exchange ("TSE") will initiate a selection process to enhance the liquidity and investment functionality of the TOPIX index. By the conclusion of the transition period in 2028, the index is projected to streamline from approximately 1,700 to 1,100 constituents, sharpening its focus on investable quality.

Some notable divergence was observed in the investment environment during December. Even though the Bank of Japan raised its key policy rate by 0.25 percentage points to 0.75%, while the US Federal Reserve lowered its policy rate by the same amount, the Japanese yen remained relatively weak against the US dollar. In this environment, small-cap stocks performed as well as large-caps this month. For the full year of 2025, small-caps outperformed large-caps, demonstrating the underlying strength and resilience of Japan's smaller companies.

Looking ahead to 2026, the narrative for small-cap stocks is changing. It is no longer solely about stocks being "cheap." Rather, we are entering a period of substantive change driven by official stock-market reforms.

The year 2026 will be a major turning point for the TSE Standard Market. Large companies in the Prime Market have already made substantial progress in improving governance. Notably, more than 90% of companies are now disclosing plans to improve capital efficiency. However, only about half of companies in the Standard Market have made similar plans public. We view this gap as a significant opportunity for growth. The Tokyo Stock Exchange is expected to encourage these slower-moving companies to improve, which should provide a catalyst for a long-awaited re-rating.

Another key change is the push to protect individual and minority shareholders. The Standard Market includes many companies controlled by parent companies or founding

families. New rules coming in 2026 will make board elections more transparent and increase board independence. Authorities are also beginning to address the long-standing management practice at some family-owned firms of deliberately maintaining low share prices for tax-related reasons. These reforms aim to refocus attention on proper business priorities: growing the company and rewarding shareholders.

For investors, these changes could be a powerful catalyst. For the first time in five years, the Corporate Governance Code – Japan's best practice "rulebook" for how companies should be run – is being updated. This will pressure small companies that hold large idle cash balances to deploy the capital for growth or to return it to shareholders via dividends and buybacks. At the same time, efforts to make it easier to buy and sell these stocks will likely attract more investors, unlocking value in companies that were previously overlooked.

The growth outlook also seems promising. Small-cap companies are expected to deliver double-digit profit growth by early 2027, far outpacing the roughly 5% growth expected for large-caps. Despite this, small-cap stocks continue to trade at a discount relative to their larger peers, making them attractive at current price levels.

In our portfolio, we continue to emphasize undervalued stocks while selectively adding domestically focused growth names with lower exposure to global political risks. With the upcoming TOPIX changes in 2026 and stricter listing rules, the management teams of many companies have already begun to improve. We intend to support this positive trend through direct engagement with companies that have the greatest potential to enhance value.

We will 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.