Japan Smaller Capitalization Fund, Inc.

As of July 31, 2026

Fund Facts

NYSE Ticker	JOF
CUSIP	47109U104
NYSE Market Price	$11.34
Net Asset Value ("NAV") per share	$13.27
Net Assets	$338,489,918.93
Portfolio Holdings	90
Inception Date	March 21, 1990
Premium/Discount	-14.544%
Shares Outstanding	25,500,504
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	4.06%	-2.92%	1.20%
3 Month	6.21%	2.55%	3.64%
Calendar YTD	15.87%	8.04%	13.73%
1 Year	31.77%	28.89%	25.26%
3 Year	21.34%	22.14%	17.05%
5 Year	10.83%	10.69%	8.33%
10 Year	9.32%	9.38%	7.62%
Since Inception	4.30%	3.64%	2.98%

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

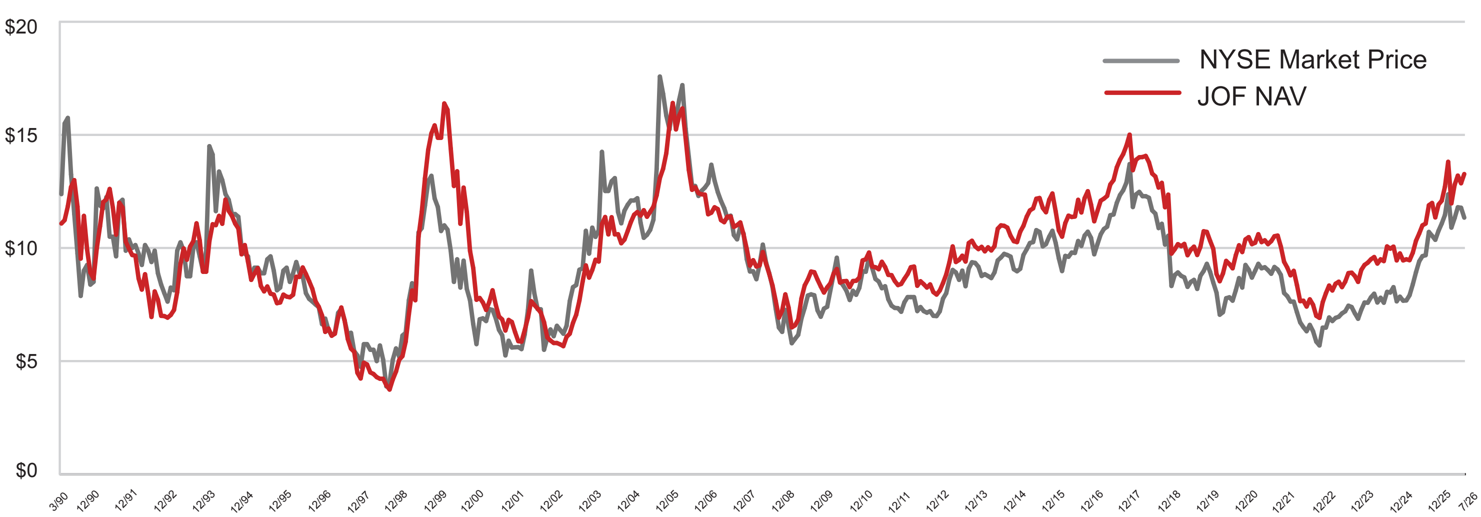
[1] Based on NAV price, adjusted for reinvestment of income dividends, ordinary income distributions, and long-term capital gain distributions as per the dividend reinvestment policy of the Fund.

[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



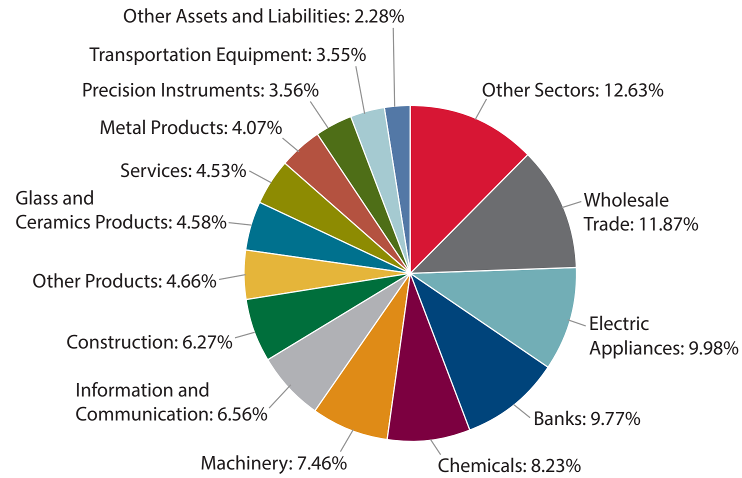
Top Ten Holdings
Holdings may vary over time.

Security	% of Net Assets	% of Benchmark[1]
Sakata Inx Corporation	5.07%	0.06%
Daishi Hokuetsu Financial Group, Inc.	4.86%	0.33%
Citizen Watch Co., Ltd.	3.56%	0.26%
Tomen Devices Corporation	3.50%	Not included
Yondenko Corporation	3.07%	0.03%
The Musashino Bank, Ltd.	2.79%	0.14%
SWCC Corporation	2.41%	0.21%
GMO Internet Group, Inc.	2.33%	0.17%
Tekscend Photomask Corporation	2.26%	Not included
Asia Pile Holdings Corporation	2.19%	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

Even allowing for the renewed outbreak of hostilities and geopolitical tensions in the Middle East, along with persistent inflation, the global economy is expected to sustain its resilient growth trajectory in the near term. This momentum continues to be anchored by robust capital expenditure toward AI infrastructure. That said, several new sources of potential uncertainty are emerging: the launch of "open-weight" and low-cost Chinese AI models, the cash-flow headroom of the hyperscalers, and the true speed at which agentic AI is being adopted at the enterprise level.

In theory, AI should ultimately have a disinflationary effect through productivity gains. However, its initial deployment is proving inflationary because infrastructure demand is running ahead of supply. In addition to these factors, Japan faces domestically generated inflationary pressure from the government's aggressive fiscal expansion stance under the Takaichi administration and perceptions that the Bank of Japan's (BOJ) monetary tightening has been too slow to restore price stability. These factors have led to sustained selling pressure on both Japanese government bonds and the yen. The currency has recently rebounded following coordinated intervention by the Japanese and US authorities. However, stabilization of currency and bond markets may require the government's commitment to fiscal discipline, as well as appropriate monetary policy conducted independently by the BOJ.

Japanese equities have managed to stay mostly resilient overall despite heavy profit-taking in AI-related stocks, as capital has smoothly rotated into non-AI sectors of the market. The TOPIX continues to trade at approximately 16 times 12-month forward consensus earnings, leaving its price-to-earnings ratio valuation somewhat above its historical range. Yet we regard this modest premium as justifiable given the strength of the earnings outlook. Although reporting for the April-June quarter (first quarter of fiscal year ending March 2027) is still under way, an unusually broad range of companies are already raising their full-year guidance. Given the traditionally conservative approach of Japanese management teams, such early upgrades point to high conviction in earnings growth from the second quarter onwards. Upward revisions are appearing not only in AI-related industries but across a wide range of sectors, leaving scope for consensus earnings per share estimates to rise further.

In July, the Nikkei 225 fell sharply, driven by a major sell-off among semiconductor and AI-related stocks. The decline was primarily triggered by concerns about excessive capital investment by US hyperscalers and intensifying competition from Chinese AI companies seeking to challenge them. By contrast, small-cap stocks, particularly value stocks, remained resilient and recorded more modest declines.

However, since the inauguration of the Takaichi administration last autumn, concerns about increased fiscal spending have driven a sustained increase in domestic interest rates and persistent yen weakness. Against this macroeconomic backdrop, it remains challenging for small-cap stocks to outperform their large-cap counterparts given that so many smaller companies tend to be domestically oriented. In terms of positive factors, concerns about geopolitical tensions involving Iran receded somewhat, crude oil prices appear to have peaked, and coordinated foreign-exchange intervention by Japan and the US at the end of July temporarily halted the yen's depreciation. If these conditions persist, they could enable small-cap stocks to recover some of their relative underperformance. However, we believe it remains too early to become fully optimistic.

Despite this challenging external environment, the corporate earnings outlook remains highly encouraging. Aggregate earnings for small-cap companies remain exceptionally solid, with profit growth of 7% projected for the fiscal year ending March 2027. Although this overall forecast includes domestic-demand-oriented companies that are vulnerable to the adverse effects of cost inflation, we believe numerous sectors are expected to deliver robust profit growth of more than 15%. Notable examples include the Banking sector, which directly benefits from rising interest rates, as well as sectors with ties to AI infrastructure and robotics.

Historically, we have maintained a balanced portfolio across sectors, seeking to benefit from valuation expansion among value stocks as corporate governance and shareholder returns improve. However, given the likelihood that the government of popular Prime Minister Sanae Takaichi will remain in office for an extended period, we believe there is a strong case for adjusting the portfolio to reflect the growing divergence in earnings prospects across sectors. Going forward, we will closely analyze forthcoming earnings reports and gradually increase the portfolio's exposure to companies with stronger profit growth prospects, while maintaining our strict valuation discipline.

Another key development to monitor this summer 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, companies across market segments may be reassessed for index inclusion using criteria such as float-adjusted market capitalization and trading value. As a result, the number of constituents is expected to decline from roughly 1,700. Given the increased concentration in large-cap stocks, the final number, initially estimated at around 1,100, could fall below 1,000. Despite near-term macroeconomic uncertainty, we believe that companies trading near the inclusion threshold will be incentivized to take further steps to enhance corporate value.

The planned five-year review and update of Japan's Corporate Governance Code, which sets out best-practice principles for corporate governance, is another important development. The revision is likely to place even greater pressure on cash-rich small-cap companies to invest in growth or return capital to shareholders through dividends and share buybacks. At the same time, efforts to improve the liquidity of these stocks are likely to attract more investors and may 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.