

JAPAN SMALLER CAPITALIZATION FUND INC
Form N-CSRS
October 29, 2014

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

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

Date of fiscal
year end: February 28, 2015

Date of reporting
period: August 31, 2014

ITEM 1. REPORT TO SHAREHOLDERS

JAPAN SMALLER CAPITALIZATION FUND, INC.

October 21, 2014

To Our Shareholders:

We present the Semi-Annual Report of Japan Smaller Capitalization Fund, Inc. (the “Fund”) for the six months ended August 31, 2014.

The Net Asset Value per share (“NAV”) of the Fund increased by 11.5% and the closing market price of the Fund (on the New York Stock Exchange) increased by 10.2% for the six months ended August 31, 2014. The closing market price of the Fund on August 31, 2014 was \$9.74, representing a discount of 11.3% to the NAV of \$10.98. The net assets of the Fund totaled \$311,224,908 on August 31, 2014.

The Russell/Nomura Small Cap™ Index, the Fund’s benchmark (“Benchmark”), increased by 8.3% in United States (“U.S.”) dollar terms for the six months ended August 31, 2014. During the period, the Fund outperformed the Benchmark by 3.2%. The Tokyo Price Index (the “TOPIX”), consisting of all companies listed on the First Section of the Tokyo Stock Exchange (the “TSE”), increased by 3.5% and the Nikkei Average Index (“Nikkei”), a price-weighted index of the 225 leading stocks on the TSE, increased by 2.0% in U.S. dollar terms during the six months ended August 31, 2014. The Japanese yen (“Yen”) depreciated by 1.9% against the U.S. dollar during the six months ended August 31, 2014.

For the quarter ended August 31, 2014, the Benchmark increased by 6.8%, the TOPIX increased by 4.1%, and the Nikkei increased by 3.2% in U.S. dollar terms. The NAV of the Fund increased by 8.9% and outperformed the Benchmark by 2.1%. The Fund’s share price increased by 9.2% during the quarter. The Yen depreciated by 2.2% against the U.S. dollar during the quarter.

The Portfolio

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 several factors that the Fund considers when selling an investment. These sell criteria include appreciation of the stock price, 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, the underweight position in the Security, Commodity & Futures sector and the overweight position in the Construction sector produced the largest positive contributions. However, sector returns were eroded by the overweight positions in the Transportation and Warehousing sector and the underweight

position in the Pharmaceutical sector.

Stock attribution analysis shows that some holdings such as Nippon Seisen Co., Ltd. in the Iron & Steel sector, Zojirushi Corporation in the Electric Appliances sector, and Yurtec Corporation in the Construction sector made positive contributions to the relative performance. Meanwhile, some positions detracted from the relative performance during the review period, including Sintokogio, Ltd. in the Machinery sector and Fujikura Kasei Co., Ltd. and Sakai Chemical Industry Co., Ltd. in the Chemicals sector.

Market Review

The Benchmark increased 10.4% in local currency terms for the six months ended August 31, 2014. The Benchmark outperformed the broad Japanese equity market, measured by the TOPIX index, which increased 5.5% during this review period.

The broad Japan equity market fell during the period from March to 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 Bank of Japan (“BOJ”) also seemed to drive investors toward profit taking activity during this period.

After declining since the beginning of the year, the Japan equity market appeared to have bottomed out in April 2014, and extended its rally in May and June 2014. Global economic conditions have remained stable despite a number of unresolved issues, while concerns about the negative repercussions from the consumption tax hike or the excessively conservative fiscal year earnings guidance eased somewhat with the release of actual data. Investors therefore appeared to have seized an opportunity in the languishing Japan equity market to narrow the gap with other global markets.

Japanese stocks extended their earlier gains, as the TOPIX advanced in July 2014. Domestic economic data suggested a slowdown in the pace of recovery in Japan, but expectations of a further round of monetary easing by the BOJ, or plans for the Government Pension Investment Fund (“GPIF”) to increase its equity weighting supported the positive stock market performance in Japan. Moreover, favorable April-June quarterly earnings results were revealed toward the end of the month, especially among manufacturing companies. These stocks soared and had a positive effect on the overall performance of the Japan equity market.

The Japan equity market was unable to extend its recent rally in August 2014. The TOPIX fell initially as falling stock prices in Europe and the U.S. reflected a range of geopolitical concerns including the Argentine default, and conflicts in Iraq and between Russia and Ukraine. Nevertheless, the Benchmark advanced marginally in August 2014. For most small cap companies, their business performance tends to be more sensitive to domestic demand, so their stock prices held up relatively well compared with those of larger companies, which tend to be more vulnerable to overseas market concerns.

Outlook and Strategy

We expect the global economic recovery to continue at a moderate pace through the remainder of 2014, led by growth in the U.S. The economic recovery should continue in Europe as well, albeit at a very slow pace. In Japan, it appears the impact of the consumption tax hike on domestic demand was roughly in line with market expectations, but domestic macroeconomic indicators such as consumption, wages and production data have been lackluster since April.

Despite the recent weak macroeconomic data, the Cabinet Office has left its overall economic assessment unchanged in its monthly economic report released on August 26, 2014, reiterating that the Japanese economy is undergoing a moderate recovery. The government also cautioned, however, that the negative repercussions from the tax-hike could persist for a while. We acknowledge the growing concern that the drop off in domestic demand could have a prolonged impact and that Japan’s economic recovery could be weaker than expected. We therefore continue to monitor the principal risk factors, such as the lack of real household income growth and the sluggish recovery in industrial production.

At the microeconomic level, fundamentals appear somewhat more robust, as the overall FY2014 first quarter (April-June) earnings results were better than consensus expectations. The solid earnings results reflect the fact that domestic demand following the tax hike was in line with forecasts. Consensus FY2014 recurring profit growth estimates have been revised up slightly to 5.5% as of August 28, 2014. As there were limited guidance revisions during the fiscal first quarter reporting season, FY2014 earnings growth guidance issued by companies remains conservative.

In terms of valuations, Japanese equities remain fairly priced with a 12-month forward price-earnings ratio of 13.6, which is lower than that of the U.S. and comparable to Europe, with a market price-to-book ratio of 1.2 and a dividend yield of 2.2% (as of August 29, 2014). As the second half of the year progresses, we anticipate several possible market catalysts, including the potential for further monetary easing given continued soft macroeconomic data; an

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asset allocation decision from Japan's GPIF; a decision on the magnitude and timing of corporate tax cuts later this year; and deliberations on policy reforms following the upcoming cabinet reshuffle in September. The GPIF investment committee is expected to announce new medium-term asset allocation targets by October 2014.

The Fund appreciates your continuing support of the Fund.

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 and capital gain distributions. The New York Stock Exchange's closing market price is adjusted for reinvestment of income dividends and capital gain distributions. The Fund's performance does not represent 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 Japanese 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 covers small cap stocks listed on Japanese stock exchanges. This index contains the bottom 15% of the Russell/Nomura Total Market™ Index in terms of adjusted market capitalization. It measures the performance of the smallest Japanese equity securities in the Russell/Nomura Total Market™ Index. Currently, there are 1,096 securities in the Russell/Nomura Small Cap™ Index.

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 website at <http://www.sec.gov>.

AVAILABILITY OF QUARTERLY SCHEDULE OF INVESTMENTS

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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 2013, 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.

JAPAN SMALLER CAPITALIZATION FUND, INC.

FUND HIGHLIGHTS—AUGUST 31, 2014 (Unaudited)

KEY STATISTICS

| | | |
|--|---------------|---|
| Net Assets | \$311,224,908 | |
| Net Asset Value per Share | \$10.98 | |
| Closing NYSE Market Price | \$9.74 | |
| Percentage Change in Net Asset Value per Share*† | 11.5 | % |
| Percentage Change in NYSE Market Price*† | 10.2 | % |

MARKET INDICES

Percentage change in market indices:*

| | YEN | U.S.\$ |
|---------------------------------|--------|--------|
| Russell/Nomura Small Cap™ Index | 10.38% | 8.33% |
| TOPIX | 5.47% | 3.52% |
| Nikkei Average | 3.93% | 2.00% |

*From March 1, 2014 through August 31, 2014.

†Reflects the percentage change in share price.

ASSET ALLOCATION

| | | |
|-------------------------------------|-------|---|
| Japanese Equities | | |
| TSE First Section Stocks | 84.6 | % |
| TSE Second Section Stocks | 10.1 | |
| Other Smaller Capitalization Stocks | 3.1 | |
| Foreign Currency | 1.2 | |
| Total Investments | 99.0 | |
| Other Assets Less Liabilities, Net | 1.0 | |
| Net Assets | 100.0 | % |

INDUSTRY DIVERSIFICATION

| | % of Net Assets | | % of Net Assets |
|--------------------------------|--------------------|----------------|--------------------|
| Retail Trade | 11.3 | Metal Products | 3.8 |
| Chemicals | 10.0 | Other Products | 3.4 |
| Wholesale | | | |
| Trade | 8.8 | Real Estate | 2.4 |
| Electric | | Textiles and | |
| Appliances | 7.7 | Apparel | 2.4 |
| Banks | 7.4 | Utilities | 2.1 |
| Construction | 6.5 | Food | 1.9 |
| Iron and | | Financing | |
| Steel | 5.5 | Business | 1.6 |
| Transportation and Warehousing | 5.4 | Services | 1.4 |
| Machinery | 5.3 | Pharmaceutical | 1.0 |

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| | | | |
|-------------------------------|-----|--|-----|
| Transportation Equipment | 4.4 | Glass and Ceramics Products Precision Instruments | 1.0 |
| Information and Communication | 3.9 | | 0.6 |

TEN LARGEST EQUITY HOLDINGS BY MARKET VALUE

| | Market Value | % of Net Assets |
|--|-----------------|--------------------|
| Security Sakai Chemical Industry Co., Ltd. | \$10,451,805 | 3.4 |
| Toenec Corporation | 9,292,053 | 3.0 |
| Ryoden Trading Company, Ltd. | 6,084,083 | 2.0 |
| The Yamanashi Chuo Bank, Ltd. | 5,527,580 | 1.8 |
| MIRAIT Holdings Corporation | 5,308,317 | 1.7 |
| Osaka Steel Co., Ltd. | 5,300,458 | 1.7 |
| Siix Corporation | 5,052,143 | 1.6 |
| Japan Transcity Corporation | 4,979,905 | 1.6 |
| Tachi-S Co., Ltd. | 4,892,615 | 1.6 |
| Create S D Co., Ltd. | 4,846,546 | 1.6 |

JAPAN SMALLER CAPITALIZATION FUND, INC.

SCHEDULE OF INVESTMENTS

AUGUST 31, 2014

(Unaudited)

| | Shares | Cost | Market Value | % of Net Assets |
|---|-----------|-------------|--------------|-----------------|
| JAPANESE EQUITY SECURITIES | | | | |
| Banks | | | | |
| Akita Bank, Ltd. General banking services | 1,293,000 | \$3,491,123 | \$3,655,035 | 1.2 |
| The Daishi Bank, Ltd. General banking services | 609,000 | 2,058,473 | 2,184,097 | 0.7 |
| The Gunma Bank, Ltd. General banking services | 242,000 | 1,331,853 | 1,426,335 | 0.5 |
| The Hachijuni Bank, Ltd. General banking services | 45,000 | 262,978 | 271,718 | 0.1 |
| The Higo Bank, Ltd. General banking services | 254,000 | 1,487,849 | 1,345,647 | 0.4 |
| The Hyakugo Bank, Ltd. General banking services | 259,000 | 1,090,688 | 1,035,950 | 0.3 |
| The Kagoshima Bank, Ltd. General banking services | 736,000 | 4,996,942 | 4,741,311 | 1.5 |
| The San-in Godo Bank, Ltd. General banking services | 171,000 | 1,285,923 | 1,205,163 | 0.4 |
| The Taiko Bank, Ltd. General banking services | 182,000 | 425,958 | 386,731 | 0.1 |
| The Tochigi Bank, Ltd. Commerical banking services | 272,000 | 1,032,163 | 1,116,716 | 0.4 |
| The Yamanashi Chuo Bank, Ltd. Commercial banking services | 1,239,000 | 5,442,030 | 5,527,580 | 1.8 |
| Total Banks | | 22,905,980 | 22,896,283 | 7.4 |
| Chemicals | 52,200 | 2,233,766 | 2,860,824 | 0.9 |

| | | | | |
|---|---------|-----------|-----------|-----|
| C. Uyemura & Co., Ltd. Plating chemicals | | | | |
| Fujikura Kasei Co., Ltd. Specialty coating materials and fine chemicals | 532,500 | 2,430,611 | 2,764,771 | 0.9 |
| FP Corporation Manufactures polystyrene and other synthetic resin food containers | 12,300 | 428,917 | 395,592 | 0.1 |
| JSR Corporation Elastomer and resin products | 121,100 | 2,421,864 | 2,105,176 | 0.7 |
| Koatsu Gas Kogyo Co., Ltd. High-pressured gases and chemicals | 264,000 | 1,515,536 | 1,484,929 | 0.5 |
| LEC, Inc. Household products | 61,100 | 811,033 | 666,193 | 0.2 |

See notes to financial statements

JAPAN SMALLER CAPITALIZATION FUND, INC.

SCHEDULE OF INVESTMENTS—Continued

AUGUST 31, 2014

(Unaudited)

| | Shares | Cost | Market Value | % of Net Assets |
|---|-----------|------------|--------------|-----------------|
| Mirai Industry Co., Ltd. Plastic molded electric materials | 30,000 | \$412,819 | \$461,805 | 0.2 |
| Sakai Chemical Industry Co., Ltd. Titanium oxide, polyvinyl chloride stabilizers, and pharmaceuticals | 3,397,000 | 10,557,877 | 10,451,805 | 3.4 |
| Sekisui Jushi Corporation Processor of plastics and other resin materials | 169,700 | 2,264,665 | 2,328,368 | 0.8 |
| Soken Chemical & Engineering Co., Ltd. Manufactures and sells adhesives, macromolecules, and medicines | 187,900 | 2,403,174 | 1,987,308 | 0.6 |
| Tenma Corporation Molded resin products | 268,400 | 3,445,100 | 4,196,129 | 1.3 |
| Teraoka Seisakusho Co., Ltd. Manufactures adhesive tape products | 359,400 | 1,501,967 | 1,278,573 | 0.4 |
| Total Chemicals | | 30,427,329 | 30,981,473 | 10.0 |
| Construction Daiichi Kensetsu Corporation Civil engineering | 13,800 | 147,608 | 212,961 | 0.1 |
| Hibiya Engineering, Ltd. Facility construction | 54,600 | 584,858 | 849,934 | 0.3 |
| Kandenko Co., Ltd. Constructs electrical and power facilities | 66,000 | 320,067 | 355,368 | 0.1 |
| Kinden Corporation Maintains communications and electrical facilities | 150,000 | 1,319,686 | 1,609,538 | 0.5 |
| MIRAIT Holdings Corporation | 465,900 | 4,039,811 | 5,308,317 | 1.7 |

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|---|-----------|------------|------------|-----|
| Telecommunication engineering NDS Co., Ltd. | 130,000 | 369,206 | 379,982 | 0.1 |
| General contractor Nippon Densetsu Kogyo Co., Ltd. | 12,900 | 135,459 | 216,065 | 0.1 |
| Installs and maintains communication equipment for railroad companies Toenec Corporation | 1,638,000 | 9,136,179 | 9,292,053 | 3.0 |
| Constructs comprehensive building facilities Yondenko Corporation | 93,000 | 324,072 | 369,300 | 0.1 |
| Electrical engineering Yurtec Corporation | 307,000 | 980,314 | 1,670,708 | 0.5 |
| Designs, builds, and maintains electrical facilities Total Construction | | 17,357,260 | 20,264,226 | 6.5 |

See notes to financial statements

JAPAN SMALLER CAPITALIZATION FUND, INC.

SCHEDULE OF INVESTMENTS—Continued

AUGUST 31, 2014

(Unaudited)

| | Shares | Cost | Market Value | % of Net Assets |
|---|---------|-------------|--------------|-----------------|
| Electric Appliances | | | | |
| Espec Corp | 430,000 | \$3,271,763 | \$3,898,755 | 1.3 |
| Meteorological testing devices | | | | |
| Hitachi Maxell, Ltd. | 131,500 | 2,363,409 | 2,224,013 | 0.7 |
| Media devices | | | | |
| Kitagawa Industries Co., Ltd. | 249,200 | 2,666,131 | 2,503,860 | 0.8 |
| Industrial fasteners and electromagnetic wave resistant parts | | | | |
| Koito Manufacturing Co., Ltd. | 153,000 | 2,953,092 | 4,180,818 | 1.3 |
| Lighting equipment | | | | |
| Nichicon Corporation | 649,700 | 5,200,758 | 4,741,333 | 1.5 |
| Manufacture and sale of capacitors and transformers | | | | |
| Nihon Kohden Corporation | 28,300 | 1,097,715 | 1,567,309 | 0.5 |
| Medical equipment | | | | |
| Osaki Electric Co., Ltd. | 234,000 | 1,347,529 | 1,376,934 | 0.4 |
| Measurement and control equipment | | | | |
| Zojirushi Corporation | 707,000 | 2,569,072 | 3,779,549 | 1.2 |
| Household appliances | | | | |
| Total Electric Appliances | | 21,469,469 | 24,272,571 | 7.7 |
| Financing Business | | | | |
| Hitachi Capital Corporation | 52,700 | 1,167,292 | 1,386,349 | 0.5 |
| Financial services | | | | |
| Ricoh Leasing Company, Ltd. | 123,500 | 3,225,220 | 3,568,266 | 1.1 |
| Office automation equipment leasing | | | | |
| Total Financing Business | | 4,392,512 | 4,954,615 | 1.6 |
| Food | | | | |

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|---|---------|-----------|-----------|-----|
| Fuji Oil Co., Ltd. Palm oil and coconut oil | 264,800 | 4,570,538 | 4,353,714 | 1.4 |
| J-Oil Mills Inc. Cooking oil | 25,000 | 77,211 | 82,929 | 0.0 |
| Kameda Seika Co., Ltd. Rice cookies, snacks, and Japanese cakes | 36,000 | 1,082,011 | 1,126,677 | 0.4 |
| Taiyo Kagaku Co., Ltd. Food additives | 38,900 | 281,727 | 281,637 | 0.1 |
| Total Food | | 6,011,487 | 5,844,957 | 1.9 |

See notes to financial statements

JAPAN SMALLER CAPITALIZATION FUND, INC.

SCHEDULE OF INVESTMENTS—Continued

AUGUST 31, 2014

(Unaudited)

| | Shares | Cost | Market Value | % of Net Assets |
|---|-----------|-------------|--------------|-----------------|
| Glass and Ceramics Products | | | | |
| Nichiha Corporation | 317,600 | \$3,288,809 | \$3,255,244 | 1.0 |
| Ceramic exterior walls and other construction materials | | | | |
| Total Glass and Ceramics Products | | 3,288,809 | 3,255,244 | 1.0 |
| Information and Communication | | | | |
| Broadleaf Co., Ltd. | 151,400 | 2,417,530 | 2,557,664 | 0.8 |
| Business software development, sales, and technical support | | | | |
| NS Solutions Corporation | 94,200 | 1,830,591 | 2,780,578 | 0.9 |
| System consulting services and software development | | | | |
| OBIC Co., Ltd. | 57,900 | 1,525,505 | 1,984,650 | 0.6 |
| Computer system integration | | | | |
| Okinawa Cellular Telephone Company | 121,400 | 3,049,540 | 3,389,699 | 1.1 |
| Cellular and car phone services | | | | |
| Otsuka Corporation | 37,100 | 925,346 | 1,573,107 | 0.5 |
| Computer information system developer | | | | |
| Total Information and Communication | | 9,748,512 | 12,285,698 | 3.9 |
| Iron and Steel | | | | |
| Chubu Steel Plate Co., Ltd. | 614,300 | 2,544,613 | 3,124,510 | 1.0 |
| Manufactures electric furnace steel plates | | | | |
| Mory Industries Inc. | 661,000 | 2,419,002 | 2,618,451 | 0.8 |
| Stainless pipes | | | | |
| Nichia Steel Works, Ltd. | 1,417,000 | 4,523,490 | 4,305,293 | 1.4 |
| Produces and sells steel products | | | | |
| Nippon Seisen Co., Ltd. | 267,000 | 1,251,419 | 1,840,671 | 0.6 |
| Secondary products of stainless steel wires | | | | |

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|--|---------|------------|------------|-----|
| Osaka Steel Co., Ltd. Electric furnace steelmaker | 270,100 | 4,889,037 | 5,300,458 | 1.7 |
| Total Iron and Steel | | 15,627,561 | 17,189,383 | 5.5 |
| Machinery Hisaka Works, Ltd. Heat exchangers and evaporators | 483,600 | 4,620,145 | 4,240,596 | 1.4 |
| Kitz Corporation Valves and flow control devices | 143,900 | 692,209 | 769,275 | 0.3 |
| Nippon Pillar Packing Co., Ltd. Industrial-type mechanical seals | 258,600 | 2,005,709 | 2,138,320 | 0.7 |

See notes to financial statements

JAPAN SMALLER CAPITALIZATION FUND, INC.

SCHEDULE OF INVESTMENTS—Continued

AUGUST 31, 2014

(Unaudited)

| | Shares | Cost | Market Value | % of Net Assets |
|--|---------|------------|--------------|-----------------|
| Nissei Corporation | 24,500 | \$218,441 | \$223,552 | 0.1 |
| Manufactures transmission gears and precision equipment | | | | |
| Oiles Corporation | 127,000 | 2,824,109 | 3,213,922 | 1.0 |
| Manufactures oilless bearings | | | | |
| Okano Valve Manufacturing Co. | 32,000 | 97,471 | 113,225 | 0.0 |
| Manufactures and maintains industrial high-pressure valves | | | | |
| Sato Corporation | 77,200 | 961,372 | 2,226,816 | 0.7 |
| Automation recognition systems | | | | |
| Sintokogio, Ltd. | 526,800 | 4,038,788 | 3,525,338 | 1.1 |
| Engineering equipment | | | | |
| Total Machinery | | 15,458,244 | 16,451,044 | 5.3 |
| Metal Products | | | | |
| Dainichi Co., Ltd. | 181,800 | 1,463,752 | 1,309,247 | 0.4 |
| Oil heating equipment | | | | |
| Mimasu Semiconductor Industry Co., Ltd. | 159,100 | 1,301,179 | 1,428,772 | 0.5 |
| Silicon and gallium | | | | |
| Neturen Co., Ltd. | 481,100 | 3,196,282 | 3,492,433 | 1.1 |
| Induction hardening equipment | | | | |
| NHK Spring Co., Ltd. | 165,500 | 1,564,256 | 1,581,722 | 0.5 |
| Automobile-related products | | | | |
| Piolax, Inc. | 83,700 | 2,565,879 | 4,056,036 | 1.3 |
| Production and sale of automobile parts | | | | |
| Total Metal Products | | 10,091,348 | 11,868,210 | 3.8 |
| Other Products | | | | |
| Fuji Seal International, Inc. | 105,800 | 3,135,824 | 3,565,492 | 1.1 |
| Packaging-related materials and machinery | | | | |
| Kokuyo Co., Ltd. | 134,900 | 943,440 | 1,076,554 | 0.3 |
| Stationery goods and office furniture | | | | |
| | 221,700 | 3,686,225 | 3,949,907 | 1.3 |

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|--|--------|-----------|------------|-----|
| Nishikawa Rubber Company Ltd. Rubber products The Pack Corporation | 43,700 | 724,462 | 844,126 | 0.3 |
| Paper products and plastic bags Pigeon Corporation | 20,500 | 841,455 | 1,212,201 | 0.4 |
| Baby care goods Total Other Products | | 9,331,406 | 10,648,280 | 3.4 |

See notes to financial statements

JAPAN SMALLER CAPITALIZATION FUND, INC.

SCHEDULE OF INVESTMENTS—Continued

AUGUST 31, 2014

(Unaudited)

| | Shares | Cost | Market Value | % of Net Assets |
|--|---------|-------------|--------------|-----------------|
| Pharmaceutical KYORIN Holdings, Inc. Pharmaceuticals manufacturer | 137,800 | \$2,948,103 | \$3,093,726 | 1.0 |
| Total Pharmaceutical | | 2,948,103 | 3,093,726 | 1.0 |
| Precision Instruments Asahi Intecc Co., Ltd. Medical tools | 28,200 | 452,365 | 1,317,744 | 0.4 |
| Nakanishi Inc. Manufactures gyration equipment for dental & industry use | 17,900 | 470,724 | 716,826 | 0.2 |
| Total Precision Instruments | | 923,089 | 2,034,570 | 0.6 |
| Real Estate Keihanshin Building Co., Ltd. Real estate leasing and building management | 882,500 | 4,940,007 | 4,675,328 | 1.5 |
| Sundrug Co., Ltd. Drug store chain | 64,600 | 2,610,435 | 2,869,593 | 0.9 |
| Total Real Estate | | 7,550,442 | 7,544,921 | 2.4 |
| Retail Trade ABC-Mart, Inc. Shoes | 32,000 | 1,291,868 | 1,639,921 | 0.5 |
| AIN Pharmaciez Inc. Pharmacies | 1,000 | 45,890 | 48,363 | 0.0 |
| Amiyaki Tei Co., Ltd. Barbecue restaurants | 45,300 | 1,394,472 | 1,600,668 | 0.5 |
| Arc Land Sakamoto Co., Ltd. Operates home centers | 144,800 | 2,378,773 | 3,352,516 | 1.1 |
| Asahi Co., Ltd. Bicycles, parts and accessories | 34,200 | 433,086 | 427,479 | 0.1 |

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| | | | | |
|--|---------|-----------|-----------|-----|
| Axial Retail Inc. Operates food supermarket stores | 20,200 | 337,265 | 386,306 | 0.1 |
| Create S D Co., Ltd. Drug store chain | 138,100 | 4,790,151 | 4,846,546 | 1.6 |
| Daikokutenbussan Co., Ltd. Operates discount stores for food products and sundry goods | 127,200 | 3,497,459 | 3,858,622 | 1.2 |
| Heiwado Co., Ltd. Supermarkets | 148,200 | 1,862,434 | 2,408,134 | 0.8 |

See notes to financial statements

JAPAN SMALLER CAPITALIZATION FUND, INC.

SCHEDULE OF INVESTMENTS—Continued

AUGUST 31, 2014

(Unaudited)

| | Shares | Cost | Market Value | % of Net Assets |
|---|---------|-------------|--------------|-----------------|
| Hiday Hidaka Corp | 112,680 | \$2,039,548 | \$2,700,940 | 0.9 |
| Chinese restaurant chain Jin Co., Ltd. | 123,100 | 3,942,502 | 3,556,709 | 1.1 |
| Eyeglasses and fashion merchandise Shimamura Co., Ltd. | 28,500 | 3,359,959 | 2,570,357 | 0.8 |
| Clothing chain Saint Marc Holdings Co., Ltd. | 30,400 | 1,195,204 | 1,718,687 | 0.6 |
| Restaurants and cafes San-A Co., Ltd. | 96,000 | 2,522,853 | 3,415,220 | 1.1 |
| Housing related goods and groceries Tsuruha Holdings, Inc. | 2,700 | 127,539 | 147,454 | 0.1 |
| Management and operation of drugstores United Arrows Ltd. | 67,100 | 2,576,238 | 2,458,065 | 0.8 |
| Operates fashion stores Yamazawa Co., Ltd. | 6,000 | 96,196 | 94,149 | 0.0 |
| Supermarket chain Total Retail Trade | | 31,891,437 | 35,230,136 | 11.3 |
| Services | | | | |
| EPS Co., Ltd. | 79,300 | 905,524 | 1,002,639 | 0.3 |
| Clinical testing JP-Holdings, Inc. | 136,700 | 846,315 | 554,660 | 0.2 |
| Child-care center services Moshi Moshi Hotline, Inc. | 1,300 | 12,839 | 12,837 | 0.0 |
| Telemarketing Nihon M&A Center Inc. | 46,200 | 480,635 | 1,459,228 | 0.5 |
| Provides merger and acquisition brokerage services Step Co., Ltd. | 156,100 | 1,388,289 | 1,220,223 | 0.4 |
| Operates preparatory schools | | | | |

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| | | | | |
|----------------|-------|-----------|-----------|-----|
| Tokai Corp. | 1,500 | 39,037 | 47,089 | 0.0 |
| Linen supply | | | | |
| Total Services | | 3,672,639 | 4,296,676 | 1.4 |

See notes to financial statements

JAPAN SMALLER CAPITALIZATION FUND, INC.

SCHEDULE OF INVESTMENTS—Continued

AUGUST 31, 2014

(Unaudited)

| | Shares | Cost | Market Value | % of Net Assets |
|--|-----------|-------------|--------------|-----------------|
| Textiles and Apparel | | | | |
| Hogy Medical Co., Ltd. | 78,100 | \$3,643,090 | \$4,377,895 | 1.4 |
| Medical supply products | | | | |
| Komatsu Seiren Co., Ltd. | 572,700 | 2,961,989 | 2,967,985 | 1.0 |
| Synthetic fibers, textiles products, and composite thin-membrane | | | | |
| Total Textiles and Apparel | | 6,605,079 | 7,345,880 | 2.4 |
| Transportation and Warehousing | | | | |
| Alps Logistics Co., Ltd. | 265,500 | 2,748,045 | 3,150,108 | 1.0 |
| Delivery, storage, and forwarding of electronic components | | | | |
| Japan Transcity Corporation | 1,419,000 | 4,850,024 | 4,979,905 | 1.6 |
| Warehousing and transportation services | | | | |
| Kintetsu World Express Inc. | 34,000 | 992,637 | 1,351,762 | 0.4 |
| Distribution services | | | | |
| Meiko Trans Co., Ltd. | 317,000 | 3,362,375 | 3,142,416 | 1.0 |
| Operates port-harbor transport facilities | | | | |
| Nissin Corporation | 407,000 | 1,190,022 | 1,119,196 | 0.4 |
| Transportation services | | | | |
| Trancom Co., Ltd. | 72,700 | 2,147,602 | 3,051,156 | 1.0 |
| Logistics services | | | | |
| Total Transportation and Warehousing | | 15,290,705 | 16,794,543 | 5.4 |
| Transportation Equipment | | | | |
| Hi-Lex Corporation | 32,700 | 653,841 | 877,513 | 0.3 |
| Control cables | | | | |
| Nippon Seiki Co., Ltd. | 89,000 | 1,290,025 | 1,983,578 | 0.6 |

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| | | | | |
|---|---------|------------|------------|-----|
| Manufactures instrument panels for automobiles Nissin Kogyo Co., Ltd. | 170,200 | 3,129,828 | 3,073,271 | 1.0 |
| Brake systems Sanoh Industrial Co., Ltd. | 377,800 | 2,755,574 | 2,648,105 | 0.9 |
| Tubes, wires and electrical products Tachi-S Co., Ltd. | 323,700 | 5,260,996 | 4,892,615 | 1.6 |
| Child transformation seats, seat components, and rotating units Total Transportation Equipment | | 13,090,264 | 13,475,082 | 4.4 |

See notes to financial statements

JAPAN SMALLER CAPITALIZATION FUND, INC.

SCHEDULE OF INVESTMENTS—Continued

AUGUST 31, 2014

(Unaudited)

| | Shares | Cost | Market Value | % of Net Assets |
|--|---------|-------------|--------------|-----------------------|
| Utilities | | | | |
| Keiyo Gas Co., Ltd. | 374,000 | \$1,916,413 | \$1,848,334 | 0.6 |
| Produces and sells gas and energy products | | | | |
| The Okinawa Electric Power Company, Incorporated | 140,500 | 4,895,419 | 4,572,785 | 1.5 |
| Thermal power | | | | |
| Total Utilities | | 6,811,832 | 6,421,119 | 2.1 |
| Wholesale Trade | | | | |
| Kanaden Corporation | 174,000 | 1,137,370 | 1,259,766 | 0.4 |
| Components and devices | | | | |
| Kohsoku Corporation | 65,700 | 588,030 | 568,530 | 0.2 |
| Sale of light food packaging materials | | | | |
| Matsuda Sangyo Co., Ltd. | 312,600 | 3,906,103 | 3,835,177 | 1.2 |
| Wholesales precious metals, electronic materials, and food | | | | |
| Paltac Corporation | 122,900 | 1,534,660 | 1,570,445 | 0.5 |
| Daily necessities | | | | |
| Senshu Electric Co., Ltd. | 93,500 | 1,076,091 | 1,646,060 | 0.5 |
| Electric wire and cables | | | | |
| Shinko Shoji Co., Ltd. | 244,300 | 2,136,675 | 2,231,479 | 0.7 |
| Integrated circuits and semiconductor devices | | | | |
| Siix Corporation | 307,100 | 4,095,020 | 5,052,143 | 1.6 |
| Video, audio, and office equipment | | | | |
| SPK Corporation | 15,800 | 283,633 | 292,894 | 0.1 |
| Import, export, and wholesale of automobile parts | | | | |
| Ryoden Trading Company, Ltd. | 825,000 | 5,610,426 | 6,084,083 | 2.0 |
| Electronic components | | | | |
| Sugimoto & Co., Ltd. | 246,200 | 2,168,491 | 2,426,374 | 0.8 |
| Tools and measuring instruments | | | | |

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| | | | | |
|--|---------|---------------|---------------|------|
| Techno Associe Co., Ltd. Produces and distributes screws | 248,900 | 2,300,895 | 2,441,017 | 0.8 |
| Total Wholesale Trade | | 24,837,394 | 27,407,968 | 8.8 |
| TOTAL INVESTMENTS IN JAPANESE EQUITY SECURITIES | | \$279,730,901 | \$304,556,605 | 97.8 |

See notes to financial statements

JAPAN SMALLER CAPITALIZATION FUND, INC.

SCHEDULE OF INVESTMENTS—Continued

AUGUST 31, 2014

(Unaudited)

| | Shares | Cost | Market Value | % of Net Assets |
|---------------------------------------|--------|---------------|---------------|-----------------------|
| INVESTMENTS IN FOREIGN CURRENCY | | | | |
| Japanese Yen | | | | |
| Non-interest bearing | | | | |
| account | | \$3,660,607 | \$3,660,294 | 1.2 |
| TOTAL INVESTMENTS IN FOREIGN CURRENCY | | 3,660,607 | 3,660,294 | 1.2 |
| TOTAL | | | | |
| INVESTMENTS | | \$283,391,508 | \$308,216,899 | 99.0 |
| OTHER ASSETS LESS LIABILITIES, NET | | | 3,008,009 | 1.0 |
| NET ASSETS | | | \$311,224,908 | 100.0 |

Portfolio securities and foreign currency holdings were translated
at the following exchange rate as of August 31, 2014.

Japanese Yen JPY¥ 104.005 = \$1.00

See notes to financial statements

JAPAN SMALLER CAPITALIZATION FUND, INC.

STATEMENT OF ASSETS AND LIABILITIES

AUGUST 31, 2014

(Unaudited)

ASSETS:

| | |
|---|---------------|
| Investments in securities, at market value (cost—\$279,730,901) | \$304,556,605 |
| Investments in foreign currency, at market value (cost—\$3,660,607) | 3,660,294 |
| Receivable for investments sold | 3,089,858 |
| Receivable for dividends and interest, net of withholding taxes | 210,953 |
| Cash and cash equivalents | 126,554 |
| Prepaid expenses | 37,487 |
| Total Assets | 311,681,751 |

LIABILITIES:

| | |
|---|---------|
| Accrued management fee | 218,313 |
| Payable for investments purchased | 65,961 |
| Accrued directors' fees and expenses | 8,323 |
| Other accrued expenses | 164,246 |
| Total Liabilities | 456,843 |

NET ASSETS:

| | |
|---|---------------|
| Capital stock (par value of 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 loss on investments and foreign currency transactions | (481,925) |
| Net unrealized appreciation on investments and foreign currency transactions | 24,820,206 |
| Accumulated net investment loss | (2,001,979) |
| Net Assets | \$311,224,908 |
| Net asset value per share | \$10.98 |

See notes to financial statements

JAPAN SMALLER CAPITALIZATION FUND, INC.

STATEMENT OF OPERATIONS

FOR THE SIX MONTHS ENDED AUGUST 31, 2014

(Unaudited)

INCOME:

| | | |
|--|-------------|-------------|
| Dividend income (less \$456,680 withholding taxes) | \$2,555,147 | |
| Interest income | 153 | |
| Total Income | | \$2,555,300 |

EXPENSES:

| | | |
|---------------------------------|-----------|-----------|
| Management fee | 1,303,276 | |
| Custodian fees | 107,228 | |
| Legal fees | 77,316 | |
| Directors' fees and expenses | 53,947 | |
| Auditing and tax reporting fees | 31,270 | |
| Shareholder reports | 18,998 | |
| Registration fees | 13,195 | |
| Annual meeting expenses | 12,562 | |
| Transfer agency fees | 6,261 | |
| Miscellaneous | 5,977 | |
| Total Expenses | | 1,630,030 |

INVESTMENT

INCOME—NET 925,270

REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS AND FOREIGN CURRENCY:

Realized gain on investments and foreign currency transactions:

| | |
|---|--------------|
| Net realized gain on investments | 12,424,170 |
| Net realized loss on foreign currency transactions | (86,245) |
| Net realized gain on investments and foreign currency transactions | 12,337,925 |
| Net change in unrealized depreciation on foreign currency transactions and translation | (1,580,524) |
| Net change in unrealized appreciation on investments | 20,548,257 |
| Net realized and unrealized gain on investments and foreign currency transactions and translation | 31,305,658 |
| NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS | \$32,230,928 |

See notes to financial statements

JAPAN SMALLER CAPITALIZATION FUND, INC.

STATEMENT OF CHANGES IN NET ASSETS

| | For the Six Months Ended August 31, 2014 (Unaudited) | For the Year Ended February 28, 2014 |
|--|--|---|
| FROM INVESTMENT ACTIVITIES: | | |
| Net investment income | \$925,270 | \$1,452,099 |
| Net realized gain on investments | 12,424,170 | 31,791,420 |
| Net realized loss on foreign currency transactions | (86,245) | (532,929) |
| Net change in unrealized appreciation on investments and foreign currency transactions and translation | 18,967,733 | 1,648,574 |
| Increase in net assets derived from investment activities | 32,230,928 | 34,359,164 |
| FROM DISTRIBUTIONS TO SHAREHOLDERS: | | |
| Net investment income (\$0 and \$0.199 per share, respectively) | 0 | (5,638,445) |
| Decrease in net assets derived from distributions to shareholders | 0 | (5,638,445) |
| NET ASSETS: | | |
| Beginning of period | 278,993,980 | 250,273,261 |
| End of period (including accumulated net investment loss of \$2,001,979 and \$2,927,249 respectively) | \$311,224,908 | \$278,993,980 |

See notes to financial statements

JAPAN SMALLER CAPITALIZATION FUND, INC.

NOTES TO FINANCIAL STATEMENTS

August 31, 2014

(Unaudited)

1. Significant Accounting Policies

Japan Smaller Capitalization Fund, Inc. (the “Fund”) is registered under the Investment Company Act of 1940 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.

In the opinion of management, all material adjustments, consisting of normal recurring adjustments, considered necessary for a fair presentation have been included.

The accompanying financial statements have been prepared in accordance with United States (“U.S.”) generally accepted accounting principles (“GAAP”) and are stated in U.S. dollars. 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 current prevailing 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 results of operations for the current period.

The net assets of the Fund are presented at the exchange rate and market values on August 31, 2014. 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 August 31, 2014. Net realized gains or losses on investments includes gains or losses arising from sales of portfolio securities and sales and maturities of short-term securities. Net realized gains or losses on the foreign currency transactions arise from sale 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 equivalent 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 ex-dividend date and interest income is

recorded on the accrual basis. Realized gains and losses on the sale of investments are calculated on a 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 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 are 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 is maintained at all times. Collateral is provided in the form of cash, which will 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, 2014 and the semi-annual period ended August 31, 2014, the Fund did not earn fees from lending fund portfolio securities, pursuant to the securities lending agreement.

JAPAN SMALLER CAPITALIZATION FUND, INC.

NOTES TO FINANCIAL STATEMENTS—Continued

(Unaudited)

(d) Capital Account Reclassification — For the year ended February 28, 2014, the Fund's net investment loss was decreased by \$918,025 and the accumulated net realized loss was increased by \$918,025. 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 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 7% (effective 4/1/03 to 12/31/12), 7.147% (effective 1/1/13 to 12/31/13) and 15.315% (effective 1/1/14) and on interest at a rate of 15% and such withholding taxes are reflected as a reduction of the related revenue. The 2014 withholding tax rate of 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 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, for which it is compensated by the Manager, not the Fund.

JAPAN SMALLER CAPITALIZATION FUND, INC.

NOTES TO FINANCIAL STATEMENTS—Continued

(Unaudited)

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 \$1,303,276 for the six months ended August 31, 2014. Under the investment advisory agreement, the Manager informed the Fund that the Investment Adviser earned fees of \$579,026 for the six months ended August 31, 2014 from the Manager, not the Fund. At August 31, 2014, the fee payable to the Manager, by the Fund, was \$218,313.

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 six months ended August 31, 2014. 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, receives an additional annual fee of \$1,000. Such fees and expenses for unaffiliated directors aggregated \$53,947 for the six months ended August 31, 2014.

3. Purchases and Sales of Investments

Purchases and sales of investments, exclusive of investments in foreign currency and short-term securities, for the six months ended August 31, 2014 were \$66,460,574 and \$68,920,895, respectively.

4. Federal Income Tax

As of February 28, 2014, net unrealized appreciation on investments, exclusive of investments in foreign currency, for Federal income tax purposes was \$3,652,576, of which \$17,074,532 related to appreciated securities and \$13,421,956 related to depreciated securities. The cost of investments, exclusive of investments in foreign currencies of \$3,037,884 at February 28, 2014 for Federal income tax purposes was \$271,976,779.

At February 28, 2014, the components of accumulated earnings (deficit) on a tax basis were as follows:

| | |
|--|---------------------------|
| Accumulated capital and other losses | \$(12,817,862) |
| Qualified late year loss deferral | (719,336) ^(a) |
| Unrealized appreciation on investments and foreign currency transactions | 3,642,746 ^(b) |
| Total accumulated deficit | \$(9,894,452) |

(a) Late year ordinary losses incurred after December 31, 2013 and within the taxable year are deemed to arise on the first business day of the Fund's next taxable year.

(b) 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 tax character of distributions paid during the fiscal years ended February 28, 2014 and February 28, 2013 were as follows:

| | February-14 | February-13 |
|--------------------|-------------|-------------|
| Ordinary Income | \$5,638,445 | \$2,295,680 |
| Capital Gains | \$0 | \$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 carry-forwards. 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.

JAPAN SMALLER CAPITALIZATION FUND, INC.

NOTES TO FINANCIAL STATEMENTS—Continued

(Unaudited)

The Fund has a capital loss carryforward as of February 28, 2014 of \$12,817,862 which expires on February 28, 2018. In addition, the Fund utilized \$26,291,148 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 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 August 31, 2014.

| Level | Investments in Securities |
|--------------------|---------------------------|
| Level 1 | |
| Equity Securities* | \$304,556,605 |
| Foreign Currency | 3,660,294 |
| Level 2 | -0- |
| Level 3 | -0- |
| Total | \$308,216,899 |

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

During the six months ended August 31, 2014, there were no transfers between Level 1 and Level 2.

During the six months ended August 31, 2014, the Fund did not hold any instrument which used significant unobservable inputs (Level 3) in determining fair value.

6. Rights Offering

The Fund issued to its shareholders of record as of the close of business on June 23, 2011 transferable rights to subscribe for up to an aggregate of 7,091,723 shares of common stock of the Fund at a rate of one share of common stock for three rights held (“Primary Subscription”). During July 2011, the Fund issued a total of 7,091,723 shares of common stock on exercise of such rights at the subscription price of \$7.60 per share, compared to a net asset value per share of \$9.88 and a market value per share of \$8.45. A sales load of 3.75% was included in the subscription price. Offering costs of \$732,014 and the sales load were charged directly against the proceeds of the rights offering. As a result of the rights offering, there was a dilutive effect on the net asset value per share of the Fund in the amount of \$0.47 per share.

7. Recent Accounting Pronouncements

In December 2011, FASB issued Accounting Standards Update No. 2011-11 “Disclosures about Offsetting Assets and Liabilities” (“ASU 2011-11”). These disclosures are intended to help investors and other financial statement users to better assess the effect or potential effect of offsetting arrangements on a company’s financial position. They also improve transparency in the reporting of how companies mitigate credit risk, including disclosure of related collateral pledged or received. In addition, ASU 2011-11 facilitates comparison between those entities that prepare their financial statements on the basis of GAAP and those entities that prepare their financial statements on the basis of IFRS. ASU 2011-11 requires entities to: disclose both gross and net information about both instruments and transactions eligible for offset in the financial statements; and disclose instruments and transactions subject to an agreement similar to a master netting agreement. ASU 2011-11 is effective for fiscal years beginning on or after January 1, 2013, and interim periods within those annual periods. In January 2013, FASB issued ASU 2013-01, “Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities” (“ASU 2013-01”) that provides clarification about which instruments and transactions are subject to ASU 2011-11. The adoption of ASU 2011-11 and ASU 2013-01 was not material to the financial statements.

JAPAN SMALLER CAPITALIZATION FUND, INC.

FINANCIAL HIGHLIGHTS

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

| | For the Six Months Ended August 31, 2014 (Unaudited) | | For the Year Ended | | | | | | |
|---|---|--|----------------------|-----------|----------------------|-----------|----------------------|--|----------------------|
| | | | February 28, 2014 | | February 29, 2012 | | February 28, 2011 | | February 28, 2010 |
| Net asset value, beginning of year | \$9.85 | | \$8.83 | \$8.85 | \$9.80 | \$8.44 | \$6.49 | | |
| Net investment income@ | 0.03 | | 0.05 | 0.07 | 0.06 | 0.03 | 0.02 | | |
| Net realized and unrealized gain (loss) on investments and foreign currency | 1.10 | | 1.17 | (0.01) | (0.50) | 1.41 | 1.99 | | |
| Total from investment operations | 1.13 | | 1.22 | 0.06 | (0.44) | 1.44 | 2.01 | | |
| Distributions from net investment income | — | | (0.20) | (0.08) | (0.04) | (0.08) | (0.06) | | |
| Fund Share Transactions Dilutive effect of Rights Offering* | — | | — | — | (0.47) | — | — | | |
| Net asset value, end of period | \$10.98 | | \$9.85 | \$8.83 | \$8.85 | \$9.80 | \$8.44 | | |
| Market value, end of period | \$9.74 | | \$8.84 | \$8.00 | \$7.83 | \$9.58 | \$8.13 | | |
| Total investment return† | 10.2 % | | 13.0 % | 3.4 % | (17.9 %) | 18.9 % | 41.5 % | | |
| Ratio to average net assets/supplemental data: | | | | | | | | | |
| Net assets, end of period (in 000) | \$311,225 | | \$278,994 | \$250,273 | \$250,732 | \$208,211 | \$179,381 | | |
| Operating expenses | 1.12 %** | | 1.19 % | 1.19 % | 1.34 % | 1.44 % | 1.46 % | | |
| Net investment income | 0.64 %** | | 0.53 % | 0.86 % | 0.67 % | 0.38 % | 0.23 % | | |
| Portfolio turnover | 23 % | | 101 % | 37 % | 66 % | 57 % | 66 % | | |

@ Based on average shares outstanding.

* Decrease is due to the Rights Offering.

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

** Annualized

JAPAN SMALLER CAPITALIZATION FUND, INC.

Board Review of the Management and Investment Advisory Agreements

The Board of Directors of the Fund (the “Board”) consists of five directors, four of whom are independent or non-interested directors (the “Independent Directors”). The Board considers matters relating to the Fund’s management and investment advisory agreements throughout the year. On an annual basis, the Board specifically considers whether to approve the continuance of these agreements for an additional one-year period. The specific agreements (the “Agreements”) consist of the Fund’s management agreement with Nomura Asset Management U.S.A. Inc. (the “Manager”) and the investment advisory agreement between the Manager and its parent, Nomura Asset Management Co., Ltd. (the “Investment Adviser”).

The Board, including the Independent Directors, most recently approved the continuance of the Agreements at a meeting held on August 14, 2014. In connection with their deliberations at that meeting and at a separate meeting of the Independent Directors held on August 5, 2014, the Independent Directors received materials that included, among other items, information provided by the Manager regarding (i) the investment performance of the Fund, performance of other investment companies and performance of the Fund’s benchmark, (ii) expenses of the Fund and the management fee paid by the Fund to the Manager and the advisory fee paid by the Manager to the Investment Adviser, (iii) advisory fees charged by the Manager and the Investment Adviser to comparable accounts and (iv) the profitability of the Agreements to the Manager and the Investment Adviser. The Independent Directors sought and received additional information from the Investment Adviser. The Independent Directors were advised by, and received materials (including a detailed memorandum reviewing the applicable legal standards and factors taken into account by the Supreme Court and other relevant court decisions) from their independent counsel in considering these matters and the continuance of the Agreements.

In considering the continuance of the Agreements at the meeting held on August 14, 2014, the Board, including the Independent Directors, did not identify any single factor as determinative. Matters considered by the Directors in connection with their review of the Agreements included the following:

The nature, extent and quality of the services provided to the Fund under the Agreements. The Board considered the nature, extent and quality of the services provided to the Fund by the Manager and the Investment Adviser and the resources dedicated by the Manager and the Investment Adviser. These services included both investment advisory services and related services such as the compliance oversight provided by the Manager. Based on its review of all of the services provided by the Manager and the Investment Adviser, the Board, including the Independent Directors, concluded that the nature, extent and quality of these services supported the continuance of the Agreements.

Investment performance. The Board considered performance information provided by the Manager regarding the Fund’s investment performance over a number of time periods, including the one-year, three-year and five-year periods recently ended. In response to requests by the Independent Directors, the Manager provided information about the performance of the Fund compared to the Fund’s benchmark index, data on the Fund’s expense ratio and components thereof, and comparative fee, expense ratio and performance information for other funds investing primarily in Japanese securities. At the request of the Independent Directors, the Manager also provided supplemental information relating to performance, expense ratios, and fees of U.S. investment companies investing in equity securities of Asian and other non-U.S. issuers. In connection with their review of investment performance, the Independent Directors noted that, following a series of discussions with management that focused on the Fund’s performance, that Investment Adviser had installed a new investment team as of July 1, 2013. The Independent Directors recognized that, as contemplated at the time of the transition, the new portfolio managers had invested in a more diversified portfolio than the Fund had maintained in recent years with an increased focus on value characteristics evidenced by financial measurements. The Independent Directors also noted that the Fund’s comparative performance had improved since the

transition and that the Fund's performance for the one-year period ended June 30, 2014 ranked third of six funds (including the Fund) identified by Manager as having similar investments objectives. Based on their review, the Independent Directors determined it was appropriate to allow the new portfolio managers to continue to implement their strategy.

The costs of the services to be provided and the profits to be realized by the Manager and its affiliates from their advisory relationships with the Funds. The Board considered the fee payable under the Fund's management agreement in connection with other information provided for the Directors' consideration. The Manager and its affiliates also act as advisers to additional investment companies registered under the Investment Company Act of 1940 and the Board of Directors of the Fund compared the advisory arrangements and fees for these companies. The Board also considered information provided by the Manager regarding fees charged by the Manager and its affiliates to institutional accounts and other investment companies having investment objectives similar to the Fund's investment objective, including Japanese retail unit trusts. The Board of Directors of the Fund recognized that the nature of the services provided by the Manager and the Investment Adviser to other investment vehicles and separate accounts differed from the range of services provided to the Fund.

JAPAN SMALLER CAPITALIZATION FUND, INC.

Board Review of the Management and Investment Advisory Agreements (continued)

The Manager also provided the Board with information prepared by the Manager and the Investment Adviser indicating the profitability of the Agreements to these respective advisers. This presentation included information regarding methodologies used to allocate expenses in considering the profitability of the Agreements to the Manager and the Investment Adviser. The Independent Directors reviewed this information with the Manager and requested and received certain supplemental information from the Manager about the expense allocation methodology utilized by the Investment Adviser.

After reviewing the information described above, the Independent Directors concluded that the management fee proposed to be charged to the Fund was reasonable and the profitability of the Agreement to the Manager and the Investment Adviser support the continuance of the Agreements.

Economies of scale. The Board also considered whether the Manager realizes economies of scale as the Fund grows larger and the extent to which any economies of scale are shared with the Fund and its shareholders. The Board noted that the management agreement contains six separate breakpoints in the management fee for net assets above \$50 million, with the last breakpoint applicable to net assets in excess of \$425 million.

Based on an evaluation of all factors deemed relevant, including the factors described above, the Board, including each of the Independent Directors, concluded that each of the Agreements should be continued through August 31, 2015.

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 T. Alusick, 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

INVESTMENT ADVISER

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

SEMI-ANNUAL REPORT
AUGUST 31, 2014

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

Ernst & Young LLP
5 Times Square
New York, New York 10036

JAPAN SMALLER CAPITALIZATION
FUND, INC.

WORLDWIDE PLAZA
309 WEST 49TH STREET
NEW YORK, NEW YORK 10019-7316

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.

The accompanying Financial Statements, including the Schedule of Investments, have not been examined by the Fund's independent accountants, Ernst & Young, LLP, and accordingly, they express no opinion thereon.

ITEM 2. CODE OF ETHICS

Not applicable to this semi-annual report.

ITEM 3. AUDIT COMMITTEE FINANCIAL EXPERT

Not applicable to this semi-annual report.

ITEM 4. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Not applicable to this semi-annual report.

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ITEM 5. AUDIT COMMITTEE OF LISTED REGISTRANTS

Not applicable to this semi-annual report.

ITEM 6. SCHEDULE OF INVESTMENTS

The Registrant's investments in securities of unaffiliated issuers as of 8/31/14 are included in the report to shareholders filed under Item 1 of this Form.

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

Not applicable to this semi-annual report.

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

- (a) Not applicable.
- (b) None

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

- (a) Not applicable.
- (b) Not applicable.

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

Not applicable.

ITEM 11. CONTROLS AND PROCEDURES

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 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 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

- (a) (1) Not applicable to this semi-annual report.
- (a) (2) Certifications of Chief Executive Officer and Chief Financial Officer pursuant to Rule 30a-2 under the Investment Company Act of 1940 are attached hereto as an exhibit.
- (a) (3) Not applicable.
- (b) Certifications pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 are furnished herewith as an exhibit.

SIGNATURES

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
(Principal Executive Officer)

Date: 10/29/14

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
(Principal Executive Officer)

Date: 10/29/14

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

Date: 10/29/14