NOMURA ASSET MANAGEMENT

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Nomura Asset Management U.S.A. Inc.

Japan Smaller Capitalization Fund, Inc.

As of September 30, 2026

Fund Facts

NYSE Ticker	JOF
CUSIP	47109U104
NYSE Market Price	$12.60
Net Asset Value ("NAV") per share	$14.48
Net Assets	$369,222,860.66
Portfolio Holdings	88
Inception Date	March 21, 1990
Premium/Discount	-12.983%
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	1.53%	0.52%	1.26%
3 Month	15.27%	9.50%	6.53%
Calendar YTD	28.36%	21.87%	19.72%
1 Year	32.66%	31.32%	21.15%
3 Year	26.17%	29.14%	20.39%
5 Year	12.58%	12.91%	8.50%
10 Year	10.38%	10.45%	8.04%
Since Inception	4.57%	3.97%	3.12%

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

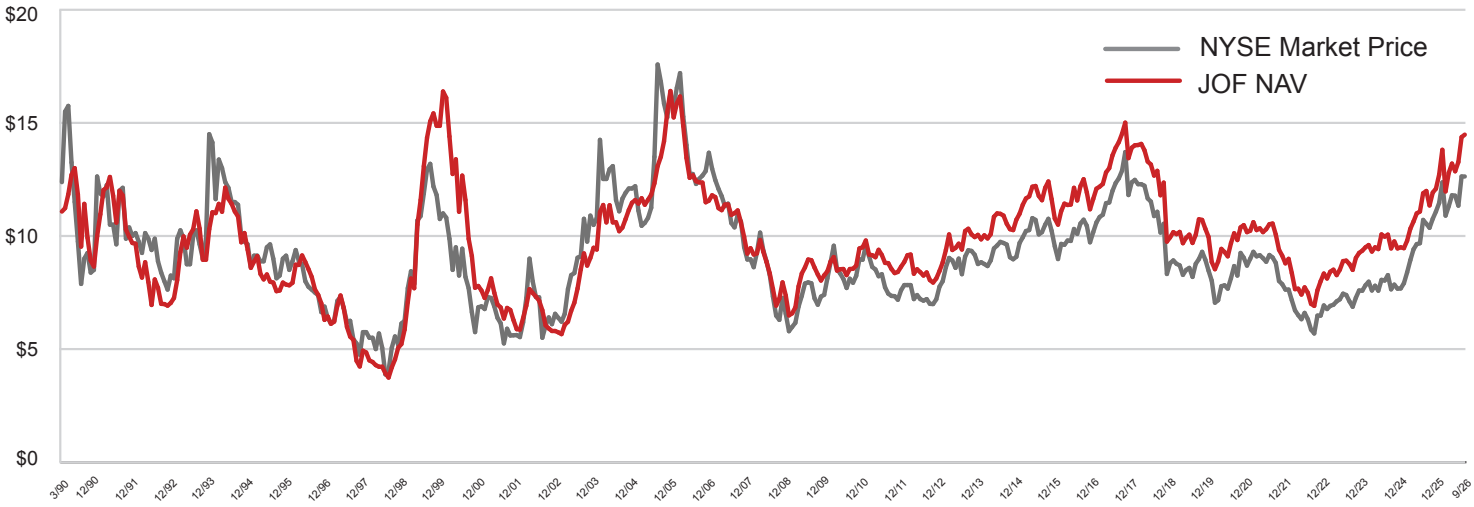
[1] Based on NAV price, adjusted for reinvestment of income dividends, ordinary income distributions, and long-term capital gain distributions as per the dividend reinvestment policy of the Fund.

[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



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As of September 30, 2026

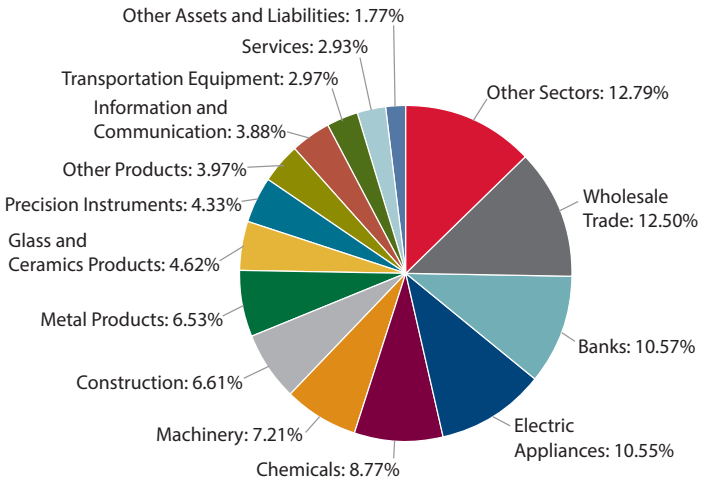
Top Ten Holdings Holdings may vary over time.

Security	% of Net Assets	% of Benchmark[1]
Daishi Hokuetsu Financial Group, Inc.	5.52%	0.40%
Sakata Inx Corporation	4.69%	0.07%
Tomen Devices Corporation	4.62%	Not included
Citizen Watch Co., Ltd.	4.33%	0.28%
Yondenko Corporation	3.26%	0.04%
The Musashino Bank, Ltd.	2.93%	0.15%
SWCC Corporation	2.83%	0.25%
Restar Corp	2.31%	0.05%
Idec Corporation	2.22%	0.06%
Tekscend Photomask Corporation	2.15%	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

The US economy has remained surprisingly resilient despite the recent rise in long-term yields, which would ordinarily function as a brake on economic growth. One underlying reason could be the effect of strong investment growth in AI infrastructure. Demand for computing capacity is sustaining capital spending beyond what a conventional manufacturing inventory cycle would suggest. Japanese manufacturers are among the chief beneficiaries of this capex boom, and we can therefore expect solid economic growth and corporate earnings expansion to continue, at least in the near term.

Alongside these robust fundamentals, long-term bond yields in Japan have also been pushed higher by two additional concerns. One is the prospect of expansionary fiscal policy; the other is the risk that a gradual pace of monetary tightening by the Bank of Japan ("BOJ") could allow inflation to overshoot. Recently, however, there are signs that both the government and the BOJ are recalibrating their message to the markets. The Sanae Takaichi administration has long advocated an expansionary fiscal policy stance. More recently, government announcements have placed greater emphasis on fiscal discipline, including by signaling its intention to limit new government bond issuance. Government officials have also shifted their stance on the currency. Having previously stressed the benefits of a weak yen, they are now expressing concern about the yen's undervaluation. The BOJ, meanwhile, has signaled a willingness to raise interest rates faster than before, reflecting its increased focus on containing inflationary pressures. Japan cannot fully insulate itself from the global rise in long-term interest rates. Even so, the risk of a domestically driven sell-off in JGBs or a further depreciation of the yen has eased somewhat.

With a price-earnings valuation of just over 15 times 12-month forward consensus earnings, the TOPIX index continues to trade towards the upper end of its historical range. However, we believe this premium can be justifiable given the structural improvement in return on equity seen among Japanese companies, increased share buybacks, and strong near-term earnings growth. Over the medium to long term, the Tokyo Stock Exchange is reinforcing the efforts of many individual companies to improve capital efficiency through corporate governance reform. As part of its efforts to make Tokyo a market of choice for global investors, the exchange will begin its project to overhaul the TOPIX index in October 2026. Under the new rules, constituent stocks will be reviewed periodically against liquidity criteria such as free-float market capitalization and trading-value turnover. As a result, the number of constituents is set to decline from around 1,600 to fewer than 1,000 following a two-year transition period. By increasing the pressure on companies to retain their places in the index, these reforms should provide fresh impetus for efforts to enhance corporate value.

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 13% in FY26 (FY ending March 2027). Small-cap stocks performed almost in line with the TOPIX index on a total return basis in September. However, year to date, the Russell/Nomura Small Cap Index continues to trail behind the TOPIX index with a return of +20.1% compared to +23.1% for the TOPIX on a total-return basis. Small-cap stocks are currently trading at around 14 times 12-month forward consensus earnings, lower than the price-to-earnings valuation for 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 20%, 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 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.

The second-stage review of TOPIX constituents is scheduled to begin in October 2026 and is expected to reduce the number of index constituents from approximately 1,600 to fewer than 1,000. The implications for our portfolio are likely to be mixed. Some of our holdings with relatively low liquidity may face selling pressure from passive funds if they are removed from the TOPIX index. Conversely, highly liquid companies listed on the TSE Standard or TSE Growth markets may become candidates to be included in the TOPIX based on criteria such as float-adjusted market capitalization and trading value. Potentially, this could attract inflows from passive funds. Companies excluded during this review will also have an opportunity to be reassessed one year later. Companies that meet the relevant criteria at that time may retain their inclusion in the TOPIX. Accordingly, companies trading close to the eligibility threshold have a strong incentive to improve their share liquidity, capital efficiency, and overall corporate value. We believe such companies will remain promising investment candidates.

Another significant development is the planned five-year review and revision of Japan's Corporate Governance Code, which sets out best-practice principles for corporate governance. This revision could provide an additional catalyst for companies close to the TOPIX eligibility threshold, reinforcing their incentive to improve liquidity, capital efficiency, and corporate value to retain their place in the index. It may also increase 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 share liquidity and strengthen governance could attract a wider range of investors and help to unlock value in companies that have historically received limited market attention.

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.