

Japan Smaller Capitalization Fund, Inc.

As of May 31, 2026

Fund Facts

NYSE Ticker	JOF
CUSIP	47109U104
NYSE Market Price	\$11.80
Net Asset Value ("NAV") per share	\$13.20
Net Assets	\$373,981,492.64
Portfolio Holdings	90
Inception Date	March 21, 1990
Premium/Discount	-10.606%
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	3.98%	5.02%	3.47%
3 Month	-2.15%	-2.35%	-2.64%
Calendar YTD	13.44%	10.65%	13.55%
1 Year	35.57%	37.03%	29.18%
3 Year	23.43%	25.04%	19.70%
5 Year	10.28%	10.50%	8.51%
10 Year	9.79%	10.20%	8.11%
Since Inception	4.26%	3.73%	2.99%

⁽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



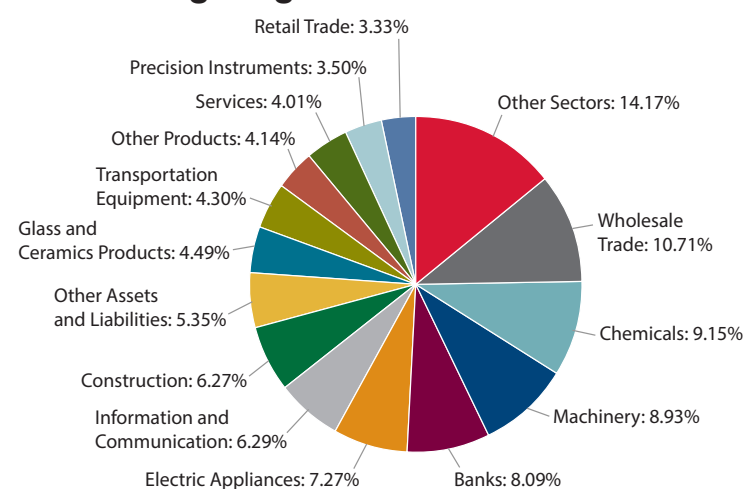
Top Ten Holdings Holdings may vary over time.

Security	% of Net Assets	% of Benchmark ⁽¹⁾
Sakata Inx Corporation	5.61%	0.06%
Daishi Hokuetsu Financial Group, Inc.	3.78%	0.29%
Citizen Watch Co., Ltd.	3.50%	0.28%
The Musashino Bank, Ltd.	2.94%	0.13%
Yondenko Corporation	2.71%	0.03%
THK Co., Ltd.	2.33%	0.52%
Ryoden Corporation	2.28%	0.03%
Tekscend Photomask Corporation	2.28%	Not included
Asia Pile Holdings Corporation	2.13%	0.03%
BuySell Technologies Co., Ltd.	1.86%	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

Although ceasefire negotiations between the US and Iran are under way, crude oil prices remain elevated, and petrochemical supply chain conditions are far from normalized. The Strait of Hormuz therefore remains a major choke point for the global economic outlook. Unless shipping conditions normalize quickly, the world economy will remain exposed to supply-side inflation risks that could increasingly weigh on demand. Despite this challenging environment, global economic activity has demonstrated some resilience lately, especially with the US continuing to release robust economic data. The twin engines of US economic growth are capital expenditure linked to AI infrastructure and stronger consumption among wealthier households, supported by rising asset prices. While these forces are currently supporting the economy, dependence on a relatively concentrated set of growth drivers is contributing to greater divergence in the outlook across the global markets.

Japanese government bond yields continue to rise, triggered by higher inflation, and this is bringing the domestic economy closer to an important inflection point. As nominal long-term interest rates move higher, the environment is becoming less favorable for a government that has relied on low borrowing costs to support expansionary fiscal policy. In the past, as borrowing costs remained comfortably below the economic growth rate, we believed that government debt would remain sustainable even under the Takaichi administration's expansionary fiscal stance. However, triggered by a resurgence in global inflation following the outbreak of conflict between the US and Iran, the 10-year JGB yield has surged to near 3%, approaching a level that could begin to test Japan's fiscal sustainability. The government will therefore need to manage fiscal policy with greater care, avoiding an overshoot in interest rates driven by concerns over debt sustainability.

Japanese equities have nevertheless staged a powerful rally in the face of these headwinds. The TOPIX index now trades at a price-earnings multiple of nearly 17 times 12-month forward earnings, which is above its historical range. To some extent, a valuation premium relative to history could be justified, given that a small group of AI-related stocks is responsible for the upward shift in market

multiples. In aggregate, the scale of investment associated with AI infrastructure build-out is now approaching the gross domestic product figure of a national economy, while visibility over the next several years remains unusually robust. Against this backdrop, valuations for companies playing critical roles in the AI supply chain could remain stretched until earnings growth catches up. The more important point, in our view, is that Japan's revaluation story is broader than AI alone. Corporate governance reforms and sustained pressure from investors are encouraging companies to adopt a more sophisticated approach to capital efficiency. This ongoing structural shift will continue to serve as a unique downside protection for the Japanese equity market.

In May, Japanese equities were once again driven higher by stocks benefiting from accelerated investment in AI infrastructure, continuing the trend seen in the previous month. Small-cap stocks also advanced, but their gains were relatively modest, reflecting their lower sensitivity to these themes compared with large-cap stocks. Our near-term view has not changed materially since last month. Concerns about mounting inflationary pressure persist amid elevated crude oil prices and continued yen weakness. Small-cap earnings for the fiscal year ending March 2026 were strong and delivered double-digit profit growth. The earnings outlook for the fiscal year ending March 2027 points to profit growth of around 8%, partly factoring in the impact of the prolonged conflict.

A notable feature of the latest earnings season was that, while many small-cap companies acknowledged the impact of higher crude oil prices, they also indicated they would be able to pass through most of the cost increases to selling prices. In particular, the companies we hold that provide products with high market share or highly differentiated services expressed confidence in their ability to maintain profit margins.

Market interest in AI infrastructure-related stocks remains particularly strong, and we expect many related companies to achieve structural medium-term growth as data center investment increases. However, rapid re-rating has pushed valuations higher. For stocks that now appear somewhat

expensive and seem to be discounting several years of future growth, we are taking profits and actively rotating into cheaper names.

Another important issue to watch in the upcoming full-year earnings season is how small-cap companies respond to the second-stage review of TOPIX constituents, which is scheduled to begin in October 2026. Under this process, index constituents may be reassessed across market segments using criteria such as float-adjusted market capitalization and trading value. As a result, the number of constituent stocks could decline from roughly 1,700 to around 1,100. Despite near-term macro uncertainty, we assume that companies trading close to the inclusion threshold would respond by introducing measures to further enhance corporate value. In practice, many companies announced substantial dividend increases and share repurchases. Even after share prices rose more than 10% year to date in JPY terms, the portfolio's overall dividend yield stood at around 3.2% at the end of May, above the level seen at the end of last year.

The expected five-year update to Japan's Corporate Governance Code, the country's best-practice framework for corporate management, is also an important development. The update is likely to place even greater pressure on small-cap companies with large cash holdings to deploy that capital into growth investments or return it to shareholders through dividends and share buybacks. At the same time, efforts to improve liquidity in these stocks are likely to attract more investors and help unlock value in companies that have historically been overlooked.

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.