

JAPAN SMALLER CAPITALIZATION FUND, INC.

April 21, 2017

To Our Shareholders:

We present the Annual Report of Japan Smaller Capitalization Fund, Inc. (the “Fund”) for the fiscal year ended February 28, 2017.

The net asset value per share (“NAV”) of the Fund increased by 24.8% and the closing market price of the Fund (on the New York Stock Exchange) increased by 29.4% after giving effect to the reinvestment of income dividends, ordinary income distributions, and long-term capital gain distributions for the fiscal year ended February 28, 2017. The closing market price of the Fund on February 28, 2017 was \$10.60, representing a discount of 12.3% to the NAV of \$12.09. The net assets of the Fund totaled \$342,513,124 on February 28, 2017.

The Russell/Nomura Small Cap™ Index, the Fund’s benchmark (“Benchmark”), increased by 26.7% in United States (“U.S.”) dollar terms. During the fiscal year ended February 28, 2017, the Fund underperformed the Benchmark by 1.9% on a NAV basis. The Tokyo Price Index (the “TOPIX”), a capitalization-weighted index of all companies listed on the First Section of the Tokyo Stock Exchange (the “TSE”), increased by 19.2% and the Nikkei Stock Average Index (“Nikkei”), a price-weighted index of the 225 leading stocks on the TSE, increased by 20.2% in U.S. dollar terms for the year ended February 28, 2017. The Japanese yen (“Yen”) appreciated by 0.8% against the U.S. dollar during the fiscal year ended February 28, 2017.

For the quarter ended February 28, 2017, the Benchmark increased by 9.4%, the TOPIX increased by 6.6%, and the Nikkei increased by 6.5% in U.S. dollar terms. The NAV of the Fund increased by 9.9% and outperformed the Benchmark by 0.5%. The Fund’s share price increased by 11.2% during the quarter. The Yen appreciated by 2.0% against the U.S. dollar dur-

ing the quarter.

Investment Strategy

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, overweight positions in the Metal Products and Chemicals sectors and an underweight position in the Services sector produced positive contributors. Sector returns were eroded by an underweight position in the Nonferrous Metal sector and an overweight position in the Warehousing sector.

Relative performance was positively impacted by Start Today Co., Ltd. in the Retail Trade sector, Mory Industries Inc. in the Iron and Steel sector, and Sakai Chemical Industry Co., Ltd. in the

Chemicals sector. Conversely, relative performance was negatively impacted by Toenec Corporation in the Construction sector, Nishikawa Rubber Co., Ltd. in the Other Products sector, and Kitagawa Industries Co., Ltd. in the Electric Appliances sector.

Market Review

The Benchmark increased by 25.8% and outperformed the TOPIX index, which increased by 18.3% in local currency terms, for the fiscal year ended February 28, 2017. Excluding stocks that plummeted following the United Kingdom (“U.K”) Brexit referendum in June 2016, the Japanese equity market continued to trade within a relatively narrow range until September 2016, yet equity prices rose dramatically following the election of Donald Trump in the November 2016 U.S. presidential election.

After the sell-off in global equities markets that began in December 2015, Japanese equities recovered somewhat in March 2016. Investor sentiment improved as crude oil prices bottomed in February 2016 and other global equity markets started to rebound.

During the second quarter of 2016, Japanese equities remained within a relatively narrow range until a major sell-off in June 2016. The outcome of the U.K.’s Brexit referendum to exit the European Union (“EU”) prompted risk aversion among investors globally and triggered a global market sell-off. While the direct impact of the U.K. Brexit referendum vote on the Japanese economy appears limited, the rapid equity market sell-off resulting from the exchange rate volatility is expected to have a negative impact on the profitability of exporters.

The ruling coalition parties’ victory in Japan’s upper house election fueled expectations for large-scale economic stimulus measures resulting in a market rebound in mid-July 2016 that was fur-

ther reinforced when concerns about a slowdown in the U.S. economy were eased by stronger than expected employment data. From the end of July through September 2016, Japanese equities were trading within a thin volume range.

Japanese equities rose during the fourth quarter of 2016 given expectations of new fiscal stimulus policies from the incoming U.S. administration and improved earnings from the substantial strengthening of the U.S. dollar against the Yen. There is growing optimism of increased fiscal spending and future tax cuts in the U.S. causing long-term U.S. interest rates and the U.S. dollar to increase since mid-November 2016. As expected, the Federal Reserve Board raised the federal funds rate following its final policy meeting of the 2016 year end. Relatively hawkish statements from the Federal Reserve Board raised expectations for additional federal funds rate increases in 2017, which suggests a widening interest rate gap between the U.S. and Japan. Since the beginning of 2017, Japanese equities are again trading within a relatively narrow range due to concerns over comments from the incoming U.S. President.

Outlook and Future Strategy

The progression of the global cyclical recovery trend is evidenced by indicators such as the sixth consecutive month above the growth threshold of 50 for the U.S. ISM Manufacturing Production Index. Although the recovery in Japan’s domestic consumption is still struggling to gain traction, the Fund believes that production output trends are improving in response to stronger external demand. Falling inventory levels as well as expansionary fiscal policies in the U.S. and China should also continue to support the fundamental outlook for Japanese equities.

President Trump’s first speech to the U.S. Congress in February 2017 offered no surprises and

market attention quickly shifted to the possibility of a U.S. interest rate hike in March 2017. Since the long-term interest rate in Japan is controlled by the Bank of Japan, a potential hike in U.S. interest rates could put upward pressure on the U.S. dollar against the Yen causing a wider interest rate gap. Along with the global cyclical recovery trend, the Fund is currently more bullish about cyclical sectors in the Japanese stock market.

Nonetheless, there are potential risks to which the Japanese markets remain vulnerable. The Office of the U.S. Trade Representative issued a trade policy agenda in March 2017 which potentially could harm the outlook for Japanese exporters, especially in the automaker industry. The policy faces a lengthy and contentious debate in the U.S. Congress. Delays or scaling down of policy implementation could lower market expectations, which would have a negative impact on market sentiment in the U.S. as well as Japan. A series of national elections in the EU over the next months could also lead to turbulent investor sentiment. France in particular is a source of risk, given the popularity of far-right National Front leader Marine Le Pen in polls ahead of the May 2017 presidential election. In February 2017, she stated her intention to hold a referendum on EU membership, promote “smart protectionism” and impose additional taxes on foreign workers. A Le Pen victory could trigger a short-term market shock similar to that following the UK’s Brexit referendum in June 2016.

Currently, the Fund expects these political shocks to have a relatively short lived impact on the equity markets based on the resilient global economy and the likelihood of policy responses to minimize the real impact of such shocks. Recent upward earnings revisions have kept the forward price to earnings ratio of the Japanese corporate sector at around 15, which the Fund believes is reasonable from a global comparison.

The Fund appreciates your continuing support.

Sincerely,

A handwritten signature in black ink, consisting of three stylized characters: '板橋 裕太' (Itabashi Yutaka).

Yutaka Itabashi
President

DISCLOSURES

Sources: Nomura Asset Management U.S.A. Inc., Nomura Asset Management Co., Ltd., and Bloomberg L.P. Past performance is not indicative of future results. There is a risk of loss.

The NAV price is adjusted for reinvestment of income dividends, ordinary income distributions, and long-term capital gain distributions. The New York Stock Exchange's closing market price is adjusted for reinvestment of income dividends, ordinary income distributions, and long-term 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. This material 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 and cannot be invested into directly.

Certain information discussed in this report may constitute forward-looking statements within the meaning of the U.S. federal securities laws. The Fund believes that the expectations reflected in such forward-looking statements are based on reasonable assumptions and can give no assurance that the Fund's expectations will be achieved. Forward-looking information is subject to certain risks, trends and uncertainties that could cause actual results to differ materially from those projected.

The 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. As of February 28, 2017, there are 1,148 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 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 2016, the Fund filed its Principal 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 Principal Executive Officer and Principal 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>.

SHARE REPURCHASES

Notice is hereby given in accordance with Section 23(c) of the Investment Company Act of 1940 that from time to time the Fund may repurchase shares of its common stock in the open market.

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 <http://funds.nomura-asset.com>.

JAPAN SMALLER CAPITALIZATION FUND, INC.
FUND HIGHLIGHTS—FEBRUARY 28, 2017 (Unaudited)

KEY STATISTICS

Net Assets	\$342,513,124
Net Asset Value per Share	\$12.09
Closing Market Price	\$10.60
Percentage Change in Net Asset Value per Share*+	24.8%
Percentage Change in Market Price*+	29.4%

MARKET INDICES

Percentage change in market indices:*

	<u>YEN</u>	<u>U.S.\$</u>
Russell/Nomura Small Cap™ Index	25.8%	26.7%
Tokyo Price Index	18.3%	19.2%
Nikkei Stock Average Index	19.3%	20.2%

*From March 1, 2016 through February 28, 2017.

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

INDUSTRY DIVERSIFICATION

	<u>% of Net Assets</u>		<u>% of Net Assets</u>
Wholesale Trade	14.0	Information and Communication	3.9
Chemicals	12.8	Real Estate	3.7
Retail Trade	10.9	Other Products	3.3
Machinery	7.2	Banks	2.7
Transportation and Warehousing	6.3	Textiles and Apparel	2.7
Iron and Steel	6.3	Financing Business	1.7
Electric Appliances	5.4	Transportation Equipment	1.6
Construction	5.4	Utilities	1.4
Metal Products	4.7	Precision Instruments	0.6
Services	4.4	Food	0.1

TEN LARGEST EQUITY HOLDINGS BY FAIR VALUE

<u>Security</u>	<u>Fair Value</u>	<u>% of Net Assets</u>
Sakai Chemical Industry Co., Ltd.	\$9,676,277	2.8
Ryoden Trading Company, Ltd.	8,203,204	2.4
Toenec Corporation	7,877,821	2.3
Japan Transcity Corporation	7,618,579	2.2
Oiles Corporation	7,315,639	2.1
SIIX Corporation	7,270,031	2.1
C. Uyemura & Co., Ltd.	7,101,237	2.1
Osaka Steel Co., Ltd.	7,060,380	2.1
Matsuda Sangyo Co., Ltd.	6,974,207	2.0
Hisaka Works, Ltd.	6,816,292	2.0

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, 2017, the related statement of operations for the year then ended, the statement of changes in net assets for each of the two years in the period then ended, and the financial highlights for each of the three years in the period 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 audits. The financial highlights for the years ended February 28, 2014 and 2013 were audited by other auditors. Those auditors expressed an unqualified opinion on those financial statements and financial highlights in their reported dated April 24, 2014.

We conducted our audits 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 audits 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. Our procedures included confirmation of securities owned as of February 28, 2017, by correspondence with the custodian and brokers. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide 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. as of February 28, 2017 and the results of its operations, the changes in net assets, and the financial highlights for each of the respective periods referred to in conformity with accounting principles generally accepted in the United States of America.

/s/ RSM US LLP

Boston, Massachusetts
April 21, 2017

JAPAN SMALLER CAPITALIZATION FUND, INC.

SCHEDULE OF INVESTMENTS*

FEBRUARY 28, 2017

	<u>Shares</u>	<u>Cost</u>	<u>Fair Value</u>	<u>% of Net Assets</u>
JAPANESE EQUITY SECURITIES				
Banks				
The Akita Bank, Ltd.	1,044,000	\$ 2,904,915	\$ 3,335,136	1.0
General banking services				
The Bank of Saga Ltd.	449,000	998,529	1,262,080	0.3
General banking services				
The Taiko Bank, Ltd.	1,092,000	2,167,022	2,367,876	0.7
General banking services				
The Yamanashi Chuo Bank, Ltd.	504,000	<u>2,233,283</u>	<u>2,392,611</u>	<u>0.7</u>
General banking services				
<i>Total Banks</i>		<u>8,303,749</u>	<u>9,357,703</u>	<u>2.7</u>
Chemicals				
C. Uyemura & Co., Ltd.	138,400	6,292,584	7,101,237	2.1
Plating chemicals				
Fujikura Kasei Co., Ltd.	731,800	3,487,323	4,388,253	1.3
Specialty coating materials and fine chemicals				
Fuso Chemical Co., Ltd.	10,500	131,460	293,736	0.1
Manufactures fruit acids, electronic and functional chemical products				
Koatsu Gas Kogyo Co., Ltd.	460,900	2,612,150	3,047,579	0.9
High-pressured gases and chemicals				
Sakai Chemical Industry Co., Ltd.	2,588,000	8,043,185	9,676,277	2.8
Manufactures components for cosmetics and pharmaceuticals				
Sekisui Jushi Corporation	249,700	3,390,258	4,119,888	1.2
Manufactures plastics and other resin materials				
Shikoku Chemicals Corporation	68,000	548,966	714,193	0.2
Manufactures chemical products				
Soken Chemical & Engineering Co., Ltd.	103,300	1,045,337	1,437,987	0.4
Manufactures chemical products				
Takiron Co., Ltd.	472,000	2,036,360	2,299,665	0.7
Manufactures resin and composite products				
Tenma Corporation	230,700	3,158,606	4,339,585	1.3
Manufactures synthetic resin products				
Teraoka Seisakusho Co., Ltd.	395,700	1,601,071	1,458,297	0.4
Manufactures various adhesive tapes				
T&K Toka Co., Ltd.	132,600	1,223,410	1,289,734	0.4
Manufactures specialized inks for printing applications				
Yushiro Chemical Industry Co., Ltd.	140,800	1,645,149	1,816,774	0.5
Manufactures metalworking fluids				
Zeon Corporation	161,000	<u>1,406,135</u>	<u>1,772,846</u>	<u>0.5</u>
Manufactures synthetic resin products				
<i>Total Chemicals</i>		<u>36,621,994</u>	<u>43,756,051</u>	<u>12.8</u>

See notes to financial statements

JAPAN SMALLER CAPITALIZATION FUND, INC.

SCHEDULE OF INVESTMENTS* — (Continued)

FEBRUARY 28, 2017

	<u>Shares</u>	<u>Cost</u>	<u>Fair Value</u>	<u>% of Net Assets</u>
Construction				
Daiichi Kensetsu Corporation	21,600	\$ 230,297	\$ 243,245	0.1
Construction and real estate businesses				
Mirai Industry Co., Ltd.	35,700	499,333	500,147	0.1
Manufactures electrical installation materials				
MIRAIT Holdings Corporation	650,800	5,643,788	6,480,996	1.9
Construction of electrical and telecommunication facilities				
Taihei Dengyo Kaisha, Ltd.	230,000	1,862,802	2,237,095	0.7
Construction of thermal and nuclear plant facilities				
Toenec Corporation	1,644,000	9,119,263	7,877,821	2.3
Construction of comprehensive building facilities				
Yondenko Corporation	266,000	947,583	1,034,899	0.3
Construction of electrical distribution systems				
<i>Total Construction</i>		<u>18,303,066</u>	<u>18,374,203</u>	<u>5.4</u>
Electric Appliances				
Espec Corp.	278,100	2,377,962	3,506,494	1.0
Manufactures environmental testing products				
Hitachi Maxell, Ltd.	82,300	1,352,764	1,611,263	0.5
Manufactures media devices, batteries and electrical appliances				
Kitagawa Industries Co., Ltd.	353,500	3,731,705	3,391,001	1.0
Manufactures various industrial and consumer products				
Koito Manufacturing Co., Ltd.	61,500	1,532,679	3,177,486	0.9
Manufactures lighting equipment				
Kyowa Electronic Instruments Co., Ltd.	3,200	10,654	12,650	0.0
Manufactures electrical measuring instruments				
Nichicon Corporation	403,600	3,106,633	3,893,201	1.1
Manufactures capacitors and transformers				
Nihon Kohden Corporation	82,600	1,713,182	1,812,461	0.5
Manufactures medical electronic equipment				
Shindengen Electric Manufacturing Co., Ltd.	273,000	1,037,429	1,152,269	0.4
Manufactures semiconductor products, electrical components, and power supplies				
<i>Total Electric Appliances</i>		<u>14,863,008</u>	<u>18,556,825</u>	<u>5.4</u>
Financing Business				
Hitachi Capital Corporation	85,000	1,847,054	2,202,650	0.6
General financial services				
Ricoh Leasing Company, Ltd.	114,400	3,070,079	3,766,885	1.1
Leasing and financial services				
<i>Total Financing Business</i>		<u>4,917,133</u>	<u>5,969,535</u>	<u>1.7</u>

See notes to financial statements

JAPAN SMALLER CAPITALIZATION FUND, INC.

SCHEDULE OF INVESTMENTS* — (Continued)

FEBRUARY 28, 2017

	<u>Shares</u>	<u>Cost</u>	<u>Fair Value</u>	<u>% of Net Assets</u>
Food				
Taiyo Kagaku Co., Ltd.	56,100	\$ 409,096	\$ 461,555	0.1
General food manufacturer				
<i>Total Food</i>		<u>409,096</u>	<u>461,555</u>	<u>0.1</u>
Information and Communication				
NS Solutions Corporation	8,900	166,769	180,518	0.1
System consulting services and software development				
OBIC Co., Ltd.	72,000	2,709,224	3,360,193	1.0
Computer system integration				
Okinawa Cellular Telephone Company	168,700	4,382,965	5,464,516	1.6
Telecommunications				
Otsuka Corporation	78,900	3,158,679	4,020,158	1.1
Computer information system developer				
Software Service Inc.	4,400	161,979	202,597	0.1
Provides medical information systems				
<i>Total Information and Communication</i>		<u>10,579,616</u>	<u>13,227,982</u>	<u>3.9</u>
Iron and Steel				
Chubu Steel Plate Co., Ltd.	437,000	1,920,305	2,534,690	0.7
Manufactures steel-related products				
Mory Industries Inc.	171,500	2,676,512	3,654,504	1.1
Manufactures steel tubing products				
Nichia Steel Works, Ltd.	1,917,600	5,803,132	4,893,888	1.4
Manufactures steel-related products				
Nippon Seisen Co., Ltd.	601,000	2,694,330	3,255,316	1.0
Manufactures stainless steel wires and metal fibers				
Osaka Steel Co., Ltd.	374,100	6,740,891	7,060,380	2.1
Manufactures steel-related products				
<i>Total Iron and Steel</i>		<u>19,835,170</u>	<u>21,398,778</u>	<u>6.3</u>
Machinery				
Hisaka Works, Ltd.	847,800	7,559,916	6,816,292	2.0
Manufactures heat exchangers and other machinery				
Miura Co., Ltd.	111,900	1,480,062	1,727,453	0.5
Manufactures boilers and related products				
Nippon Pillar Packing Co., Ltd.	137,200	1,135,810	1,845,004	0.6
Manufactures mechanical seals				
Nissei ASB Machine Co., Ltd.	4,700	81,920	101,537	0.0
Manufactures stretch blow molding machines				
Nissei Corporation	25,200	224,492	224,870	0.1
Manufactures reducers and gears				
Nitto Kohki Co., Ltd.	111,800	2,156,684	2,571,904	0.8
Manufactures machine tools and motor pumps				
Oiles Corporation	393,580	6,782,677	7,315,639	2.1
Manufactures bearing equipment				

See notes to financial statements

JAPAN SMALLER CAPITALIZATION FUND, INC.

SCHEDULE OF INVESTMENTS* — (Continued)

FEBRUARY 28, 2017

	<u>Shares</u>	<u>Cost</u>	<u>Fair Value</u>	<u>% of Net Assets</u>
Sato Holdings Corporation	79,900	\$ 1,699,729	\$ 1,754,642	0.5
Manufactures electronic printers and other products				
Shibuya Kogyo Co., Ltd.	32,700	370,106	832,783	0.2
Engaged in the packing plant business				
Tsubakimoto Chain Co.	133,000	1,029,956	1,142,899	0.3
Manufactures chains for power transmission and other transportation components				
Yamashin-Filter Corporation	16,100	<u>74,438</u>	<u>289,488</u>	<u>0.1</u>
Manufactures filters				
<i>Total Machinery</i>		<u>22,595,790</u>	<u>24,622,511</u>	<u>7.2</u>
Metal Products				
Dainichi Co., Ltd.	293,900	2,190,234	1,930,223	0.6
Manufactures oil heating equipment				
Neturen Co., Ltd.	655,800	4,501,489	5,284,321	1.5
Manufactures steel bars and induction heating equipment				
NHK Spring Co., Ltd.	253,800	2,428,274	2,907,948	0.8
Manufactures automobile-related products				
Piolax, Inc.	62,700	2,448,006	4,308,125	1.3
Manufactures automobile-related products				
Rinnai Corporation	20,000	<u>1,478,570</u>	<u>1,616,919</u>	<u>0.5</u>
Manufactures heating appliances and components				
<i>Total Metal Products</i>		<u>13,046,573</u>	<u>16,047,536</u>	<u>4.7</u>
Other Products				
Fuji Seal International, Inc.	86,500	1,297,132	1,741,347	0.5
Packaging-related materials and machinery				
Nishikawa Rubber Co., Ltd.	328,700	5,395,340	4,936,440	1.4
Manufactures rubber automobile parts				
Pigeon Corporation	67,400	1,411,713	1,987,748	0.6
Manufactures baby care products				
The Pack Corporation	101,700	<u>1,976,997</u>	<u>2,790,590</u>	<u>0.8</u>
Manufactures paper and chemical products				
<i>Total Other Products</i>		<u>10,081,182</u>	<u>11,456,125</u>	<u>3.3</u>
Precision Instruments				
Nakanishi Inc.	47,300	<u>1,534,505</u>	<u>1,888,792</u>	<u>0.6</u>
Manufactures dental instruments				
<i>Total Precision Instruments</i>		<u>1,534,505</u>	<u>1,888,792</u>	<u>0.6</u>
Real Estate				
Daibiru Corporation	295,400	2,516,023	2,696,598	0.8
Real estate leasing and building management				
Keihanshin Building Co., Ltd.	1,061,800	5,914,080	6,187,083	1.8
Real estate leasing and building management				
Sanyo Housing Nagoya Co., Ltd.	217,600	2,128,340	1,957,264	0.5
Designs and constructs housing				

See notes to financial statements

JAPAN SMALLER CAPITALIZATION FUND, INC.

SCHEDULE OF INVESTMENTS* — (Continued)

FEBRUARY 28, 2017

	<u>Shares</u>	<u>Cost</u>	<u>Fair Value</u>	<u>% of Net Assets</u>
Starts Corporation Inc.	91,000	\$ 1,654,333	\$ 1,961,049	0.6
Construction, leasing and management of real estate				
<i>Total Real Estate</i>		<u>12,212,776</u>	<u>12,801,994</u>	<u>3.7</u>
Retail Trade				
ABC-Mart, Inc.	53,600	2,622,812	3,238,049	1.0
Retail sales of shoes				
AIN Holdings Inc.	2,400	60,409	172,828	0.1
Operates pharmacies and drug store chains				
Amiyaki Tei Co., Ltd.	171,000	5,915,642	6,202,784	1.8
Operates barbecue restaurant chains				
Arc Land Sakamoto Co., Ltd.	455,300	4,197,697	5,972,346	1.7
Retail sales, wholesale, food and real estate				
Belc Co., Ltd.	5,200	199,084	210,663	0.1
Operates retail food store chains				
Create SD Holdings Co., Ltd.	70,800	910,086	1,632,510	0.5
Operates pharmacies and drug store chains				
Daikokutenbussan Co., Ltd.	72,200	2,156,339	3,272,886	1.0
Operates supermarkets				
Heiwado Co., Ltd.	2,800	60,406	67,336	0.0
Operates supermarkets				
Hiday Hidaka Corp.	98,811	1,272,963	2,076,473	0.6
Operates restaurant chains				
Jin Co., Ltd.	51,100	1,660,010	2,735,912	0.8
Retail sales of eyewear and fashion accessories				
Saint Marc Holdings Co., Ltd.	55,300	1,385,329	1,702,449	0.5
Operates restaurant chains				
San-A Co., Ltd.	25,600	1,168,001	1,176,460	0.3
Retail sales of home goods				
Seria Co., Ltd.	33,400	1,053,968	2,634,685	0.8
Discount retail sales				
Start Today Co., Ltd.	155,200	1,297,653	3,251,770	0.9
Operates retail E-commerce websites				
Sundrug Co., Ltd.	4,000	207,981	263,775	0.1
Operates pharmacies and drug store chains				
Yaoko Co., Ltd.	46,000	1,814,808	1,875,876	0.5
Operates and manages groceries and supermarkets				
Yossix Co., Ltd.	69,300	<u>1,059,691</u>	<u>828,026</u>	<u>0.2</u>
Operates restaurant chains				
<i>Total Retail Trade</i>		<u>27,042,879</u>	<u>37,314,828</u>	<u>10.9</u>

See notes to financial statements

JAPAN SMALLER CAPITALIZATION FUND, INC.

SCHEDULE OF INVESTMENTS* — (Continued)

FEBRUARY 28, 2017

	<u>Shares</u>	<u>Cost</u>	<u>Fair Value</u>	<u>% of Net Assets</u>
Services				
EPS Holdings, Inc.	111,100	\$ 1,282,675	\$ 1,539,627	0.4
Performs contract medical research services				
H.I.S. Co., Ltd.	136,200	3,613,062	3,619,360	1.1
Engaged in the travel business				
IKK Inc.	42,400	247,984	281,115	0.1
Provides wedding and funeral services				
JP-Holdings, Inc.	176,300	969,884	405,884	0.1
Operates child-care centers				
Nihon M&A Center Inc.	62,700	887,129	1,927,466	0.6
Provides merger and acquisition brokerage services				
Nippon Air Conditioning Services Co., Ltd.	209,200	1,115,697	1,239,538	0.3
Provides maintenance and management of building facilities				
Relia, Inc.	159,500	1,467,399	1,588,382	0.5
Provides telemarketing services				
Septeni Holdings Co., Ltd.	409,700	914,311	1,316,129	0.4
Internet advertising and media content business				
SHL-Japan Ltd.	2,100	56,651	59,028	0.0
Provides personnel assessment services				
Step Co., Ltd.	235,400	<u>2,070,261</u>	<u>2,972,302</u>	<u>0.9</u>
Operates preparatory schools				
<i>Total Services</i>		<u>12,625,053</u>	<u>14,948,831</u>	<u>4.4</u>
Textiles and Apparel				
Hogy Medical Co., Ltd.	25,000	1,326,101	1,481,283	0.4
Manufactures medical products				
Komatsu Seiren Co., Ltd.	245,500	1,237,338	1,599,206	0.5
Manufactures synthetic fibers and textile products				
Seiren Co., Ltd.	468,300	<u>4,619,463</u>	<u>6,226,449</u>	<u>1.8</u>
Manufactures synthetic fibers and textile products				
<i>Total Textiles and Apparel</i>		<u>7,182,902</u>	<u>9,306,938</u>	<u>2.7</u>
Transportation and Warehousing				
Alps Logistics Co., Ltd.	550,500	2,924,674	3,748,106	1.1
General logistics services				
Japan Transcity Corporation	1,848,000	6,331,105	7,618,579	2.2
General logistics services				
Meiko Trans Co., Ltd.	412,000	4,215,201	3,856,583	1.1
Marine logistics services				
Nissin Corporation	584,000	1,694,704	1,969,857	0.6
General logistics services				
Trancom Co., Ltd.	83,000	<u>3,047,431</u>	<u>4,406,817</u>	<u>1.3</u>
General logistics services				
<i>Total Transportation and Warehousing</i>		<u>18,213,115</u>	<u>21,599,942</u>	<u>6.3</u>

See notes to financial statements

JAPAN SMALLER CAPITALIZATION FUND, INC.

SCHEDULE OF INVESTMENTS*—(Continued)

FEBRUARY 28, 2017

	<u>Shares</u>	<u>Cost</u>	<u>Fair Value</u>	<u>% of Net Assets</u>
Transportation Equipment				
Hi-Lex Corporation	64,000	\$ 1,507,838	\$ 1,648,757	0.5
Manufactures control cables				
Nissin Kogyo Co., Ltd.	164,200	2,760,328	2,926,046	0.8
Manufactures automobile components				
Sanoh Industrial Co., Ltd.	111,700	<u>691,067</u>	<u>891,088</u>	<u>0.3</u>
Manufactures automobile components				
<i>Total Transportation Equipment</i>		<u>4,959,233</u>	<u>5,465,891</u>	<u>1.6</u>
Utilities				
Keiyo Gas Co., Ltd.	412,000	2,086,749	1,783,072	0.5
Produces gas and energy products				
The Okinawa Electric Power Company, Incorporated	136,075	<u>2,103,380</u>	<u>3,148,552</u>	<u>0.9</u>
Produces thermal energy products				
<i>Total Utilities</i>		<u>4,190,129</u>	<u>4,931,624</u>	<u>1.4</u>
Wholesale Trade				
Happinet Corporation	55,700	660,842	784,318	0.2
Toy products				
Kanaden Corporation	249,200	1,742,495	2,388,264	0.7
Factory automation business				
Kohsoku Corporation	269,500	2,348,863	2,686,222	0.8
Food and industrial packaging materials				
Matsuda Sangyo Co., Ltd.	508,500	6,274,871	6,974,207	2.0
Precious metals, electronic materials, and food				
Paltac Corporation	76,800	1,004,267	2,179,307	0.6
Cosmetics and daily necessities				
Ryoden Trading Company, Ltd.	1,229,000	8,356,201	8,203,204	2.4
Purchases electronic and electrical devices				
Senshu Electric Co., Ltd.	243,600	3,436,713	4,349,651	1.3
Electrical wires and cables				
Shinko Shoji Co., Ltd.	379,300	3,507,169	4,389,882	1.3
Electronic components and devices				
SIIX Corporation	190,800	2,815,310	7,270,031	2.1
Parts procurement, logistics, and manufacturing of electronics				
SPK Corporation	25,600	469,678	587,773	0.2
Automobile components for assembly				
Sugimoto & Co., Ltd.	301,600	2,875,897	4,287,233	1.3
Machine tools and measuring instruments				
Techno Associe Co., Ltd.	364,300	3,401,840	3,793,674	1.1
Screws and nonferrous metal products				
Win-Partners Co., Ltd.	18,300	<u>126,762</u>	<u>159,379</u>	<u>0.0</u>
Engaged in the medical equipment supply business				
<i>Total Wholesale Trade</i>		<u>37,020,908</u>	<u>48,053,145</u>	<u>14.0</u>

See notes to financial statements

JAPAN SMALLER CAPITALIZATION FUND, INC.

SCHEDULE OF INVESTMENTS*—(Continued)

FEBRUARY 28, 2017

	<u>Cost</u>	<u>Fair Value</u>	<u>% of Net Assets</u>
TOTAL JAPANESE EQUITY SECURITIES	\$284,537,877	\$339,540,789	99.1
FOREIGN CURRENCY			
Japanese Yen			
Interest bearing account	\$ 411,642	\$ 416,709	0.1
TOTAL FOREIGN CURRENCY	411,642	416,709	0.1
TOTAL INVESTMENTS AND FOREIGN CURRENCY	\$284,949,519	\$339,957,498	99.2
OTHER ASSETS LESS LIABILITIES, NET		2,555,626	0.8
NET ASSETS		\$342,513,124	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, 2017.

Japanese Yen JPY ¥ 112.065 = USD \$1.00

See notes to financial statements

JAPAN SMALLER CAPITALIZATION FUND, INC.

STATEMENT OF ASSETS AND LIABILITIES

FEBRUARY 28, 2017

ASSETS:

Investments in Japanese equity securities, at fair value (cost—\$284,537,877)	\$339,540,789
Foreign currency, at fair value (cost—\$411,642)	416,709
Receivable for investments sold	1,534,209
Receivable for dividends	307,294
Prepaid expenses	37,541
Cash and cash equivalents	<u>1,017,558</u>
Total Assets	<u>342,854,100</u>

LIABILITIES:

Accrued management fee	223,369
Accrued directors' fees and expenses	4,634
Other accrued expenses	<u>112,973</u>
Total Liabilities	<u>340,976</u>

NET ASSETS:

Capital stock (28,333,893 shares of capital stock outstanding, 100,000,000 shares authorized, par value \$0.10 each)	2,833,389
Paid-in capital	286,055,217
Accumulated net realized gain on investments and foreign currency transactions	5,687,285
Net unrealized appreciation on investments and foreign currency transactions	55,016,961
Accumulated net investment loss	<u>(7,079,728)</u>
Net Assets	<u>\$342,513,124</u>
Net asset value per share	<u>\$12.09</u>

See notes to financial statements

JAPAN SMALLER CAPITALIZATION FUND, INC.

STATEMENT OF OPERATIONS

FOR THE YEAR ENDED FEBRUARY 28, 2017

INCOME:

Dividend income (net of \$757,422 withholding taxes)	\$6,816,799	
Interest income	<u>2,232</u>	
Total Income		<u>\$6,819,031</u>

EXPENSES:

Management fee	2,864,575	
Custodian fee	228,679	
Directors' fees and expenses	140,503	
Legal fees	130,922	
Other expenses	<u>203,701</u>	
Total Expenses		<u>3,568,380</u>

INVESTMENT INCOME—NET		<u>3,250,651</u>
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REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS AND FOREIGN CURRENCY:

Realized gain (loss) on investments and foreign currency transactions:		
Net realized gain on investments		14,027,703
Net realized loss on foreign currency transactions		<u>(116,869)</u>
Net realized gain on investments and foreign currency transactions		<u>13,910,834</u>
Net change in unrealized appreciation on investments		50,344,095
Net change in unrealized appreciation on foreign currency transactions and translation		<u>3,981,045</u>
Net realized and unrealized gain on investments and foreign currency transactions and translation		<u>68,235,974</u>
NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS		<u>\$71,486,625</u>

See notes to financial statements

JAPAN SMALLER CAPITALIZATION FUND, INC.

STATEMENTS OF CHANGES IN NET ASSETS

	For the Year Ended February 28, <u>2017</u>	For the Year Ended February 29, <u>2016</u>
FROM OPERATIONS:		
Net investment income	\$ 3,250,651	\$ 1,637,190
Net realized gain on investments	14,027,703	27,779,563
Net realized loss on foreign currency transactions	(116,869)	(88,246)
Net change in unrealized appreciation (depreciation) on investments	50,344,095	(45,368,645)
Net change in unrealized appreciation on foreign currency transactions and translation	<u>3,981,045</u>	<u>27,358,774</u>
Net increase in net assets resulting from operations	<u>71,486,625</u>	<u>11,318,636</u>
FROM DISTRIBUTIONS TO SHAREHOLDERS:		
Ordinary income distribution	(9,809,194)	(4,728,927)
Capital gains distribution	<u>(16,714,163)</u>	<u>(20,134,064)</u>
Decrease in net assets derived from distributions to shareholders	<u>(26,523,357)</u>	<u>(24,862,991)</u>
NET ASSETS:		
Beginning of year	<u>297,549,856</u>	<u>311,094,211</u>
End of year (including accumulated net investment loss of \$7,079,728 and \$2,990,469, respectively)	<u>\$342,513,124</u>	<u>\$297,549,856</u>

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 (the “Investment Company Act”), 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 Fund’s investment objective is to seek long-term capital appreciation through investments primarily in smaller capitalization Japanese equity securities.

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 fair 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 fair 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. Securities and other assets, including

futures contracts and related options, that cannot be fair valued using one of the previously mentioned methods are stated 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 fair values on February 28, 2017. 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, 2017. 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.

JAPAN SMALLER CAPITALIZATION FUND, INC.

NOTES TO FINANCIAL STATEMENTS—Continued

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 dates 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 U.S. 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 fair value of securities on loan must be maintained at all times (when applicable). Col-

lateral 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, 2017, the Fund did not earn any fees from lending fund portfolio securities, pursuant to the securities lending agreement.

(d) Capital Account Reclassification—For the fiscal year ended February 28, 2017, the Fund’s accumulated net investment loss was decreased by \$2,469,284 and the accumulated net realized gain on investments and foreign currency transactions was decreased by \$2,469,284. 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%

JAPAN SMALLER CAPITALIZATION FUND, INC.

NOTES TO FINANCIAL STATEMENTS—Continued

and such withholding taxes are reflected as a reduction of the related revenue. The 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 U.S. 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. ("NAM-USA" or the "Manager") acts as the Manager of the Fund pursuant to a management agreement. Under the management 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. ("NAM"), as Investment Adviser to 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 \$2,864,575 for the fiscal year ended February 28, 2017. Under the investment advisory agreement, NAM earned investment advisory fees of \$1,268,253 from the Manager, not the Fund, for the fiscal year ended February 28, 2017. At February 28, 2017, the management fee payable to the Manager by the Fund was \$223,369.

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, 2017. The Fund pays each Director not affiliated with the Manager an annual fee of \$17,000 plus \$2,000 per meeting attended. In addition, the Fund pays each

Director not affiliated with the Manager \$1,000 per telephone meeting attended together with actual expenses related to attendance at meetings. The Chairman of the Board, presently Rodney A. Buck, 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 \$2,000. Such fees and expenses for unaffiliated Directors aggregated \$140,503 for the fiscal year ended February 28, 2017.

3. Purchases and Sales of Investments

Purchases and sales of investments, exclusive of foreign currency and investments in short-term securities, for the fiscal year ended February 28, 2017 were \$63,937,842 and \$88,023,498, respectively.

4. Federal Income Tax

As of February 28, 2017, net unrealized appreciation on investments, exclusive of foreign currency, for federal income tax purposes was \$46,803,331, of which \$52,682,063 related to appreciated securities and \$5,878,732 related to depreciated securities. The cost of investments, exclusive of foreign currency of \$411,642, at February 28, 2017 for federal income tax purposes was \$292,737,458.

JAPAN SMALLER CAPITALIZATION FUND, INC.

NOTES TO FINANCIAL STATEMENTS—Continued

At February 28, 2017, the components of accumulated earnings on a tax basis were as follows:

Unrealized appreciation on investments and foreign currency transactions	46,817,380 ^(a)
Undistributed long-term capital gains	5,500,899
Undistributed ordinary income	<u>1,306,239</u>
Total accumulated earnings	<u>\$53,624,518</u>

(a) The differences between book basis and tax basis unrealized depreciation 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 \$11,418,559, which represents \$0.4030 per share and a long-term capital gains distributions of \$15,104,798, which represents \$0.5331 per share to shareholders of record as of December 19, 2016. The distribution was paid on December 23, 2016.

The Fund paid an ordinary income distribution of \$8,777,840, which represents \$0.3098 per share and a long-term capital gains distribution of \$16,085,151, which represents \$0.5677 per share to shareholders of record as of December 21, 2015. The distribution was paid on December 28, 2015.

The tax character of distributions paid during the fiscal years ended February 28, 2017 and February 29, 2016 were as follows:

	February-17	February-16
Ordinary Income	\$11,418,559	\$8,777,840
Capital Gains	\$15,104,798	\$16,085,151

5. Fair Value Measurements

In accordance with U.S. 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. U.S. 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)

JAPAN SMALLER CAPITALIZATION FUND, INC.

NOTES TO FINANCIAL STATEMENTS—Continued

The following table summarizes the valuation of the Fund's investments by the above fair value hierarchy levels as of February 28, 2017.

<u>Level</u>	<u>Investments in Securities</u>
Level 1	
Equity Securities* . .	\$339,540,789
Level 2	-0-
Level 3	-0-
Total	<u>\$339,540,789</u>

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

During the fiscal year ended February 28, 2017, there were no transfers between Level 1, Level 2, or Level 3 securities.

During the fiscal year ended February 28, 2017, the Fund did not hold any instrument which used significant unobservable inputs (Level 3) in determining fair value.

JAPAN SMALLER CAPITALIZATION FUND, INC.

FINANCIAL HIGHLIGHTS

For a share of common stock outstanding throughout each year:

	For the Year Ended				
	February 28, 2017	February 29, 2016	2015	February 28, 2014	2013
Net asset value, beginning of year	<u>\$10.50</u>	<u>\$10.98</u>	<u>\$9.85</u>	<u>\$8.83</u>	<u>\$8.85</u>
Investment operations:					
Net investment income*	0.12	0.06	0.06	0.05	0.07
Net realized and unrealized gain (loss) on investments and foreign currency . . .	<u>2.41</u>	<u>0.34</u>	<u>1.20</u>	<u>1.17</u>	<u>(0.01)</u>
Total from investment operations	<u>2.53</u>	<u>0.40</u>	<u>1.26</u>	<u>1.22</u>	<u>0.06</u>
Less Distributions:					
Distributions from ordinary income	(0.35)	(0.17)	(0.12)	(0.20)	(0.08)
Distributions from capital gains	<u>(0.59)</u>	<u>(0.71)</u>	<u>(0.01)</u>	<u>—</u>	<u>—</u>
Total from distributions	<u>(0.94)</u>	<u>(0.88)</u>	<u>(0.13)</u>	<u>(0.20)</u>	<u>(0.08)</u>
Net asset value, end of year	<u>\$12.09</u>	<u>\$10.50</u>	<u>\$10.98</u>	<u>\$9.85</u>	<u>\$8.83</u>
Market value, end of year	\$10.60	\$8.98	\$9.69	\$8.84	\$8.00
Total investment return**	29.4%	0.7%	11.2%	13.0%	3.4%
Ratio/Supplemental Data:					
Net assets, end of year (000)	\$342,513	\$297,550	\$311,094	\$278,994	\$250,273
Ratio of expenses to average net assets . .	1.09%	1.11%	1.13%	1.19%	1.19%
Ratio of net income to average net assets .	0.99%	0.50%	0.62%	0.53%	0.86%
Portfolio turnover rate	20%	24%	41%	101%	37%

* Based on average shares outstanding.

** Based on market value per share, adjusted for reinvestment of income dividends, ordinary income distributions, 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 2016 Annual Meeting of the Shareholders of the Fund was held at the offices of NAM-USA at World-wide Plaza, 309 West 49th Street, New York, New York on November 17, 2016. The purpose of the meeting was (1) to elect two Class I Directors to serve for a term to expire in 2019 and (2) to transact such other business as may properly come before the meeting or any adjournment or postponement thereof.

At the meeting, E. Han Kim and Marcia L. MacHarg were re-elected to serve as directors of the Fund for a term expiring in 2019 and until their successors are duly elected and qualify. The results of the voting at the Annual Meeting were as follows:

1. To elect two Class I Directors:

	Shares Voted For	% of Outstanding Shares	Shares Voted Withhold Authority	% of Outstanding Shares	Shares Abstained	Broker Non-Vote
E. Han Kim	25,228,592	89.04%	998,832	3.53%	-	-
Marcia L. MacHarg	25,249,875	89.12%	977,549	3.45%	-	-

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 by Director*	Other Public Directorships Held by Director
Rodney A. Buck (69)	Class III Director and Chairman of the Board	Director 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 (70)	Class I Director	Director since 2010.	Everett E. Berg Professor of Business Administration and Director of Mitsui Financial Research Center at Ross Business School, University of Michigan since 1980; Advisor to CEO of Taubman Asia since 2009 to July 2016; Non-executive Chair of the Board of Korea Telecom (KT) from 2009-2014.	Two registered investment companies consisting of two portfolios	None
David B. Chemidlin (60)	Class III Director and Chairman of the Audit Committee	Director and Chairman of the Audit Committee since 2006.	Owner of AbidesWorks LLC since November 2016; Corporate Controller, Advance Magazine Publishers, Inc. (d/b/a Conde Nast) from 1995 to October 2016.	Two registered investment companies consisting of two portfolios	None
Marcia L. MacHarg (68)	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 2014 and Chair of the Audit Committee since July 2016; Member of the Executive Committee of the Friends of Smith College Libraries from 2013 to 2015.	Two registered investment companies consisting of two portfolios	None

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

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 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 (51)*	President and Class II Director	President and Director since 2013	Senior Managing Director of NAM since 2015; President and Chief Executive Officer of NAM-USA and President of Nomura Global Alpha LLC ("NGA") since 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

* Mr. Itabashi is an “interested person,” of the Fund based on his positions with NAM-USA and NAM. 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 Investment Company 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, 2017, the Board of Directors (or the Independent Directors of the Fund meeting as a group) held seven meetings, the Audit Committee held two meetings and the Nominating Committee held one meeting. The Governance and Compliance Committee met as part of each quarterly meeting of the Board of Directors. 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:

<u>Name, Address* and Age of Officers</u>	<u>Position(s) Held with the Fund</u>	<u>Term of Office** and Length of Time Served</u>	<u>Principal Occupation(s) or Employment During Past Five Years</u>
Yutaka Itabashi (51)	President and Director	President and Director since 2013	Senior Managing Director of NAM since 2015; President and Chief Executive Officer of NAM-USA and President of NGA since 2013; Managing Director of NAM from 2012 to 2013; Senior Managing Director of Nomura Funds Research and Technologies Co., Ltd. from 2009 to 2012.
Takeshi Toyoshima (50)	Vice President	Vice President since August 2016	Chief Administrative Officer of NAM-USA since August 2016; Head of Client Services and Marketing of NAM-USA from 2015 to August 2016; Senior Portfolio Manager of NAM from 2008 to 2015.
Maria R. Premole (54)	Vice President	Vice President since 2013	Vice President and Head of Retail Product Management of NAM-USA since 2013; Associate of NAM-USA from 2008 to 2013.
Neil Daniele (56)	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 2013.
Amy J. Marose (39)	Treasurer	Treasurer since 2013; Assistant Treasurer from 2011 to 2013	Executive Director of NAM-USA since 2015; Controller and Treasurer of NAM-USA and Treasurer of NGA since 2013; Vice President of NAM-USA from 2009 to 2015.
Kelly S. Lee (34)	Assistant Treasurer	Assistant Treasurer since 2015	Vice President of NAM-USA since 2015; Fund Controller at JP Morgan Chase & Co. from 2014 to 2015; Financial Services Senior at Ernst & Young LLP from 2010 to 2014.

* 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.

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, 2017 as to the federal tax status of distributions received by shareholders during such fiscal year. Accordingly, the Fund designates \$757,422 as foreign tax credit with the associated foreign gross income of \$7,574,221.

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 was sent to you separately in January 2017.

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 market 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.

In addition, on May 26, 2016, the Board of Directors approved a Discount Management Plan. Under the plan, the Fund is authorized to make open-market share repurchases on the New York Stock Exchange. Such repurchases may be made from time to time as authorized by the Board of Directors.

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.

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 long-term capital gain 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 Computershare Trust Company, N.A., (the "Plan Agent"), P.O. Box 505000 Louisville, KY 40233. 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, 2017, 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 Trust Company, at Computershare Trust Company, N.A. P.O. Box 505000 Louisville, KY 40233.

BOARD OF DIRECTORS

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

OFFICERS

Yutaka Itabashi, *President*
Takeshi Toyoshima, *Vice President*
Maria R. Premole, *Vice President*
Neil A. Daniele, *Secretary and Chief Compliance Officer*
Amy J. Marose, *Treasurer*
Kelly S. Lee, *Assistant Treasurer*

MANAGER

Nomura Asset Management U.S.A. Inc.
Worldwide Plaza
309 West 49th Street
New York, New York 10019-7316
Internet Address
<http://funds.nomura-asset.com>

INVESTMENT ADVISER

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

**DIVIDEND PAYING AGENT, TRANSFER AGENT
AND REGISTRAR**

Computershare Trust Company, N.A.
P. O. Box 505000
Louisville, KY 40233

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

RSM US LLP
80 City Square
Boston, Massachusetts 02129

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.

JAPAN
Smaller Capitalization
Fund, Inc.

ANNUAL REPORT

FEBRUARY 28, 2017