

**Japan Smaller Capitalization Fund, Inc.**

January 31, 2018

**Fund Facts** (as of 1/31/2018)

NYSE Ticker	JOF
CUSIP	47109U104
NYSE Market Price Close	\$12.37
Net Asset Value	\$13.90
Net Assets	\$393,719,521
Portfolio Holdings	118
Inception Date	March 22, 1990
Premium/Discount	-11.01%
Shares Outstanding	28,333,893
<b>Benchmark</b>	
Since inception to 8/31/04: Nikkei JASDAQ Average Index. 9/1/04 onwards: Russell/Nomura Small Cap Index.	
<b>Portfolio Managers</b>	
Hiromitsu Daimon CMA CIAA, Lead Portfolio Manager Makoto Ito, Portfolio Manager	

**Fund Objectives**

**Japan Smaller Capitalization Fund, Inc. ("JOF" or the "Fund")** is a non-diversified, closed-end management investment company listed on the New York Stock Exchange. 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, Nagoya, and JASDAQ Stock Exchanges, the Mothers, Centex Markets, 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** (as of 1/31/2018)

	JOF NAV <sup>2</sup>	JOF NYSE Price <sup>3</sup>	Russell/ Nomura Small Cap™ Index <sup>4</sup>	Nikkei JASDAQ Avg. <sup>4</sup>
<b>Calendar YTD</b>	3.42%	4.74%	4.02%	10.63%
<b>1 Year</b>	37.89%	40.45%	35.03%	52.39%
<b>3 Year</b>	21.27%	23.29%	19.45%	24.58%
<b>5 Year</b>	18.60%	17.86%	16.06%	17.55%
<b>10 Year</b>	8.49%	7.54%	9.43%	10.29%
<b>Since Inception<sup>1</sup></b>	3.70%	3.00%	2.47%	2.72%

<sup>1</sup> Inception date: March 22, 1990.

<sup>2</sup> Based on NAV price, adjusted for reinvestment of income dividends and capital gain distributions as per the dividend reinvestment policy of the Fund.

<sup>3</sup> Based on the New York Stock Exchange's closing market price, adjusted for reinvestment of income dividends and capital gain distributions as per the dividend reinvestment policy of the Fund. JOF's performance does not represent sales commissions.

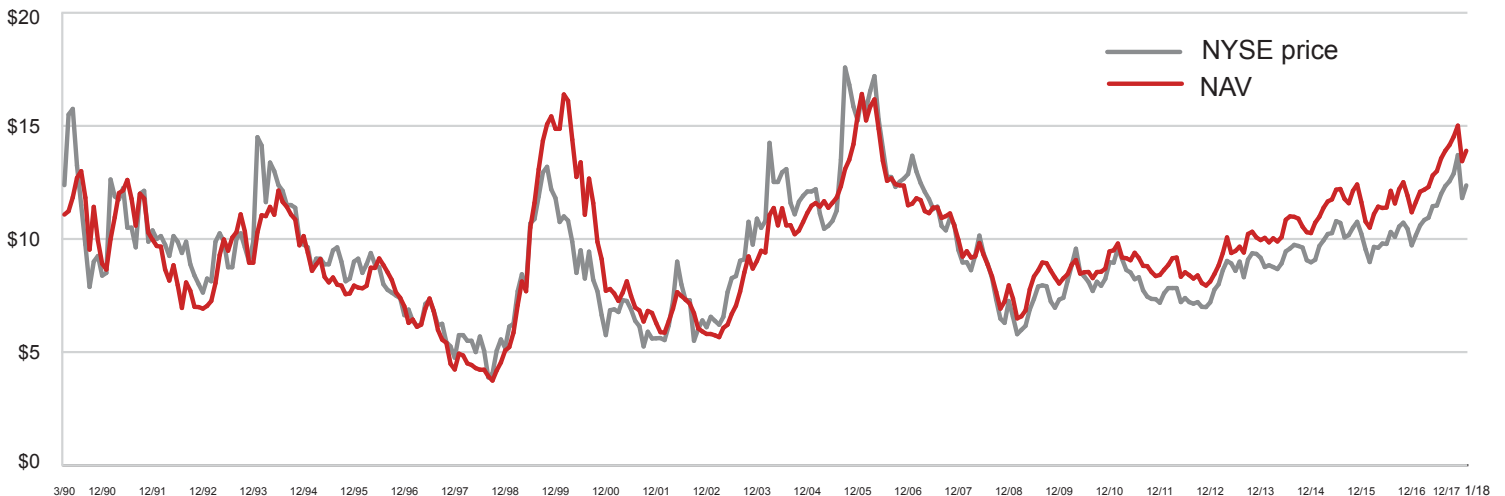
<sup>4</sup> From inception to 8/31/04, the benchmark was Nikkei JASDAQ Stock Average Index. Since 9/1/04, the benchmark has been the Russell/Nomura Small Cap™ Index. All results are in U.S. dollars.

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

Performance in excess of one year is annualized.

Sources: Nomura Asset Management U.S.A. Inc. and Bloomberg L.P.

**Net Asset Value Since Inception<sup>1</sup> vs. NYSE Closing Price** (as of 1/31/2018)



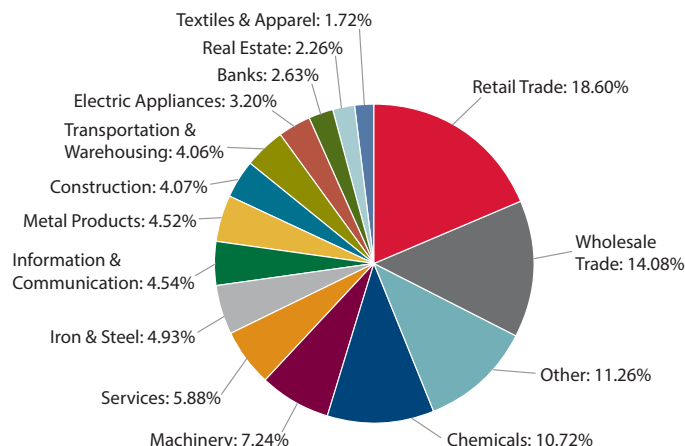
## Top Ten Holdings (as of 1/31/2018) Holdings may vary over time.

Security	% of Net Assets	% of Benchmark <sup>1</sup>
Ryoden Corporation	3.30%	0.03%
SIIX Corporation	3.10%	0.10%
Amiyaki Tei Co., Ltd.	2.90%	0.03%
Oiles Corporation	2.70%	0.06%
H.I.S. Co., Ltd.	2.40%	0.18%
Osaka Steel Co., Ltd.	2.30%	0.03%
Toenec Corporation	2.30%	0.03%
Daikokutenbussan Co., Ltd.	2.30%	0.03%
Matsuda Sangyo Co., Ltd.	2.20%	0.02%
Okinawa Cellular Telephone Company	2.10%	0.06%

The ten largest holdings by market 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 and related depository receipts.

<sup>1</sup> Russell/Nomura Small Cap Index™.

## Sector Weightings (as of 1/31/2018) 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.

## Manager's Commentary

Extending its upward trend from the end of last year, the TOPIX Index gained 1.05% in January 2018. Earnings prospects for Japanese companies underpinned the positive momentum, but the recent weakness of the US dollar raised concerns about the business conditions of Japanese exporters, which appeared to slow the market towards the end of the month.

Despite fluctuating foreign exchange rates, robust top-line growth expectations led the Japanese manufacturing sectors during the review month. The Capital Goods sector topped other sectors as strong demand for factory automation equipment. The

Electronics sector also outperformed amid strong growth in orders for semiconductor equipment.

Production activity in Japan appears to be benefiting from robust international demand – machinery orders increased by 5.7% (MOM) in Nov 2017, ahead of the consensus estimate of –1.4%. The Industrial Production index also rose by 2.7% (MOM) in Dec 2017. In contrast, it is hard to find any signs of growth in domestic demand. Real household consumption growth turned negative again, declining by –0.1% (YOY) in Dec 2017. Meanwhile, the National CPI rose by 1.0% (YOY) in Dec 2017; although the index has

been lifted by energy and fresh food prices. Aside from these factors, the underlying inflation rate has barely remained above zero. Considering the lack of a fundamental recovery in price conditions, the Bank of Japan (BOJ) decided to maintain its existing easing policy at the latest Monetary Policy Meeting. BOJ Governor Kuroda denied that he was considering an exit policy in the near term.

## 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 Index is a capitalization-weighted index of all Japanese over-the-counter stocks. The Tokyo Stock Price Index (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 composite'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 composite'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.