

JAPAN SMALLER CAPITALIZATION FUND INC  
Form DEF 14A  
October 07, 2005

Draft  
9/30/05

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the Securities  
Exchange Act of 1934 (Amendment No. )

Filed by the Registrant Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to ss.240.14a-12

JAPAN SMALLER CAPITALIZATION FUND, INC.

-----  
(Name of Registrant as Specified In Its Charter)

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(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

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(2) Aggregate number of securities to which transaction applies:

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(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

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(4) Proposed maximum aggregate value of transaction:

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Fee paid previously with preliminary materials.

Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

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(2) Form, Schedule or Registration Statement No.:

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(3) Filing Party:  
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(4) Date Filed:

JAPAN SMALLER CAPITALIZATION FUND, INC.  
Two World Financial Center, Building B  
New York, New York 10281

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NOTICE OF 2005 ANNUAL MEETING OF SHAREHOLDERS  
November 9, 2005  
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TO THE SHAREHOLDERS OF  
JAPAN SMALLER CAPITALIZATION FUND, INC.:

Notice is hereby given that the 2005 Annual Meeting of Shareholders (the "Meeting") of Japan Smaller Capitalization Fund, Inc. (the "Fund") will be held at the offices of Nomura Securities International, Inc., Two World Financial Center, Building B, New York, New York, on Wednesday, November 9, 2005, at 9:00 A.M. for the following purposes:

(1) To elect two Directors to serve as Class II Directors, each to serve for a term to expire in 2008; and

(2) To transact such other business as may properly come before the Meeting or any adjournment or postponement thereof.

The Board of Directors has fixed the close of business on September 26, 2005 as the Record Date for the determination of shareholders entitled to notice of and to vote at the Meeting or any adjournment or postponement thereof.

You are cordially invited to attend the Meeting. Shareholders who do not expect to attend the Meeting in person are requested to complete, date and sign the enclosed form of proxy and return it promptly in the envelope provided for that purpose. The enclosed proxy is being solicited on behalf of the Board of Directors of the Fund.

By Order of the Board of Directors

NEIL A. DANIELE  
Secretary

New York, New York  
Dated: October 7, 2005

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PROXY STATEMENT

JAPAN SMALLER CAPITALIZATION FUND, INC.

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Two World Financial Center, Building B  
New York, New York 10281

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INTRODUCTION

This Proxy Statement is furnished in connection with the solicitation of proxies on behalf of the Board of Directors of Japan Smaller Capitalization Fund, Inc., a Maryland corporation (the "Fund"), to be voted at the 2005 Annual Meeting of Shareholders of the Fund (the "Meeting") to be held at the offices of Nomura Securities International, Inc., Two World Financial Center, Building B, New York, New York, on Wednesday, November 9, 2005, at 9:00 A.M. The approximate mailing date of this Proxy Statement is October 11, 2005.

All properly executed proxies received prior to the Meeting will be voted at the Meeting in accordance with the instructions marked thereon or otherwise as provided therein. Unless instructions to the contrary are marked, proxies will be voted FOR the election of two Class II Directors.

Any proxy may be revoked at any time prior to the exercise thereof by giving written notice to the Secretary of the Fund at the Fund's address indicated above, by submitting a subsequently executed proxy or by voting in person at the Meeting.

Only shareholders can attend the Meeting and any adjournment or postponement thereof. To gain admittance, if you are a shareholder of record, you must bring a form of personal identification to the Meeting, where your name will be verified against our shareholder list. If a broker or other nominee holds your shares and you plan to attend the Meeting, you should bring a recent brokerage statement showing your ownership of the shares, as well as a form of personal identification.

The Board of Directors has fixed the close of business on September 26, 2005, as the Record Date for the determination of shareholders entitled to notice of and to vote at the Meeting and at any adjournment or postponement thereof. Shareholders on the Record Date will be entitled to one vote for each share held, with no shares having cumulative voting rights. As of September 26, 2005, the Fund had outstanding 15,846,384 shares of Common Stock, par value \$0.10 per share.

The Board of Directors of the Fund knows of no business other than the election of two Class II Directors. If any other matter is properly presented, it is the intention of the persons named in the enclosed proxy to vote in accordance with their best judgment.

The Fund sends annual and semi-annual reports to shareholders. The Fund will furnish, without charge, a copy of its most recent annual report any any subsequent semi-

annual report to shareholders upon request to the Fund at Two World Financial Center, Building B, New York, New York 10281 (or by calling 1-800-833-0018).

## PROPOSAL 1. ELECTION OF DIRECTORS

The Fund's Board of Directors is divided into three classes of Directors serving staggered three-year terms and until their successors are elected and qualify. Each year the term of office of one class of Directors will expire. The term of office for Class I Directors expires at the Annual Meeting of Shareholders to be held in 2007, for Class II Directors at this Meeting and for

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Class III Directors at the Annual Meeting of Shareholders to be held in 2006. Each of the two Class II Director nominees proposed in this Proxy Statement for election to the Board of Directors is currently a Director of the Fund. The balance of the current Directors consists of two Class I Directors and two Class III Directors, none of whom is a nominee for election at the Meeting and all of whom will continue in office after the Meeting.

Should any vacancy occur on the Board of Directors, the remaining Directors would be able to fill such vacancy by the affirmative vote of a majority of the remaining Directors in office, even if the remaining Directors do not constitute a quorum. Any Director elected by the Board to fill a vacancy would hold office for the remainder of the full term of the class of Directors to which he or she was elected and until a successor is elected and qualified. If the size of the Board is increased, additional Directors will be apportioned among the three classes to make all classes as nearly equal as possible.

### NOMINEES PROPOSED FOR ELECTION

Messrs. Chor Weng Tan and Hiroshi Terasaki have been nominated to serve as Class II Directors for a three-year term to expire at the Annual Meeting of Shareholders to be held in 2008 and until their successors are duly elected and qualified. The nominees have indicated an intention to serve if elected and have consented to be named in this Proxy Statement.

Unless authority is withheld in the proxy or properly revoked, it is the intention of the persons named in the accompanying form of proxy to vote each proxy for the election of the following Class II Director nominees: Chor Weng Tan and Hiroshi Terasaki.

The Board of Directors knows of no reason why either of the Class II Director nominees will be unable to serve, but in the event of any such unavailability, the proxies received will be voted for such substitute nominee(s) as the Board of Directors may recommend. Mr. Tan is not an "interested person" of the Fund within the meaning of the Investment Company Act of 1940, as amended (the "Investment Company Act"). It is currently expected that any such substitute nominee for Mr. Tan will also not be an "interested person." Mr. Terasaki is an "interested person" of the Fund within the meaning of the Investment Company Act as a result of his service with Nomura Asset Management Co., Ltd. ("NAM") and its affiliates.

The following tables contain information about the nominees for election as Class II Directors and about Directors whose terms will continue after the Meeting. Each Director has served as a Director of the Fund since the Fund's inception in March 1990, except for Mr. Terasaki, who was elected to fill a vacancy on the Board effective June 20, 2005 and Dr. Grollman, who was elected to the Board to fill a vacancy on the Board effective January 1, 2004.

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### Interested Director

Biographical and other information relating to the Class II Director nominee who is an "interested person," as defined in the Investment Company Act, of the Fund is set out below.

| Position(s)<br>Held with | Term of<br>Office and<br>Length of | Principal Occupation(s) | Number of<br>Funds in the<br>Fund Complex |
|--------------------------|------------------------------------|-------------------------|---|
|--------------------------|------------------------------------|-------------------------|---|

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| Name, Address and Age<br>-----   | the Fund<br>-----    | Time Served*<br>-----          | During Past Five Years<br>-----  | Overseen***<br>-----   |
|--|----------------------|--------------------------------|--|--|
| Class II (Nominee for a Term Expiring at the Annual Meeting of Shareholders to be held in          |                      |                                |  |  |
| Hiroshi Terasaki (50)**<br>Two World Financial<br>Center, Building B<br>New York<br>New York 10281 | Class II<br>Director | Director<br>since June<br>2005 | Managing Director and Chief<br>Executive Officer, Nomura<br>Asset Management U.K.<br>Limited from 2003 to 2005;<br>General Manager, Fixed<br>Income Investment Department<br>of NAM from 2000 to 2003. | 2 registered<br>investment<br>companies<br>consisting of<br>2 portfolios |

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\* Mr. Terasaki, if elected, will serve as a Class II Director for a three-year term expiring at the Annual Meeting of Shareholders to be held in 2008 and until his successor is elected and qualified or until his earlier resignation or removal.

\*\* Mr. Terasaki is an "interested person," as defined in the Investment Company Act, of the Fund based on his positions with NAM and its affiliates. Mr. Terasaki is a director of Korea Equity Fund, Inc. for which Nomura Asset Management U.S.A. Inc. ("NAM-U.S.A.") acts as manager and NAM acts as investment adviser.

\*\*\* In addition to the Fund, the "Fund Complex" includes Korea Equity Fund, Inc.

### Non-Interested Director

Biographical and other information relating to the Class II Director nominee who is not an "interested person," as defined in the Investment Company Act, of the Fund is set out below.

| Name, Address and Age<br>-----  | Position(s)<br>Held with<br>the Fund<br>----- | Term of<br>Office and<br>Length of<br>Time Served*<br>----- | Principal Occupation(s)<br>During Past Five Years<br>-----   | Number of<br>Funds in the<br>Fund Complex<br>Overseen***<br>-----        |
|---|---|---|--|--|
| Class II (Nominee for a Term Expiring at the Annual Meeting of Shareholders to be held in |   |   |  |  |
| Chor Weng Tan (69)**<br>76 Echo Bay Drive<br>New Rochelle<br>New York 10805               | Class II<br>Director                          | Director<br>since 1993                                      | Retired since 2004; Managing<br>Director for Education, The<br>American Society of<br>Mechanical Engineers from<br>1991 to 2004. | 2 registered<br>investment<br>companies<br>consisting of<br>2 portfolios |

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\* Mr. Tan, if elected, will serve as a Class II Director for a three-year term expiring at the Annual Meeting of Shareholders to be held in 2008 and until his successor is elected and qualified or until his earlier resignation or removal.

\*\* Mr. Tan is also a director of Korea Equity Fund, Inc. for which NAM-U.S.A. acts as manager and NAM acts as investment adviser, and is a member of the Audit and Nominating Committees of Korea Equity Fund, Inc. and a member of the Audit and Nominating Committees of the Fund.

\*\*\* In addition to the Fund, the "Fund Complex" includes Korea Equity Fund,

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Inc.

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## INFORMATION REGARDING OTHER DIRECTORS

### Class I Directors

#### Non-Interested Directors

Each of the Class I Directors is not an "interested person," as defined in the Investment Company Act, of the Fund. Biographical and other information relating to the Class I Directors is set out below.

| Name, Address and Age  | Position(s) Held with the Fund | Term of Office and Length of Time Served* | Principal Occupation(s) During Past Five Years  | Number of Funds in the Fund Complex Overseen***                          |
|--|--------------------------------|---|---|--|
| Class I (Term Expiring at the Annual Meeting of Shareholders to be held in 2007)         |                                |   |   |  |
| William G. Barker, Jr.**<br>(72)<br>111 Parsonage Road<br>Greenwich<br>Connecticut 06830 | Class I<br>Director            | Director<br>since 1993                    | Retired.  | 2 registered<br>investment<br>companies<br>consisting of<br>2 portfolios |
| John F. Wallace (76)**<br>17 Rhoda Street<br>West Hempstead<br>New York 11552            | Class I<br>Director            | Director<br>since 1993                    | Retired since 2000; Vice President of the Fund from 1997 to 2000 and Secretary and Treasurer of the Fund from 1993 to 1997; Senior Vice President of NAM-U.S.A. from 1981 to 2000, Secretary from 1976 to 2000, Treasurer from 1984 to 2000 and Director from 1986 to 2000. | 2 registered<br>investment<br>companies<br>consisting of<br>2 portfolios |

\* Each Class I Director serves for a three year term expiring at the Annual Meeting of Shareholders to be held in 2007 and until his successor is elected and qualified or until his earlier resignation or removal.

\*\* Each Class I Director is also a director of Korea Equity Fund, Inc. for which NAM-U.S.A. acts as manager and NAM acts as investment adviser, and is a member of the Audit and Nominating Committees of Korea Equity Fund, Inc. and a member of the Audit and Nominating Committees of the Fund.

\*\*\* In addition to the Fund, the "Fund Complex" includes Korea Equity Fund, Inc.

### Class III Directors

#### Non-Interested Directors

Each of the Class III Directors is not an "interested person," as defined in the Investment Company Act, of the Fund. Biographical and other information

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relating to the Class III Directors is set out below.

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| Name, Address and Age<br>-----   | Position(s)<br>Held with<br>the Fund<br>----- | Term of<br>Office and<br>Length of<br>Time Served*<br>----- | Principal Occupation(s)<br>During Past Five Years<br>-----   | Number of<br>Funds in the<br>Fund Complex<br>Overseen***<br>-----        |
|--|---|---|--|--|
| Class III (Term Expiring at the Annual Meeting of Shareholders to be held in 2006)                 |   |   |  |  |
| Arthur R. Taylor (69)**<br>3731 Devonshire<br>Street Allentown<br>Pennsylvania 18103               | Class III<br>Director                         | Director<br>since 1993                                      | Retired since 2002;<br>President of Muhlenberg<br>College from 1992 to 2002.   | 2 registered<br>investment<br>companies<br>consisting of<br>2 portfolios |
| William K. Grollman<br>(63)**<br>SmartPros Ltd.<br>12 Skyline Drive<br>Hawthorne<br>New York 10532 | Class III<br>Director                         | Director<br>since 2004                                      | President and co-founder<br>since 1981 and director of<br>SmartPros Ltd. (continuing<br>education for the<br>professions), listed on<br>American Stock Exchange;<br>former Partner and National<br>Director of BDO Seidman<br>(accounting firm.) | 2 registered<br>investment<br>companies<br>consisting of<br>2 portfolios |

\* Each Class III Director serves for a three year term expiring at the Annual Meeting of Shareholders to be held in 2006 and until his successor is elected and qualified or until his earlier resignation or removal.

\*\* Each Class III Director is also a director of Korea Equity Fund, Inc. for which NAM-U.S.A. acts as manager and NAM acts as investment adviser, and is a member of the Audit and Nominating Committees of Korea Equity Fund, Inc. and a member of the Audit and Nominating Committees of the Fund.

\*\*\* In addition to the Fund, the "Fund Complex" includes Korea Equity Fund, Inc.

Committees and Directors' Meetings. The Board of Directors has a standing Audit Committee and a standing Nominating Committee, each of which consists of the Directors who are not "interested persons" of the Fund within the meaning of the Investment Company Act and are "independent" as defined in the New York Stock Exchange listing standards. Currently, Messrs. Barker, Grollman, Tan, Taylor and Wallace are members of these Committees. The principal responsibilities of the Audit Committee and the Nominating Committee are described below. The Fund has no standing Compensation Committee. The non-interested Directors have retained independent legal counsel to assist them in connection with their duties.

During the fiscal year ended February 28, 2005, the Board of Directors held six meetings, the Audit Committee held two meetings and the Nominating Committee held one meeting. Each incumbent Director attended at least 75% of the aggregate number of meetings of the Board of Directors held during the period for which he served and, if a member, of the aggregate number of meetings of the Audit and Nominating Committees held during the period for which he served.

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Report of the Audit Committee. The following is a report by the Fund's Audit Committee regarding the responsibilities and functions of the Audit Committee.

Pursuant to the Audit Committee Charter adopted by the Fund's Board of Directors on August 6, 2003, the Audit Committee's principal responsibilities are to: (i) select and oversee the Fund's independent accountants; (ii) review with the independent accountants the scope, performance and anticipated cost of their audit; (iii) discuss with the independent accountants certain matters relating to the Fund's financial statements, including any adjustment to such financial statements recommended by such independent accountants, or any other results of any audit; (iv) ensure that the independent accountants submit on a periodic basis a formal written

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statement as to their independence, discuss with the independent accountants any relationships or services disclosed in the statement that may impact the objectivity and independence of the Fund's independent accountants and recommend that the Board take appropriate action in response to this statement to satisfy itself of the independent accountants' independence; and (v) consider the comments of the independent accountants and management's responses thereto with respect to the quality and adequacy of the Fund's accounting and financial reporting policies and practices and internal controls. A copy of the Audit Committee Charter was attached as Exhibit I to the Fund's 2004 Proxy Statement.

The Audit Committee has received written disclosures and the letter required by Independence Standards Board Standard No. 1 from Ernst & Young LLP ("Ernst & Young"), the Fund's independent accountants, and discussed with Ernst & Young certain matters required to be discussed by Statement on Auditing Standards No. 61. The Audit Committee has considered whether the provision of non-audit services by Ernst & Young is compatible with maintaining the independence of those accountants. At its meeting held on April 14, 2005, the Audit Committee reviewed and discussed the audit of the Fund's financial statements with Fund management and Ernst & Young. The Audit Committee discussed with Ernst & Young their independence and considered whether the provision of services by Ernst & Young to the Fund and to NAM-U.S.A. and its affiliates was compatible with maintaining Ernst & Young's independence. Based upon these reviews and discussions, the Audit Committee recommended to the Board of Directors that the Fund's audited financial statements be included in the Fund's Annual Report to shareholders for the fiscal year ended February 28, 2005.

The Audit Committee's Charter for the Fund requires the Audit Committee (a) to pre-approve all auditing services to be provided to the Fund by the Fund's independent accountants; (b) to pre-approve all non-audit services, including tax services, to be provided to the Fund by the Fund's independent accountants in accordance with the Securities Exchange Act of 1934, as amended (the "1934 Act"); provided, however, that the pre-approval requirement with respect to the provision of non-audit services to the Fund by the Fund's independent accountants may be waived by the Audit Committee under the circumstances described in the 1934 Act and (c) to pre-approve non-audit services to be provided to the Fund's investment adviser (and any entity controlling, controlled by or under common control with the investment adviser that provides ongoing services to the Fund) if the engagement relates directly to the operations and financial reporting of the Fund.

Submitted by the Audit Committee of the  
Board of Directors of the Fund



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William G. Barker, Jr.  
William K. Grollman  
Chor Weng Tan  
Arthur R. Taylor  
John F. Wallace

Nominating Committee; Consideration of Potential Director Nominees. The principal purpose of the Nominating Committee is to select and nominate the independent (i.e., non-interested) Directors of the Fund. It evaluates candidates' qualifications for Board membership and, with respect to nominees for positions as independent directors, their independence from the

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Fund's manager and its affiliates and other principal service providers. The Committee periodically reviews director compensation and will recommend any appropriate changes to the Board as a group. This Committee also reviews and may make recommendations to the Board relating to those issues that pertain to the effectiveness of the Board in carrying out its responsibilities in governing the Fund and overseeing the management of the Fund.

The Nominating Committee will consider potential director candidates recommended by Fund shareholders provided that the proposed candidates satisfy the director qualification requirements provided in the Nominating Committee's Charter; are not "interested persons" of the Fund or the Fund's investment adviser within the meaning of the Investment Company Act; and are "independent" as defined in the New York Stock Exchange listing standards. The Committee has determined that potential director candidates recommended by Fund shareholders must satisfy the Securities and Exchange Commission's ("SEC") nominee requirements found in Regulation 14A of the 1934 Act. A copy of the Nominating Committee Charter was attached as Exhibit II to the Fund's 2004 Proxy Statement.

Shareholders recommending potential director candidates must substantiate compliance with these requirements at the time of submitting their proposed director candidate to the attention of the Fund's Secretary. Notice to the Fund's Secretary should be provided in accordance with the deadline specified in the Fund's Bylaws and include the information required by the Fund's Bylaws.

The Nominating Committee identifies prospective candidates from any reasonable source and has the ability to engage third-party services for the identification and evaluation of potential nominees. Generally, the Committee meets annually to identify and evaluate nominees for Director and make its recommendations to the Board. The Committee may meet more frequently if vacancies on the Board occur during a given year. In identifying and evaluating a potential nominee to serve as an independent Director of the Fund, the Nominating Committee will consider, among other factors: (i) whether the individual has any material relationships that could create any appearance of impropriety with respect to or a lack of independence from NAM-U.S.A. or any of its affiliates; (ii) whether the individual has the integrity, independence of mind and personal qualities to fulfill the fiduciary duties of an independent Director of the Fund and to protect the interests of Fund shareholders; (iii) the individual's corporate or other business experience in significant positions which demonstrate sound business judgment; (iv) whether the individual has financial and accounting experience; (v) the individual's ability to attend at least four regular meetings a year and (vi) whether the individual can add to the balance of experience of the present independent Directors. The standard of the Nominating Committee is to treat all equally qualified nominees in the same manner.

No nominee recommendations have been received from shareholders. The

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Nominating Committee may modify its policies and procedures for director nominees and recommendations from time to time in response to changes in the Fund's needs and circumstances, and as applicable legal or listing standards change.

Communications with the Board of Directors. Shareholders may send written communications to the Fund's Board of Directors or to an individual Director by mailing such correspondence to the Secretary of the Fund (addressed to Two World Financial Center, Building B, New York, New York 10281). Such communications must be signed by the shareholder and

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identify the class and number of shares held by the shareholder. Properly submitted shareholder communications will, as appropriate, be forwarded to the entire Board or to the individual Director. Any shareholder proposal submitted pursuant to Rule 14a-8 under the 1934 Act, must continue to meet all the requirements of Rule 14a-8. See "Additional Information -- Proposals of Shareholders" below.

Director Attendance at Shareholder Meetings. The Fund has no formal policy regarding director attendance at shareholder meetings. Each member of the Board of Directors then in office was present at the Fund's 2004 annual meeting of shareholders.

Compliance with Section 16(a) of the Securities Exchange Act of 1934. Section 16(a) of the 1934 Act requires the officers and directors of the Fund and persons who own more than 10% of a registered class of the Fund's equity securities to file reports of ownership and changes in ownership on Forms 3, 4 and 5 with the SEC and the New York Stock Exchange. Officers, directors and greater than 10% shareholders are required by SEC regulations to furnish the Fund with copies of all Forms 3, 4 and 5 that they file.

Based solely on the Fund's review of the copies of such forms, and amendments thereto, furnished to it during or with respect to its most recent fiscal year, and written representations from certain reporting persons that they were not required to file Form 5 with respect to the most recent fiscal year, the Fund believes that all of its officers, directors, greater than 10% beneficial owners and other persons subject to Section 16 of the 1934 Act due to the requirements of Section 30 of the Investment Company Act (i.e., any advisory board member, investment adviser or affiliated person of the Fund's investment adviser), have complied with all filing requirements applicable to them with respect to transactions during the Fund's most recent fiscal year, except that Mr. Kiyoharu Ikeda, a former officer of the Fund and NAM-U.S.A., inadvertently made a late Form 3 filing with respect to the Fund.

Interested Persons. The Fund currently treats one Class II Director nominee, Mr. Terasaki, as an "interested person" of the Fund within the meaning of Section 2(a)(19) of the Investment Company Act based on his positions with NAM and its affiliates.

Compensation of Directors. NAM-U.S.A. pays all compensation of all Directors of the Fund who are affiliated with NAM-U.S.A. or any of its affiliates. The Fund pays to each Director not affiliated with NAM-U.S.A. or any of its affiliates an annual fee of \$10,000 plus \$1,000 per Board or committee meeting attended, together with such Director's actual out-of-pocket expenses relating to attendance at meetings. Mr. Barker, who has been designated by the Directors not affiliated with the Fund to serve as Lead Director, is paid an additional annual fee of \$5,000, effective June 2005. Such fees and expenses aggregated \$90,400 for the fiscal year ended February 28, 2005.

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The following table sets forth for the periods indicated compensation paid by the Fund to its Directors and the aggregate compensation paid to the Directors by all U.S. registered investment companies managed by NAM-U.S.A. or advised by NAM:

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| Name of Director<br>-----  | Aggregate Compensation<br>from Fund For<br>its Fiscal Year Ended<br>February 28, 2005<br>----- | Pension or Retirement<br>Benefit Accrued as Part of<br>Fund Expenses for its<br>Fiscal Year Ended<br>February 28, 2005<br>----- | Aggre<br>from F<br>Director<br><br>Deco<br>----- |
|----------------------------|--|---|--|
| William G. Barker, Jr..... | \$17,500   | None  |  |
| William K. Grollman.....   | 17,500   | None  |  |
| Chor Weng Tan.....         | 17,500   | None  |  |
| Arthur R. Taylor.....      | 16,500   | None  |  |
| Hiroshi Terasaki**.....    | --   | None  |  |
| John F. Wallace.....       | 17,500   | None  |  |

\* In addition to the Fund, the "Fund Complex" includes Korea Equity Fund, Inc. Because the funds in the Fund Complex do not share a common fiscal year, the information relating to compensation from the Fund Complex paid to the Directors is provided as of December 31, 2004.

\*\* Mr. Terasaki was elected a Director of the Fund effective June 20, 2005. Mr. Terasaki is an "interested person" of the Fund.

Officers of the Fund. Officers of the Fund are elected and appointed by the Directors and hold office until they resign, are removed or are otherwise disqualified to serve. Certain biographical and other information relating to the officers of the Fund is set out below:

| Name, Address* and<br>Age of Officers<br>----- | Position(s) Held<br>with the Fund<br>----- | Term of Office** and<br>Length of Time Served<br>----- |   |
|--|--|--|---|
| Hiroshi Terasaki (50)                          | President                                  | President since 2005                                   | Managin<br>Officer<br>Limited<br>Managen<br>Departm |
| Kenneth L. Munt (58)                           | Vice President                             | Vice President since 2001                              | Senior<br>NAM-U.S                                   |
| Keiko Tani (42)                                | Vice President                             | Vice President since 2005                              | Senior<br>of NAM-<br>Team, P<br>Departm             |

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|                             |           |                      |
|-----------------------------|-----------|----------------------|
| Rita Chopra-Brathwaite (36) | Treasurer | Treasurer since 2002 |
| Neil Daniele (45)           | Secretary | Secretary since 2002 |

General  
1999 to  
  
Vice Pr  
Assista  
from 19  
  
Senior  
2002; V  
Officer  
Corp. (C  
2002; V  
Investm  
firm) f  
Officer  
from 19

\* The address of each officer listed above is Two World Financial Center, Building B, New York, New York 10281.

\*\* Elected by and serves at the pleasure of the Board of Directors.

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Stock Ownership. Information relating to the share ownership by each Director nominee and each current Director at October 3, 2005 is set out below:

| Name of Director Nominee/<br>Current Directors<br>----- | Shares of Common<br>Stock of the Fund<br>Beneficially Owned<br>----- | Aggregate Dollar Range of<br>Equity Securities<br>in the Fund<br>----- | Aggre<br>Securi<br>Funds<br>Overse<br>----- |
|---|--|--|---|
| Nominees  |  |  |   |
| Chor Weng Tan   | -0-  | None   |   |
| Hiroshi Terasaki  | -0-  | None   |   |
| Current Directors                                       |  |  |   |
| William G. Barker, Jr.                                  | -0-  | None   |   |
| William K. Grollman                                     | -0-  | None   |   |
| Arthur R. Taylor  | -0-  | None   |   |
| John F. Wallace   | 1,400  | \$10,001-\$50,000  |   |

As of October 3, 2005, the Directors and officers of the Fund as a group (eleven persons) owned an aggregate of less than 1% of the outstanding shares of the Fund. At such date, all of the officers of the Fund as a group (five persons) owned an aggregate of less than 1% of the outstanding shares of Nomura Holdings, Inc., the parent company of each of NAM-U.S.A. and NAM.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS

Van Den Berg Management Inc. has reported beneficial ownership of approximately 9.3% of the Fund's Common Stock as of January 5, 2005. Van Den Berg Management Inc. is located at 805 Las Cimas Parkway Suite 430, Austin, Texas 78746. Dudley & Shanley, LLC ("Dudley") has reported beneficial ownership

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of approximately 5.7% of the Fund's Common Stock as of August 29, 2005. Dudley is located at 130 Maple Avenue, Red Bank, New Jersey 07701. To the knowledge of the management of the Fund, Van Den Berg Management Inc. and Dudley are the only beneficial owners of more than 5% of the Fund's outstanding shares.

| Name of Beneficial Owner<br>----- | Shares of Common Stock<br>of the Fund Reported<br>Beneficially Owned<br>----- | Percentage of the Fund's<br>Common Stock<br>Beneficially Owned<br>----- |
|-----------------------------------|---|---|
| Dudley & Shanley, LLC             | 899,000   | 5.7%  |
| Van Den Berg Management Inc.      | 1,473,297   | 9.3%  |

### ADDITIONAL INFORMATION

#### Expenses and Methods of Proxy Solicitation

The expense of preparing, printing and mailing the enclosed form of proxy, this Proxy Statement and the accompanying Notice of Meeting will be borne by the Fund. The Fund will reimburse banks, brokers and others for their reasonable expenses in forwarding proxy solicitation material to the beneficial owners of the shares of the Fund. In addition to the solicitation of proxies by mail, proxies may be solicited in person or by telephone. The Fund has retained The Altman Group ("Altman"), a firm that specializes in proxy solicitation services, to

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assist in the solicitation of proxies for the Meeting for a fee of approximately \$4,000, together with reimbursement of such firm's expenses. Altman is obligated to provide proxy solicitation services including, but not limited to, distribution of proxies to broker-dealers, telephonic communication with shareholders and broker-dealers, and monitoring of voting results.

#### Change in Accountants

During November 2004, PricewaterhouseCoopers LLP ("PwC") resigned as the independent registered public accountant of the Fund because PwC has been appointed to provide non-audit services to certain affiliates of NAM-U.S.A., which could be viewed as inconsistent with auditor independence with respect to the Fund. The resignation of PwC was not the result of any disagreement with management. Based on the recommendation of the Audit Committee of the Fund, the Board of Directors voted to appoint Ernst & Young as the independent registered public accountant for the Fund's fiscal year ended February 28, 2005. During the two most recent fiscal years, PwC's audit reports contained no adverse opinion or disclaimer of opinion; nor were the reports qualified or modified as to uncertainty, audit scope, or accounting principles. Further, there were no disagreements between the Fund and PwC on accounting principles, financial statement disclosure, or audit scope, which if not resolved to the satisfaction of PwC would have caused it to make reference to the disagreements in connection with their reports.

#### Independent Accountants' Fees

The SEC's auditor independence rules require the Fund's Audit Committee to pre-approve: (a) all audit and permissible non-audit services provided by the Fund's independent accountants directly to the Fund and (b) those permissible non-audit services provided by the Fund's independent accountants to NAM-U.S.A.

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and entities controlling, controlled by or under common control with NAM-U.S.A., if the services relate directly to the operations and financial reporting of the Fund.

The following table sets forth the aggregate fees paid to PwC and Ernst & Young, independent accountants for the Fund, for the Fund's fiscal years ended February 29, 2004 and February 28, 2005 for professional services rendered for: (i) the audit of the Fund's annual financial statements and the review of financial statements included in the Fund's reports to shareholders; (ii) financial information systems design and implementation services provided to the Fund, NAM-U.S.A. and entities controlling, controlled by or under common control with NAM-U.S.A. that provide services to the Fund; and (iii) all other non-audit services provided to the Fund, NAM-U.S.A. and entities controlling, controlled by or under common control with NAM-U.S.A. that provide services to the Fund. For the Fund's two fiscal years, the independent accountants did not render any other audit-related services to the Fund, except as described under clauses (i) above. The Fund's Audit Committee has determined that the provision of non-audit services under clause (iii) is compatible with maintaining the independence of the independent accountants from the Fund.

| Fiscal Year End   | Accountant    | Audit Fees Charged to the Fund | Audit Related Fees | Tax Fees | Financial Information Systems Design and Implementation Fees |    |
|-------------------|---------------|--------------------------------|--------------------|----------|--|----|
| February 29, 2004 | PwC           | \$47,000                       | \$ 9,000           | \$7,500  | \$0  | \$ |
| February 28, 2005 | PwC           | \$0                            | \$15,000           | \$5,400  | \$0  | \$ |
|                   | Ernst & Young | \$64,000                       | \$0                | \$2,000  | \$0  | \$ |

\* These fees relate to tax advisory services for NAM and NAM-U.S.A., and non-audit services for the Fund.

Voting Requirements

The holders of a majority of the shares of stock of the Fund entitled to vote at the Meeting, present in person or by proxy, shall constitute a quorum for the transaction of business at the Meeting. If, by the time scheduled for the Meeting, a quorum of the Fund's shareholders is not present, or if a quorum is present but sufficient votes to act upon the proposal are not received from the shareholders, the chairman of the meeting may propose one or more adjournments of the Meeting to permit further solicitation of proxies from shareholders. No additional notice will be provided to you in the event the Meeting is adjourned unless otherwise required by Maryland law.

All shares represented by properly executed proxies, unless such proxies have previously been revoked, will be voted at the Meeting in accordance with the directions on the proxies; if no direction is indicated, the shares will be voted FOR the election of two Class II Director nominees (Proposal 1). Provided that a quorum has been established at the Meeting, approval of the election of

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two Class II Directors to the Board of Directors (Proposal 1) requires the affirmative vote of a majority of the shares outstanding and entitled to vote thereon, in person or by proxy. Approval of any other routine matter which may properly come before the Meeting for consideration requires the affirmative vote of a majority of the votes cast.

### Broker Non-Votes and Abstentions

The Fund expects that broker-dealer firms holding shares of the Fund in "street name" for the benefit of their customers and clients will request the instructions of such customers and clients on how to vote their shares on each proposal before the Meeting. The Fund understands that under the rules of the New York Stock Exchange and broker-dealers may, without instructions from such customers and clients grant authority to the proxies designated by the Fund to vote on certain matters to be considered if no instructions have been received prior to the date specified in the broker-dealer firm's request for voting instructions. Certain broker-dealer firms may exercise discretion over shares held in their name for which no instructions are received by voting such shares in the same proportion as they have voted shares for which they have received instructions.

The shares as to which the proxies so designated are granted authority by broker-dealer firms to vote on the proposal to be considered at the Meeting, the shares as to which broker-dealer firms have declined to vote ("broker non-votes"), as well as the shares as to which proxies are returned by record shareholders but which are marked "withhold authority to vote for all nominees" will be included in the Fund's tabulation of the total number of votes present for purposes of determining whether the necessary quorum of shareholders exists. However, broker non-votes and proxies marked "withhold authority to vote for all nominees" will not be counted as votes cast. Therefore, abstentions and broker non-votes will have the same effect as a vote against the election of Director nominees.

### Other Matters

With regard to any other business matters that may properly come before the Meeting for consideration, it is the intention of the persons named in the enclosed proxy to use their discretionary voting authority and to vote in accordance with their best judgment.

### Address of Manager and Investment Adviser

The address of NAM-U.S.A. is Two World Financial Center, Building B, New York, New York 10281. The address of NAM is 1-12-1, Nihombashi, Chuo-ku, Tokyo 103-8260, Japan.

### Proposals of Shareholders

Proposals of shareholders intended to be presented at the next Annual Meeting of Shareholders of the Fund, which is expected to be held in November 2006, must be received by the Fund for inclusion in its Proxy Statement and form of proxy relating to that meeting by June

10, 2006. Written proposals with regard to the Fund should be sent to the Secretary of the Fund, Two World Financial Center, Building B, New York, New York 10281.

Shareholders wishing to present proposals at the next annual meeting of

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shareholders of the Fund that they do not wish to be included in the Fund's proxy statement and form of proxy, must send written notice of such proposals to the Secretary of the Fund, Two World Financial Center, Building B, New York, New York 10281, and such notice must be received by the Secretary no sooner than June 10, 2006 and no later than July 10, 2006 in the form prescribed from time to time in the Fund's Bylaws.

By Order of the Board of Directors

Neil A. Daniele  
Secretary

New York, New York  
Dated: October 7, 2005

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JAPAN SMALLER CAPITALIZATION FUND, INC.  
Two World Financial Center, Building B  
New York, New York 10281

PROXY

This Proxy is Solicited on Behalf of the Board of Directors

The undersigned hereby appoints Hiroshi Terasaki and Neil A. Daniele as proxies, each with the power to appoint his substitute, and hereby authorizes them to represent and to vote, as designated on the reverse hereof, all of the shares of common stock of Japan Smaller Capitalization Fund, Inc. (the "Fund") held of record by the undersigned on September 26, 2005 at the Annual Meeting of the Shareholders of the Fund to be held on November 9, 2005, or any adjournment thereof.

-----  
PLEASE VOTE, DATE AND SIGN ON REVERSE AND RETURN PROMPTLY USING  
THE ENCLOSED ENVELOPE  
-----

Please sign exactly as name(s) appear(s) hereon. When shares are held by joint tenants, both should sign. When signing as attorney, executor, administrator, trustee or guardian, please give title as such. If a corporation, please sign in full corporate name by president or other authorized officer. If a partnership, please sign in partnership name by authorized persons.

HAS YOUR ADDRESS CHANGED?

DO YOU HAVE ANY COMMENTS?

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PLEASE MARK VOTES  
AS IN THIS EXAMPLE



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JAPAN SMALLER CAPITALIZATION FUND, INC.  
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This proxy, when properly executed, will be voted in the manner directed herein by the undersigned shareholder. If no direction is made, this proxy will be voted FOR Proposal 1.

Mark box at right if an address change or comment has been noted on the reverse side of this card. |\_|

CONTROL NUMBER:

Please be sure to sign and date this Proxy

|                             |          |              |          |
|-----------------------------|----------|--------------|----------|
|                             |          | Withhold     |          |
| THE BOARD OF DIRECTORS      | For      | Authority to | For All  |
| RECOMMENDS A VOTE           | All      | vote for all | Nominees |
| "FOR" ALL CLASS II DIRECTOR | Nominees | Nominees     | Except*  |
| NOMINEES                    | _        | _            | _        |

1. Election of two Class II Directors for a three-year term:

Chor Weng Tan

Hiroshi Terasaki

\*NOTE: If you do not wish your shares voted "For" a particular nominee, mark the "For All Nominees Except" box and strike a line through the nominee's name. Your shares will be voted for the remaining nominee.

2. In the discretion of such proxies, upon such other business as may properly come before the meeting or any adjournments thereof.

Date \_\_\_\_\_

\_\_\_\_\_ Shareholder sign here \_\_\_\_\_ Co-owner sign here \_\_\_\_\_