

JAPAN SMALLER CAPITALIZATION FUND INC  
Form N-Q  
July 21, 2014

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 20549

FORM N-Q

QUARTERLY SCHEDULE OF PORTFOLIO HOLDINGS OF REGISTERED  
MANAGEMENT INVESTMENT COMPANY

Investment Company Act file number: 811-05992

JAPAN SMALLER CAPITALIZATION FUND, INC.

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(Exact name of registrant as specified in charter)

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

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(Address of principal executive offices)

Yutaka Itabashi  
Worldwide Plaza  
309 West 49th Street  
New York, New York 10019

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(Name and address of agent for service)

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

Date of fiscal year end: February 28, 2015

Date of reporting period: March 1, 2014 - May 31, 2014

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JAPAN SMALLER CAPITALIZATION FUND, INC.  
SCHEDULE OF INVESTMENTS  
May 31, 2014

|   | Shares       | Cost              | Market<br>Value   | Unrealized<br>Gain or<br>Loss | % of<br>Net<br>Assets |
|---|--------------|-------------------|-------------------|-------------------------------|-----------------------|
| <b>JAPANESE EQUITY SECURITIES</b>   |              |                   |                   |                               |                       |
| <b>Banks</b>  |              |                   |                   |                               |                       |
| Akita Bank, Ltd.<br>General banking services  | \$ 1,267,000 | \$ 3,418,365      | \$ 3,361,074      | (57,291 )                     | 1.2                   |
| The Kagoshima Bank, Ltd.<br>General banking services  | 721,000      | 4,897,424         | 4,533,700         | (363,724 )                    | 1.6                   |
| The Tochigi Bank, Ltd.<br>Commercial banking services   | 759,000      | 2,820,038         | 3,132,050         | 312,012                       | 1.1                   |
| The Yamanashi Chuo Bank, Ltd.<br>Commercial banking services  | 1,214,000    | 5,328,607         | 5,355,532         | 26,925                        | 1.9                   |
| <b>Total Banks</b>  |              | <b>16,464,434</b> | <b>16,382,356</b> | <b>(82,078 )</b>              | <b>5.8</b>            |
| <b>Chemicals</b>  |              |                   |                   |                               |                       |
| C. Uyemura & Co., Ltd.<br>Plating chemicals   | 56,100       | 2,412,511         | 2,714,606         | 302,095                       | 1.0                   |
| Sakai Chemical Industry Co., Ltd.<br>Titanium oxide, polyvinyl chloride stabilizers, and<br>pharmaceuticals | 2,830,000    | 8,745,638         | 8,035,665         | (709,973 )                    | 2.8                   |
| Tenma Corporation<br>Molded resin products  | 315,400      | 4,047,200         | 4,369,365         | 322,165                       | 1.5                   |
| <b>Total Chemicals</b>  |              | <b>15,205,349</b> | <b>15,119,636</b> | <b>(85,713 )</b>              | <b>5.3</b>            |
| <b>Construction</b>   |              |                   |                   |                               |                       |
| MIRAIT Holdings Corporation<br>Telecommunication engineering  | 677,600      | 5,823,055         | 6,357,909         | 534,854                       | 2.2                   |
| Toenec Corporation<br>Constructs comprehensive building facilities  | 1,214,000    | 6,698,384         | 6,452,879         | (245,505 )                    | 2.3                   |
| <b>Total Construction</b>   |              | <b>12,521,439</b> | <b>12,810,788</b> | <b>289,349</b>                | <b>4.5</b>            |
| <b>Electric Appliances</b>  |              |                   |                   |                               |                       |
| Espec Corp<br>Meteorological testing devices  | 552,700      | 4,186,751         | 4,295,400         | 108,649                       | 1.5                   |
| Koito Manufacturing Co., Ltd.<br>Lighting equipment   | 153,000      | 2,953,092         | 3,631,833         | 678,741                       | 1.3                   |
| Zojirushi Corporation<br>Household appliances   | 848,000      | 3,063,173         | 3,074,396         | 11,223                        | 1.1                   |
| <b>Total Electric Appliances</b>  |              | <b>10,203,016</b> | <b>11,001,629</b> | <b>798,613</b>                | <b>3.9</b>            |

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|   |         |           |           |             |     |
|---|---------|-----------|-----------|-------------|-----|
| Financing Business                                  |         |           |           |             |     |
| Ricoh Leasing Company, Ltd.                         | 120,800 | 3,146,266 | 3,242,539 | 96,273      | 1.1 |
| Office automation equipment leasing                 |         |           |           |             |     |
| Total Financing Business                            |         | 3,146,266 | 3,242,539 | 96,273      | 1.1 |
| Food  |         |           |           |             |     |
| Fuji Oil Co., Ltd.                                  | 259,200 | 4,480,280 | 3,241,910 | (1,238,370) | 1.1 |
| Palm oil and coconut oil                            |         |           |           |             |     |
| Total Foods   |         | 4,480,280 | 3,241,910 | (1,238,370) | 1.1 |
| Information and Communication                       |         |           |           |             |     |
| NS Solutions Corporation                            | 115,900 | 2,265,323 | 2,873,017 | 607,694     | 1.0 |
| System consulting services and software development |         |           |           |             |     |
| Okinawa Cellular Telephone Company                  | 118,800 | 2,972,394 | 3,033,614 | 61,220      | 1.1 |
| Cellular and car phone services                     |         |           |           |             |     |
| Total Information and Communication                 |         | 5,237,717 | 5,906,631 | 668,914     | 2.1 |

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|  | Shares    | Cost              | Market Value      | Unrealized Gain or Loss | % of Net Assets |
|--|-----------|-------------------|-------------------|-------------------------|-----------------|
| <b>Iron and Steel</b>  |           |                   |                   |                         |                 |
| Chubu Steel Plate Co., Ltd.<br>Manufactures electric furnace steel plates    | 728,900   | 2,975,320         | 3,086,617         | 111,297                 | 1.1             |
| Nichia Steel Works, Ltd.<br>Produces and sells steel products                | 1,239,000 | 3,987,650         | 3,542,435         | (445,215 )              | 1.2             |
| Osaka Steel Co., Ltd.<br>Electric furnace steelmaker                         | 214,600   | 3,923,376         | 3,542,228         | (381,148 )              | 1.3             |
| <b>Total Iron and Steel</b>  |           | <b>10,886,346</b> | <b>10,171,280</b> | <b>(715,066 )</b>       | <b>3.6</b>      |
| <b>Machinery</b>   |           |                   |                   |                         |                 |
| Hisaka Works, Ltd.<br>Heat exchangers and evaporators                        | 473,000   | 4,524,847         | 4,275,496         | (249,351 )              | 1.5             |
| Oiles Corporation<br>Manufactures oilless bearings                           | 127,000   | 2,824,109         | 2,848,703         | 24,594                  | 1.0             |
| Sintokogio, Ltd.<br>Engineering equipment                                    | 515,400   | 3,957,547         | 3,580,151         | (377,396 )              | 1.3             |
| <b>Total Machinery</b>   |           | <b>11,306,503</b> | <b>10,704,350</b> | <b>(602,153 )</b>       | <b>3.8</b>      |
| <b>Metal Products</b>  |           |                   |                   |                         |                 |
| Neturen Co., Ltd.<br>Induction hardening equipment                           | 422,500   | 2,776,065         | 2,710,675         | (65,390 )               | 1.0             |
| <b>Total Metal Products</b>  |           | <b>2,776,065</b>  | <b>2,710,675</b>  | <b>(65,390 )</b>        | <b>1.0</b>      |
| <b>Other Products</b>  |           |                   |                   |                         |                 |
| Nishikawa Rubber Company Ltd.<br>Rubber products                             | 197,800   | 3,271,767         | 3,047,263         | (224,504 )              | 1.1             |
| <b>Total Other Products</b>  |           | <b>3,271,767</b>  | <b>3,047,263</b>  | <b>(224,504 )</b>       | <b>1.1</b>      |
| <b>Real Estate</b>   |           |                   |                   |                         |                 |
| Keihanshin Building Co., Ltd.<br>Real estate leasing and building management | 695,500   | 3,924,534         | 3,594,351         | (330,183 )              | 1.3             |
| Sundrug Co., Ltd.<br>Drug store chain  | 69,200    | 2,791,390         | 3,103,734         | 312,344                 | 1.1             |
| <b>Total Real Estate</b>   |           | <b>6,715,924</b>  | <b>6,698,085</b>  | <b>(17,839 )</b>        | <b>2.4</b>      |
| <b>Retail Trade</b>  |           |                   |                   |                         |                 |
| Arc Land Sakamoto Co., Ltd.<br>Operates home centers                         | 206,300   | 3,382,879         | 4,199,780         | 816,901                 | 1.5             |
| Create S D Co., Ltd.<br>Drug store chain                                     | 127,400   | 4,400,779         | 4,255,846         | (144,933 )              | 1.5             |

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|  |           |            |            |            |     |
|--|-----------|------------|------------|------------|-----|
| Daikokutenbussan Co., Ltd.<br>Operates discount stores for food products and sundry goods    | 108,500   | 2,986,895  | 2,758,872  | (228,023 ) | 1.0 |
| Heiwado Co., Ltd.<br>Supermarkets  | 199,600   | 2,506,913  | 2,914,184  | 407,271    | 1.0 |
| Jin Co., Ltd.<br>Eyeglasses and fashion merchandise  | 97,400    | 3,159,714  | 2,747,449  | (412,265 ) | 1.0 |
| Total Retail Trade   |           | 16,437,180 | 16,876,131 | 438,951    | 6.0 |
| Textiles and Apparel   |           |            |            |            |     |
| Hogy Medical Co., Ltd.<br>Medical supply products  | 68,600    | 3,110,860  | 3,680,055  | 569,195    | 1.3 |
| Komatsu Seiren Co., Ltd.<br>Synthetic fibers, textiles products, and composite thin-membrane | 727,000   | 3,732,747  | 3,842,857  | 110,110    | 1.3 |
| Total Textiles and Apparel   |           | 6,843,607  | 7,522,912  | 679,305    | 2.6 |
| Transportation and Warehousing   |           |            |            |            |     |
| Alps Logistics Co., Ltd.<br>Delivery, storage, and forwarding of electronic components       | 259,700   | 2,685,357  | 2,717,435  | 32,078     | 1.0 |
| Japan Transcity Corporation<br>Warehousing and transportation services                       | 1,238,000 | 4,217,485  | 3,965,298  | (252,187 ) | 1.4 |
| Total Transportation and Warehousing   |           | 6,902,842  | 6,682,733  | (220,109 ) | 2.4 |
| Transportation Equipment   |           |            |            |            |     |
| Sanoh Industrial Co., Ltd.<br>Tubes, wires and electrical products                           | 427,400   | 3,131,514  | 2,746,312  | (385,202 ) | 1.0 |
| Tachi-S Co., Ltd.<br>Child transformation seats, seat components, and rotating units         | 395,200   | 6,705,798  | 6,282,507  | (423,291 ) | 2.2 |
| Total Transportation Equipment   |           | 9,837,312  | 9,028,819  | (808,493 ) | 3.2 |
| Utilities  |           |            |            |            |     |
| The Okinawa Electric Power Company, Incorporated<br>Thermal power                            | 95,900    | 3,436,145  | 3,104,642  | (331,503 ) | 1.1 |
| Total Utilities  |           | 3,436,145  | 3,104,642  | (331,503 ) | 1.1 |
| Wholesale Trade  |           |            |            |            |     |
| Siix Corporation<br>Video, audio, and office equipment                                       | 300,400   | 3,969,867  | 4,725,294  | 755,427    | 1.7 |

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|  | Shares  | Cost           | Market Value   | Unrealized Gain or Loss | % of Net Assets |
|--|---------|----------------|----------------|-------------------------|-----------------|
| Ryoden Trading Company, Ltd.                           | 809,000 | 5,492,187      | 5,492,425      | 238                     | 1.9             |
| Electronic components                                  |         |                |                |                         |                 |
| Total Wholesale Trade                                  |         | 9,462,054      | 10,217,719     | 755,665                 | 3.6             |
| <b>TOTAL INVESTMENTS IN JAPANESE EQUITY SECURITIES</b> |         |                |                |                         |                 |
|  |         | \$ 155,134,246 | \$ 154,470,098 | \$(664,148 )            | 54.6            |
| <b>INVESTMENTS IN FOREIGN CURRENCY</b>                 |         |                |                |                         |                 |
| Japanese Yen   |         |                |                |                         |                 |
| Non-interest bearing account                           |         | 7,129,155      | 7,122,158      | (6,997 )                | 2.5             |
| <b>TOTAL INVESTMENTS IN FOREIGN CURRENCY</b>           |         | \$ 7,129,155   | \$ 7,122,158   | \$(6,997 )              | 2.5             |
| <b>TOTAL INVESTMENTS</b>                               |         | \$ 162,263,401 | \$ 161,592,256 | \$(671,145 )            | 57.1            |
| <b>OTHER ASSETS LESS LIABILITIES, NET</b>              |         |                | 123,993,969    |                         | 42.9            |
| <b>NET ASSETS</b>                                      |         |                | 285,586,225    |                         | 100.0           |

Aggregate gross unrealized appreciation for all securities in which there is an excess of value over tax cost was \$6,201,306.

Aggregate gross unrealized depreciation for all securities in which there is an excess of tax cost over value was \$6,865,454.

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

|              |         |          |
|--------------|---------|----------|
| Japanese Yen | 101.780 | = \$1.00 |
|--------------|---------|----------|

The following table summarizes the valuation of the Fund's investments by fair value hierarchy levels as of May 31, 2014.

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 – (including the Fund’s own assumptions in determining the fair value of investments).

| Level             | Investments<br>in Securities |
|-------------------|------------------------------|
| Level 1           |                              |
| Equity Securities | \$ 154,470,098               |
| Foreign Currency  | 7,122,158                    |
| Level 2           |                              |
| Level 3           |                              |
| Total             | \$ 161,592,256               |

During the quarter ended May 31, 2014, there were no transfers between Level 1 and 2 and the Fund did not hold any instruments which used significant observable inputs (Level 3) in determining fair value.

Item 2. Controls and Procedures.

(a) The Registrant's Principal Executive Officer and Principal Financial Officer evaluated the Registrant's disclosure controls and procedures within 90 days of the filing of this report and concluded that they were effective in providing reasonable assurance that the information required to be disclosed by the Registrant in its reports or statements filed under the 1934 Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission.

(b) There were no changes in the Registrant's internal control over financial reporting that occurred during the Registrant's last fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Registrant's internal control over financial reporting.

Item 3. Exhibits.

(a) Certifications of Principal Executive Officer and Principal Financial Officer pursuant to Rule 30a-2(a) under the Investment Company Act of 1940 are attached hereto as an exhibit.

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SIGNATURES

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

JAPAN SMALLER CAPITALIZATION FUND, INC.

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

Date: July 21, 2014

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

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

Date: July 21, 2014

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

Date: July 21, 2014