

## JAPAN SMALLER CAPITALIZATION FUND, INC.

April 29, 2020

To Our Shareholders:

We present the Annual Report of Japan Smaller Capitalization Fund, Inc. (the “Fund”) for the fiscal year ended February 29, 2020.

The net asset value per share (“NAV”) of the Fund decreased by 6.7% and the closing market price of the Fund (on the New York Stock Exchange) decreased by 2.6% after giving effect to the reinvestment of income dividends, ordinary income distributions, and long-term capital gain distributions for the fiscal year ended February 29, 2020. The closing market price of the Fund on February 29, 2020 was \$8.03, representing a discount of 9.3% to the NAV of \$8.85. The net assets of the Fund totaled \$250,887,390 on February 29, 2020.

The Russell/Nomura Small Cap™ Index, the Fund’s benchmark (“Benchmark”), decreased by 7.5% in United States (“U.S.”) dollar terms. During the fiscal year ended February 29, 2020, the Fund outperformed the Benchmark by 0.8% 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”), decreased by 3.2% and the Nikkei Stock Average Index (“Nikkei”), a price-weighted index of the 225 leading stocks on the TSE, increased by 1.9% in U.S. dollar terms for the year ended February 29, 2020. The Japanese yen (“Yen”) appreciated by 3.0% against the U.S. dollar during the fiscal year ended February 29, 2020.

For the quarter ended February 29, 2020, the Benchmark decreased by 15.0%, the TOPIX decreased by 10.0%, and the Nikkei decreased by 8.1% in U.S. dollar terms. The NAV of the Fund decreased by 11.4% and outperformed the Benchmark by 3.6%. The Fund’s share price decreased by 6.6% during the quarter. The Yen

appreciated by 1.2% against the U.S. dollar during 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 during fiscal year ended February 29, 2020, an overweight position in the Chemicals sector and an underweight position in the Services sector generated the largest positive contributions. Sector returns were eroded by an overweight position in the Iron and Steel sector and an underweight position in the Electric Appliances sector.

Relative performance was positively impacted by Saizeriya Co., Ltd. in the Retail Trade sector,

Ryoden Corporation in the Wholesale Trade sector, and Okinawa Cellular Telephone Company in the Information and Communication sector. Conversely, relative performance was negatively impacted by SIIX Corporation in the Wholesale Trade sector, Osaka Steel Co., Ltd. in the Iron and Steel sector, and H.I.S. Co., Ltd. in the Services sector.

## Market Review

The Benchmark decreased by 10.3% and underperformed the TOPIX index, which decreased by 6.0% in local currency terms, for the fiscal year ended February 29, 2020. The Japanese equity market declined in response to a rapid reassessment of near-term corporate earnings prospects triggered by reports of an increasing number of cases of Coronavirus (COVID-19) infections worldwide, including in Japan. While the Coronavirus spread has undermined market sentiment, the impact has been even more damaging for Japanese small-cap equities, which tend to have lower liquidity.

The Japanese stock market has remained generally flat from March 2019. During a ten day holiday period from April 27 to May 6, 2019 for the succession of Japan's new Emperor, market sentiment was undermined by announcements from U.S. President Trump threatening further tariff hikes on imports from both China and Mexico. Meanwhile, earnings forecasts for the fiscal year ended March 31, 2020 issued by Japanese companies from late April to the middle of May 2019 were generally conservative.

The Japanese stock market rebounded at the beginning of June 2019 after Federal Reserve Chairman Jerome Powell alluded to a potential interest rate cut and the Trump administration decided not to impose new tariffs on imports from Mexico. Stock prices in Japan declined again in early August 2019 after President Trump announced another round of hikes in U.S. tariffs on

Chinese goods, raising new concerns about the global economic outlook.

The Japanese stock market rallied strongly from September to the end of 2019, despite underlying concerns such as the U.S. and China trade dispute and Brexit. Accommodative monetary policies by the major central banks were expected to support a continuing recovery in global economic conditions that would enable market participants to look beyond the current weakness. Foreign exchange rate volatility has declined which has also helped to establish more stable business conditions for the corporate sector. International investors turned net buyers of Japanese stocks from October and continued to increase their positions to the end of 2019.

Following the strong rally in the second half of 2019, the Japanese equity market experienced a sharp sell-off in January and extended downturn in February 2020. Uncertainty about near-term economic prospects was heightened by the potential impact from the outbreak of the Coronavirus in China. Japan's real domestic product growth rate for the period from October to December 2019 declined to -6.8% quarter over quarter annualized, significantly under the -3.8% consensus estimate. There was a rapid reassessment of near-term corporate earnings prospects triggered by reports of an increasing number of cases of Coronavirus infections worldwide, including in Japan, a cyclical recession, and additional pressure from the consumption tax hike.

## Outlook and Future Strategy

Fears of a major global recession are materializing as strict restrictions on daily travel and economic activity, and in some cases lock-down measures, are imposed across large parts of the developed world to limit the spread of COVID-19. The magnitude of the economic losses will be im-

possible to assess precisely while it remains unclear how long the containment measures will remain in place. Central banks and governments have announced monetary and fiscal stimulus policies on an unprecedented scale, partly aimed at mitigating the risk of a credit crunch and other serious damage to the economy. Japan is expected to record a second successive decline in gross domestic product, and a steep fall in growth for the first half of the year will be inevitable due to the severe damage across most of the service sector, but especially the tourism, hospitality and transportation related industries. Manufacturers will also be severely hit, except in industries that benefit from special procurement needs such as medical care and telecommuting.

Neighboring China has recently undergone an economic recovery with more than 90% of large-scale industrial firms have officially resumed business and the operating rate of major enterprise factories has begun to increase as the official figures suggest the coronavirus outbreak has been almost contained. Local governments in China have begun to implement measures to stimulate consumer spending, such as incentives for automobile purchases and coupons that can be used in local restaurants and shops. China however remains in a precarious position given the inevitable impact on exports caused by the global economic slowdown. Nevertheless, China's Purchasing Managers' Index rose to 52.0 in March from a record-low 35.7 in February. China also offers a case study showing how other major economies, including Japan, could follow a similar trajectory once the coronavirus pandemic has been contained.

Earnings forecasts for Japanese companies for this fiscal year have not yet been revised downward sufficiently. Profit forecasts are likely to fluctuate widely and are now heavily dependent on the duration of the containment measures. It is likely to see substantial negative earnings growth figures reported for this fiscal year. In that sense,

it would not be appropriate to measure the market valuation based on earnings at this stage. Nonetheless, we can also demonstrate that valuations of the Japanese stock market have adjusted considerably over the past three months, as the price-to-book ratio of the Russell Nomura Small Cap Index has now dipped to less than 0.9, which is close to the 0.7 level recorded at the bottom of the global financial crisis in 2008. At this point, most companies still have abundant equity to endure difficult times, and should not expect major losses to erode capital levels significantly. Therefore, as the rate of new coronavirus infections declines and restrictions and lock-down measures are lifted, this under-valuation is likely to be corrected in the long run.

The Fund appreciates your continuing support.

Sincerely,

A handwritten signature in black ink, appearing to read 'Yuichi Nomoto', with a long horizontal flourish extending to the right.

Yuichi Nomoto  
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. An index cannot be directly invested into.

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 29, 2020, there are 1,248 securities in the Russell/Nomura Small Cap™ Index.

## CHANGE IN AUDITORS

The Fund was advised on February 24, 2020 by RSM US LLP (“RSM”), its independent public accounting firm, that RSM is not independent under the Securities and Exchange Commission’s independence rules as it pertains to the Fund due to a discovery of certain non-attest services performed by a foreign affiliated firm. RSM subsequently resigned on February 27, 2020.

The resignation of RSM was not the result of any disagreement with management. During the fiscal years ended February 28, 2019 and February 28, 2018, RSM’s audit reports contained no adverse opinion or disclaimer of opinion; nor were the reports qualified or modified as to uncertainty, audit scope, or accounting principles. Further, there were no disagreements between the Fund and RSM on accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which, if not resolved to the satisfaction of RSM, would have caused it to make reference to the disagreements in connection with their reports.

On March 30, 2020, the Audit Committee of the Fund and the Board of Directors of the Fund approved the selection of Ernst & Young LLP as the independent registered public accounting firm to audit the Fund’s financial statements for its fiscal year ended February 29, 2020.

## 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>.

## FUND CERTIFICATIONS

In December 2019, 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>.

**JAPAN SMALLER CAPITALIZATION FUND, INC.**

**FUND HIGHLIGHTS—FEBRUARY 29, 2020 (Unaudited)**

**KEY STATISTICS**

Net Assets .....	\$250,887,390
Net Asset Value per Share .....	\$8.85
Market Price .....	\$8.03
Percentage Change in Net Asset Value per Share*+ .....	(6.7%)
Percentage Change in Market Price*+ .....	(2.6%)

**MARKET INDICES**

Percentage change in market indices:\*

	<b>YEN</b>	<b>U.S.\$</b>
Russell/Nomura Small Cap™ Index .....	(10.3%)	(7.5%)
Tokyo Price Index .....	(6.0%)	(3.2%)
Nikkei Stock Average Index .....	(1.1%)	1.9%

\*From March 1, 2019 through February 29, 2020.

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

**INDUSTRY DIVERSIFICATION**

	<b>% of Net Assets</b>		<b>% of Net Assets</b>
Retail Trade .....	15.3	Transportation Equipment .....	3.3
Chemicals .....	13.7	Transportation and Warehousing .....	3.0
Wholesale Trade .....	11.1	Utilities .....	2.9
Machinery .....	5.8	Electric Appliances .....	2.8
Iron and Steel .....	5.7	Other Products .....	2.7
Banks .....	5.3	Food .....	2.5
Services .....	5.2	Financing Business .....	2.2
Information and Communication .....	5.1	Real Estate .....	2.1
Metal Products .....	4.9	Textiles and Apparel .....	1.8
Construction .....	3.3	Precision Instruments .....	0.8

**TEN LARGEST EQUITY HOLDINGS**

<b>Security</b>	<b>% of Net Assets</b>
Ryoden Corporation .....	4.1
Okinawa Cellular Telephone Company .....	3.6
Amiyaki Tei Co., Ltd. ....	3.4
Osaka Steel Co., Ltd. ....	3.1
SIIX Corporation .....	2.8
Nichirei Corporation .....	2.5
Hi-Lex Corporation .....	2.5
The Okinawa Electric Power Company, Incorporated .....	2.3
Sakata Inx Corporation .....	2.1
Fujikura Kasei Co., Ltd. ....	2.0

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

### **Opinion on the Financial Statements**

We have audited the accompanying statement of assets and liabilities of Japan Smaller Capitalization Fund, Inc. (the "Fund"), including the schedule of investments, as of February 29, 2020, and the related statement of operations, statement of changes in net assets, the financial highlights in the year then ended and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Fund at February 29, 2020, the results of its operations, the changes in its net assets and its financial highlights for the year then ended, in conformity with U.S. generally accepted accounting principles.

The statement of changes in net assets for the year ended February 28, 2019, and the financial highlights for each of the years in the four-year period then ended, were audited by another independent registered public accounting firm whose report, dated April 26, 2019, expressed an unqualified opinion on that statement of changes in net assets and those financial highlights.

### **Basis for Opinion**

These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on the Fund's financial statements based on our audit. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Fund in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Fund is not required to have, nor were we engaged to perform, an audit of the Fund's internal control over financial reporting. As part of our audit we are required to obtain an understanding of internal control over financial reporting 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.

Our audit included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our procedures included confirmation of securities owned as of February 29, 2020, by correspondence with the custodian or by other appropriate auditing procedures where replies from others were not received. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provide a reasonable basis for our opinion.

*Ernst & Young LLP*

We have served as the auditor of one or more Nomura investment companies since 2020.

New York, New York

April 29, 2020

**JAPAN SMALLER CAPITALIZATION FUND, INC.**

**SCHEDULE OF INVESTMENTS\***

**FEBRUARY 29, 2020**

	<u>Shares</u>	<u>Cost</u>	<u>Fair Value</u>	<u>% of Net Assets</u>
<b>JAPANESE EQUITY SECURITIES</b>				
<b>Banks</b>				
Fukuoka Financial Group, Inc. ....	78,100	\$ 1,767,670	\$ 1,187,701	0.5
General banking services				
The Akita Bank, Ltd. ....	197,100	4,898,881	3,057,552	1.2
General banking services				
The Bank of Okinawa, Ltd. ....	76,800	2,848,983	2,152,574	0.9
General banking services				
The Keiyo Bank, Ltd. ....	482,500	3,553,989	2,271,796	0.9
General banking services				
The Musashino Bank, Ltd. ....	119,400	3,037,007	1,645,678	0.6
General banking services				
The Taiko Bank, Ltd. ....	130,500	2,448,007	1,715,374	0.7
General banking services				
The Yamanashi Chuo Bank, Ltd. ....	164,000	<u>2,646,818</u>	<u>1,240,942</u>	<u>0.5</u>
General banking services				
<i>Total Banks</i> .....		<u>21,201,355</u>	<u>13,271,617</u>	<u>5.3</u>
<b>Chemicals</b>				
Adeka Corporation .....	328,500	4,954,538	4,324,088	1.7
Manufactures chemical and food products				
C. Uyemura & Co., Ltd. ....	50,100	2,461,188	3,137,477	1.3
Plating chemicals				
Fujikura Kasei Co., Ltd. ....	1,143,000	6,095,347	4,937,616	2.0
Specialty coating materials and fine chemicals				
Koatsu Gas Kogyo Co., Ltd. ....	565,600	3,706,122	3,463,551	1.4
High-pressured gases and chemicals				
Sakata Inx Corporation .....	613,500	7,439,384	5,357,236	2.1
Manufactures printing ink				
Sekisui Jushi Corporation .....	134,200	2,602,879	2,634,220	1.0
Manufactures plastics and other resin materials				
Shikoku Chemicals Corporation .....	152,600	1,699,404	1,528,753	0.6
Manufactures chemical products				
Shin-Etsu Polymer Co., Ltd. ....	53,300	371,721	416,618	0.2
Manufactures electronic devices, precision moldings, and dwelling materials				
Soken Chemical & Engineering Co., Ltd. ....	49,700	587,354	529,159	0.2
Manufactures chemical products				
Tenma Corporation .....	155,800	3,039,008	2,336,171	0.9
Manufactures synthetic resin products				
T&K Toka Co., Ltd. ....	347,800	3,301,087	2,625,270	1.0
Manufactures specialized inks for printing applications				
Yushiro Chemical Industry Co., Ltd. ....	286,700	<u>3,871,611</u>	<u>3,195,722</u>	<u>1.3</u>
Manufactures metalworking fluids				
<i>Total Chemicals</i> .....		<u>40,129,643</u>	<u>34,485,881</u>	<u>13.7</u>

See notes to financial statements



**JAPAN SMALLER CAPITALIZATION FUND, INC.**

**SCHEDULE OF INVESTMENTS\* — (Continued)**

**FEBRUARY 29, 2020**

	<u>Shares</u>	<u>Cost</u>	<u>Fair Value</u>	<u>% of Net Assets</u>
<b>Construction</b>				
Toenec Corporation . . . . .	82,300	\$ 2,214,255	\$ 2,493,248	1.0
Construction of comprehensive building facilities				
Totetsu Kogyo Co., Ltd. . . . .	117,800	3,266,765	3,022,776	1.2
Operates construction-related businesses				
Yondenko Corporation . . . . .	54,800	1,197,033	1,203,922	0.5
Construction of electrical distribution systems				
Yurtec Corporation . . . . .	316,100	<u>2,340,730</u>	<u>1,657,913</u>	<u>0.6</u>
Engineering company				
<i>Total Construction</i> . . . . .		<u>9,018,783</u>	<u>8,377,859</u>	<u>3.3</u>
<b>Electric Appliances</b>				
AOI Electronics Co., Ltd. . . . .	10,600	239,112	202,382	0.1
Manufactures electronic components				
Koito Manufacturing Co., Ltd. . . . .	37,500	2,175,621	1,477,730	0.6
Manufactures lighting equipment				
Mabuchi Motor Co., Ltd. . . . .	119,500	5,319,131	4,139,748	1.6
Manufactures small motors				
Maxell Holdings, Ltd. . . . .	62,200	1,061,879	741,647	0.3
Manufactures media devices, batteries and electrical appliances				
Shindengen Electric Manufacturing Co., Ltd. . . . .	5,800	192,637	161,223	0.1
Manufactures semiconductor products, electrical components, and power supplies				
Shinko Electric Industries Co., Ltd. . . . .	34,300	<u>277,055</u>	<u>376,616</u>	<u>0.1</u>
Manufactures semiconductor packages				
<i>Total Electric Appliances</i> . . . . .		<u>9,265,435</u>	<u>7,099,346</u>	<u>2.8</u>
<b>Financing Business</b>				
Hitachi Capital Corporation . . . . .	104,900	2,443,024	2,680,115	1.1
General financial services				
Ricoh Leasing Company, Ltd. . . . .	73,200	2,441,583	2,515,499	1.0
Leasing and financial services				
Tokai Tokyo Financial Holdings, Inc. . . . .	101,200	<u>392,082</u>	<u>265,860</u>	<u>0.1</u>
Investment and financial services				
<i>Total Financing Business</i> . . . . .		<u>5,276,689</u>	<u>5,461,474</u>	<u>2.2</u>
<b>Food</b>				
Nichirei Corporation . . . . .	247,500	<u>5,756,398</u>	<u>6,302,831</u>	<u>2.5</u>
Produces frozen foods and provides cold storage warehousing				
<i>Total Food</i> . . . . .		<u>5,756,398</u>	<u>6,302,831</u>	<u>2.5</u>

See notes to financial statements

**JAPAN SMALLER CAPITALIZATION FUND, INC.**

**SCHEDULE OF INVESTMENTS\*—(Continued)**

**FEBRUARY 29, 2020**

	<u>Shares</u>	<u>Cost</u>	<u>Fair Value</u>	<u>% of Net Assets</u>
<b>Information and Communication</b>				
NS Solutions Corporation . . . . .	39,600	\$ 1,113,408	\$ 1,096,001	0.4
System consulting services and software development				
OBIC Co., Ltd. . . . .	12,500	1,059,763	1,536,700	0.6
Computer system integration				
Okinawa Cellular Telephone Company . . . . .	249,500	7,817,985	8,989,432	3.6
Telecommunications				
Otsuka Corporation . . . . .	30,000	<u>1,110,405</u>	<u>1,280,699</u>	<u>0.5</u>
Computer information system developer				
<i>Total Information and Communication</i> . . . . .		<u>11,101,561</u>	<u>12,902,832</u>	<u>5.1</u>
<b>Iron and Steel</b>				
Chubu Steel Plate Co., Ltd. . . . .	117,200	727,787	731,789	0.3
Manufactures steel-related products				
Mory Industries Inc. . . . .	51,500	954,419	1,055,677	0.4
Manufactures steel tubing products				
Nichia Steel Works, Ltd. . . . .	1,825,400	5,155,036	4,575,953	1.8
Manufactures steel-related products				
Osaka Steel Co., Ltd. . . . .	598,400	10,631,768	7,788,250	3.1
Manufactures steel-related products				
Sanyo Special Steel Co., Ltd. . . . .	24,300	<u>329,651</u>	<u>264,118</u>	<u>0.1</u>
Steel, special material, and forging businesses				
<i>Total Iron and Steel</i> . . . . .		<u>17,798,661</u>	<u>14,415,787</u>	<u>5.7</u>
<b>Machinery</b>				
Hisaka Works, Ltd. . . . .	112,200	994,296	831,343	0.3
Manufactures heat exchangers and other machinery				
Miura Co., Ltd. . . . .	46,900	1,218,286	1,531,446	0.6
Manufactures boilers and related products				
Nippon Pillar Packing Co., Ltd. . . . .	131,200	1,514,189	1,541,316	0.6
Manufactures mechanical seals				
Nitto Kohki Co., Ltd. . . . .	187,400	4,119,690	3,558,875	1.4
Manufactures machine tools and motor pumps				
Oiles Corporation . . . . .	306,880	5,395,825	4,025,307	1.6
Manufactures bearing equipment				
Shibuya Corporation . . . . .	14,300	404,593	346,174	0.1
Packing plant business				
Star Micronics Co., Ltd. . . . .	56,600	740,100	635,084	0.3
Manufactures machinery, electronic components, and precision parts				
Takeuchi Mfg. Co., Ltd. . . . .	30,000	522,187	459,276	0.2
Manufactures construction machinery				
Toshiba Machine Co., Ltd. . . . .	43,000	802,971	1,179,363	0.5
Manufactures industrial machinery and equipment				

See notes to financial statements

**JAPAN SMALLER CAPITALIZATION FUND, INC.**

**SCHEDULE OF INVESTMENTS\* – (Continued)**

**FEBRUARY 29, 2020**

	<u>Shares</u>	<u>Cost</u>	<u>Fair Value</u>	<u>% of Net Assets</u>
Yamashin-Filter Corporation .....	72,800	\$ 310,243	\$ 455,231	0.2
Manufactures filters				
<i>Total Machinery</i> .....		<u>16,022,380</u>	<u>14,563,415</u>	<u>5.8</u>
<b>Metal Products</b>				
Dainichi Co., Ltd. ....	206,100	1,435,596	1,138,168	0.5
Manufactures oil heating equipment				
Maruzen Co., Ltd. ....	10,000	191,461	181,490	0.1
Manufactures and sells machinery				
Neturen Co., Ltd. ....	575,600	4,588,494	3,625,953	1.4
Manufactures steel bars and induction heating equipment				
Piolax, Inc. ....	173,300	3,387,771	2,486,363	1.0
Manufactures automobile-related products				
Rinnai Corporation .....	69,100	5,604,127	4,710,855	1.9
Manufactures heating appliances and components				
Shinpo Co., Ltd. ....	2,300	<u>18,935</u>	<u>29,871</u>	<u>0.0</u>
Manufactures smokeless roasters				
<i>Total Metal Products</i> .....		<u>15,226,384</u>	<u>12,172,700</u>	<u>4.9</u>
<b>Other Products</b>				
Fuji Seal International, Inc. ....	13,300	410,894	236,338	0.1
Packaging-related materials and machinery				
Komatsu Wall Industry Co., Ltd. ....	28,200	508,902	492,499	0.2
Manufactures various partitions				
Nishikawa Rubber Co., Ltd. ....	207,600	3,398,576	3,208,914	1.3
Manufactures rubber automobile parts				
Pigeon Corporation .....	9,800	418,705	331,789	0.1
Manufactures baby care products				
The Pack Corporation .....	77,400	<u>2,455,882</u>	<u>2,516,637</u>	<u>1.0</u>
Manufactures paper and chemical products				
<i>Total Other Products</i> .....		<u>7,192,959</u>	<u>6,786,177</u>	<u>2.7</u>
<b>Precision Instruments</b>				
Nakanishi Inc. ....	126,800	<u>2,014,794</u>	<u>1,908,363</u>	<u>0.8</u>
Manufactures dental instruments				
<i>Total Precision Instruments</i> .....		<u>2,014,794</u>	<u>1,908,363</u>	<u>0.8</u>
<b>Real Estate</b>				
Avantia Co., Ltd. ....	383,600	3,628,825	2,718,076	1.1
Designs and constructs housing				
Daibiru Corporation .....	122,700	1,256,651	1,365,414	0.5
Real estate leasing and building management				
Starts Corporation Inc. ....	57,100	<u>1,365,786</u>	<u>1,174,695</u>	<u>0.5</u>
Construction, leasing and management of real estate				
<i>Total Real Estate</i> .....		<u>6,251,262</u>	<u>5,258,185</u>	<u>2.1</u>

See notes to financial statements

**JAPAN SMALLER CAPITALIZATION FUND, INC.**

**SCHEDULE OF INVESTMENTS\* — (Continued)**

**FEBRUARY 29, 2020**

	<u>Shares</u>	<u>Cost</u>	<u>Fair Value</u>	<u>% of Net Assets</u>
<b>Retail Trade</b>				
ABC-Mart, Inc. . . . .	26,300	\$ 1,617,326	\$ 1,498,617	0.6
Retail sales of shoes				
AIN Holdings Inc. . . . .	1,300	74,598	75,038	0.0
Operates pharmacies and drug store chains				
Amiyaki Tei Co., Ltd. . . . .	299,800	10,829,811	8,486,083	3.4
Operates barbecue restaurant chains				
Cosmos Pharmaceutical Corporation . . . . .	7,800	1,565,851	1,690,523	0.7
Operates drug store chains				
Create SD Holdings Co., Ltd. . . . .	77,800	1,975,598	1,758,875	0.7
Operates pharmacies and drug store chains				
Daikokutenbussan Co., Ltd. . . . .	161,900	7,467,169	4,560,247	1.8
Operates supermarkets				
Hiday Hidaka Corp. . . . .	26	506	392	0.0
Operates restaurant chains				
Izumi Co., Ltd. . . . .	99,400	4,530,345	2,724,409	1.1
Operates shopping centers, real estate and credit card services				
JM Holdings Co., Ltd. . . . .	157,700	2,781,704	3,095,503	1.2
Supermarket business and operation of eating-out stores				
Kusuri No Aoki Holdings Co., Ltd. . . . .	46,600	2,898,751	2,845,012	1.1
Operates drug stores				
NAFCO Co., Ltd. . . . .	48,300	771,843	562,506	0.2
Operates a chain of home and furniture retail outlets				
Pan Pacific International Holdings Corporation . . . . .	73,500	962,663	1,215,651	0.5
Operates discount stores				
San-A Co., Ltd. . . . .	86,200	3,858,765	3,121,715	1.3
Retail sales of home goods				
Seria Co., Ltd. . . . .	183,800	6,288,440	4,910,174	2.0
Discount retail sales				
Sundrug Co., Ltd. . . . .	24,800	978,838	774,247	0.3
Operates pharmacies and drug store chains				
Yossix Co., Ltd. . . . .	55,500	<u>1,203,521</u>	<u>1,110,975</u>	<u>0.4</u>
Operates restaurant chains				
<i>Total Retail Trade</i> . . . . .		<u>47,805,729</u>	<u>38,429,967</u>	<u>15.3</u>

See notes to financial statements

**JAPAN SMALLER CAPITALIZATION FUND, INC.**

**SCHEDULE OF INVESTMENTS\* — (Continued)**

**FEBRUARY 29, 2020**

	<u>Shares</u>	<u>Cost</u>	<u>Fair Value</u>	<u>% of Net Assets</u>
<b>Services</b>				
EPS Holdings, Inc. . . . .	94,100	\$ 1,391,365	\$ 979,256	0.4
Performs contract medical research services				
H.I.S. Co., Ltd. . . . .	75,600	2,447,787	1,489,552	0.6
Travel business				
Kanamoto Co., Ltd. . . . .	56,200	1,494,027	1,241,957	0.5
Construction related business				
Nihon M&A Center Inc. . . . .	45,500	1,078,499	1,380,510	0.6
Provides merger and acquisition brokerage services				
Nippon Air Conditioning Services Co., Ltd. . . . .	356,900	2,293,168	2,274,678	0.9
Provides maintenance and management of building facilities				
Nishio Rent All Co., Ltd. . . . .	102,100	2,932,898	2,506,576	1.0
Leasing of construction and facility work equipment				
Sprix, Ltd. . . . .	76,900	1,158,127	591,839	0.2
Educational service business				
Step Co., Ltd. . . . .	158,000	1,707,890	2,075,390	0.8
Operates preparatory schools				
Tear Corporation . . . . .	83,900	<u>591,990</u>	<u>412,884</u>	<u>0.2</u>
Funeral business				
<i>Total Services</i> . . . . .		<u>15,095,751</u>	<u>12,952,642</u>	<u>5.2</u>
<b>Textiles and Apparel</b>				
Seiren Co., Ltd. . . . .	351,000	<u>5,309,520</u>	<u>4,506,619</u>	<u>1.8</u>
Manufactures synthetic fibers and textile products				
<i>Total Textiles and Apparel</i> . . . . .		<u>5,309,520</u>	<u>4,506,619</u>	<u>1.8</u>
<b>Transportation and Warehousing</b>				
Alps Logistics Co., Ltd. . . . .	283,800	1,683,714	1,926,916	0.8
General logistics services				
Japan Transcity Corporation . . . . .	130,600	549,541	519,476	0.2
General logistics services				
Meiko Trans Co., Ltd. . . . .	345,700	3,471,083	3,517,599	1.4
Marine logistics services				
SG Holdings Co., Ltd. . . . .	65,900	1,434,760	1,297,213	0.5
Delivery, logistics, real estate, and other business				
Trancom Co., Ltd. . . . .	3,800	<u>233,801</u>	<u>241,839</u>	<u>0.1</u>
General logistics services				
<i>Total Transportation and Warehousing</i> . . . . .		<u>7,372,899</u>	<u>7,503,043</u>	<u>3.0</u>

See notes to financial statements

**JAPAN SMALLER CAPITALIZATION FUND, INC.**

**SCHEDULE OF INVESTMENTS\* – (Continued)**

**FEBRUARY 29, 2020**

	<u>Shares</u>	<u>Cost</u>	<u>Fair Value</u>	<u>% of Net Assets</u>
<b>Transportation Equipment</b>				
Hi-Lex Corporation .....	414,800	\$ 8,197,076	\$ 6,269,675	2.5
Manufactures control cables				
Morita Holdings Corporation .....	64,600	1,131,599	1,006,303	0.4
Operates five business transportation segments				
Nichirin Co., Ltd. ....	27,700	401,657	409,203	0.2
Manufactures hoses for automobiles				
Nippon Seiki Co., Ltd. ....	6,500	116,106	85,681	0.0
Manufactures transportation equipment parts				
Tokai Rika Co., Ltd. ....	26,900	<u>531,202</u>	<u>404,850</u>	<u>0.2</u>
Manufactures automobile parts				
<i>Total Transportation Equipment</i> .....		<u>10,377,640</u>	<u>8,175,712</u>	<u>3.3</u>
<b>Utilities</b>				
Keiyo Gas Co., Ltd. ....	50,900	1,275,614	1,408,749	0.6
Produces gas and energy products				
The Okinawa Electric Power Company, Incorporated .....	336,177	<u>5,297,028</u>	<u>5,768,543</u>	<u>2.3</u>
Produces thermal energy products				
<i>Total Utilities</i> .....		<u>6,572,642</u>	<u>7,177,292</u>	<u>2.9</u>
<b>Wholesale Trade</b>				
Ai Holdings Corporation .....	31,700	789,192	447,181	0.2
Information and security equipment				
Elematec Corporation .....	18,500	154,924	157,440	0.1
Electric materials, components, and mechanical parts				
Kanaden Corporation .....	242,100	2,488,410	2,631,400	1.1
Factory automation business				
Kohsoku Corporation .....	340,500	3,260,958	3,310,351	1.3
Food and industrial packaging materials				
Matsuda Sangyo Co., Ltd. ....	118,300	1,580,671	1,544,066	0.6
Precious metals, electronic materials, and food				
Paltac Corporation .....	25,300	1,246,077	1,069,525	0.4
Cosmetics and daily necessities				
Ryoden Corporation .....	748,200	10,654,383	10,381,573	4.1
Purchases electronic and electrical devices				
SIIX Corporation .....	636,500	10,288,001	7,118,343	2.8
Parts procurement, logistics, and manufacturing of electronics				
Sugimoto & Co., Ltd. ....	78,600	<u>1,253,361</u>	<u>1,238,202</u>	<u>0.5</u>
Machine tools and measuring instruments				
<i>Total Wholesale Trade</i> .....		<u>31,715,977</u>	<u>27,898,081</u>	<u>11.1</u>
<b>TOTAL INVESTMENTS IN JAPANESE EQUITY SECURITIES</b>		<u>\$290,506,462</u>	<u>\$249,649,823</u>	<u>99.5</u>

See notes to financial statements

**JAPAN SMALLER CAPITALIZATION FUND, INC.**

**SCHEDULE OF INVESTMENTS\*—(Continued)**

**FEBRUARY 29, 2020**

	<u>Cost</u>	<u>Fair Value</u>	<u>% of Net Assets</u>
<b>FOREIGN CURRENCY</b>			
Japanese Yen			
Interest bearing account .....	\$ 959,257	\$ 974,666	0.4
<b>TOTAL FOREIGN CURRENCY</b> .....	<u>959,257</u>	<u>974,666</u>	<u>0.4</u>
<b>TOTAL INVESTMENTS IN JAPANESE EQUITY SECURITIES AND FOREIGN CURRENCY</b> .....	<u>\$291,465,719</u>	<u>\$250,624,489</u>	<u>99.9</u>
<b>OTHER ASSETS LESS LIABILITIES, NET</b> .....		<u>262,901</u>	<u>0.1</u>
<b>NET ASSETS</b> .....		<u>\$250,887,390</u>	<u>100.0</u>

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

Equity securities and foreign currency holdings were translated at the following exchange rate as of February 29, 2020.

Japanese Yen ¥ 108.105 = United States Dollar \$1.00

**JAPAN SMALLER CAPITALIZATION FUND, INC.**

**STATEMENT OF ASSETS AND LIABILITIES**

**FEBRUARY 29, 2020**

**ASSETS:**

Investments in Japanese equity securities, at fair value (cost—\$290,506,462) .....	\$249,649,823
Foreign currency, at fair value (cost—\$959,257) .....	974,666
Receivable for investments sold .....	69,266
Receivable for dividends .....	505,776
Prepaid expenses .....	38,706
Cash .....	52,127
Total Assets .....	<u>251,290,364</u>

**LIABILITIES:**

Payable for investments purchased .....	68,076
Accrued management fee .....	200,596
Accrued audit and tax fees .....	69,411
Accrued legal fees .....	20,149
Accrued directors' fees and expenses .....	8,023
Other accrued expenses .....	36,719
Total Liabilities .....	<u>402,974</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
Total distributable loss .....	<u>(38,001,216)</u>
Net Assets .....	<u>\$250,887,390</u>
Net asset value per share .....	<u>\$8.85</u>

See notes to financial statements



**JAPAN SMALLER CAPITALIZATION FUND, INC.**

**STATEMENT OF OPERATIONS**

**FOR THE YEAR ENDED FEBRUARY 29, 2020**

**INCOME:**

Dividend income (net of \$727,211 withholding taxes) .....	\$6,544,883	
Interest income .....	<u>8,251</u>	
Total Income .....		<u>\$6,553,134</u>

**EXPENSES:**

Management fee .....	2,586,111	
Custodian fee .....	232,533	
Directors' fees and expenses .....	218,125	
Legal fees .....	204,002	
Other expenses .....	<u>200,922</u>	
Total Expenses .....		<u>3,441,693</u>

<b>INVESTMENT INCOME—NET</b> .....		<u>3,111,441</u>
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**REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS AND FOREIGN CURRENCY:**

Realized gain on investments and foreign currency transactions:		
Net realized gain on investments .....		10,898,938
Net realized gain on foreign currency transactions .....		<u>54,590</u>
Net realized gain on investments and foreign currency transactions .....		<u>10,953,528</u>
Net change in unrealized depreciation on investments .....		(39,549,755)
Net change in unrealized appreciation on foreign currency transactions and translation .....		<u>9,304,342</u>
Net realized and unrealized loss on investments and foreign currency transactions and translation .....		<u>(19,291,885)</u>
<b>NET DECREASE IN NET ASSETS RESULTING FROM OPERATIONS</b> .....		<u><u>(\$16,180,444)</u></u>

See notes to financial statements

**JAPAN SMALLER CAPITALIZATION FUND, INC.**

**STATEMENTS OF CHANGES IN NET ASSETS**

	For the Year Ended February 29, <u>2020</u>	For the Year Ended February 28, <u>2019</u>
<b>FROM OPERATIONS:</b>		
Net investment income .....	\$ 3,111,441	\$ 2,351,794
Net realized gain on investments .....	10,898,938	31,611,746
Net realized gain (loss) on foreign currency transactions .....	54,590	(52,051)
Net change in unrealized depreciation on investments .....	(39,549,755)	(81,444,013)
Net change in unrealized appreciation (depreciation) on foreign currency transactions and translation .....	<u>9,304,342</u>	<u>(13,006,353)</u>
Net decrease in net assets resulting from operations .....	<u>(16,180,444)</u>	<u>(60,538,877)</u>
<b>FROM DISTRIBUTIONS TO SHAREHOLDERS:</b>		
Distributions to shareholders .....	<u>(21,040,749)</u>	<u>(48,439,623)</u>
Decrease in net assets derived from distributions to shareholders ...	<u>(21,040,749)</u>	<u>(48,439,623)</u>
<b>NET ASSETS:</b>		
Beginning of year .....	<u>288,108,583</u>	<u>397,087,083</u>
End of year .....	<u>\$250,887,390</u>	<u>\$288,108,583</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 the Financial Accounting Standards Board ("FASB") Accounting Standards Codification Topic 946 *Financial Services-Investment Companies*. 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 29, 2020. The Fund does not 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 29, 2020. Net realized gains or losses on in-

**JAPAN SMALLER CAPITALIZATION FUND, INC.**

**NOTES TO FINANCIAL STATEMENTS—(Continued)**

vestments include gains or losses arising from sales of portfolio securities and sales and maturities of short-term securities. Net realized gains or losses on foreign currency transactions arise from sales of foreign currencies, currency gains or losses realized on securities transactions between trade and settlement date, and the difference between the amounts of dividends, interest, and foreign withholding taxes recorded on the Fund's books and the U.S. dollar 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). Collateral is provided in the form of cash, which would be invested in certain money market funds. The Fund is entitled to receive all income on securities loaned, in addition to a portion of the income earned as a result of the lending transaction. Although each security loan is fully collateralized, there are certain risks. On November 21, 2008, the Fund suspended its participation in the securities lending program. The Fund may resume its participation in the future. During the fiscal year ended February 29, 2020, the Fund did not earn any fees from lending fund portfolio securities, pursuant to the securities lending agreement.

(d) 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

**JAPAN SMALLER CAPITALIZATION FUND, INC.**

**NOTES TO FINANCIAL STATEMENTS—(Continued)**

taxable income to its shareholders.

Under Japanese tax laws, a withholding tax is imposed on dividends at a rate of 15.315% 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.

(e) 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.

(f) 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.

(g) 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.

**JAPAN SMALLER CAPITALIZATION FUND, INC.**

**NOTES TO FINANCIAL STATEMENTS—(Continued)**

**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.

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 \$2,586,111 for the fiscal year ended Febru-

ary 29, 2020. Under the investment advisory agreement, NAM earned investment advisory fees of \$1,149,405 from the Manager, not the Fund, for the fiscal year ended February 29, 2020. At February 29, 2020, the management fee payable to the Manager by the Fund was \$200,596.

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 29, 2020. The Fund pays each Director not affiliated with the Manager an annual fee of \$30,000. In addition, the Fund pays each Director not affiliated with the Manager \$3,000 per meeting attended, \$2,000 per telephone meeting attended, and Director expenses related to attendance at meetings. The Chairman of the Board, presently Rodney A. Buck, is paid an additional annual fee of \$8,000. The Chairman of the Audit Committee, presently David B. Chemidlin, is paid an additional annual fee of \$4,000. Such fees and expenses for unaffiliated Directors aggregated \$218,125 for the fiscal year ended February 29, 2020.

**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 29, 2020 were \$84,300,151

**JAPAN SMALLER CAPITALIZATION FUND, INC.**

**NOTES TO FINANCIAL STATEMENTS—(Continued)**

and \$102,490,166, respectively.

**4. Federal Income Tax**

As of February 29, 2020, net unrealized depreciation on investments, exclusive of foreign currency, for federal income tax purposes was \$43,270,855, of which \$11,882,276 related to appreciated securities and \$55,153,131 related to depreciated securities. The cost of investments, exclusive of foreign currency of \$959,257, at February 29, 2020 for federal income tax purposes was \$292,920,678.

At February 29, 2020, the components of accumulated earnings on a tax basis consisted of unrealized depreciation on investments and foreign currency transactions of \$43,248,501, late year loss deferral of \$870,027, undistributed long-term capital gains of \$6,117,312, and undistributed ordinary income of \$0. The differences between book basis and tax basis for unrealized appreciation on investments and foreign currency transactions are 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 \$11,225,889, which represents \$0.3962 per share and a long-term capital gains distributions of \$9,814,860, which represents \$0.3464 per share to shareholders of record as of December 18, 2019. The distribution was paid on December 27, 2019.

The Fund paid an ordinary income distribution of \$8,647,504, which represents \$0.3052 per share and a long-term capital gains distri-

butions of \$39,792,119, which represents \$1.4044 per share to shareholders of record as of December 17, 2018. The distribution was paid on December 27, 2018.

**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

**JAPAN SMALLER CAPITALIZATION FUND, INC.**

**NOTES TO FINANCIAL STATEMENTS—(Continued)**

- 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)

At February 29, 2020, all of the Fund’s investments were determined to be Level 1 securities.

During the fiscal year ended February 29, 2020, the Fund did not hold any instrument which used significant unobservable inputs (Level 3) in determining fair value.

**6. Subsequent Events**

The Fund has evaluated subsequent events through April 29, 2020, the date as of which the financial statements are available to be issued.

The post year-end coronavirus outbreak is impacting the global economy and the market environment. The final impact of the coronavirus outbreak is hard to predict. Going forward, any such impact could adversely affect the fund’s performance.



**JAPAN SMALLER CAPITALIZATION FUND, INC.**

**FINANCIAL HIGHLIGHTS**

For a share of common stock outstanding throughout each year:

	<b>For the Year Ended</b>				
	<b>February 29, 2020</b>	<b>2019</b>	<b>February 28, 2018</b>	<b>2017</b>	<b>February 29, 2016</b>
Net asset value, beginning of year	<u>\$10.17</u>	<u>\$14.01</u>	<u>\$12.09</u>	<u>\$10.50</u>	<u>\$10.98</u>
Investment operations:					
Net investment income (1) . . . . .	0.11	0.09	0.09	0.12	0.06
Net realized and unrealized gain (loss) on investments and foreign currency . . . . .	<u>(0.69)</u>	<u>(2.22)</u>	<u>3.71</u>	<u>2.41</u>	<u>0.34</u>
Total from investment operations . . . . .	<u>(0.58)</u>	<u>(2.13)</u>	<u>3.80</u>	<u>2.53</u>	<u>0.40</u>
Less Distributions:					
Distributions from ordinary income . . . . .	<u>(0.27)</u>	<u>(0.09)</u>	<u>(0.55)</u>	<u>(0.35)</u>	<u>(0.17)</u>
Distributions from capital gains . . . . .	<u>(0.47)</u>	<u>(1.62)</u>	<u>(1.33)</u>	<u>(0.59)</u>	<u>(0.71)</u>
Total from distributions . . . . .	<u>(0.74)</u>	<u>(1.71)</u>	<u>(1.88)</u>	<u>(0.94)</u>	<u>(0.88)</u>
Net asset value, end of year . . . . .	<u>\$8.85</u>	<u>\$10.17</u>	<u>\$14.01</u>	<u>\$12.09</u>	<u>\$10.50</u>
Market value, end of year . . . . .	\$8.03	\$8.92	\$12.48	\$10.60	\$8.98
Total investment return (2) . . . . .	(2.6%)	(13.8%)	36.0%	24.9%	0.7%
Ratio/Supplemental Data:					
Net assets, end of year (000) . . . . .	\$250,887	\$288,109	\$397,087	\$342,513	\$297,550
Ratio of expenses to average net assets . . .	1.21%	1.13%	1.05%	1.09%	1.11%
Ratio of net income to average net assets . .	1.09%	0.67%	0.66%	0.99%	0.50%
Portfolio turnover rate . . . . .	30%	24%	50%	20%	24%

(1) Based on average shares outstanding.

(2) 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.

**JAPAN SMALLER CAPITALIZATION FUND, INC.**

**SUPPLEMENTAL SHAREHOLDER INFORMATION (Unaudited)**

The 2019 Annual Meeting of the Shareholders of the Fund was held at the offices of NAM-USA at Worldwide Plaza, 309 West 49th Street, New York, New York on November 26, 2019. The purpose of the meeting was (1) to elect two Directors to serve for a term to expire in 2020 (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 2020 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 Directors:

	<b>Shares Voted For</b>	<b>% of Outstanding Shares</b>	<b>Shares Voted Withhold Authority</b>	<b>% of Outstanding Shares</b>	<b>Shares Abstained</b>	<b>Broker Non-Vote</b>
E. Han Kim	20,978,627	74.04%	1,890,123	6.67%	-	-
Marcia L. MacHarg	20,971,598	74.02%	1,897,152	6.70%	-	-

**JAPAN SMALLER CAPITALIZATION FUND, INC.**

**SUPPLEMENTAL SHAREHOLDER INFORMATION (Unaudited)**

**INDEPENDENT DIRECTORS**

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Name, Age, Position(s) Held with the Fund,  
Length of Service, Other Directorships Held by Director,  
Number of Portfolios in Fund Complex/Outside Fund  
Complexes Currently Overseen by Director

Principal Occupation(s) During Past 5 Years:

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**Rodney A. Buck (72)**

Director and Chairman of the Board  
Director since: 2006  
Chairman of the Board since: 2010  
Director of one fund in the Fund Complex

Owner, Buck Capital Management (private investment management firm) since 2005; Chairman of the Dartmouth-Hitchcock Health Care Investment Committee since 2011.

**E. Han Kim (73)**

Director  
Director since: 2010  
Director of one fund in the Fund Complex

Everett E. Berg Professor of Business Administration at Ross Business School, University of Michigan since 1980; Director of Mitsui Financial Research Center from 1990-2020; Advisor to CEO of Taubman Asia from 2009-2016.

**David B. Chemidlin (63)**

Director and Chairman of the Audit Committee  
Director since: 2006  
Director of one fund in the Fund Complex

Owner and President of AbidesWorks LLC (accounting and business support services) since 2016; Corporate Controller, Advance Magazine Publishers, Inc. (d/b/a Conde Nast) from 1995-2016.

**Marcia L. MacHarg (71)**

Director  
Director since: 2013  
Director of one fund in the Fund Complex

Partner, Debevoise & Plimpton LLP from 1987-2012; Of Counsel, Debevoise & Plimpton LLP since 2013; Trustee, Board of Trustees of Smith College since 2014 and Chair of the Audit Committee of the Board of Trustees since 2016; Member of the Executive Committee of the Friends of Smith College Libraries from 2013-2015; Trustee and Chair of the Audit committee of the American University in Bulgaria from May 2019 to April 2020.

**JAPAN SMALLER CAPITALIZATION FUND, INC**

**SUPPLEMENTAL SHAREHOLDER INFORMATION (Unaudited)**

**INTERESTED DIRECTORS**

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Name, Age, Position(s) Held with the Fund,  
Length of Service, Other Directorships Held by Director,  
Number of Portfolios in Fund Complex/Outside Fund  
Complexes Currently Overseen by Director

Principal Occupation(s) During Past 5 Years:

**Yuichi Nomoto (47)\***

President and Director  
Since: April 1, 2019  
Director of one fund in the Fund complex

President and Chief Executive Officer of NAM-U.S.A and President of Nomura Global Alpha LLC (“NGA”) since April 1, 2019; Managing Director of NAM-U.S.A since April 2018; Head of Client Services and Marketing of NAM-U.S.A since 2016; Executive Director of NAM-U.S.A from 2016 to 2018; Senior Manager and Head of the Marketing Planning Team, NISA Project Team in Retail Client Strategy, and Head of Investment Trust Marketing of NAM from 2010 to 2016.

**Yutaka Itabashi (54)\***

President and Director  
From 2013 to March 31, 2019  
Director of one fund in the Fund Complex

Senior Managing Director of NAM since 2015; President and Chief Executive Officer of NAM-U.S.A and President of NGA from 2013 to March 31, 2019; Managing Director of NAM from 2012-2013; Senior Managing Director of Nomura Funds Research and Technologies Co., Ltd. (“NFRT”) from 2009-2012.

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\* Mr. Nomoto and Mr. Itabashi are “interested persons” of the Fund based on their positions with NAM-USA and NAM and as defined in the Investment Company Act.

*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 29, 2020, the Board of Directors (or the Independent Directors of the Fund meeting as a group) held six meetings, the Audit Committee held three 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**

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Name, Address\*, Age, Position(s) Held with the Fund,  
Term of Office \*\* and Length of Service

Principal Occupation(s) During Past 5 Years:

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**Yuichi Nomoto (47)**

President and Director  
Since: April 1, 2019  
Director of one fund in the Fund complex

President and Chief Executive Officer of NAM-U.S.A and President of NGA since April 1, 2019; Managing Director of NAM-U.S.A since April 2018; Head of Client Services and Marketing of NAM-U.S.A since 2016; Executive Director of NAM-U.S.A from 2016 to 2018; Senior Manager and Head of the Marketing Planning Team, NISA Project Team in Retail Client Strategy, and Head of Investment Trust Marketing of NAM from 2010 to 2016.

**Yutaka Itabashi (54)**

President and Director  
From 2013 to March 31, 2019  
Director of one fund in the Fund Complex

Senior Managing Director of NAM since 2015; President and Chief Executive Officer of NAM-U.S.A and President of NGA from 2013 to March 31, 2019; Managing Director of NAM from 2012-2013; Senior Managing Director of NFRT from 2009-2012.

**Zheng Liu (41)**

Vice President  
Vice President since: 2018

Chief Administrative Officer of NAM-U.S.A since 2018; Senior Manager of the Corporate Planning Department of NAM from 2012-2018; Quantitative Analyst for Quantitative Research and Development Department of NAM from 2007-2012.

**Maria R. Premole (57)**

Vice President  
Vice President since: 2013

Vice President of NAM-U.S.A since 2013; Associate of NAM-U.S.A from 2008-2013.

**Neil A. Daniele (59)**

Secretary and Chief Compliance Officer  
Secretary since: 2002  
Chief Compliance Officer since: 2005

Chief Compliance Officer of NAM-U.S.A since 2005 and Managing Director of NAM-U.S.A 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-U.S.A and NGA since 2013.

**Amy J. Robles (42)**

Treasurer  
Treasurer since: 2013  
Assistant Treasurer from 2011 to 2013

Executive Director of NAM-U.S.A since 2015; Controller and Treasurer of NAM-U.S.A and Treasurer of NGA since 2013; Vice President of NAM-U.S.A from 2009-2015.

**Kelly S. Lee (37)**

Assistant Treasurer  
Assistant Treasurer since: 2015

Vice President of NAM-U.S.A since 2015; Fund Controller at JP Morgan Chase & Co. from 2014- 2015; Financial Services Senior at Ernst & Young LLP from 2010-2014.

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

\*\* Elected and appointed by the Board of Directors and hold office until they resign, are removed or are otherwise disqualified to serve.

## **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 29, 2020 as to the federal tax status of distributions received by shareholders during such fiscal year. Accordingly, the Fund designates \$727,211 as foreign tax credit with the associated foreign gross income of \$7,272,094.

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 2020.

### **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

### 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 November 26, 2019. In connection with their deliberations at that meeting and at a separate meeting of the Independent Directors held on November 18, 2019, 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 comparative small-cap funds, and performance of the Fund’s benchmark, (ii) the past three fiscal year financial highlights and 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) management fees charged by the Manager to comparable closed-end funds with Asia Equity strategies, (iv) the most current financial statements and profitability of the Manager and the Investment Adviser and (v) responses to questionnaires from the Manager and the Investment Adviser concerning the services they provide to the Fund and other matters. The Independent Directors were advised by, and received materials (including a detailed memorandum reviewing the applicable legal standards and factors to be taken into account in considering the renewal of investment management agreements, as set forth 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 November 26, 2019, 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.

## JAPAN SMALLER CAPITALIZATION FUND, INC

### Board Review of the Management and Investment Advisory Agreements (Continued)

*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, five-year, and ten-year periods ended September 30, 2019. 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 closed-end funds investing primarily in Asian securities.

In connection with their review of investment performance, the Independent Directors noted that, following a series of discussions with management in 2012 and 2013 that focused on the Fund's performance, the Investment Adviser had installed a new management 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 the past with an increased focus on value characteristics evidenced by financial measurements. The Independent Directors also noted the Fund's comparative performance since the transition and the Fund's performance for the one-year, three-year and five-year periods ended September 30, 2019 amongst six funds (including the Fund) identified by the Manager as having similar investment objectives.

*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 Fund.* The Board considered the fee payable under the Fund's management agreement in connection with other information provided for the Directors' consideration. The Board 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 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.

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 to understand expense allocation methodology utilized by the Investment Adviser.

After reviewing the information described above including investment performance and fee structures of comparative funds, the Independent Directors concluded that the management fee proposed to be charged to the Fund was reasonable and the profitability of the Agreements to the Manager and the Investment Adviser supported the continuance of the Agreements.



**JAPAN SMALLER CAPITALIZATION FUND, INC**

**Board Review of the Management and Investment Advisory Agreements (Continued)**

Based on an evaluation of all factors deemed relevant, including the factors described above and taking into account information received throughout the preceding year, the Board, including each of the Independent Directors, concluded that each of the Agreements should be continued through December 31, 2020.

## 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 29, 2020, the Fund issued no new shares for dividend reinvestment purposes.

**JAPAN SMALLER CAPITALIZATION FUND, INC.**

**DIVIDEND REINVESTMENT PLAN (Continued) (Unaudited)**

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 distribu-

tions 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  
Yuichi Nomoto since April 1, 2019  
Yutaka Itabashi from 2013 to March 31, 2019  
E. Han Kim  
Marcia L. MacHarg

## OFFICERS

Yuichi Nomoto, President since April 1, 2019  
Yutaka Itabashi, President from 2013 to March 31, 2019  
Zheng Liu, Vice President  
Maria R. Premole, Vice President  
Neil A. Daniele, Secretary and Chief Compliance Officer  
Amy J. Robles, 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/japan-smaller-capitalization>

## 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

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.

# JAPAN

## Smaller Capitalization Fund, Inc.

## ANNUAL REPORT

**FEBRUARY 29, 2020**

Beginning with reports for the period ending August 31, 2021, as permitted by regulations adopted by the Securities and Exchange Commission, paper copies of the shareholder reports will no longer be sent by mail, unless you specifically request paper copies of the reports. Instead, the reports will be made available on the Fund's website <http://funds.nomura-asset.com/japan-smaller-capitalization>, and you will be notified by mail each time a report is posted and provided with a website link to access the report.

If you already elected to receive shareholder reports electronically, you will not be affected by this change and you need not take any action. You may elect to receive shareholder reports and other communications from the Fund electronically anytime by contacting your financial intermediary or if you are a direct investor, by calling 1-800-426-5523.

You may elect to receive all future reports in paper free of charge. If you invest through a financial intermediary, you can contact your financial intermediary to require that you continue to receive paper copies of your shareholder reports. If you invest directly with the Fund, you can call 1-800-426-5523 to let the Fund know you wish to continue receiving paper copies of your shareholder reports.