Japan Smaller Capitalization Fund, Inc.

As of January 31, 2026

Fund Facts

NYSE Ticker	JOF
CUSIP	47109U104
NYSE Market Price	$11.46
Net Asset Value ("NAV") per share	$12.71
Net Assets	$360,091,841.00
Portfolio Holdings	91
Inception Date	March 21, 1990
Premium/Discount	-9.835%
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	5.94%	4.23%	5.90%
3 Month	14.69%	13.29%	10.23%
Calendar YTD	5.94%	4.23%	5.90%
1 Year	41.80%	58.16%	34.11%
3 Year	20.31%	23.63%	16.22%
5 Year	9.14%	10.32%	7.26%
10 Year	9.64%	9.83%	8.43%
Since Inception	4.10%	3.59%	2.82%

Past performance is not indicative of future results. There is a risk of loss.

(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.

JOF NAV versus NYSE Market Price

Top Ten Holdings

Holdings may vary over time.

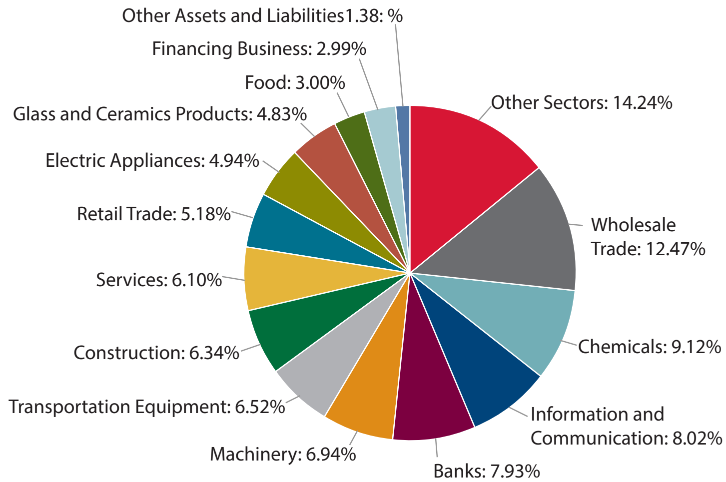
Security	% of Net Assets	% of Benchmark[1]
Sakata Inx Corporation	6.12%	0.07%
Daishi Hokuetsu Financial Group, Inc.	3.63%	0.29%
BuySell Technologies Co., Ltd.	2.95%	0.04%
Nippon Seiki Co., Ltd.	2.86%	0.06%
The Musashino Bank, Ltd.	2.79%	0.10%
Yondenko Corporation	2.78%	0.03%
Ryoden Corporation	2.64%	0.03%
SWCC Corporation	2.27%	0.24%
THK Co., Ltd.	1.89%	0.34%
JM Holdings Co., Ltd.	1.86%	0.03%

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

The global economy still looks resilient, underpinned by the ongoing growth in technology investment, fiscal support across major economies, and accommodative monetary conditions. While the US is likely to remain the primary driver of global economic growth, we are seeing an increasingly "K-shaped" recovery. Investment in Artificial Intelligence ("AI") data-center infrastructure and consumption among affluent households remain robust, while the labor-market recovery lacks vigor. This divergence is exacerbated by deepening structural friction, including widening income inequality, as well as the geopolitical fissures in the global economy. These factors could be eroding the system's resilience against the impact of tail-risk events.

In Japan, recent political developments have introduced turbulence into the bond and currency markets. The snap election for the lower House of Representatives called for February 8th carried the risk of rekindling volatility depending on the outcome. That said, barring a major defeat for the ruling Liberal Democratic Party ("LDP"), we would expect market volatility to subside. The LDP's message of "Responsible Active Fiscal Policy" suggests a balanced approach to fiscal discipline, with spending targeted in areas critical to economic growth and national security. Japan's debt-to-GDP ratio has indeed trended downward in recent years, and new bond issuance remains contained. Admittedly, Prime Minister Takaichi's rhetoric regarding fiscal expansion and proposals for the temporary suspension of consumption tax on food sparked concerns over fiscal loosening. A key question for financial market stability after the election will be whether the government can pivot from short-term populist measures towards more orthodox and long-term policy management aimed at structural stability.

Following a rally driven by steady corporate earnings and expectations of political stability, valuations in the Japanese equity market have reached levels that appear somewhat stretched by historical standards. With JGB yields rising, the yield spread between the TOPIX dividend yield and the 10-year JGB has finally inverted. This shift leaves the equity market vulnerable to profit-taking in the near term, as their relative yield appeal diminishes. Yet our conviction in the long-term structural thesis remains intact: there is still significant room for improvement in corporate capital efficiency. Although concerns over potential tariffs temporarily dampened the momentum of share buybacks this fiscal year, we expect companies to accelerate these initiatives once again, thereby optimizing capital structures. Just as important, as AI technologies finally diffuse into daily workflows, a key swing factor will be whether companies can translate labor shortages amid Japan's aging and declining workforce into productivity gains, and thereby deliver a more durable uplift in profitability.

Japanese stocks extended their rally in January, fueled by gains in semiconductor sectors and optimism surrounding the general election. Large-cap stocks led the market rally, causing small-cap stocks to slightly underperform, while the TSE Growth market showed notable resilience, outperforming the TOPIX. Overall, despite a large-cap-dominated environment, selective buying among emerging companies and industries provided a solid floor for small-cap performance.

The Tokyo Stock Exchange launched its reform agenda for the equity market and index structure in 2022. Starting in 2025, the focus of these reforms is shifting toward small-cap companies, including measures aimed at tightening listing maintenance criteria for the notably sluggish TSE Growth market. 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 holding domestically focused growth names with lower exposure to global political risks. Furthermore, we will strive to identify companies poised to benefit from the expanding wave of AI-related investment, as well as those with distinctive strengths in robotics. 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.

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.