

Japan Smaller Capitalization Fund, Inc.

as of 05/31/09

Fund Objective

Japan Smaller Capitalization Fund, Inc. ("JOF" or the "Fund"), formerly Japan OTC Equity Fund, Inc., is a non-diversified, closed-end management investment company. 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, Osaka and Nagoya Stock Exchanges, JASDAQ, Mothers, Hercules, Centrex, and other indices or markets determined by

Nomura Asset Management U.S.A. Inc. 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 Advisor since the Fund's inception. The Manager and Investment Advisor are subsidiaries of Nomura Holdings, Inc. and affiliates of Nomura Securities Co., Ltd., Tokyo, Japan.

Net Asset Value Since Inception (March 22, 1990) vs. NYSE Closing Price



Fund Facts

• Net Assets:
\$165,029,450

• Net Asset Value:
\$7.77

• NYSE Close:
\$6.88

• Premium/Discount:
-11.45%

• NYSE Ticker Symbol:
JOF

• Equity Portfolio Holdings:
143

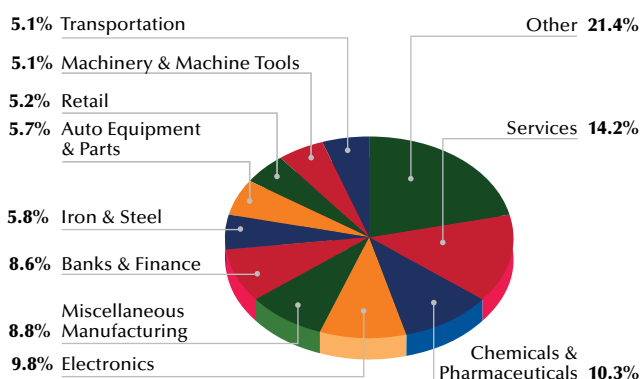
• Cusip:
47109U104

• Inception Date:
3/22/90

• Automatic Reinvestment Option

Sector Weightings

As of 05/31/09. Sector weightings may vary over time.



Top Ten Holdings

As of 05/31/09. Holdings may vary over time.

Company	Percentage of Net Assets
Moshi Moshi Hotline, Inc.	2.0%
Taiyo Yuden Co., Ltd.	1.9
Daibiru Corporation	1.8
Fuyo General Lease Co., Ltd.	1.8
The Chiba Bank, Ltd.	1.6
Adeka Corporation	1.5
Hitachi High-Technologies Corporation	1.4
Daicel Chemical Industries, Ltd.	1.4
Nissay Dowa General Insurance Co., Ltd.	1.4
Rakuten, Inc.	1.4

Performance Overview

Period ending 05/31/09

	Calendar YTD ¹	1 Yr	3 Yr	5 Yr	10 Yr	Since Inception ¹
JOF NAV ²	-2.3%	-19.6%	-15.5%	-3.3%	2.7%	0.1%
JOF NYSE Price ³	-5.2%	-31.1%	-19.6%	-8.5%	1.2%	-0.9%
Benchmark Index ⁴	1.7%	-17.8%	-12.1%	-1.4%	5.7%	0.8%
Nikkei JASDAQ Avg. ⁵	-4.2%	-20.4%	-18.2%	-7.5%	2.4%	-2.4%

¹Inception date: March 22, 1990. ²Based on NAV price, adjusted for reinvestment of income dividends and capital gain distributions. ³Based on New York Stock Exchange's closing market price, adjusted for reinvestment of income dividends and capital gain distributions. JOF's performance does not represent sales commissions. ⁴Since inception to 8/31/04; Nikkei JASDAQ Average Index. 9/1/04 onwards: Russell/Nomura Small Cap Index. ⁵Nikkei JASDAQ Average Index in U.S. dollars.

Performance in excess of one year is annualized.

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

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Web Site: www.nomura.com

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Manager's Commentary

Strong gains at the beginning and towards the end of May 2009 ensured that the Japan stock market rally continued through the month, with the MSCI Japan Index increasing 7.0%. Firms within the economic sensitive sectors in particular provided solid guidance along with their fiscal year end earnings announcements, helping to dismiss some of the more cautious estimates previously held among the market participants. Many of these firms expect to see robust earnings recoveries in the second half of fiscal year 2009 due to the combined impact of a bottoming out in sales volume and massive cost reduction efforts. In addition, results of the stress tests on government fund recipients in the U.S. Financial sector appeared to soothe the mounting concerns about the health of the financial system. International investors and domestic individual investors have been net buyers of Japanese stocks over the past two months.

The Commodities sector led the rally as natural resource prices soared. Robust demand for steel and chemical products from China also helped

to support the sector performance. The Machinery sector outpaced the others, led by material producers including glass and specialty steel makers. The Financials sector outperformed too. Along with the stabilizing global financial system, credit costs for the Banking sector seem to be peaking out and capital reinforcement moves by the large banking groups appeared to be on hold for the time being. Meanwhile, stocks that had initiated the rally in March–April lagged behind this month. The Automobiles and Electronics sectors both advanced, but lagged behind other sectors. The recovery in production activity seemed to have been priced in to some degree through the recent share price rise.

Macroeconomic figures suggest that the worst of the recession might be over already. The January–March preliminary GDP growth rate was -15.2% (yoy), but industrial production in April grew by 5.2% (mom), beating the consensus estimate. Moreover, analysis of production forecasts suggests that a robust recovery trend could continue through the current quarter.

Fund Information by Calendar Year¹

	JOF Performance ³	Benchmark Index ⁴	Nikkei JASDAQ Index ⁵	NAV At Period End	NYSE Closing Price At Period End	Income Dividend	Capital Gain Distributions	Net Assets (\$ millions)
1994 ²	-1.3%	—	22.7%	\$10.13	\$9.75	—	—	\$119.4
1995	-10.3%	—	-16.2%	\$7.94	\$9.00	—	—	\$94.3
1996	-23.9%	—	-10.6%	\$7.02	\$6.63	\$0.04	—	\$89.3
1997	-27.3%	—	-45.8%	\$4.23	\$4.75	\$0.08	—	\$48.2
1998	9.3%	—	0.5%	\$5.06	\$5.19	\$0.01	—	\$57.6
1999	127.7%	—	213.1%	\$14.88	\$11.83	—	—	\$235.6
2000	-45.1%	—	-51.1%	\$7.71	\$5.75	—	\$0.82	\$122.2
2001	-1.0%	—	-20.1%	\$6.28	\$5.61	—	\$0.08	\$99.6
2002	8.7%	—	-3.9%	\$5.80	\$6.10	—	—	\$92.0
2003	78.7%	—	58.2%	\$9.03	\$10.90	—	—	\$143.2
2004	11.0%	36.6%	28.0%	\$11.15	\$12.10	—	—	\$176.7
2005	26.0%	37.3%	34.9%	\$15.47	\$15.24	—	—	\$326.8
2006	-4.1%	-14.3%	-21.8%	\$11.49	\$12.87	\$0.41	\$1.25	\$243.3
2007	-26.1%	-10.5%	-13.2%	\$9.96	\$9.51	—	—	\$211.5
2008	-22.4%	-17.8%	-22.3%	\$7.95	\$7.26	—	—	\$169.0
5/09	-5.2%	1.7%	-4.2%	\$7.77	\$6.88	—	—	\$165.0

¹Sources: Nomura Asset Management U.S.A. Inc. and Bloomberg L.P. ²The Fund's inception date was March 22, 1990. ³Based on New York Stock Exchange's closing market price, adjusted for reinvestment of income dividends and capital gain

distributions. JOF's performance does not reflect sales commissions. ⁴Since inception to 8/31/04: Nikkei JASDAQ Average Index. 9/1/04 onwards: Russell/Nomura Small Cap Index. ⁵Nikkei JASDAQ Average index in U.S. dollars.

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 who do not express an opinion thereon. It 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

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