NOMURA ASSET MANAGEMENT

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Nomura Asset Management U.S.A. Inc.

Japan Smaller Capitalization Fund, Inc.

As of October 31, 2026

Fund Facts

NYSE Ticker	JOF
CUSIP	47109U104
NYSE Market Price	$11.00
Net Asset Value ("NAV") per share	$13.04
Net Assets	$332,628,806.94
Portfolio Holdings	82
Inception Date	March 21, 1990
Premium/Discount	-15.644%
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	-9.16%	-11.94%	-3.98%
3 Month	0.63%	-0.67%	1.08%
Calendar YTD	16.60%	7.32%	14.95%
1 Year	26.22%	16.65%	19.65%
3 Year	23.43%	25.20%	20.36%
5 Year	11.50%	10.66%	8.47%
10 Year	9.05%	8.88%	7.39%
Since Inception	4.29%	3.60%	2.99%

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

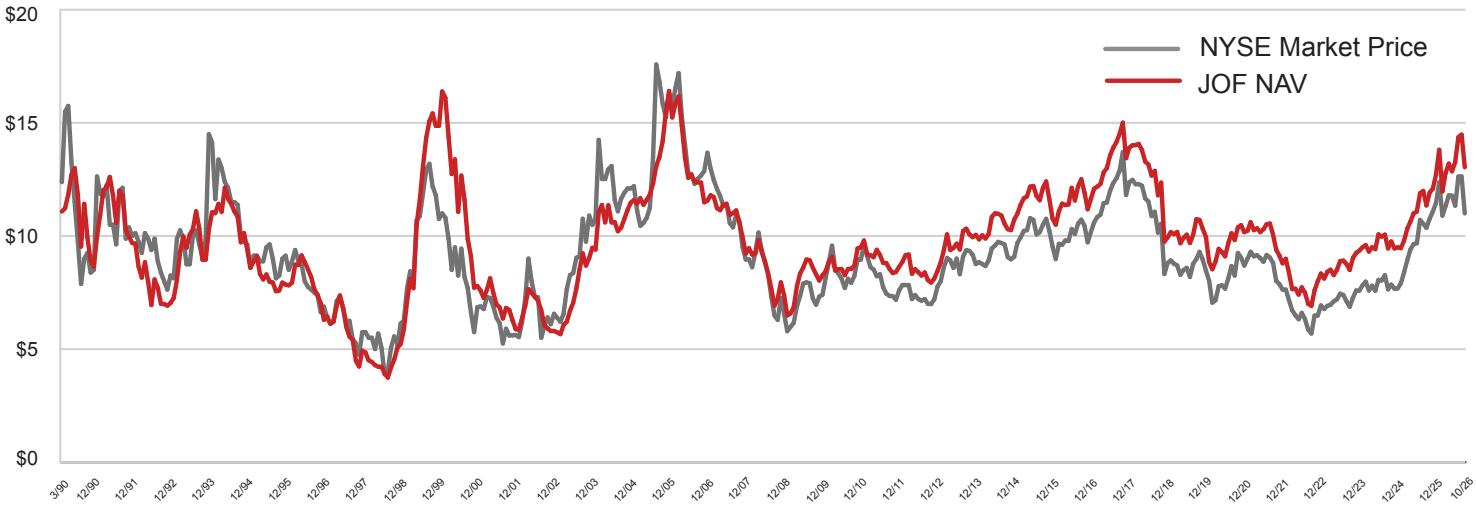
[1] Based on NAV price, adjusted for reinvestment of income dividends, ordinary income distributions, and long-term capital gain distributions as per the dividend reinvestment policy of the Fund.

[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



Japan Smaller Capitalization Fund, Inc.

As of October 31, 2026

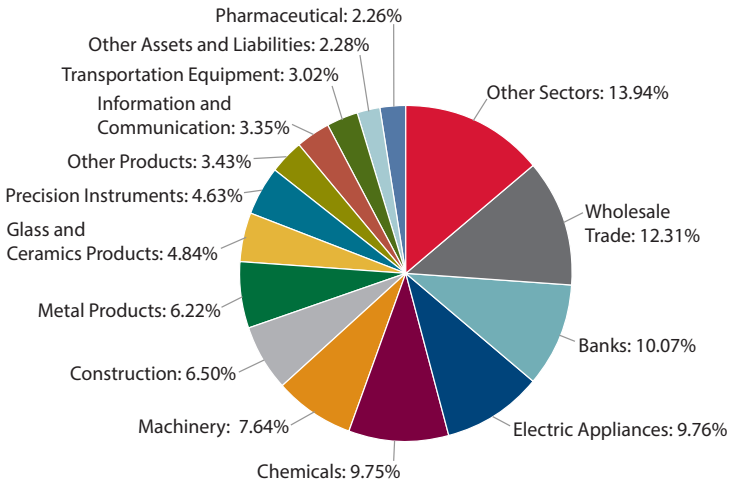
Top Ten Holdings Holdings may vary over time.

Security	% of Net Assets	% of Benchmark[1]
Sakata Inx Corporation	5.30%	0.07%
Daishi Hokuetsu Financial Group, Inc.	5.12%	0.34%
Citizen Watch Co., Ltd.	4.63%	0.27%
Tomen Devices Corporation	3.67%	Not included
Yondenko Corporation	3.38%	0.04%
The Musashino Bank, Ltd.	2.89%	0.14%
SWCC Corporation	2.58%	0.21%
Restar Corp	2.38%	0.05%
Asia Pile Holdings Corporation	2.22%	0.03%
Idec Corporation	2.16%	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

It is becoming increasingly difficult to decouple the global economic outlook from the trajectory of AI infrastructure investment. Demand is strong enough to create bottlenecks across the supply chain, from electricity to semiconductor components. AI infrastructure seems likely to be a major driver of global capital expenditure growth in the near term, but over a longer time horizon, some risks to that growth path are emerging. Capital spending by hyperscalers is beginning to outpace their cash-flow generation, while credit concerns are showing up among newer AI infrastructure companies, and competition from cost-efficient Chinese generative AI models and semiconductor technologies is intensifying. Sweeping victories for the Democratic Party in the US midterm congressional elections could also lead to the reassessment of some data center construction projects.

Effects of the AI boom have been spilling over into Japan. The July–September earnings season is now midway through, and results so far have been robust across a broad range of manufacturing industries. In aggregate, earnings so far appear broadly consistent with consensus expectations for approximately 20% (YOY) earnings per share growth for the TOPIX index in FY2026 (ending March 2027). Strong corporate earnings performance is also shaping next spring's annual wage negotiations, or Shunto, with unions signaling plans to seek larger wage increases than in previous years. In our view, the virtuous cycle in which rising incomes fuel domestic consumption and revitalize the broader economy is steadily gaining traction. In its October Outlook Report, the Bank of Japan (BOJ) stated for the first time that the underlying inflation rate had reached 2%, the target rate that the BOJ set in 2013. This underscores that Japan has emerged from its chronic low-inflation environment.

Despite this supportive economic backdrop from capital investment, the equity market outlook remains uncertain. Investors have reduced their exposure to AI-related stocks, driving sharp declines that have brought valuations for some leading names closer to levels that already price in slower capital spending. It could take a while before we see whether the emerging risks will ultimately restrain AI infrastructure spending or whether robust growth will endure despite current market concerns. Even so, the combination of robust earnings prospects and falling share prices has lowered the TOPIX's 12-month forward price-to-earnings ratio to around 14 times, bringing it back within its long-term historical range of 12-15 times for the first time in several months. This valuation looks increasingly attractive given the structural improvement in Japanese companies' return on equity, supported by corporate governance reforms.

Source: Nomura Asset Management Co., Ltd.

In October, the Russell/Nomura Small Cap Index returned -3.84%. Its year-to-date return stood at 15.5%, continuing to trail behind the TOPIX index return of 18.8%. This relative underperformance reflects the challenging environment for small-cap stocks, although the latest results point to a more supportive corporate earnings outlook. Earnings prospects for small-cap companies remain robust and continue to improve, particularly in manufacturing sectors. Profits are expected to grow by 13% in FY2026 (ending March 2027). Small-cap stocks currently trade at around 13 times 12-month forward consensus earnings, a discount to large-cap stocks. The combination of solid earnings prospects and relatively low valuations suggests that small-cap stocks may offer greater upside potential. We therefore believe the asset class merits close attention.

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. As many smaller companies are heavily dependent on the domestic economy, this environment has made it harder for small-cap stocks to outperform large-cap stocks. Higher interest rates and a weak yen have weighed on their investment outlook, contributing to their recent relative underperformance. However, conditions may be starting to change. Following its rate increase in June, the BOJ raised interest rates by a further 0.25 percentage points in September. In October, it stated that underlying inflation had reached its 2% target. Provided economic conditions do not change sharply, the BOJ is expected to continue raising interest rates through 2027. These developments may contribute to greater currency stability and an improving investment environment for small-cap stocks. If this trend continues, small-cap stocks could recover some of their recent relative underperformance. While uncertainties remain, we therefore take a cautiously positive view of the market outlook.

For the fiscal year ending March 2027, several sectors are expected to deliver earnings growth exceeding 20%, well above the market average. These include Banks, which directly benefit from higher interest rates, as well as industries exposed to AI infrastructure and robotics. This summer, the Takaichi administration formulated the Japan Growth Strategy, which targets 17 strategic fields and envisages more than 370 trillion yen in public and private-sector investment by 2040. By year-end, the administration is also expected to draw up a five-year investment plan and set out how it will be incorporated into national budgets from 2027 onwards.

Semiconductors, vertical AI and game content are among the areas where early monetization is expected. We are focusing on companies operating in these fields, while assessing how policy measures and investment could support future earnings growth. Given the possibility that the administration led by Prime Minister Sanae Takaichi, who still has a strongly positive approval rating, will remain in office for an extended period, we believe the portfolio should reflect the widening divergence in earnings prospects across sectors. This calls for a selective approach to companies and industries, rather than a uniform increase in market exposure. We will carefully assess the risk of reduced AI infrastructure investment in the US and review earnings reports as they are released. At the same time, we will maintain strict valuation discipline and gradually increase exposure to companies with stronger earnings growth prospects. This approach aims to balance the pursuit of growth opportunities with prudent risk management.

The second-stage review of TOPIX constituents in October reduced their number from approximately 1,600 to 986. The changes may have mixed implications for our portfolio. Some less liquid stocks with relatively low liquidity are candidates for removal from TOPIX and may face selling pressure from passive funds in the near term. However, companies identified for removal will be given the opportunity for a reassessment one year later. Stocks that meet the relevant criteria at that time may remain in the TOPIX. Meanwhile, companies that are close to meeting the retention criteria have a strong incentive to improve their share liquidity, capital efficiency and overall corporate value over the coming year. These improvements may also broaden their appeal to investors. We believe companies capable of meeting the criteria and making tangible progress in these areas will remain promising investment candidates.

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.

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.