

JAPAN SMALLER CAPITALIZATION FUND INC  
Form N-CSR  
May 14, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form N-CSR

CERTIFIED SHAREHOLDER REPORT OF REGISTERED MANAGEMENT

INVESTMENT COMPANIES

Investment Company Act file number: 811-05992

JAPAN SMALLER CAPITALIZATION FUND, INC.

Worldwide Plaza  
309 West 49th Street  
New York, NY 10019

Nomura Asset Management U.S.A. Inc.  
Worldwide Plaza  
309 West 49th Street  
New York, NY 10019

Registrant's telephone number, including area code: (800) 833-0018

Date of fiscal year end: February 28, 2015

Date of reporting period: February 28, 2015

ITEM 1. REPORT TO SHAREHOLDERS

JAPAN SMALLER CAPITALIZATION FUND, INC.

May 14, 2015

To Our Shareholders:

We present the Annual Report of Japan Smaller Capitalization Fund, Inc. (the “Fund”) for the fiscal year ended February 28, 2015.

The net asset value per share (“NAV”) of the Fund increased by 12.9% and the closing market price of the Fund increased by 11.2% after giving effect to the reinvestment of income dividends, ordinary income distributions, and long-term capital gain distributions. The closing market price of the Fund on February 28, 2015 was \$9.69, representing a discount of 11.7% to the NAV of \$10.98. The net assets of the Fund totaled \$311,094,211 on February 28, 2015.

The Russell/Nomura Small Cap™ Index, the Fund’s benchmark (“Benchmark”), increased by 8.0% in United States (“U.S.”) dollar terms. During the year ended February 28, 2015, the Fund outperformed the Benchmark by 4.9%. The Tokyo Price Index (the “TOPIX”), consisting of all companies listed on the First Section of the Tokyo Stock Exchange (the “TSE”), increased by 7.2% and the Nikkei Average Index (“Nikkei”), a price-weighted index of the 225 leading stocks on the TSE, increased by 7.9% in U.S. dollar terms for the year ended February 28, 2015. The Japanese yen (“Yen”) depreciated by 17.3% against the U.S. dollar during the year.

For the quarter ended February 28, 2015, the Benchmark increased by 7.2%, the TOPIX increased by 7.1%, and the Nikkei increased by 6.7% in U.S. dollar terms. The NAV of the Fund increased by 8.0% and outperformed the Benchmark by 0.8%. The Fund’s share price increased by 8.5% during the quarter. The Yen depreciated by 0.9% against the U.S. dollar during the quarter.

The Portfolio

Equity holdings represented 98.6% of the Fund’s net assets at February 28, 2015. The Fund held a diversified portfolio of 124 stocks, of which 99 were TSE First Section stocks, twenty were TSE Second Section stocks and five were other smaller capitalization stocks, comprising 84.3%, 10.9%, and 3.4%, respectively, of net assets on February 28, 2015.

The Fund invests in undervalued stocks that offer fundamental strength and potential for improvement. The Fund performs extensive fundamental research to identify stocks that can create shareholder value. The Fund focuses on companies that are leaders in certain niche markets, companies with large or expanding market shares, stocks with superior shareholder distribution policies, and stocks that offer good growth prospects. In the Japanese small cap equity market, valuation anomalies do exist and can be exploited through active management. There are a number of factors that the Fund considers when selling an investment, including a stock which appears fully valued, unexpected deterioration in earnings or a substantial loss that impairs the company’s net assets, and a stock’s diminishing potential given declining



competitiveness due to a change of business environment or failure of business strategy.

#### Performance

In terms of the sector allocation strategy, an underweight position in the Financing Business sector and overweight positions in the Metal Products and Retail Trade sectors produced positive contributions, although sector returns were eroded by the overweight position in the Iron and Steel sector.

Stock attribution analysis shows that some stocks such as Zojirushi Corporation in the Electric Appliances sector, SIIX Corporation in the Wholesale Trade sector, and Yurtec Corporation in the Construction sector, made positive contributions to the relative performance. Meanwhile, some stocks such as Toenec Corporation in the Construction sector had a negative impact on relative performance.

#### Market Review

The Benchmark appreciated by 26.7% in local currency terms for the fiscal year ended February 28, 2015. The Benchmark slightly outperformed the broad Japanese equity market, measured by the TOPIX index, which increased 25.8% during the fiscal year ended February 28, 2015. The Japanese equity market rallied in response to the Bank of Japan's ("BOJ") aggressive monetary loosening policy, plans for the Government Pension Investment Fund ("GPIF") to increase its equity weighting, and robust earnings conditions in the Japanese corporate sector backed by the weak Yen.

The Japanese equity market fell during March and April 2014. Investors remained cautious as they considered the market risks associated with the geopolitical standoff over Ukraine and the continued flow of weak macroeconomic data from around the world. Disappointment regarding expectations of additional monetary easing measures from the BOJ also seemed to drive investors toward profit taking activity during this period.

After declining through the first quarter of 2014, the Japanese equity market appeared to have bottomed out in April 2014. The subsequent rebound extended through May and June 2014. Global economic conditions remained stable despite a number of unresolved issues and concerns about the negative repercussions from the consumption tax hike and the excessively conservative fiscal year earnings guidance eased with the release of actual data. As a result, investors seized an opportunity to buy into the languishing Japanese equity market which helped narrow the gap with other global stock markets.

Japanese stocks extended their rally into the third quarter of 2014. Domestic economic data suggested a slowdown in the pace of recovery in Japan. However, expectations of a further round of monetary easing by the BOJ and plans for the GPIF to increase its equity weighting supported the positive stock market performance in Japan. In addition, favorable second quarter earnings results gave a positive boost to the equity market. The depreciation of the Yen against the U.S. dollar accelerated in September 2014 which helped increase earnings prospects for export-oriented manufacturing companies and drove the market higher towards the end of the third quarter.

Despite weakness in domestic economic data and volatile global market conditions, the Japanese equity market posted further gains during the fourth quarter of 2014. The gains were initially triggered by the BOJ's unexpected

announcement to further monetary easing, and later supported by media reports of the GPIF's change in asset allocation policy and the December 2014 snap election results that returned the Liberal Democratic Party and its junior coalition partner, Kameito, to power.

In 2015, the Japanese equity market experienced a strong rally during the first two months. In addition to some nascent signs of recovery in domestic production activity in Japan, solid earnings results for the fourth quarter of 2014 helped relieve the caution over the business outlook for the Japanese corporate sector.

#### Outlook and Future Strategy

The Fund remains cautiously optimistic about the outlook for the Japanese equity market due to solid corporate earnings, recovering macroeconomic conditions, and expectations of corporate governance reforms. However, valuations are becoming less attractive since the market's recent surge.

Robust earnings conditions in the Japanese corporate sector have continued since January 2015. Current profits of listed companies have increased due to the weak Yen and are expected to reach record levels, exceeding the previous high in 2008. In addition, the Fund expects further upward revision as exchange rates assumed by companies remain relatively conservative.

The macroeconomic environment also seems to have entered a recovery after experiencing negative gross domestic product growth rates for the first two quarters of the fiscal year. In the short term, the Fund is examining whether the tightening of the labor market will lead to a rise in wages. The annual spring wage negotiation between labor unions and corporations is a crucial issue. The Fund expects the rise in nominal income along with a low inflation rate to result in positive real income. In addition, a greater awareness of corporate governance issues and shareholder returns driven by the introduction of the Corporate Governance Code should help support the Japanese stock market. The Fund also expects higher dividend payouts and share buyback activities to continue to improve total shareholder returns.

The Fund appreciates your continuing support.

Sincerely,

/s/ Yutaka Itabashi  
Yutaka Itabashi  
President

## DISCLOSURES

Sources: Nomura Asset Management U.S.A. Inc. and Bloomberg L.P. Past performance is not indicative of future results.

The NAV price is adjusted for reinvestment of income dividends, ordinary income distributions, and capital gain distributions. The New York Stock Exchange's closing market price is adjusted for reinvestment of income dividends, ordinary income distributions, and capital gain distributions. The Fund's performance does not reflect sales commissions.

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.

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 Yen/U.S. dollar exchange rate. This report is for informational purposes only. Investment products offered are not FDIC insured, may lose value, and are not bank guaranteed.

Indices are unmanaged. You cannot invest directly into an index. 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. Currently, there are 1,146 securities in the Russell/Nomura Small Cap™ Index.

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#### CHANGE IN AUDITORS

The Fund was advised on April 24, 2015 by Ernst & Young LLP (“E&Y”), its independent public accounting firm, that E&Y is not independent under the Securities and Exchange Commission’s Rules and Regulations as it pertains to the Fund due to a transaction which occurred in the last quarter of 2014. E&Y subsequently resigned on May 4, 2015.

The resignation of E&Y was not the result of any disagreement with management. During the fiscal years ended February 28, 2014 and February 28, 2013, E&Y’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 E&Y on accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which, if not resolved to the satisfaction of E&Y, would have caused it to make reference to the disagreements in connection with their reports.

On April 29, 2015, the Audit Committee of the Fund and the Board of Directors of the Fund approved the selection of McGladrey LLP as the independent registered public accounting firm to audit the Fund’s financial statements for its fiscal year ended February 28, 2015.

#### SHAREHOLDERS ACCOUNT INFORMATION

Shareholders whose accounts are held in their own name may contact the Fund’s registrar Computershare Trust Company, N.A., at (800) 426-5523 for information concerning their accounts.

#### PROXY VOTING

A description of the policies and procedures that the Fund uses to vote proxies relating to portfolio securities is available (1) without charge, upon request, by calling toll-free 1-800-833-0018; and (2) on the website of the Securities and Exchange Commission (“SEC”) at <http://www.sec.gov>. Information about how the Fund voted proxies relating to securities held in the Fund’s portfolio during the most recent 12-month period ended June 30 is available (1) without charge, upon request, by calling toll-free 1-800-833-0018; and (2) on the SEC’s web site at <http://www.sec.gov>.

Additional information about the Fund’s Board of Directors is available (1) without charge upon request by calling toll-free 1-800-833-0018; and (2) on the website of the SEC at <http://www.sec.gov> in the Fund’s most recent proxy statement filing.

#### AVAILABILITY OF QUARTERLY SCHEDULE OF INVESTMENTS

The Fund files a schedule of portfolio holdings with the SEC for the first and third quarters of each fiscal year on Form N-Q. The Fund’s Forms N-Q are available on the SEC’s web site at <http://www.sec.gov>. The Fund’s Forms N-Q may also be reviewed and copied at the SEC’s

Public Reference Room in Washington, D.C. Information on the operation of the Public Reference Room may be obtained by calling 1-800-SEC-0330.

#### FUND CERTIFICATION

In December 2014, the Fund filed its Chief Executive Officer Certification with the New York Stock Exchange pursuant to Section 303A.12(a) of the New York Stock Exchange Corporate Governance Listing Standards.

The Fund's Chief Executive Officer and Chief Financial Officer Certifications pursuant to Section 302 of the Sarbanes Oxley Act of 2002 were filed with the Fund's Form N-CSR and are available on the SEC's web site at <http://www.sec.gov>.

#### INTERNET WEBSITE

Nomura Asset Management U.S.A. Inc. has established an Internet website which highlights its history, investment philosophy and process and products, which include the Fund. The Internet web address is [www.nomura.com](http://www.nomura.com).

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JAPAN SMALLER CAPITALIZATION FUND, INC.

FUND HIGHLIGHTS-FEBRUARY 28, 2015 (Unaudited)

KEY STATISTICS

Net Assets	\$311,094,211
Net Asset Value per Share	\$10.98
Closing NYSE Market Price	\$9.69
Percentage Change in Net Asset Value per Share*+	12.9%
Percentage Change in NYSE Market Price*+	11.2%

MARKET INDICES

Percentage change in market indices:\*

	YEN	U.S.\$
Russell/Nomura Small CapTM Index	26.7%	8.0%
TOPIX	25.8%	7.2%
Nikkei Average	26.7%	7.9%

\* From March 1, 2014 through February 28, 2015.

+Reflects the percentage change in share price adjusted for reinvestment of income dividends, ordinary income distributions, and long term capital gain distributions.

ASSET ALLOCATION

Japanese Equities		
TSE First Section Stocks	84.3	%
TSE Second Section Stocks	10.9	
Other Smaller Capitalization Stocks	3.4	
Foreign Currency	1.2	
Total Investments	99.8	
Other Assets Less Liabilities, Net	0.2	
Net Assets	100.0	%

INDUSTRY DIVERSIFICATION

	% of Net Assets		% of Net Assets
Retail Trade	12.0	Other Products	3.3
	10.2		3.0

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Wholesale Trade Chemicals	9.0	Transportation Equipment Financing Business	2.4
Banks	7.4	Textiles and Apparel	2.4
Electric Appliances Machinery Metal Products Information and Communication	7.3	Utilities	2.3
Transportation and Warehousing Iron and Steel Construction	6.1	Real Estate Services Food	1.8
	5.3		1.6
	5.3		1.5
	5.1	Glass and Ceramics Products	1.2
	5.1	Pharmaceutical	1.0
	4.3	Precision Instruments	1.0

TEN LARGEST EQUITY HOLDINGS BY MARKET VALUE

	Market Value	% of Net Assets
Security Toenec Corporation	\$8,407,965	2.7
Sakai Chemical Industry Co., Ltd.	7,156,193	2.3
Nichicon Corporation	6,542,427	2.1
Siix Corporation	6,428,501	2.1
The Yamanashi Chuo Bank, Ltd.	6,137,433	2.0
Ryoden Trading Company, Ltd.	6,052,599	1.9
The Kagoshima Bank, Ltd	5,557,813	1.8
Osaka Steel Co., Ltd.	5,415,226	1.7
The Okinawa Electric Power Company, Incorporated	5,409,944	1.7
Create S D Co., Ltd	5,320,914	1.7

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of  
Japan Smaller Capitalization Fund, Inc.

We have audited the accompanying statement of assets and liabilities, including the schedule of investments, of Japan Smaller Capitalization Fund, Inc. (the Fund), as of February 28, 2015, and the related statements of operations and changes in net assets, and the financial highlights for the year then ended. These financial statements and financial highlights are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audit. The statement of changes in net assets of the Fund for the year ended February 28, 2014, and the financial highlights for the years ended February 28, 2014 and 2013, February 29, 2012, and February 28, 2011 were audited by other auditors. Those auditors expressed an unqualified opinion on those financial statements and financial highlights in their report dated April 24, 2014.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. The Fund is not required to have, nor were we engaged to perform an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements and financial highlights, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. Our procedures included confirmation of securities owned as of February 28, 2015, by correspondence with the custodian and brokers or by other appropriate audit procedures, where replies from brokers were not received. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of Japan Smaller Capitalization Fund, Inc. at February 28, 2015, and the results of its operations, the changes in its net assets, and the financial highlights for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

McGladrey LLP

Boston, Massachusetts  
May 14, 2015



## JAPAN SMALLER CAPITALIZATION FUND, INC.

## SCHEDULE OF INVESTMENTS\*

FEBRUARY 28, 2015

JAPANESE EQUITY SECURITIES	Shares	Cost	Market Value	% of Net Assets
Banks				
Akita Bank, Ltd. General banking services	1,418,000	\$3,839,685	\$4,522,445	1.5
The Taiko Bank, Ltd. General banking services	682,000	1,399,328	1,400,726	0.4
The Daishi Bank, Ltd. General banking services	682,000	2,313,045	2,545,222	0.8
The Higo Bank, Ltd. General banking services	287,000	1,667,050	1,768,366	0.6
The Hyakugo Bank, Ltd. General banking services	226,000	955,293	1,100,046	0.3
The Kagoshima Bank, Ltd. General banking services	803,000	5,427,641	5,557,813	1.8
The Yamanashi Chuo Bank, Ltd. General banking services	1,339,000	5,868,349	6,137,433	2.0
Total Banks		21,470,391	23,032,051	7.4

See notes to financial statements

## JAPAN SMALLER CAPITALIZATION FUND, INC.

## SCHEDULE OF INVESTMENTS\* – (Continued)

FEBRUARY 28, 2015

	Shares	Cost	Market Value	% of Net Assets
Chemicals				
C. Uyemura & Co., Ltd.	48,300	\$2,058,234	\$2,419,536	0.8
Plating chemicals				
Fujikura Kasei Co., Ltd.	649,900	3,013,478	3,016,860	1.0
Specialty coating materials and fine chemicals				
JSR Corporation	132,800	2,626,512	2,427,044	0.8
Elastomer and resin products				
Koatsu Gas Kogyo Co., Ltd.	292,000	1,662,243	1,506,625	0.5
High-pressured gases and chemicals				
Sakai Chemical Industry Co., Ltd	2,181,000	6,708,723	7,156,193	2.3
Titanium oxide, polyvinyl chloride stabilizers, and pharmaceuticals				
Sekisui Jushi Corporation	185,000	2,471,175	2,508,370	0.8
Processor of plastics and other resin materials				
Soken Chemical & Engineering Co., Ltd.	236,300	2,906,860	2,416,761	0.8
Adhesives, macromolecules, and medicines				
Shikoku Chemicals Corporation	27,000	186,738	225,423	0.1
Chemical products and housing materials				
Tenma Corporation	232,100	2,979,147	3,503,542	1.1
Plastic molding company				
Teraoka Seisakusho Co., Ltd.	311,300	1,294,311	1,502,245	0.5
Manufactures, processes, and sells various adhesive tapes				
Zeon Corporation	115,000	1,043,583	1,078,230	0.3
Elastomers and specialty materials				
Total Chemicals		26,951,004	27,760,829	9.0
Construction				
Daiichi Kensetsu Corporation	15,200	163,226	170,051	0.1
Civil engineering				
Kandenko Co., Ltd.	75,000	369,084	432,686	0.1
Constructs electrical and power facilities				
Mirai Industry Co., Ltd.	33,700	469,990	506,450	0.2
Engaged in electric & pipe materials				
MIRAIT Holdings Corporation	148,800	1,305,526	1,554,154	0.5
Telecommunication engineering				
NDS Co., Ltd.	151,000	425,758	380,731	0.1
General contractor				
Taihei Dengyo Kaisha, Ltd.	216,000	1,672,862	1,529,267	0.5
Thermal and nuclear plant engineering				
Toenec Corporation	1,704,000	9,494,342	8,407,965	2.7
Constructs comprehensive building facilities				

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Yondenko Corporation	106,000	374,344	422,142	0.1
Electrical engineering				
Total Construction		14,275,132	13,403,446	4.3

See notes to financial statements

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## JAPAN SMALLER CAPITALIZATION FUND, INC.

## SCHEDULE OF INVESTMENTS\* – (Continued)

FEBRUARY 28, 2015

	Shares	Cost	Market Value	% of Net Assets
Electric Appliances				
Espec Corp	336,500	\$2,570,607	\$3,402,224	1.1
Meteorological testing devices				
Fujitso General Ltd.	74,000	723,756	821,707	0.3
Air-conditioning units, refrigerators, and information-communication equipment				
Hitachi Maxell, Ltd.	149,900	2,670,100	2,576,866	0.8
Media devices				
Kitagawa Industries Co., Ltd.	339,300	3,568,881	3,441,866	1.1
Industrial fasteners and electromagnetic wave resistant parts				
Koito Manufacturing Co., Ltd.	70,100	1,336,772	2,241,561	0.7
Lighting equipment				
Nichicon Corporation	717,600	5,723,246	6,542,427	2.1
Manufacture and sale of capacitors and transformers				
Nihon Kohden Corporation	30,300	1,195,912	1,555,792	0.5
Medical equipment				
Zojirushi Corporation	337,000	1,231,506	2,264,955	0.7
Household appliances				
Total Electric Appliances		19,020,780	22,847,398	7.3
Financing Business				
Hitachi Capital Corporation	147,900	3,165,217	3,033,940	1.0
Financial services				
Ricoh Leasing Company, Ltd.	145,400	3,830,202	4,242,730	1.4
Office automation equipment leasing				
Total Financing Business		6,995,419	7,276,670	2.4
Food				
Fuji Oil Co., Ltd.	302,900	5,128,464	4,203,046	1.4
Palm oil and coconut oil				
Kameda Seika Co., Ltd.	700	21,603	27,001	0.0
Rice cookies, snacks, and Japanese cakes				
Taiyo Kagaku Co., Ltd.	44,700	322,173	305,651	0.1
Food additives				
Total Food		5,472,240	4,535,698	1.5
Glass and Ceramics Products				
Nichiha Corporation	342,200	3,543,215	3,776,985	1.2
Ceramic exterior walls and other construction materials				
Total Glass and Ceramics Products		3,543,215	3,776,985	1.2



See notes to financial statements

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## JAPAN SMALLER CAPITALIZATION FUND, INC.

## SCHEDULE OF INVESTMENTS\* – (Continued)

FEBRUARY 28, 2015

	Shares	Cost	Market Value	% of Net Assets
<b>Information and Communication</b>				
Broadleaf Co., Ltd. Business software development, sales, and technical support	162,100	\$2,596,766	\$2,620,126	0.8
NS Solutions Corporation System consulting services and software development	83,300	1,647,136	2,329,827	0.7
OBIC Co., Ltd. Computer system integration	64,500	1,754,124	2,393,676	0.8
Okinawa Cellular Telephone Company Cellular and car phone services	134,900	3,431,939	3,896,923	1.3
Otsuka Corporation Computer information system developer	93,300	3,012,944	3,692,273	1.2
Poletowin Pitcrew Holdings Provides software and hardware debug for video games	204,000	1,429,362	1,469,856	0.5
Software Service Inc. Medical information software	3,300	118,388	112,135	0.0
<b>Total Information and Communication</b>		<b>13,990,659</b>	<b>16,514,816</b>	<b>5.3</b>
<b>Iron and Steel</b>				
Chubu Steel Plate Co., Ltd. Manufactures electric furnace steel plates	623,000	2,585,242	2,782,759	0.9
Mory Industries Inc. Stainless pipes	909,000	3,361,957	3,233,012	1.0
Nichia Steel Works, Ltd. Produces and sells steel products	1,655,000	5,264,035	4,725,611	1.5
Osaka Steel Co., Ltd. Electric furnace steelmaker	302,100	5,478,922	5,415,226	1.7
Tohoku Steel Co., Ltd Manufactures and sells specialty steel	300	3,562	3,697	0.0
<b>Total Iron and Steel</b>		<b>16,693,718</b>	<b>16,160,305</b>	<b>5.1</b>
<b>Machinery</b>				
Hisaka Works, Ltd. Heat exchangers and evaporators	529,000	5,018,512	4,390,115	1.4
Miura Co. Ltd. Manufactures and sells boilers and related products	31,800	327,940	370,369	0.1
Nippon Pillar Packing Co., Ltd. Industrial-type mechanical seals	249,300	1,932,358	1,946,111	0.6
Nissei Corporation Manufactures transmission gears and precision equipment	22,800	203,511	199,875	0.1

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Nitto Kohki Co. Ltd. Fluid couplings, machine tools, linear pumps, and building hardware	86,600	1,622,062	1,571,851	0.5
Oiles Corporation Manufactures oilless bearings	174,480	3,251,080	3,053,309	1.0
Sato Corporation Automation recognition systems	126,000	1,973,888	2,765,636	0.9

See notes to financial statements

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## JAPAN SMALLER CAPITALIZATION FUND, INC.

## SCHEDULE OF INVESTMENTS\* – (Continued)

FEBRUARY 28, 2015

	Shares	Cost	Market Value	% of Net Assets
Sintokogio, Ltd. Engineering equipment	588,900	\$4,464,134	\$4,213,628	1.4
Yamashin-Filter Corporation Manufactures and sells filters	7,300	227,266	176,687	0.1
Total Machinery		19,020,751	18,687,581	6.1
Metal Products				
Dainichi Co., Ltd. Oil heating equipment	201,900	1,607,309	1,335,043	0.4
Mimasu Semiconductor Industry Co., Ltd. Silicon and gallium	71,000	569,934	837,595	0.3
Neturen Co., Ltd. Induction hardening equipment	507,500	3,393,927	3,686,287	1.2
NHK Spring Co., Ltd. Automobile-related products	326,900	3,122,915	3,392,500	1.1
Piolax, Inc. Production and sale of automobile parts	84,500	2,599,787	3,746,149	1.2
Rinnai Corporation Manufactures and sells gas appliances	49,200	3,194,355	3,458,685	1.1
Total Metal Products		14,488,227	16,456,259	5.3
Other Products				
Fuji Seal International, Inc. Packaging-related materials and machinery	109,200	3,232,971	3,273,037	1.1
Nishikawa Rubber Company Ltd. Rubber products	245,500	4,091,524	3,670,971	1.2
The Pack Corporation Paper products and plastic bags	71,800	1,278,956	1,474,066	0.5
Pigeon Corporation Baby care goods	22,900	981,709	1,586,892	0.5
Total Other Products		9,585,160	10,004,966	3.3
Pharmaceutical				
KYORIN Holdings, Inc. Pharmaceuticals manufacturer	136,300	2,916,146	3,046,338	1.0
Total Pharmaceutical		2,916,146	3,046,338	1.0
Precision Instruments				
Asahi Intecc Co., Ltd.	28,200	452,365	1,688,115	0.5

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Medical tools				
Nakanishi Inc.	36,700	1,142,324	1,409,476	0.5
Manufactures gyration equipment for dental and industry use				
Total Precision Instruments		1,594,689	3,097,591	1.0

See notes to financial statements

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## JAPAN SMALLER CAPITALIZATION FUND, INC.

## SCHEDULE OF INVESTMENTS\* – (Continued)

FEBRUARY 28, 2015

	Shares	Cost	Market Value	% of Net Assets
Real Estate				
Keihanshin Building Co., Ltd. Real estate leasing and building management	822,700	\$4,597,649	\$5,096,584	1.6
Sanyo Housing Nagoya Co., Ltd. Interior and exterior housing designs	59,700	644,754	619,056	0.2
Total Real Estate		5,242,403	5,715,640	1.8
Retail Trade				
ABC-Mart, Inc. Shoes	35,700	1,474,719	2,002,956	0.6
AIN Pharmaciez Inc. Pharmacies	2,300	53,844	89,388	0.0
Amiyaki Tei Co., Ltd. Barbecue restaurants	51,200	1,594,461	1,739,795	0.6
Arc Land Sakamoto Co., Ltd. Operates home centers	165,700	2,817,229	3,379,713	1.1
Asahi Co., Ltd. Bicycles, parts and accessories	39,800	493,715	382,798	0.1
Create S D Co., Ltd. Drug store chain	154,500	5,357,706	5,320,914	1.7
Daikokutenbussan Co., Ltd. Operates discount stores for food products and sundry goods	78,000	2,168,930	2,666,750	0.9
Heiwado Co., Ltd. Supermarkets	35,100	433,312	763,687	0.2
Hiday Hidaka Corp. Chinese restaurant chain	62,736	1,012,189	1,597,535	0.5
Jin Co., Ltd. Eyeglasses and fashion merchandise	113,900	3,364,733	3,442,438	1.1
Shimamura Co., Ltd. Clothing chain	31,900	3,660,484	3,086,796	1.0
Saint Marc Holdings Co., Ltd. Restaurants and cafes	32,400	1,306,933	2,109,956	0.7
San-A Co., Ltd. Housing related goods and groceries	42,500	1,120,920	1,481,424	0.5
Seria Co. Ltd. Operates chain stores and franchise businesses	81,900	2,430,243	2,625,723	0.8
Start Today Co., Ltd. Operates internet shopping websites	77,800	1,628,964	1,891,493	0.6
Sundrug Co., Ltd.	31,600	1,274,966	1,551,309	0.5

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Drug store chain United Arrows Ltd.	112,200	3,824,421	3,461,315	1.1
Operates fashion stores Yamazawa Co., Ltd.	9,600	150,326	138,420	0.0
Supermarket chain Total Retail Trade		34,168,095	37,732,410	12.0

See notes to financial statements

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## JAPAN SMALLER CAPITALIZATION FUND, INC.

## SCHEDULE OF INVESTMENTS\* – (Continued)

FEBRUARY 28, 2015

	Shares	Cost	Market Value	% of Net Assets
Services				
EPS Co., Ltd.	87,700	\$1,009,471	\$1,097,577	0.4
Clinical testing				
JP-Holdings, Inc.	156,000	915,490	480,601	0.1
Child-care center services				
Nihon M&A Center Inc.	47,900	532,053	1,575,671	0.5
Provides merger and acquisition brokerage services				
Septeni Holdings Co., Ltd.	68,300	618,265	575,368	0.2
Holding company that manages operations for its subsidiaries				
Step Co., Ltd.	194,200	1,668,773	1,387,896	0.4
Operates preparatory schools				
Total Services		4,744,052	5,117,113	1.6
Textiles and Apparel				
Hogy Medical Co., Ltd.	73,500	3,508,887	3,761,678	1.2
Medical supply products				
Komatsu Seiren Co., Ltd.	560,400	2,886,908	2,718,367	0.9
Synthetic fibers, textile products, and composite thin-membrane				
Seiren Co., Ltd.	121,800	988,604	1,077,921	0.3
Dyeing processor of filament fibers				
Total Textiles and Apparel		7,384,399	7,557,966	2.4
Transportation and Warehousing				
Alps Logistics Co., Ltd.	232,800	2,433,133	2,721,102	0.9
Delivery, storage, and forwarding of electronic components				
Japan Transcity Corporation	1,543,000	5,269,507	5,075,700	1.6
Warehousing and transportation services				
Meiko Trans Co., Ltd.	408,000	4,229,214	3,508,579	1.1
Operates port-harbor transport facilities				
Nissin Corporation	453,000	1,311,015	1,214,051	0.4
Transportation services				
Trancom Co., Ltd.	81,300	2,507,010	3,414,227	1.1
Logistics services				
Total Transportation and Warehousing		15,749,879	15,933,659	5.1
Transportation Equipment				
Hi-Lex Corporation	38,200	807,188	1,219,912	0.4



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Control cables				
Nissin Kogyo Co., Ltd.	211,600	3,768,808	3,353,094	1.1
Brake systems				
Sanoh Industrial Co., Ltd.	327,800	2,357,205	2,162,071	0.7
Tubes, wires and electrical products				
Tachi-S Co., Ltd.	175,700	2,750,122	2,430,682	0.8
Child transformation seats, seat components, and rotating units				
Total Transportation Equipment		9,683,323	9,165,759	3.0

See notes to financial statements

## JAPAN SMALLER CAPITALIZATION FUND, INC.

## SCHEDULE OF INVESTMENTS\* – (Continued)

FEBRUARY 28, 2015

	Shares	Cost	Market Value	% of Net Assets
Utilities				
Keiyo Gas Co., Ltd. Produces and sells gas and energy products	378,000	\$1,936,189	\$1,767,314	0.6
The Okinawa Electric Power Company, Incorporated Thermal power	159,600	5,516,477	5,409,944	1.7
Total Utilities		7,452,666	7,177,258	2.3
Wholesale Trade				
Kanaden Corporation Components and devices	187,000	1,228,953	1,348,929	0.4
Kohsoku Corporation Sale of light food packaging materials	120,700	1,055,572	895,866	0.3
Matsuda Sangyo Co., Ltd. Wholesales precious metals, electronic materials, and food	388,600	4,818,845	4,950,980	1.6
Paltac Corporation Daily necessities	134,700	1,683,332	1,879,221	0.6
Senshu Electric Co., Ltd. Electric wire and cables	106,900	1,255,185	1,535,112	0.5
Shinko Shoji Co., Ltd. Integrated circuits and semiconductor devices	283,100	2,508,584	2,772,501	0.9
SIIX Corporation Video, audio, and office equipment	262,700	3,433,239	6,428,501	2.1
SPK Corporation Import, export, and wholesale of automobile parts	18,600	333,651	333,876	0.1
Ryoden Trading Company, Ltd. Electronic components	895,000	6,117,402	6,052,599	1.9
Sugimoto & Co., Ltd. Tools and measuring instruments	262,300	2,335,216	2,851,301	0.9
Techno Associe Co., Ltd. Produces and distributes screws	297,700	2,778,591	2,706,703	0.9
Total Wholesale Trade		27,548,570	31,755,589	10.2
TOTAL JAPANESE EQUITY SECURITIES		\$287,990,918	\$306,756,327	98.6

See notes to financial statements



JAPAN SMALLER CAPITALIZATION FUND, INC.

SCHEDULE OF INVESTMENTS\* – (Continued)

FEBRUARY 28, 2015

	Cost	Market Value	% of Net Assets
INVESTMENT IN FOREIGN CURRENCY			
Japanese Yen			
Non-interest bearing account	\$3,653,816	\$3,625,474	1.2
TOTAL INVESTMENT IN FOREIGN CURRENCY	3,653,816	3,625,474	1.2
TOTAL INVESTMENTS	\$291,644,734	\$310,381,801	99.8
OTHER ASSETS LESS LIABILITIES, NET		712,410	0.2
NET ASSETS		\$311,094,211	100.0

\*The description following each investment is unaudited and not covered by the Report of Independent Registered Public Accounting Firm.

Portfolio securities and foreign currency holdings were translated

at the following exchange rate as of February 28, 2015.

Japanese Yen                      JPY              ¥ 119.775 = \$1.00 U.S. Dollar

See notes to financial statements

JAPAN SMALLER CAPITALIZATION FUND, INC.

STATEMENT OF ASSETS AND LIABILITIES

FEBRUARY 28, 2015

ASSETS:

Investments in securities, at market value (cost-\$287,990,918)	\$306,756,327
Investment in foreign currency, at market value (cost-\$3,653,816)	3,625,474
Receivable for investments sold	559,474
Receivable for dividends and interest, net of withholding taxes	501,539
Prepaid expenses	33,630
Cash and cash equivalents	211,348
Total Assets	311,687,792

LIABILITIES:

Payable for investments purchased	236,910
Accrued management fee	207,722
Accrued directors' fees and expenses	6,999
Other accrued expenses	141,950
Total Liabilities	593,581

NET ASSETS:

Capital stock (28,333,893 shares of capital stock outstanding, authorized 100,000,000, par value \$0.10 each)	2,833,389
Paid-in capital	286,055,217
Accumulated net realized gain on investments and foreign currency transactions	4,874,604
Net unrealized appreciation on investments and foreign currency transactions	18,701,692
Accumulated net investment loss	(1,370,691 )
Net Assets	\$311,094,211
Net asset value per share	\$10.98

See notes to financial statements

JAPAN SMALLER CAPITALIZATION FUND, INC.

STATEMENT OF OPERATIONS

FOR THE YEAR ENDED FEBRUARY 28, 2015

INCOME:		
Dividend income (net of \$587,266 withholding taxes)	\$5,118,870	
Interest income	286	
Total Income		\$5,119,156
EXPENSES		
Management fee	2,637,153	
Custodian fee	230,463	
Legal fees	169,786	
Directors' fees and expenses	99,110	
Other expenses	174,187	
Total Expenses		3,310,699
INVESTMENT INCOME – NET		1,808,457
REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS AND FOREIGN CURRENCY:		
Realized gain (loss) on investments and foreign currency transactions:		
Net realized gain on investments		21,842,432
Net realized loss on foreign currency transactions		(645,636 )
Net realized gain on investments and foreign currency transactions		21,196,796
Net change in unrealized appreciation on investments		43,514,407
Net change in unrealized depreciation on foreign currency transactions and translation		(30,665,188)
Net realized and unrealized gain on investments and foreign currency transactions and translation		34,046,015
NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS		\$35,854,472

See notes to financial statements

## JAPAN SMALLER CAPITALIZATION FUND, INC.

## STATEMENT OF CHANGES IN NET ASSETS

	For the Year Ended February 28,	
	2015	2014
<b>FROM INVESTMENT ACTIVITIES:</b>		
Net investment income	\$1,808,457	\$1,452,099
Net realized gain on investments	21,842,432	31,791,420
Net realized loss on foreign currency transactions	(645,636 )	(532,929 )
Net change in unrealized appreciation (depreciation) on investments	43,514,407	(11,315,106 )
Net change in unrealized appreciation (depreciation) on foreign currency transactions and translation	(30,665,188 )	12,963,680
Increase in net assets derived from investment activities	35,854,472	34,359,164
<b>FROM DISTRIBUTIONS TO SHAREHOLDERS:</b>		
Ordinary income distribution	(3,383,067 )	(5,638,445 )
Capital gain distribution	(371,174 )	–
Decrease in net assets derived from distributions to shareholders	(3,754,241 )	(5,638,445 )
<b>TOTAL INCREASE IN NET ASSETS:</b>	<b>32,100,231</b>	<b>33,820,719</b>
<b>NET ASSETS:</b>		
Beginning of year	278,993,980	250,273,261
End of year (including accumulated/undistributed net investment loss of \$1,370,691 and \$2,927,249 respectively)	\$311,094,211	\$278,993,980

See notes to financial statements

JAPAN SMALLER CAPITALIZATION FUND, INC.

NOTES TO FINANCIAL STATEMENTS

1. Significant Accounting Policies

Japan Smaller Capitalization Fund, Inc. (the “Fund”) is registered under the Investment Company Act of 1940, as amended, as a non-diversified, closed-end management investment company. The Fund was incorporated in Maryland on January 25, 1990 and investment operations commenced on March 21, 1990.

The accompanying financial statements have been prepared in accordance with United States (“U.S.”) generally accepted accounting principles (“GAAP”) and are stated in United States dollars. The Fund is an investment company that follows the accounting and reporting guidance in accordance with FASB Accounting Standards Codification Topic 946. The following is a summary of the significant accounting and reporting policies used in preparing the financial statements.

(a) Valuation of Securities – Investments traded in the over-the-counter market are valued at the last reported sales price as of the close of business on the day the securities are being valued or, if none is available, at the mean of the bid and offer price at the close of business on such day or, if none is available, the last reported sales price. Portfolio securities which are traded on stock exchanges are valued at the last sales price on the principal market on which securities are traded or lacking any sales, at the last available bid price. Short-term debt securities which mature in 60 days or less are valued at amortized cost, which approximates fair value, if their original maturity at the date of purchase was 60 days or less, or by amortizing their value on the 61st day prior to maturity if their term to maturity at the date of purchase exceeded 60 days. Securities and other assets for which market quotations are not readily available are valued at fair value as determined in good faith by or under the direction of the Board of Directors of the Fund.

(b) Foreign Currency Transactions – Transactions denominated in Japanese Yen (“Yen”) are recorded in the Fund’s records at the prevailing exchange rate at the time of the transaction. Asset and liability accounts that are denominated in Yen are adjusted to reflect the current exchange rate at the end of the period. Transaction gains or losses resulting from changes in the exchange rate during the reporting period or upon settlement of foreign currency transactions are included in the results of operations for the current period.

The net assets of the Fund are presented at the exchange rates and market values at the end of the Fund’s fiscal year. The Fund does isolate that portion of the results of operations arising as a result of changes in the foreign exchange rates on investments from the fluctuations arising from changes in the market prices of securities held at February 28, 2015. Net realized gains or losses on investments include gains or losses arising from sales of portfolio securities and sales and maturities of short-term securities. Net realized gains or losses on foreign currency transactions arise from sales of foreign currencies, currency gains or losses realized on securities transactions between trade and settlement date, and the difference between the amounts of dividends, interest and foreign withholding taxes recorded on the Fund’s books and the U.S. dollar equiva-



JAPAN SMALLER CAPITALIZATION FUND, INC.

NOTES TO FINANCIAL STATEMENTS—Continued

lent of the amounts actually received or paid.

(c) Security Transactions, Investment Income and Distributions to Shareholders – Security transactions are accounted for on the trade date. Dividend income and distributions are recorded on the distribution payable date and interest income is recorded on the accrual basis. Realized gains and losses on the sale of investments are calculated on the first in, first out basis.

Distributions from net investment income and net realized capital gains are determined in accordance with Federal income tax regulations, which may differ from GAAP. To the extent these “book/tax” differences are permanent in nature (i.e., that they result from other than timing of recognition – “temporary”), such accounts are reclassified within the capital accounts based on their Federal tax-basis treatment; temporary differences do not require reclassification. Dividends and distributions which exceed net realized capital gains for financial reporting purposes, but not for tax purposes, are reported as distributions in excess of net realized capital gains.

Pursuant to a securities lending agreement with Brown Brothers Harriman & Co., the Fund may lend securities to qualified institutions. It is the Fund’s policy that, at origination, all loans shall be secured by collateral of at least 102% of the value of U.S. securities loaned and 105% of the value of foreign securities loaned. It is the Fund’s policy that collateral equivalent to at least 100% of the market value of securities on loan must be maintained at all times (when applicable). Collateral is provided in the form of cash, which would be invested in certain money market funds. The Fund is entitled to receive all income on securities loaned, in addition to a portion of the income earned as a result of the lending transaction. Although each security loan is fully collateralized, there are certain risks. On November 21, 2008, the Fund suspended its participation in the securities lending program. The Fund may resume its participation in the future. During the fiscal year ended February 28, 2015, the Fund did not earn any fees from lending fund portfolio securities, pursuant to the securities lending agreement.

(d) Capital Account Reclassification – For the year ended February 28, 2015, the Fund’s accumulated net investment loss was decreased by \$3,131,168 and the accumulated net realized gain on investments and foreign currency transactions was decreased by \$3,131,168. These adjustments were primarily due to the result of the reclassification of foreign currency losses and the tax treatment of passive foreign investment companies. These adjustments had no impact on net assets.

(e) Income Taxes – A provision for U.S. income taxes has not been made since it is the intention of the Fund to continue to qualify as a regulated investment company under the Internal Revenue Code and to distribute within the allowable time limit all taxable income to its shareholders.

Under Japanese tax laws, a withholding tax is imposed on dividends at a rate of 15.315% (effective 1/1/14) and such withholding taxes are reflected as a reduction of the related revenue. The 2014 and 2015 withholding tax rate of

JAPAN SMALLER CAPITALIZATION FUND, INC.

NOTES TO FINANCIAL STATEMENTS—Continued

15.315% was reduced to 10% upon the submission of Form 17 - Limitation on Benefits Article. There is no withholding tax on realized gains.

In accordance with U.S. GAAP requirements regarding accounting for uncertainties in income taxes, management has analyzed the Fund's tax positions taken or expected to be taken on federal and state income tax returns for all open tax years (the current and the prior three tax years), and has concluded that no provision for income tax is required in the Fund's financial statements. The Fund recognizes interest and penalties, if any, related to uncertain tax positions as income tax expense in the statement of operations. During the current year and for the prior three tax years, the Fund did not incur any interest or penalties.

(f) Use of Estimates in Financial Statement Preparation – The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts and disclosures in the financial statements. Actual results could differ from these estimates.

(g) Concentration of Risk – A significant portion of the Fund's net assets consists of Japanese securities which involve certain considerations and risks not typically associated with investments in the U.S. In addition to the smaller size, and greater volatility, there is often substantially less publicly available information about Japanese issuers than there is about U.S. issuers. Future economic and political developments in Japan could adversely affect the value of securities in which the Fund is invested. Further, the Fund may be exposed to currency devaluation and other exchange rate fluctuations.

(h) Indemnifications – Under the Fund's organizational documents, its officers and directors are indemnified against certain liabilities arising from the performance of their duties to the Fund. Additionally, in the normal course of business, the Fund enters into contracts that contain a variety of representations which provide general indemnifications. The Fund's maximum exposure under these agreements is unknown as this would involve future claims that may be made against the Fund that have not yet occurred. However, based on experience, the Fund expects the risk of loss to be remote and as such no additional accruals were recorded on the Statement of Assets and Liabilities.

## 2. Management Agreement and Transactions With Affiliated Persons

Nomura Asset Management U.S.A. Inc. (the "Manager") acts as the manager of the Fund pursuant to a management agreement. Under the agreement, the Manager provides all office space, facilities and personnel necessary to perform its duties. Pursuant to such management agreement, the Manager has retained its parent company, Nomura Asset Management Co., Ltd. (the "Investment Adviser"), to act as investment adviser for the Fund.

JAPAN SMALLER CAPITALIZATION FUND, INC.

NOTES TO FINANCIAL STATEMENTS—Continued

As compensation for its services to the Fund, the Manager receives a monthly fee at the annual rate of 1.10% of the value of the Fund's average weekly net assets not in excess of \$50 million, 1.00% of the Fund's average weekly net assets in excess of \$50 million but not exceeding \$100 million, 0.90% of the Fund's average weekly net assets in excess of \$100 million but not exceeding \$175 million, 0.80% of the Fund's average weekly net assets in excess of \$175 million but not exceeding \$250 million, 0.70% of the Fund's average weekly net assets in excess of \$250 million but not exceeding \$325 million, 0.60% of the Fund's average weekly net assets in excess of \$325 million but not exceeding \$425 million and 0.50% of the Fund's average weekly net assets in excess of \$425 million. Under the management agreement, the Fund incurred fees to the Manager of \$2,637,153 for the fiscal year ended February 28, 2015. Under the investment advisory agreement, the Manager informed the Fund that the Investment Adviser earned fees of \$1,171,277 for the fiscal year ended February 28, 2015, from the Manager, not the Fund, for the fiscal year ended February 28, 2015. At February 28, 2015, the fee payable to the Manager, by the Fund, was \$207,722

Certain officers and/or directors of the Fund are officers and/or directors of the Manager. Affiliates of Nomura Holdings, Inc. (the Manager's indirect parent) did not earn any fees in commissions on the execution of portfolio security transactions for the year ended February 28, 2015. The Fund pays each director not affiliated with the Manager an annual fee of \$12,000 plus \$1,500 per meeting attended or \$1,000 per telephone meeting attended, together with such director's actual expenses related to attendance at meetings. The Chairman of the Board, presently Rodney A. Buck, who is not affiliated with the Manager, is paid an additional annual fee of \$5,000. The Chairman of the Audit Committee, presently David B. Chemidlin, is paid an additional annual fee of \$1,000. Such fees and expenses for unaffiliated directors aggregated to \$99,110 for the fiscal year ended February 28, 2015.

3. Purchases and Sales of Investments

Purchases and sales of investments, exclusive of investments in foreign currency and short-term securities, for the fiscal year ended February 28, 2015 were \$119,453,000 and \$123,071,566, respectively.

4. Federal Income Tax

As of February 28, 2015, net unrealized appreciation on investments, exclusive of investments in foreign currency, for Federal income tax purposes was \$15,206,628, of which \$25,794,325 related to appreciated securities and \$10,587,697 related to depreciated securities. The cost of investments, exclusive of investments in foreign currencies of \$3,653,816 at February 28, 2015 for Federal income tax purposes was \$291,549,699.

At February 28, 2015, the components of accumulated earnings (deficit) on a tax basis were as follows:

## JAPAN SMALLER CAPITALIZATION FUND, INC.

## NOTES TO FINANCIAL STATEMENTS—Continued

Undistributed ordinary income	\$2,122,957
Undistributed long term capital gains	4,939,911
Unrealized appreciation on investments and foreign currency transactions	\$15,142,911 (a)
Total accumulated earnings	\$22,205,779

(a) The differences between book basis and tax basis unrealized appreciation is attributable to the tax deferral of losses on wash sales and the tax treatment of passive foreign investment companies.

The Fund paid an ordinary income distribution of \$0.1194 per share (\$3,383,067) and a long term capital gains distribution of \$0.0131 per share (\$371,174) to shareholders of record as of December 22, 2014. The distribution was paid on December 29, 2014.

The Fund paid an ordinary income distribution of \$0.199 per share (\$5,638,445) to shareholders as of December 13, 2013. The Distribution was paid on December 19, 2013.

The tax character of distributions paid during the fiscal years ended February 28, 2015 and February 28, 2014 were as follows:

	February-15	February-14
Ordinary Income	\$ 3,383,067	\$ 5,638,445
Capital Gains	\$ 371,174	\$ 0

On December 22, 2010, the Regulated Investment Company Modernization Act of 2010 (the “Act”) was enacted, which changed various technical rules governing the tax treatment of regulated investment companies. The changes are generally effective for taxable years beginning after the date of enactment. One of the more prominent changes addresses capital loss carryforwards. Under the Act, the Fund will be permitted to carry forward capital losses incurred in taxable years beginning after the date of enactment for an unlimited period. However, any losses incurred during those future taxable years will be required to be utilized prior to the losses incurred in pre-enactment taxable years, which carry an expiration date. As a result of this ordering rule, pre-enactment capital loss carryforwards may be more likely to expire unused. Additionally, post-enactment capital loss carryforwards will retain their character as either short-term or long-term capital losses rather than being considered all short-term as permitted under previous regulation.

The Fund utilized \$12,817,862 of its accumulated capital losses against current year net realized gains. All of the Fund’s capital losses were generated in pre-enactment years.

## 5. Fair Value Measurements

In accordance with GAAP, fair value is defined as the price that the Fund would receive to sell an asset or pay to transfer a liability in an orderly transaction between market participants at the measurement date. GAAP also establishes a framework for measuring fair value, and a three-level hierarchy for fair value measurements based upon

the transparency of inputs to the valuation of an asset or liability. Inputs may be observable or unobservable and refer broadly to the assumptions that market participants would use in pricing the asset or liability. Observable inputs reflect the assumptions market participants would use in

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## JAPAN SMALLER CAPITALIZATION FUND, INC.

## NOTES TO FINANCIAL STATEMENTS—Continued

pricing the asset or liability based on market data obtained from sources independent of the Fund. Unobservable inputs reflect the Fund's own assumptions about the assumptions that market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. Each investment is assigned a level based upon the observability of the inputs which are significant to the overall valuation. The three-tier hierarchy of inputs is summarized below.

- Level 1 – quoted prices in active markets for identical investments
- Level 2 – other significant observable inputs (including quoted prices for similar investments, interest rates, prepayment speeds, credit risk, etc.)
- Level 3 – significant unobservable inputs (including the Fund's own assumptions in determining the fair value of investments)

The following table summarizes the valuation of the Fund's investments by the above fair value hierarchy levels as of February 28, 2015.

Level	Investments in Securities
Level 1	
Equity Securities*	\$306,756,327
Foreign Currency	3,625,474
Level 2	–0–
Level 3	–0–
Total	\$310,381,801

\* Please refer to the Schedule of Investments for a breakdown of the valuation by industry type.

During the year ended February 28, 2015, there were no transfers between Level 1, Level 2, or Level 3 securities.

During the year ended February 28, 2015, the Fund did not hold any instruments which used significant unobservable inputs (Level 3) in determining fair value.

## JAPAN SMALLER CAPITALIZATION FUND, INC.

## FINANCIAL HIGHLIGHTS

Selected per share data and ratios for a share of common stock outstanding throughout each year.

	For the Fiscal Year Ended									
	2015	February 28, 2014		2013		February 29, 2012		February 28, 2011		
Net asset value, beginning of year	\$9.85	\$8.83	\$8.85	\$9.80	\$8.44					
Net investment income@	0.06	0.05	0.07	0.06	0.03					
Net realized and unrealized gain (loss) on investments and foreign currency	1.20	1.17	(0.01)	(0.50)	1.41	)	)	)	)	)
Total from investment operations	1.26	1.22	0.06	(0.44)	1.44	)	)	)	)	)
Distributions:										
Distributions from ordinary income	(0.12)	(0.20)	(0.08)	(0.04)	(0.08)	)	)	)	)	)
Distributions from capital gains	(0.01)	—	—	—	—	)	)	)	)	)
Total Distributions	(0.13)	(0.20)	(0.08)	(0.04)	(0.08)	)	)	)	)	)
Fund Share Transactions										
Dilutive effect of Rights Offering*	—	—	—	(0.47)	—	)	)	)	)	)
Net asset value, end of year	\$10.98	\$9.85	\$8.83	\$8.85	\$9.80					
Market value, end of year	\$9.69	\$8.84	\$8.00	\$7.83	\$9.58					
Total investment return†	11.2	% 13.0	% 3.4	% (17.9)	% 18.9	%)	%)	%)	%)	%)
Ratio to average net assets/supplemental data:										
Net assets, end of year (in 000)	\$311,094	\$278,994	\$250,273	\$250,732	\$208,211					
Operating expenses	1.13	% 1.19	% 1.19	% 1.34	% 1.44	%)	%)	%)	%)	%)
Net investment income	0.62	% 0.53	% 0.86	% 0.67	% 0.38	%)	%)	%)	%)	%)
Portfolio turnover	41	% 101	% 37	% 66	% 57	%)	%)	%)	%)	%)

@ Based on average shares outstanding.

\* Decrease is due to the rights offering.

† Based on market value per share, adjusted for reinvestment of income dividends, ordinary income distributions, and long term capital gain distributions, and capital share transactions. Total return does not reflect sales commissions.

See notes to financial statements





## JAPAN SMALLER CAPITALIZATION FUND, INC.

## SUPPLEMENTAL SHAREHOLDER INFORMATION (Unaudited)

The 2014 Annual Meeting of the Shareholders of the Fund was held at the offices of Nomura Asset Management U.S.A. Inc. at Worldwide Plaza, 309 West 49th Street, New York, New York on November 20, 2014. The purpose of the meeting were (1) to elect one Class II Director to serve for a term to expire in 2017, and (2) to transact such other business as may properly come before the meeting or any adjournment or postponement thereof.

At the meeting, Yutaka Itabashi was elected to serve as a director of the Fund for a term expiring in 2017 and until his successor is duly elected and qualifies. The results of the voting at the Annual Meeting were as follows:

## 1. To elect one class II Director:

	Shares Voted For	% of Outstanding Shares	Shares Voted Withhold Authority	% of Outstanding Shares	Shares Abstained	Broker Non-Voting
Yutaka Itabashi	22,082,142	77.94%	1,655,159	5.84%	—	—

## INDEPENDENT DIRECTORS

Biographical and other information relating to the non-interested Directors of the Fund is set out below.

Name 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	Other Public Directorships Held by Director
Rodney A. Buck (67)	Class III Director and Chairman of the Board	Director and since 2006; Chairman of the Board since 2010	Owner, Buck Capital Management (private investment management firm) since 2005; Chairman of the Dartmouth-Hitchcock Health Care Investment Committee since 2011.	Two registered investment companies consisting of two portfolios	None
E. Han Kim (68)	Class I Director	Director since 2010	Business Administration Professor at Ross Business School, University of	Two registered investment companies consisting of	None

			Michigan since 1990; Advisor to CEO of Taubman Company since 2009; Advisor to CEO of POSCO from 2008 to 2009.	two portfolios	
David B. Chemidlin (58)	Class III Director	Director since 2006	Corporate Controller, Advance Magazine Publishers, Inc. (d/b/a Conde Nast) since 1995.	Two registered investment companies consisting of two portfolios	None
Marcia L. MacHarg (66)	Class I Director	Director since 2013	Partner, Debevoise & Plimpton LLP, 1987-2012; Of Counsel, Debevoise & Plimpton LLP since 2013; Trustee, Board of Trustees of Smith College since July 2014; Member of the Executive Committee of the Friends of Smith College Libraries since 2013.	Two registered investment companies consisting of two portfolios	None

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

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## JAPAN SMALLER CAPITALIZATION FUND, INC.

## SUPPLEMENTAL SHAREHOLDER INFORMATION (Unaudited)

## INTERESTED DIRECTOR

Biographical and other information relating to the Director who is an “interested person,” as defined in the Investment Company Act of 1940, of the Fund is set out below:

Name 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 by the Director**	Other Public Directorships Held by Director
Yutaka Itabashi (49)*	Class II Director and President	Director and President since 2013	Senior Managing Director of Nomura Asset Management Co., Ltd. (“NAM”) since April 2015. President and Chief Executive Officer of Nomura Asset Management U.S.A. Inc. (“NAM-USA”) and President of Nomura Global Alpha LLC (“NGA”) since October 2013. Managing Director of NAM from 2012 to 2013. Senior Managing Director of Nomura Funds Research and Technologies Co., Ltd. from 2009 to 2012.	Two registered investment companies consisting of two portfolios	None

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\*Mr. Itabashi is an “interested person,” of the Fund based on his positions with NAM-USA. Mr. Itabashi is also a director of Korea Equity Fund, Inc., for which NAM-USA acts as manager and for which NAM acts as investment adviser.

\*\* 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, a standing Nominating Committee, and a standing Governance and Compliance Committee, each of which consists of the Directors who are not “interested persons” of the Fund within the meaning of the 1940 Act and are “independent” as defined in the New York Stock Exchange listing standards. Currently, Rodney A. Buck, David B. Chemidlin, E. Han Kim and Marcia L. MacHarg are members of these Committees. The Fund has no standing Compensation Committee.

During the fiscal year ended February 28, 2015, 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 they served and, if a member, of the aggregate number of meetings of the Audit and Nominating Committees held during the period for which they served.

## JAPAN SMALLER CAPITALIZATION FUND, INC.

## SUPPLEMENTAL SHAREHOLDER INFORMATION (Unaudited)

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 Age of Officers	Position(s) Held with the Fund	Term of Office** and Length of Time Served	Principal Occupation(s) or Employment During Past Five Years
Yutaka Itabashi (49)	President and Class II Director	President since November 2013	Senior Managing Director of Nomura Asset Management Co., Ltd. (“NAM”) since April 2015. President and Chief Executive Officer of Nomura Asset Management U.S.A. Inc. (“NAM-USA”) and President of Nomura Global Alpha LLC (“NGA”) since October 2013. Managing Director of NAM from 2012 to 2013. Senior Managing Director of Nomura Funds Research and Technologies Co., Ltd. from 2009 to 2012.
Hikomichi Aoki (56)	Vice President	Vice President since 2011	Managing Director of NAM-USA since 2011; Managing Director and Head of Merchant Banking at Nomura International plc, London from 2006 to 2011.
Maria R. Premole (52)	Vice President	Vice President since October 2013	Vice President and head of Retail Product Management of NAM-USA since September 2013; Associate of NAM-USA from 2008 to 2013.
Neil Daniele (54)	Secretary and Chief Compliance Officer	Secretary since 2002; Chief Compliance Officer since 2005	Chief Compliance Officer of NAM-USA since 2005 and Managing Director of NAM-USA since 2007; Chief Compliance Officer of NGA since 2008; Chief Compliance Officer of Nomura Corporate Research and Asset Management Inc. and Nomura Funds Research and Technologies

America, Inc. since 2009;  
Corporate Secretary of  
NAM-USA and NGA since  
November 2013.

Amy J. Marose  
(37)

Treasurer

Treasurer since  
October 2013;  
Assistant  
Treasurer from  
November 2011  
to October 2013

Controller and Treasurer of  
NAM-USA and Treasurer of  
NGA since October 2013; Vice  
President of NAM-USA since  
2009.

Jamie Gannalo  
(28)

Assistant  
Treasurer

Assistant  
Treasurer since  
October 2013

Associate of NAM-USA since  
January 2013; Senior Associate at  
Rothstein Kass from 2010 to  
2012; Associate at Rothstein Kass  
from 2008 to 2010.

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\*The address of each officer listed above is Worldwide Plaza, 309 West 49th Street, New York, New York 10019.

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

JAPAN SMALLER CAPITALIZATION FUND, INC.

REVIEW OF THE FUND'S MARKET PRICE COMPARED TO NET ASSET VALUE (Unaudited)

Shares of closed-end investment companies, including funds focusing on a single country, have at various times traded at both premiums and discounts to their net asset value ("NAV"). Although the shares of the Fund have traded at such a premium, they also have traded at a discount from NAV.

Since the Fund was established, the Board of Directors on a quarterly basis has reviewed the trading price of the Fund's shares. The purpose of such review has been to determine whether a discount exists and, if so, whether it would be in the shareholders' overall best interests for the Fund to conduct share repurchases, make an issuer tender offer for shares or consider another means of possibly reducing the discount. For example, the Board of Directors has also considered whether it would be in the best interests of the Fund to convert to an open-end fund or to an interval fund, which is a form of investment company that makes periodic share repurchases at prices based on NAV.

To date, the Board of Directors has not authorized open-market share repurchases or a tender offer for shares of the Fund. The Board of Directors also has not felt that it would be in the best interests of the Fund or its shareholders to convert to an open-end fund or an interval fund. As a "country fund" emphasizing a smaller capitalization segment of the market, the Fund's NAV is more volatile than might be the case for a fund with a broader investment focus. The Board of Directors believes that converting the Fund to either an open-end or interval fund would subject the Fund to redemptions or repurchases at times when liquidation of portfolio securities could disadvantage remaining shareholders, and the Directors believe that the recent volatility of the financial markets in Japan supports their view. Additionally, since an open-end fund has a limited ability to invest in illiquid securities, such a conversion could hinder the Fund's ability to pursue its investment objectives. The Board of Directors intends to continue to review, on a quarterly basis, the trading market for the Fund's shares.

TAX INFORMATION (Unaudited)

We are required by subchapter M of the Internal Revenue Code of 1986, as amended, to advise you within 60 days of the Fund's fiscal year ended February 28, 2015 as to the federal tax status of distributions received by shareholders during such fiscal year. Accordingly, the Fund designates \$587,266 as foreign tax credit with the associated foreign gross income of \$5,706,136.

Shareholders should not use the above information to prepare their tax returns. The information necessary to complete your income tax returns will be included with your Form 1099 DIV which will be sent to you separately in January 2016.

JAPAN SMALLER CAPITALIZATION FUND, INC.

DIVIDEND REINVESTMENT PLAN (Unaudited)

The Dividend Reinvestment Plan (the “Plan”) is available automatically for any holder of Common Stock with shares registered in his/her own name who wishes to purchase additional shares with income dividends or capital gains distributions received on shares owned, unless such shareholder elects to receive all dividends and capital gain distributions in cash, paid by check and mailed to the shareholder. If a shareholder holds shares in his/her own name, communications regarding the Plan should be addressed to the Plan Agent, Computershare Trust Company, N.A., P.O. Box 43078, Providence, RI 02940-3078. Under the Plan, shareholders appoint the Plan Agent to reinvest dividends and distributions in shares of the Fund. Such shares will be acquired by the Plan Agent for shareholders either through open market purchases if the Fund is trading at a discount or through the issuance of authorized but unissued shares if the Fund is trading at net asset value or a premium. If the market price of a share on the payable date of a dividend or distribution is at or above the Fund’s net asset value per share on such date, the number of shares to be issued by the Fund to each shareholder receiving shares in lieu of cash dividends or distributions will be determined by dividing the amount of the cash dividends or distributions to which such shareholder would be entitled by the greater of the net asset value per share on such date or 95% of the market price of a share on such date. If the market price of a share on such distribution date is below the net asset value per share, the number of shares to be issued to such shareholders will be determined by dividing such amount, less brokerage commission, by the per share market price.

Purchases will be made by the Plan Agent from time to time on the New York Stock Exchange (the “Exchange”) or elsewhere to satisfy dividend and distribution investment requirements under the Plan. Purchases will be suspended on any day when the closing price (or the mean between the closing bid and ask prices if there were no sales) of the shares on the Exchange on the preceding trading day was higher than the net asset value per share. If on the dividend payable date, purchases by the Fund are insufficient to satisfy dividend or distribution investments and on the last trading day immediately preceding the dividend payable date the closing price or the mean between the closing bid and ask prices of the shares is lower than or the same as the net asset value per share, the Plan Agent will continue to purchase shares until all investments by shareholders have been completed or the closing price or the mean between the bid and ask prices of the shares becomes higher than the net asset value, in which case the Fund will issue the necessary additional shares from authorized but unissued shares. If on the last trading day immediately preceding the dividend payable date, the closing price or the mean between the bid and ask prices of the shares is higher than the net asset value per share and if the number of shares previously purchased on the Exchange or elsewhere is insufficient to satisfy dividend investments, the Fund will issue the necessary additional shares from authorized but unissued shares. There will be no brokerage charges with respect to shares issued directly by the Fund to satisfy the dividend investment requirements. However, each participant will pay a pro rata share of brokerage commissions incurred with respect to the Fund’s open market purchases of shares. In each case, the cost per share of shares purchased for each



shareholder's account will be the average cost, including brokerage commissions, of any shares purchased in the open market plus the cost of any shares issued by the Fund. For the fiscal year ended February 28, 2015, the Fund issued no new shares for dividend reinvestment purposes.

Shareholders who elect to hold their shares in the name of a broker or other nominee should contact such broker or other nominee to determine whether they may participate in the Plan. To the extent such participation is permitted, the Plan Agent will administer the Plan on the basis of the number of shares certified from time to time by the broker as representing the total amount registered in the shareholder's name and held for the account of beneficial owners who are participating in such Plan. Shareholders that participate in the Plan holding shares in a brokerage account may not be able to transfer the shares to another broker and continue to participate in the Plan. Shareholders who are participating in the Plan may withdraw from the Plan at any time. There will be no penalty for withdrawal from the Plan, and shareholders who have previously withdrawn from the Plan may rejoin it at any time. Changes in participation in the Plan should be made by contacting the Plan Agent if the shares are held in the shareholder's own name and must be in writing and should include the shareholder's name and address as they appear on the account registration. If the shares are held in the name of a broker or other nominee, such person should be contacted regarding changes in participation in the Plan. Upon withdrawal from the Plan, the appropriate number of full shares will be reflected in the Fund records and a cash payment for any fractional shares will be issued. The shareholder may also request the Plan Agent to sell part or all of the shareholder's shares at the market price and remit the proceeds to the shareholder, net of any brokerage commissions. A \$2.50 fee plus \$0.15 per share sold will be charged by the Plan Agent upon any cash withdrawal or termination. An election to withdraw from the Plan will, until such election is changed, be deemed to be an election by a shareholder to take all subsequent distributions in cash. An election will be effective only for a dividend or distribution if it is received by the Plan Agent not less than 10 days prior to such record date.

The Plan Agent will maintain all shareholders' accounts in the Plan, and furnish written confirmation of all transactions in such account, including information needed by shareholders for tax records. Shares in the account of each Plan participant may be held by the Plan Agent in non-certificated form in the name of the participant, and each shareholder's proxy will include those shares purchased or received pursuant to the Plan.

The automatic reinvestment of dividends will not relieve participants of any income taxes that may be payable (or required to be withheld) on such dividends. Shareholders receiving dividends or distributions in the form of additional shares pursuant to the Plan should be treated for Federal income tax purposes as receiving a distribution in an amount equal to the amount of money that the shareholders receiving cash dividends or distributions will receive and should have a cost basis in the shares received equal to such amount.

The Fund reserves the right to amend or terminate the Plan as applied to any dividend paid subsequent to written notice of the change sent to participants in the Plan at least 90 days before the record date for such dividend. There is no service charge to participants in the Plan; however, the Fund reserves the right to amend the Plan to include a service charge payable by the participants. All correspondence concerning the Plan, including requests for additional information about the Plan, should be directed to the Plan Agent.

BOARD OF DIRECTORS

Rodney A. Buck  
David B. Chemidlin  
Yutaka Itabashi  
E. Han Kim  
Marcia L. MacHarg

JAPAN  
Smaller Capitalization  
Fund, Inc.

OFFICERS

Yutaka Itabashi, President  
Hiromichi Aoki, Vice President  
Maria R. Premole, Vice President  
Neil A. Daniele, Secretary and Chief  
Compliance Officer  
Amy J. Marose, Treasurer  
Jamie Gannalo, Assistant Treasurer

MANAGER

Nomura Asset Management U.S.A. Inc.  
Worldwide Plaza  
309 West 49th Street  
New York, New York 10019-7316  
Internet Address  
[www.nomura.com](http://www.nomura.com)

INVESTMENT ADVISER

Nomura Asset Management Co., Ltd.  
1-12,1-Chome, Nihonbashi, Chuo-ku,  
Tokyo 103-8260, Japan

ANNUAL REPORT  
FEBRUARY 28, 2015

DIVIDEND PAYING AGENT, TRANSFER  
AGENT

AND REGISTRAR  
Computershare Trust Company, N.A.  
P.O. Box 43078  
Providence, Rhode Island 02940-3078

CUSTODIAN

Brown Brothers Harriman & Co.  
50 Post Office Square  
Boston, Massachusetts 02110-1548

COUNSEL

Sidley Austin LLP  
787 Seventh Avenue  
New York, New York 10019

INDEPENDENT REGISTERED PUBLIC  
ACCOUNTING FIRM

McGladrey LLP  
80 City Square  
Boston, MA 02129

JAPAN SMALLER CAPITALIZATION  
FUND, INC.  
WORLDWIDE PLAZA  
309 WEST 49TH STREET  
NEW YORK, NEW YORK 10019-7316

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This Report, including the Financial Statements, is transmitted to the Shareholders of Japan Smaller Capitalization Fund, Inc. for their information. This is not a prospectus, circular or representation intended for use in the purchase of shares of the Fund or any securities mentioned in the Report.

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## ITEM 2. CODE OF ETHICS

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- (a) As of February 28 2015, the Registrant had adopted a code of ethics that applies to the Registrant's Principal Executive Officer, Principal Financial Officer, Principal Accounting Officer or Controller, or persons performing similar functions, regardless of whether these individuals are employed by the Registrant or a third party.
- (c) There were no amendments during the fiscal year ended February 28, 2015 to a provision of the code of ethics that applies to the Registrant's Principal Executive Officer, Principal Financial Officer, Principal Accounting Officer or Controller, or persons performing similar functions, and that relates to any element of the code of ethics definition enumerated in paragraph (b) of Item 2 of Form N-CSR.
- (d) Not applicable.
- (e) Not applicable.
- (f) A copy of the Registrant's code of ethics will be provided upon request at no charge by contacting the Registrant's Chief Compliance Officer at (212) 661-1873 or via post request addressed to Nomura Asset Management U.S.A. Worldwide Plaza, 309 West 49th St. New York, NY 10019. Attn: Chief Compliance Officer

## ITEM 3. AUDIT COMMITTEE FINANCIAL EXPERT

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The Registrant's Board of Directors has determined that David B. Chemidlin, a member of the Registrant's Audit Committee, is an "audit committee financial expert" and "independent," as such terms are defined in this Item. This designation will not increase the designee's duties, obligations or liability as compared to his duties, obligations and liability as a member of the Audit Committee and of the Board; nor will it reduce the responsibility of the other Audit Committee members.

## ITEM 4. PRINCIPAL ACCOUNTANT FEES AND SERVICES

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### (a) AUDIT FEES

The aggregate audit fees billed for each of the last two fiscal years for professional services rendered by the principal accountant for the audit of the registrant's annual financial statements or services that are normally provided by the accountant in connection with statutory and regulatory filings or engagements for those fiscal years are as follows:

2015 - \$41,500

2014 - \$41,500

As indicated in the Registrant's report on Form 12b-25 filed with the Commission on April 30, 2015 relating to Form N-CSR, Ernst & Young LLP ("E&Y"), the Registrant's prior principal accountant, advised the Registrant that it is not independent under the Commission's Rules and Regulations as it pertains to the Registrant due to a transaction which occurred in the last quarter of 2014. The resignation was not the result of any disagreement with management. The Board of Directors and the Audit Committee of the Registrant subsequently voted to appoint McGladrey LLP as the independent registered public accounting firm for the Registrant for its fiscal year ended February 28, 2015. The reference in this Item 4(a) to audit fees for 2015 is to the fee billed to the Registrant by McGladrey LLP. References to audit fees for 2014 and other fees identified in this Item 4 are to fees billed by E&Y.

### (b) AUDIT-RELATED FEES

The aggregate fees billed in each of the last two fiscal years for assurance and related services by the principal accountant that are reasonably related to the performance of the audit of the registrant's financial statements and are not reported under paragraph (a) of this Item are as follows:

2015 - \$0

2014 - \$0

(c) TAX FEES

The aggregate fees billed in each of the last two fiscal years for professional services rendered by the principal accountant for tax compliance, tax advice, and tax planning are as follows:

2015 - \$19,728

2014 - \$16,900

These amounts represent aggregate fees paid for tax compliance, tax advice and tax planning services, which include the filing and amendment of federal, state and local income tax returns, timely registered investment company qualification review and tax distribution and analysis planning rendered by Ernst & Young LLP ("E&Y") to the Registrant.

(d) ALL OTHER FEES

The aggregate fees billed in each of the last two fiscal years for products and services rendered by the principal accountant, other than the services reported in paragraphs (a) through (c) of this Item are as follows:

2015 - \$0

2014 - \$0

(e) (1) The Charter for the Audit Committee of the Registrant requires the Audit Committee (a) to pre-approve all auditing services to be provided to the Registrant by the Registrant's independent accountants; (b) to pre-approve all non-audit services, including tax services, to be provided to the Registrant by the Registrant'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 Registrant by the Registrant'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 Registrant's investment adviser (and any entity controlling, controlled by or under common control with the investment adviser that provides ongoing services to the Registrant) if the engagement relates directly to the operations and financial reporting of the Registrant.

(e) (2) Not Applicable.

(f) Not Applicable.

(g) Non-audit fees billed by E&Y for services rendered to the Registrant and NAM-USA and any entity controlling, controlled by, or under common control with NAM-USA that provides ongoing services to the Registrant ("Service Affiliates") were \$6.2 and \$10.8 million for the fiscal years ended 3/31/14 and 3/31/13, respectively. These amounts represent aggregate fees paid for tax compliance, tax advice and tax planning services and non-audit related services rendered by the E&Y to Service Affiliates.

(h) The Registrant's Audit Committee has considered whether the provision of non-audit services that were rendered by E&Y to Service Affiliates during the Registrant's most recent fiscal year which were not pre-approved (not requiring pre-approval) is compatible with maintaining the principal accountant's independence. All services provided by the principal accountant to the Registrant or to service affiliates by E&Y which were required to be pre-approved were pre-approved as required. McGladrey LLP has advised the Registrant that it has not performed any services for Service Affiliates that required pre-approval by the Registrant's Audit Committee or were exempt from pre-approval pursuant to paragraph (c)(7)(ii) of Rule 2.01 of Regulation S-X.

## ITEM 5. AUDIT COMMITTEE OF LISTED REGISTRANTS

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(a) The Registrant's Board of Directors has a standing Audit Committee, which consists of the Directors who are not "interested persons" of the Registrant within the meaning of the Investment Company Act of 1940, as amended. Currently, Rodney A. Buck, David B. Chemidlin, E. Han Kim and Marcia L. MacHarg are members of the Audit Committee.

(b) Not applicable.

## ITEM 6. SCHEDULE OF INVESTMENTS

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The Registrant's investments in securities of unaffiliated issuers as of 2/28/15 are included in the report to shareholders filed under Item 1 of this Form N-CSR.



ITEM 7. DISCLOSURE OF PROXY VOTING POLICIES AND PROCEDURES FOR CLOSED-END  
MANAGEMENT INVESTMENT COMPANIES

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Proxy Voting Policy

NOMURA ASSET MANAGEMENT

April 1, 2013



1. General Policy

Nomura Asset Management Co., Ltd. and its investment advisory subsidiaries (collectively, “Nomura Asset Management”) serve as the investment adviser to a wide range of clients, including pooled investment vehicles. This Policy reflects our duty as a fiduciary under various regulations to vote proxies in the best interests of our clients. In fulfilling our obligations to clients, Nomura Asset Management will seek to act in a manner that it believes is most likely to enhance the economic value of the underlying securities held in client accounts. We will engage companies in which we invest on behalf of our clients on our “Principles on Corporate Governance of Portfolio Companies.” in order to enhance our mutual understanding and to seek changes in their company practice.

2. Proxy Voting Guidelines

Nomura Asset Management will closely examine the voting agenda of a company that meets one or more of the conditions listed below. Where we believe that a specific agenda item is not in the best interests of shareholders, Nomura Asset Management will decide either to vote against or to abstain from voting on the item.

- (1) The company has violated the law, including engaging in criminal activities or fraudulent accounting practices. We have determined that the company has engaged activities that are inconsistent with overarching principles of corporate governance, including those related to social, ethical and environmental issues. However, we do not exercise our proxy voting rights solely as a means to address specific social or political issues, irrespective of investment returns of the company.
- (2) The auditor’s opinion on the company is qualified.
- (3) The company’s disclosure is determined to be inadequate, and therefore, deemed harmful to shareholders’ interests.
- (4) The company continuously reports sluggish business performance and poor investment returns, and where we consider management’s efforts for improvement to be inadequate.
- (5) The company accumulates a large amount of financial assets which we believe are not used effectively and/or are not distributed to shareholders adequately.
- (6) The company’s business and financial strategies are deemed to be not in the best interest of shareholders.
- (7) The composition and/or size of the company’s board of directors or the

composition of its statutory auditors is deemed to be inadequate, and not in the shareholders' best interests.

(8) Extraordinary agenda items, such as amendments to the company's articles of incorporation, which we determine not to be in shareholders' best interests.

### 3. Positions on Specific Issues

The issues discussed below are not exhaustive and do include all potential voting issues. Because voting issues and the circumstances of individual companies are so varied, there may be instances when Nomura Asset Management may not vote in strict adherence to the Policy.

#### (1) Election of Directors

Nomura Asset Management votes in favor of candidates for a company's board of directors that are nominated by the company's management when it is determined that such candidates would best serve shareholders' best interests.

The size of the board should be adequate and appropriate considering the nature of the company's business and its scale.

If the company's business performance remains sluggish over a long period and little remedial effort is apparent, or if the company is found to have engaged in any activities that raise corporate governance concerns, including social misconduct, or any activity that we deem is not in the best interest of shareholders, we will carefully assess the qualifications of the directors who have served during the said period or at the time of such activity in voting on their reelection.

In principle, we vote for the election of outside directors, taking into account the competence and experience of the candidates.

We will evaluate proposals advocating classification or staggered board of directors on a case-by-case basis. We would oppose such a proposal if we determine that it raises corporate governance concerns.

Because the outside directors of Japanese companies that have adopted the committee system play an especially crucial role in each of the three committees (the nominating, compensation, and audit committees) we pay special attention to the

directors' qualifications, such as their independence. Companies have transferred the decision-making for many important matters, such as disposition of profits, from shareholders to the executive officers and the board of directors of the company. In consideration of this fact, the qualifications of a director for such office are judged upon careful review of and thorough assessment of the board of directors.

(2) Election of Auditors

Auditors are expected to be qualified to audit the business of directors on behalf of shareholders, and are expected to function adequately for that purpose.

Where the company has engaged in activities that raise corporate governance concerns, including social misconduct, or have engaged in illegal activity in which an auditor is found responsible for any part thereof, or determined to have failed to fully perform his/her duties, we will vote against the reelection of the auditor.

It is desirable that outside auditors are independent of management. It is not desirable to have the audit committee composed of outside auditors all of whom lack independence. Where a reduction in the number of auditors is proposed, there should be proper justification for such a reduction.

(3) Executive Compensation

Nomura Asset Management votes for management compensation plans that in its view, are reasonable, especially equity-based compensation plans that are aligned with the long-term interests of the company's shareholders. However, we vote against plans that we believe are inconsistent with or inequitable compared to the company's overall financial condition, or that would substantially dilute the interests of shareholders.

When a company is discovered to have engaged in social misconduct, we expect to see corrective measures reflected in management's compensation.

It is desirable for the company to disclose management's compensation so that shareholders can determine whether or not it is fair and reasonable.

(4) Stock Option

In principle, we vote for stock option plans when the conditions of the plan, such as eligibility and its scale, are properly set forth for the purpose of promoting the incentives of the executives and employees. However, we vote against such plans when the conditions are deemed to be improper.

(5) Capital Policy

Distribution policy

In deciding on distributions to its shareholders, the company should ensure that such distributions are consistent with its long-term investment plan. While we view the acquisition of the company's own stock positively as a means to enhance the company's value, it is always necessary to determine whether this is the most appropriate distribution method for the sake of the company's long-term capital structure.

Change in number of authorized shares

An increase in the number of authorized shares is required for a variety of legitimate business purposes, including financing, stock splits, corporate reorganizations, or debt for equity exchanges. Nomura Asset Management will vote for a company's proposed increase in the number of authorized shares unless it is considered a special circumstance proposal. Such proposals are assessed on a case-by-case basis.

Issuance of preferred and other classes of shares

Nomura Asset Management will carefully scrutinize proposals with respect to the issuance of shares in special cases, such as to authorize the board of directors to issue preferred shares with discretion to determine such conditions as voting rights, conversion, dividend and transferability ("Blank Check" Preferred Shares). We recognize that while such classes of shares are generally issued for financing purposes, they could hinder growth in shareholder value.

(6) Corporate Actions

Mergers, acquisitions and other corporate restructurings

Nomura Asset Management reviews all proposals for mergers, acquisitions and other forms of corporate restructuring on a case-by-case basis by evaluating the financial impact on the company's shareholders.

Anti-takeover measures

Nomura Asset Management will not vote, in principle, for proposals that make it more difficult for a company to be acquired by another company. We believe that anti-takeover measures can depress a company's market value.

4. Conflict of Interests

In exercising voting rights, material conflicts of interest may arise (for example, Nomura Asset Management may have a material business relationship with an issuer whose securities are held in client portfolios, and over which we have proxy voting discretion).

When such a material conflict of interest arises, Nomura Asset Management shall vote, in order to remain impartial in the exercising of proxy voting rights, based on recommendations made by one or more third-party proxy voting service vendors.

With respect to shares of Nomura Holdings, Inc. and its affiliated companies that are held in client portfolios, we shall seek advice from one or more third-party proxy voting service vendors.

Our approach in identifying and handling material conflicts of interest is more fully described in our policy document "Organizational Structure and Decision-Making Process for the Exercise of Proxy Voting Rights."

5. Other Considerations

(1) Non-voting cases

Nomura Asset Management may be unable to vote or may determine to refrain from voting in certain circumstances. The following list, although not exhaustive, highlights some potential instances in which a proxy may not be voted:

Securities Lending: Various client accounts may participate in a securities lending program. Because title to loaned securities passes to the borrower, Nomura Asset Management will be unable to vote any security that is out on loan to a borrower on a proxy record date. If Nomura Asset Management has investment discretion, however, it may reserve the right to instruct the lending agent to recall the loaned security where the matter to be voted upon is deemed to be material to the investment and

the benefits of voting the security are deemed to outweigh the costs of recalling the security.

**Share Blocking:** Proxy voting in certain countries requires “share blocking.” That is, shareholders wishing to vote their proxies must deposit their shares shortly before the date of the meeting (usually one week) with a designated depository. During this blocking period, shares that will be voted at the meeting cannot be sold until the meeting has taken place and the shares are returned to the clients’ custodian banks. We may determine that the value of exercising the vote does not outweigh the detriment of not being able to transact in the shares during this period. In such cases, we may not vote the effected shares.

**Re-registration:** In certain countries, re-registration of shares is required to enter a proxy vote. As with share blocking, re-registration can prevent us from exercising its investment discretion to sell shares held in clients’ portfolios for a substantial period of time. The decision process in blocking countries as discussed above is employed in instances where re-registration is necessary.

**Other Considerations:** Lack of adequate information and untimely receipt of proxy materials may make it disadvantageous to vote proxies in every instance. In addition, we may not vote proxies in circumstances where the cost of voting the proxy outweighs the possible benefit to the client.

ITEM 8. PORTFOLIO MANAGERS OF CLOSED-END MANAGEMENT INVESTMENT COMPANIES

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(a)(1) As of February 28, 2015, Mr. Hiromitsu Daimon acts as the Registrant's lead portfolio manager, (the "Portfolio Manager"). Mr. Daimon leads the Japan Small Cap Team of Nomura Asset Management Co., Ltd., the Fund's Investment Adviser. He has been a member of the Japan Small/Mid Cap Team and has been managing Japan Small Cap Funds for Japanese retail clients since 2003 and has served as the Portfolio Manager of the Fund since 2013. The Portfolio Manager is primarily responsible for the day-to-day portfolio management for the Registrant. The Portfolio Manager oversees investment decisions and activities and reviews research analysis.

(2) As of February 28, 2015, the Portfolio Manager was primarily responsible for the day-to-day portfolio management for the Registrant and for two other pooled investment vehicles that are not registered investment companies under the 1940 Act (with total assets of \$119 million as of February 28, 2015). None of the investment advisory fees with respect to these accounts is based on the performance of the account. Real, potential or apparent conflicts of interest may arise where a portfolio manager has day-to-day responsibilities with respect to more than one account. These conflicts include the following: (i) the process for allocation of investments among multiple accounts for which a particular investment may be appropriate, (ii) allocation of a portfolio manager's time and attention among relevant accounts and (iii) circumstances where the Registrant's investment adviser has an incentive fee arrangement or other interest with respect to one account that does not exist with respect to other accounts.

(3) The Portfolio Manager receives a combination of base compensation and discretionary compensation consisting of a cash bonus. The methodology used to determine the Portfolio Manager's compensation is applied across all accounts managed by the Portfolio Manager. Generally, the Portfolio Manager receives fixed salary compensation based on his duties and performance. The amount of base salary is reviewed annually after completion of the formal performance appraisal process. In order to appraise the Portfolio Manager's performance, certain measures are used, such as a review of his specialties and expertise, a review of his capabilities to achieve assigned duties and a review of his management and communication skills. In addition to base compensation, the Portfolio Manager may receive discretionary compensation in the form of a cash bonus. The bonus, which is paid annually, is based on both quantitative and qualitative scores. The quantitative score is determined prior to payment based on the performance of the Portfolio Manager's accounts, measured on a pre-tax basis for rolling three-year periods against the Russell / Nomura Small Cap Tm Index. The quantitative scoring for purposes of the bonus comprises 60 percent of the performance appraisal measurement. The qualitative score is determined by analyzing the quality of the Portfolio Manager's contribution to the Registrant's investment adviser. While the bonus can range up to 100 percent or more of base salary, the Registrant's investment adviser has indicated that cash bonuses typically represent approximately 20 to 40 percent of its portfolio managers' aggregate cash compensation.

(4) As of February 28, 2015, the Portfolio Manager did not own beneficially any securities issued by the Registrant.

(b) Not applicable.

ITEM 9. PURCHASES OF EQUITY SECURITIES BY CLOSED-END MANAGEMENT INVESTMENT COMPANY AND AFFILIATED PURCHASERS

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(a) Not applicable

(b) Not applicable

ITEM 10. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

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There were no changes to the procedures by which shareholders may recommend nominees to the registrant's board of directors made or implemented after the Registrant last provided disclosure in response to the requirements of Item 407(c)(2)(iv) of Regulation S-K (17 CFR 229A07), or this Item.

ITEM 11. CONTROLS AND PROCEDURES

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The Registrant's Principal Executive Officer and Principal Financial Officer have evaluated the Registrant's disclosure controls and procedures within 90 days of the filing of this report and have concluded that they are effective in providing reasonable assurance that the information required to be disclosed by the Registrant in its reports or statements filed under the 1934 Act is

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recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission.

There were no changes in the Registrant's internal control over financial reporting that occurred during the Registrant's second fiscal quarter of the period covered by this report that have materially affected, or are reasonably likely to materially affect, the Registrant's internal control over financial reporting.

#### ITEM 12. EXHIBITS

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- (a) Certifications of Principal Executive Officer and Principal Financial Officer pursuant to Rule 30a-2 under the
  - (2) Investment Company Act of 1940 are attached hereto as an exhibit.
  - (b) Certifications pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 are furnished herewith as an exhibit.
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SIGNATURES

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Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Japan Smaller Capitalization Fund, Inc.

By: /s/ Yutaka Itabashi  
Yutaka Itabashi,  
President  
(Principal Executive  
Officer)

Date: May 14, 2015

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

By: /s/ Yutaka Itabashi  
Yutaka Itabashi,  
President  
(Principal Executive  
Officer)

Date: May 14, 2015

By: /s/ Amy J. Marose  
Amy J.  
Marose, Treasurer  
(Principal Financial  
Officer)

Date: May 14, 2015

