Japan Smaller Capitalization Fund, Inc.

As of August 31, 2026

Fund Facts

NYSE Ticker	JOF
CUSIP	47109U104
NYSE Market Price	$12.63
Net Asset Value ("NAV") per share	$14.37
Net Assets	$366,523,940.06
Portfolio Holdings	87
Inception Date	March 21, 1990
Premium/Discount	-12.109%
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	9.11%	12.22%	3.95%
3 Month	11.45%	9.57%	4.12%
Calendar YTD	26.42%	21.24%	18.22%
1 Year	32.87%	29.65%	21.22%
3 Year	24.83%	27.26%	18.86%
5 Year	12.31%	12.52%	8.66%
10 Year	10.80%	10.88%	8.50%
Since Inception	4.54%	3.96%	3.09%

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

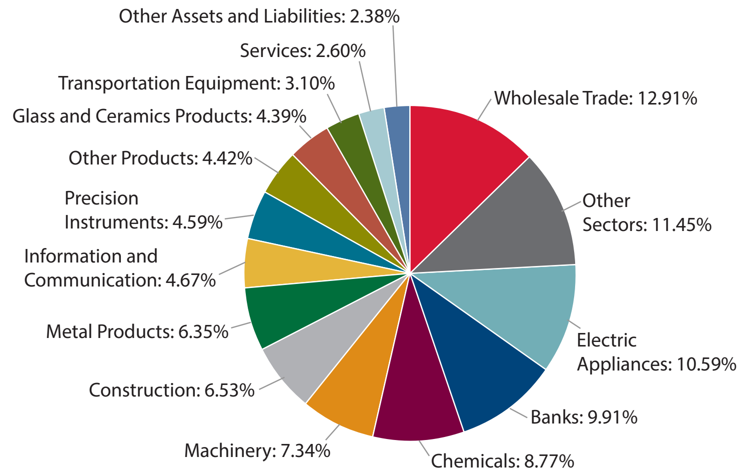
Top Ten Holdings Holdings may vary over time.

Security	% of Net Assets	% of Benchmark[(1)]
Daishi Hokuetsu Financial Group, Inc.	5.04%	0.36%
Sakata Inx Corporation	4.82%	0.07%
Citizen Watch Co., Ltd.	4.59%	0.33%
Tomen Devices Corporation	4.13%	Not included
Yondenko Corporation	3.17%	0.04%
SWCC Corporation	2.92%	0.27%
The Musashino Bank, Ltd.	2.81%	0.14%
Idec Corporation	2.15%	0.06%
Asia Pile Holdings Corporation	2.11%	0.03%
Tekscend Photomask Corporation	2.08%	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.

(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

A recent boom in AI infrastructure build-out is increasingly steering the global economy toward a path of sustained expansion that could extend beyond a typical economic cycle. Existing AI data-center capacity still falls short of the requirements stated by generative-AI platform providers, both in scale and technological sophistication. This apparent shortfall leaves ample room for further capacity growth. That said, risks are also mounting. Long-dated US Treasury yields remain under upward pressure amid fiscal concerns and persistent inflation. Bond market supply-demand dynamics are also deteriorating, partly due to heavy issuance of corporate debt instruments by hyper-scalers. This tightening of financial conditions could crowd out non-AI corporate capital expenditure, deepen the housing market downturn in the US, and ultimately weigh on global economic activity.

Japan has not been immune to these pressures, with long-term JGB yields continuing to rise in response to both domestic and external factors. The Bank of Japan (BOJ) will therefore likely need to accelerate the pace of monetary policy normalization to keep inflation expectations anchored. At 1.0%, the current policy rate remains clearly below most measures of expected inflation, as well as estimates of the nominal neutral interest rate, indicating that monetary conditions remain accommodative. The market currently anticipates two 25 bps policy rate increases this year and another increase next year. We believe this outlook is reasonable and would take the policy rate to 1.75%, while it remains to be seen where the course of monetary policy would evolve from there.

Although higher bond yields have reduced the relative valuation appeal of equities, Japanese stocks have remained resilient, underpinned by robust earnings growth. The TOPIX has appreciated by approximately 20% year to date, while consensus forward earnings per share (EPS) estimates have also risen similarly. As a result, the index's forward price-to-earnings ratio is around 16, which is little changed from the start of the year. While slightly above historical averages, the valuation can be considered justifiable given the strength of earnings momentum and the potential for further upward revisions to consensus EPS estimates.

Recent quarterly results have also strengthened the outlook for small-cap companies. Profits have grown by approximately 12% in FY25 and are projected to rise by a further 11% in FY26 (FY ending March 2027). Small-cap stocks outperformed the broader market in August by a narrow margin. However, on a total-return basis, the Russell/Nomura Small Cap Index continues to trail behind the TOPIX index for year to date, with a return of +20.4% compared to +23.4% for the TOPIX. Small-cap stocks are currently trading at around 15 times earnings, below the valuation of large-cap stocks. We therefore believe small-cap stocks have relatively greater upside potential.

Since the Takaichi administration took office in the autumn of 2025, domestic interest rates have risen amid concerns about increased government spending, while the yen has remained weak. This environment has made it difficult for small-cap stocks to outperform the large-cap market, as many smaller companies are heavily dependent on the domestic economy. However, conditions may be starting to change. At the end of July, Japan and the US conducted coordinated intervention in the foreign exchange market, signaling that both governments were prepared to curb further yen depreciation. Expectations are also growing that domestic investors, including life insurers and the Government Pension Investment Fund, may increase their allocations to Japanese government bonds. These developments suggest that the investment environment for small-cap stocks may be improving. If the trend continues, small-cap stocks could recover some of their recent relative underperformance. We therefore intend to adopt a cautiously positive view of the market outlook.

For the fiscal year ending March 2027, strong earnings growth of more than 15%, well above the market average, is expected across several sectors. These include Banking, which directly benefits from higher interest rates, and industries exposed to AI infrastructure and robotics. Given the possibility that the government led by the popular Prime Minister Sanae Takaichi will remain in office for an extended period, we believe the portfolio should reflect the widening divergence in earnings prospects across sectors. Going forward, we will assess forthcoming earnings reports carefully, and we will gradually increase exposure to companies with stronger earnings growth prospects, while maintaining strict valuation discipline.

One notable small-cap theme relates to how companies respond to the second-stage review of TOPIX constituents, which is scheduled to begin in October 2026. Under this process, companies across different market segments may be reassessed for index inclusion based on criteria including float-adjusted market capitalization and trading value. As a result, the number of constituent listed stocks is expected to fall from approximately 1,700 to fewer than 1,000. Despite near-term economic uncertainty, companies trading close to the inclusion threshold are likely to have a strong incentive to take further measures to enhance corporate value.

Another significant development is the planned five-year review and revision of Japan's Corporate Governance Code, which establishes best-practice principles for corporate governance. The revision may increase pressure on small-cap companies with substantial cash holdings either to invest in growth or return capital to shareholders through dividends and share buybacks. At the same time, efforts to improve stock liquidity could broaden investor interest 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 changes in tariff policy, those capable of sustaining good 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 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.