

JAPAN SMALLER CAPITALIZATION FUND INC

Form DEF 14A

October 05, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of
the Securities Exchange Act of 1934

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Pursuant to §240.14a-12

JAPAN SMALLER CAPITALIZATION FUND, INC.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

No fee required.

Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

Fee paid previously with preliminary materials.

Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

Japan Smaller Capitalization Fund, Inc.

October 5, 2018

To our Shareholders:

We, the Directors of your Fund, Japan Smaller Capitalization Fund, Inc., are writing to you regarding two proposals to be presented at the upcoming Annual Meeting of Shareholders.

The first proposal relates to the proposed re-election of two current Directors. The Directors believe both nominees have provided superb service to the Fund, and we urge you to vote FOR their election.

The second matter involves a shareholder proposal requesting the Board to take action to declassify the Board, so that Directors will not serve for three-year elected terms but will instead be subject to election each year. The Directors unanimously recommend a vote AGAINST the shareholder proposal, for the reasons discussed below and in the attached proxy statement.

These matters are important, and we urge all shareholders to vote as we recommend. The attached proxy statement contains detailed information regarding our recommendations on both proposals.

Why Your Board of Directors Opposes the Shareholder Proposal

After careful consideration, the Directors have unanimously determined that the proposal to declassify the Board to eliminate staggered three-year elected terms is not in the best interests of the Fund or its shareholders. Our conclusion is based on the following factors:

The current structure, with three-year elected terms, provides stability and continuity so that experienced Directors can effectively oversee the operations of the Fund, including its investment performance.

The Board is committed to enhancing long-term shareholder value. Electing Directors to three-year terms supports their independence and permits them to use their experience to focus on the long-term interests of the Fund and its shareholders.

The staggered structure of the three-year terms ensures that there will not be a complete turnover of the Board as a result of a single election. A complete turnover would result in an abrupt loss of both the Board's institutional memory and its experience overseeing the Fund's investment adviser and the Fund's investments in the Japanese markets.

Japan Smaller Capitalization Fund, Inc.

October 5, 2018

Page 2

Closed-end funds like the Fund differ from operating companies in their governance and federal regulatory requirements. Arguments used to justify the declassification of operating company boards do not support the shareholder proposal relating to the Fund.

Please see the Board's statement in opposition to the proposal that begins on page 18 of the attached proxy statement for the Board's more detailed analysis of this proposal.

Your vote is important. Again, we urge you to vote FOR the Fund's nominees for election as Directors (Proposal 1) and AGAINST the shareholder proposal (Proposal 2) by promptly returning the enclosed proxy card.

Sincerely,

The Directors of your Fund

Rodney A. Buck

David B. Chemidlin

E. Han Kim

Yutaka Itabashi

Marcia L. MacHarg

JAPAN SMALLER CAPITALIZATION FUND, INC.

Worldwide Plaza, 309 West 49th Street

New York, New York 10019-7316

NOTICE OF 2018 ANNUAL MEETING OF SHAREHOLDERS

November 20, 2018

TO THE SHAREHOLDERS

OF JAPAN SMALLER CAPITALIZATION FUND, INC.:

TO THE SHAREHOLDERS

OF JAPAN SMALLER CAPITALIZATION FUND, INC.:

Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting of Shareholders to be held on Tuesday, November 20, 2018: The Notice of Annual Meeting of Shareholders and Proxy Statement are available at www.proxy-direct.com/jof-30224.

Notice is hereby given that the 2018 Annual Meeting of Shareholders (the "Meeting") of Japan Smaller Capitalization Fund, Inc., a Maryland corporation (the "Fund"), will be held at the offices of Nomura Asset Management U.S.A. Inc., Worldwide Plaza, 309 West 49th Street, 28th Floor, New York, New York 10019-7316, on Tuesday, November 20, 2018, at 10:30 a.m. to consider and vote on the following matters:

- (1) the election of two Directors to serve as Class III Directors, to serve for a term of three years and until their successors are duly elected and qualify;
- (2) a shareholder proposal requesting that the Board of Directors take action to declassify the Board of Directors, if properly presented at the Meeting; and
- (3) the transaction of such other business as may properly come before the Meeting or any adjournment or postponement thereof.

The Board of Directors has fixed the close of business on September 21, 2018 as the Record Date for the determination of shareholders entitled to notice of and to vote at the Meeting or any adjournment or postponement thereof.

Shareholders are cordially invited to attend the Meeting. Shareholders who do not expect to attend the Meeting in person are requested to complete, date and sign the enclosed proxy card and return it promptly in the envelope provided for that purpose. The enclosed proxy is being solicited on behalf of the Board of Directors of the Fund.

By Order of the Board of Directors

Neil A. Daniele, Secretary

New York, New York

Dated: October 5, 2018

[This page intentionally left blank]

PROXY STATEMENT
JAPAN SMALLER CAPITALIZATION FUND, INC.

2018 ANNUAL MEETING OF SHAREHOLDERS
November 20, 2018

INTRODUCTION

This Proxy Statement is furnished in connection with the solicitation of proxies on behalf of the Board of Directors (the “Board”) of Japan Smaller Capitalization Fund, Inc., a Maryland corporation (the “Fund”), to be voted at the 2018 Annual Meeting of Shareholders of the Fund (the “Meeting”) to be held at the offices of Nomura Asset Management U.S.A. Inc. (“NAM-U.S.A.”), Worldwide Plaza, 309 West 49th Street, 28th Floor, New York, New York 10019-7316, on Tuesday, November 20, 2018, at 10:30 a.m. The approximate mailing date of this Proxy Statement is October 8, 2018. All properly executed proxies received prior to the Meeting will be voted at the Meeting in accordance with the instructions marked on the proxy card or otherwise as provided. Unless instructions to the contrary are marked, proxies will be voted FOR the election of two Class III Directors (Proposal 1) and AGAINST the shareholder proposal requesting the Board to take all steps necessary to reorganize the Board into one class with each Director subject to election each year (Proposal 2).

Any proxy may be revoked at any time prior to the Meeting by giving written notice of the revocation to the Secretary of the Fund at the Fund’s address indicated above, by submitting a subsequently executed proxy or by voting in person at the Meeting.

Only shareholders can attend the Meeting and any adjournment or postponement thereof. To gain admittance, if you are a shareholder of record, you must bring a form of personal identification to the Meeting, where your name will be verified against the shareholders of record. If a broker or other nominee holds your shares and you plan to attend the Meeting, you should bring a recent brokerage statement showing your ownership of the shares, as well as a form of personal identification. Only shareholders of record present in person or by proxy will be able to vote, or otherwise exercise the powers of a shareholder, at the Meeting.

The Board of Directors has fixed the close of business on September 21, 2018 as the Record Date for the determination of shareholders entitled to notice of and to vote at the Meeting and at any adjournment or postponement thereof. Shareholders of record on the Record Date will be entitled

to one vote for each share held, with no shares having cumulative voting rights. As of September 21, 2018, the Fund had 28,333,893 outstanding shares of Common Stock, par value \$0.10 per share.

The Board knows of no business other than the proposals described in this Proxy Statement to be presented at the Meeting. If any other matter is properly presented, it is the intention of the persons named in the enclosed proxy to vote in accordance with their discretion.

The Fund sends annual and semi-annual reports to shareholders. The Fund will furnish, without charge, a copy of its most recent annual report and semi-annual report succeeding such annual report to shareholders upon request to the Fund at Worldwide Plaza, 309 West 49th Street, New York, New York 10019-7316 (or call 1-800-833-0018).

Shareholders may call the number above to obtain directions to the Meeting if they plan to vote in person.

PROPOSAL 1: ELECTION OF DIRECTORS

The Fund's Board of Directors is divided into three classes of Directors serving staggered three-year terms and until their successors are elected and qualify. Each year the term of office of one class will expire. The Class III Director nominees proposed in this Proxy Statement are currently Directors of the Fund. The other current Directors consist of two Class I Directors and one Class II Director, who serve until the annual meetings of shareholders in 2019 and 2020, respectively, and until their successors are duly elected and qualify.

Should any vacancy occur on the Board of Directors, the remaining Directors would be able to fill such vacancy by the affirmative vote of a majority of the remaining Directors in office, even if the remaining Directors do not constitute a quorum, subject to any applicable requirements of the Investment Company Act of 1940, as amended (the "Investment Company Act"). Any Director elected by the Board to fill a vacancy would hold office until the remainder of the full term of the class of Directors in which the vacancy occurred and until a successor is elected and qualifies. If the size of the Board is increased, additional Directors will be apportioned among the three classes to make all classes as nearly equal as possible.

Nominees Proposed for Election as Class III Directors

Rodney A. Buck and David B. Chemidlin have been nominated by the Board to serve as Class III Directors for a term expiring at the Annual Meeting of Shareholders to be held in 2021 and until their successors are duly elected and qualify. Messrs. Buck and Chemidlin have served as Directors of the Fund since 2006. The nominees have indicated an intention to continue to serve if elected and have consented to being named in this Proxy Statement.

Unless authority is withheld in the proxy or properly revoked, it is the intention of the persons named in the accompanying proxy card to cast each vote FOR the election of Messrs. Buck and Chemidlin as Class III Directors. The Board of Directors knows of no reason why the Class III Director nominees would be unable to serve, but in the event of any such unavailability, the proxies received will be voted for such substitute nominee as the Board of Directors may recommend. Messrs. Buck and Chemidlin are not “interested persons” of the Fund within the meaning of the Investment Company Act. It is currently expected that any such substitute nominee(s) for Messrs. Buck and Chemidlin will similarly not be “interested persons” of the Fund.

The following table contains biographical and other information relating to the nominees for election as Class III Directors of the Fund.

Independent Directors

Name, Address and Age	Position(s) Held with the Fund	Term of Office and Length of Time Served**	Principal Occupation(s) During Past Five Years	Number of Funds in the Fund Complex Overseen by the Director	Other Public Director ships Held by the Director
Rodney A. Buck (70)* Worldwide Plaza 309 West 49th Street New York, New York 10019-7316	Class III Director and Chairman of the Board	Director since 2006; Chairman of the Board since 2010	Owner, Buck Capital Management (private investment management firm) since 2005; Chairman of the Dartmouth-Hitchcock Health Care Investment Committee since 2011.	One registered investment company consisting of one portfolio	None
David B. Chemidlin (61)* Worldwide Plaza 309 West 49th Street New York, New York 10019-7316	Class III Director and Chairman of the Audit Committee	Director and Chairman of the Audit Committee since 2006	Owner and President of AbideWorks LLC (accounting and business support services) since 2016; Corporate Controller, Advance Magazine Publishers, Inc. (d/b/a Conde Nast) from 1995-2016; Corporate Controller, Sony Music U.S. Group from 1991-1995.	One registered investment company consisting of one portfolio	None

Each Class III Director is a member of the Audit, Nominating, and Governance and Compliance Committees of the *Fund. Mr. Buck is the Chairman of the Governance and Compliance Committee. Mr. Chemidlin is the Chairman of the Audit Committee.

If each Class III Director nominee is elected by the shareholders and qualifies, he will serve as a Class III Director **for a three year term expiring at the Annual Meeting of Shareholders to be held in 2021 and until his successor is elected and qualifies or until his earlier resignation or removal.

Information Regarding Other Directors

The following tables contain information about Class I and Class II Directors, whose terms will continue after the Meeting.

Class I Independent Directors

Name, Address and Age	Position(s) Held with the Fund	Term of Office and Length of Time Served**	Principal Occupation(s) During Past Five Years	Number of Funds in the Fund Complex Overseen by the Director	Other Public Director ships Held by the Director
E. Han Kim (72)* Worldwide Plaza 309 West 49 th Street New York, New York 10019-7316	Class I Director	Director since 2010	Everett E. Berg Professor of Business Administration and Director of Mitsui Financial Research Center at Ross Business School, University of Michigan since 1980; Advisor to CEO of Taubman Asia from 2009-2016; Non-executive Chair of the Board of Korea Telecom (KT) from 2009-2014.	One registered investment company consisting of one portfolio	None
Marcia L. MacHarg (69)* Worldwide Plaza 309 West 49 th Street New York, New York 10019-7316	Class I Director	Director since 2013	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.	One registered investment company consisting of one portfolio	None

* Each Class I Director is a member of the Audit, Nominating, and Governance and Compliance Committees of the Fund. Ms. MacHarg is the Chairperson of the Nominating Committee.

** Each Class I Director serves as a Class I Director for a term ending in 2019 and until his or her successor is elected and qualifies or until his or her earlier resignation or removal.

Class II Interested Director

Name, Address and Age	Position(s) Held with the Fund	Term of Office and Length of Time Served**	Principal Occupation(s) During Past Five Years	Number of Funds in the Fund Complex Overseen by the Director	Other Public Director ships Held by the Director
Yutaka Itabashi (53)* c/o Nomura Asset Management U.S.A. Inc. Worldwide Plaza 309 West 49 th Street New York, New York 10019 7316	President and Class II Director	President and Director since 2013	Senior Managing Director of Nomura Asset Management Co., Ltd. (“NAM”) since 2015; President and Chief Executive Officer of NAM-U.S.A. and President of Nomura Global Alpha LLC (“NGA”) since 2013; Managing Director of NAM from 2012-2013; Senior Managing Director of Nomura Funds Research and Technologies Co., Ltd. (“NFRT”) from 2009-2012.	One registered investment company consisting of one portfolio	None

* Mr. Itabashi is an “interested person,” as defined in the Investment Company Act, of the Fund based on his positions with NAM-U.S.A. and NAM.

** The Class II Director serves as a Class II Director for a term ending in 2020 and until his successor is elected and qualifies or until his earlier resignation or removal.

Information About the Directors' Experience, Qualifications, Attributes and Skills

The Board believes that each of the Directors (including each nominee) has the experience, qualifications, attributes and skills on an individual basis and in combination with those of the other Directors to serve in such capacity in light of the Fund's business and structure. Each Director has a substantial business and professional background and/or board experience that indicate the Director's ability to critically review, evaluate, inquire, discuss and respond appropriately to information provided to him or her. A Director's ability to perform his or her duties effectively may have been attained through the Director's business, professional, consulting, public service and/or academic positions; experience from service as a board member of or in a substantial advisory capacity for the Fund and a former fund in the Fund Complex; educational background or professional training; and/or other life experiences. In addition to these shared characteristics, set forth below is a brief discussion of the specific experience, qualifications, attributes or skills of each Director that support the conclusion that each person should serve as a Director.

When considering whether directors and nominees have the experience, qualifications, attributes and skills, taken as a whole, to enable the Board of Directors to satisfy its oversight responsibilities effectively in light of the Fund's business and structure, the Nominating Committee and the Board of Directors focused primarily on the information discussed in each of the Directors' individual biographies set forth above. In particular, with regard to Mr. Buck, the Board of Directors considered his strong background in the investment management industry, believing in particular that Mr. Buck's experience as the chief executive officer of an investment advisory firm and chief investment officer of a life insurance holding company is very valuable to the Fund. Mr. Buck is also currently Chairman of the Dartmouth-Hitchcock Investment Committee, which is responsible for the investment management of sizable endowments and pension funds. With regard to Mr. Chemidlin, the Board of Directors considered his significant experience, expertise and background with regard to finance, accounting and auditing matters, having been a certified public accountant (CPA) for the past 25 years. Mr. Chemidlin is the Owner and President of AbideWorks LLC, an accounting and business support services firm, and served as Corporate Controller for Advance Magazine Publishers, Inc. (d/b/a Conde Nast) from 1995-2016 and Corporate Controller for the Sony Music U.S. Group from 1991-1995, working closely with Sony Japan. With regard to Mr. Kim, the Board of Directors considered his substantial academic and professional background, including his leadership position at the graduate business school at the University of Michigan, his strong background and experience in Asia and his experience in corporate governance matters as a

director and consultant for major Korean corporations. With regard to Ms. MacHarg, the Board of Directors considered her substantial knowledge, expertise and judgment obtained through serving as a partner at a major international law firm for 25 years, her professional accomplishments in a wide variety of complex international legal representations, including her deep experience in investment management matters, and her experience serving on the board of trustees of a major private college. With regard to Mr. Itabashi, the Board of Directors considered his investment management background, financial skills and Asian investment expertise.

References to the experience, qualifications, attributes and skills of each Director are provided pursuant to requirements of the U.S. Securities and Exchange Commission ("SEC"), do not constitute holding out of the Board or any Director as having any special expertise or experience, and do not impose any greater duty or liability on any such Director or on the Board.

Leadership Structure and Oversight Responsibilities of the Board of Directors

The Board is responsible for the oversight of the Fund's operations. The Board has established a Nominating Committee, a Governance and Compliance Committee and an Audit Committee to assist the Board in the oversight of the management and affairs of the Fund. Each of the Board committees is chaired by an Independent Director. The Directors have designated Mr. Buck, an Independent Director, to serve as the Chairman of the Board (the "Chairman"). Mr. Buck has been active in investment management for over 30 years and, as indicated above, previously served as the chief executive officer of an investment advisory subsidiary of a life insurance complex and chief investment officer of the insurance holding company.

The Chairman presides at each Board meeting, establishes the agenda for Board meetings, coordinates with management between Board meetings and acts as the primary liaison between the Independent Directors and Fund management. The Independent Directors believe that the utilization of an Independent Chairman provides an efficient structure for them to coordinate with Fund management in carrying out their responsibilities. The Independent Directors regularly meet as a group and the Chairman plays an important role in communicating with Fund management and in identifying matters of special interest to be addressed by Fund management with the Board. The Chairman may also perform such other functions as may be requested by the Directors from time to time. Designation as Chairman does not impose on such Director any duties or standards greater than or different from other Directors. The Board of Directors' risk management role within the Fund is one of informed oversight. The Board has emphasized to Fund management the importance of maintaining vigorous risk management policies and procedures. Oversight of the risk management process is part of the Board's general oversight of the Fund and its service providers. The Governance and Compliance

Committee reviews and makes recommendations to the Board with respect to issues that pertain to the effectiveness of the Board in carrying out its responsibilities in overseeing Fund management.

The Fund's operations entail a variety of risks including investment risk, counterparty risk, valuation risk, risk of operational failure or lack of business continuity, cybersecurity risk and legal, compliance and regulatory risks. Through processes and procedures implemented by the Fund, Fund management identifies key risks that may affect the Fund and brings these risks to the attention of the Board of Directors at Board meetings, as needed. The Board's oversight function is facilitated by management reporting processes that are designed to provide transparency to the Board about the identification, assessment and management of critical risks and the controls and policies and procedures used to mitigate those risks. The Chief Compliance Officer of the Fund and NAM-U.S.A. as well as various personnel of the manager and other service providers such as the Fund's independent accountants, make periodic reports to the Board and appropriate committees with respect to various aspects of risk management, including results of the implementation and testing of the Fund's and such providers' compliance programs. For example, the Board reviews annually the Fund's and service providers' internal controls with respect to cybersecurity and privacy matters. In addition, the Audit Committee discusses the Fund's risk management and controls over financial reporting with the independent registered public accounting firm engaged by the Fund. The Board reviews valuation policies and procedures. As a result of the foregoing and other factors, the function of the Board with respect to risk management is one of oversight and not of active involvement in the day-to-day risk management activities of the Fund. The Board reviews its role in overseeing the Fund's risk management from time to time and may make changes in its discretion at any time.

Additional Information Concerning Directors

Committees and Directors' Meetings. The Board of Directors has a standing Audit Committee, a standing Governance and Compliance Committee and a standing Nominating Committee, each of which consists of all 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. The principal responsibilities of the Audit Committee, the Governance and Compliance Committee and the Nominating Committee are described below. The Fund has no standing Compensation Committee.

During the fiscal year ended February 28, 2018, the Board of Directors 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. The current Directors attended at least 75% of the aggregate number of meetings of the Board of Directors held during the period for which they served. The

Independent Directors

8

attended at least 75% of the aggregate number of meetings of each Committee held during the fiscal year. The Independent Directors retain independent legal counsel to assist them in connection with their duties in considering the Fund's management and investment advisory contracts between NAM-U.S.A. and its affiliates and for such other legal matters as the Independent Directors request.

Report of the Audit Committee. The following is a report by the Fund's Audit Committee issued as of the date of this Proxy Statement regarding the responsibilities and functions of the Audit Committee.

Pursuant to the Audit Committee Charter, as updated and adopted by the Fund's Board of Directors in March 2015, the Audit Committee's principal responsibilities are to: (i) oversee the Fund's independent accountants and the annual audits of the Fund's financial statements; (ii) approve all audit engagements, fees and terms for the Fund; (iii) meet with the independent accountants at least annually (in a confidential meeting to the extent determined by the Audit Committee Chairman) to review the conduct and results of each audit and discuss the audited and unaudited financial statements, including those matters required to be discussed by the Statement on Auditing Standards No. 114, as amended, and any other communications required to be discussed with the Audit Committee pursuant to applicable laws and regulations; (iv) evaluate the independence and objectivity of the independent accountants, including obtaining a formal written statement delineating all relationships between the independent accountants and the Fund and any service providers consistent with the rules of the Public Company Accounting Oversight Board; and (v) oversee and receive reports on the Fund's financial reporting process and resolve any disagreements between Fund management and the independent accountants regarding financial reporting. A copy of the Audit Committee Charter can be found in the "Literature" section of NAM-U.S.A.'s website at <http://funds.nomura-asset.com/japan-smaller-capitalization>.

The Fund's Board of Directors has determined that David B. Chemidlin is an "audit committee financial expert" and "independent," as such terms are defined in Item 3 of Form N-CSR. This designation will not increase the designee's duties, obligations or liability as compared to his duties, obligations and liability as a member of the Audit Committee and of the Board of Directors; nor will it reduce the responsibility of the other Audit Committee members.

In connection with the audit of the Fund's financial statements for its fiscal year ended February 28, 2018, the Audit Committee received written disclosures and the letter required by Rule 3526 of the Public Company Accounting Oversight Board from RSM US LLP ("RSM"), the Fund's independent accountants, and discussed with RSM certain matters required to be discussed by Statement on Auditing Standards No. 114. At a meeting held on April 19, 2018, the Audit Committee reviewed and discussed the audit of the Fund's financial statements with Fund management and RSM. The Audit Committee also discussed with RSM their independence. Based

9

upon these reviews and discussions, the Audit Committee recommended to the Board of Directors that the Fund's audited financial statements be included in the Fund's Annual Report to shareholders for the fiscal year ended February 28, 2018.

Activities carried out under the Audit Committee Charter include the pre-approval of (a) all auditing services to be provided to the Fund by the Fund's independent accountants; (b) all non-audit services, including tax services, to be provided to the Fund by the Fund's independent accountants in accordance with the Securities Exchange Act of 1934, as amended (the "1934 Act"); provided, however, that the pre-approval requirement with respect to the provision of non-audit services to the Fund by the Fund's independent accountants may be waived by the Audit Committee under the circumstances described in the 1934 Act; and (c) non-audit services to be provided to the Fund's manager (and any entity controlling, controlled by or under common control with the manager that provides ongoing services to the Fund) if the engagement relates directly to the operations and financial reporting of the Fund.

Submitted by the Audit Committee of the

Board of Directors of the Fund

David B. Chemidlin, Chairman

Rodney A. Buck

E. Han Kim

Marcia L. MacHarg

Nominating Committee; Consideration of Potential Director Nominees. The principal purpose of the Nominating Committee is to identify, evaluate, select, appoint or nominate candidates to fill vacancies among the Independent (i.e., non-interested) Directors of the Fund. The Committee is also responsible for nominating those Independent Directors to be included as nominees of the Board in the Fund's proxy materials. It evaluates candidates' qualifications for Board membership and, with respect to nominees for positions as Independent Directors, their independence from the Fund's manager and its affiliates and other principal service providers. The Committee periodically reviews director compensation and will recommend any appropriate changes to the Board as a group.

The Nominating Committee may consider potential director candidates recommended by Fund shareholders taking into account the same criteria applied to candidates identified by the Nominating Committee. Candidates must not be "interested persons" of the Fund or the Fund's investment adviser within the meaning of the Investment Company Act and must qualify as "independent" as defined in the New York Stock Exchange listing standards. In considering candidates recommended by Fund shareholders, the Committee will take into account the provisions

of the Committee's charter and the objectives of the shareholders in submitting the candidate's name for consideration and whether or not such objectives are consistent with the interests of all shareholders. The Committee has determined that potential director candidates recommended by Fund shareholders must satisfy the SEC's nominee information requirements found in Regulation 14A of the 1934 Act, as amended from time to time. A copy of the Nominating Committee Charter can be found in the "Literature" section of NAM-U.S.A.'s website at <http://funds.nomura-asset.com/japan-smaller-capitalization>.

Shareholders recommending potential director candidates to the Nominating Committee must substantiate compliance with these requirements at the time of submitting their proposed director candidate to the attention of the Nominating Committee's Chairperson. Notice to the Nominating Committee's Chairperson should be provided in accordance with the deadline specified in the Fund's Bylaws and include the information required by the Fund's Bylaws.

The Nominating Committee identifies prospective candidates from any reasonable source and has the ability to engage third-party services for the identification and evaluation of potential nominees. Generally, the Committee meets at least annually to identify and evaluate nominees for Director and to make its recommendations to the Board. The Committee may meet more frequently if vacancies on the Board occur during a given year.

The Nominating Committee has adopted the following criteria for selecting, and appointing or nominating Independent Directors:

- (1) The candidate must not be an "interested person" of the Fund and shall be "disinterested" in terms of both the letter and spirit of the Investment Company Act.
- (2) The candidate must have the integrity, independence of mind and personal qualities to fulfill the fiduciary duties of an Independent Director of the Fund and to protect the interests of Fund shareholders.
- (3) The candidate must have substantial expertise, experience or relationships relevant to the business of the Fund, and/or knowledge of investments and finance. Knowledge of and experience in the Asia Pacific region are desirable attributes.
- (4) The candidate should add to the balance of knowledge, experience, skills, expertise and diversity of the Board of Directors as a whole.

(5) At least one Independent Director must qualify as an “audit committee financial expert,” as such term is defined in Item 401 of Regulation S-K and as further specified in the Audit Committee Charter of the Fund.

(6) The candidate should have the ability to attend at least four in-person regular meetings per year and be available to participate by teleconference in meetings of the Committee and periodic special meetings of the Fund which may be called upon short notice. The candidate should also be willing and able to travel to Asia to meet with portfolio management teams and investment officers employed by the investment managers for the Fund.

(7) The Independent Directors have adopted a policy that Independent Directors may serve up to age 74. An Independent Director may continue to serve if, in the judgment of the Nominating Committee, he or she continues to meet all of the criteria specified above and is able to participate in meetings of the Board of Directors and carry out his or her responsibilities as an Independent Director of the Fund.

The standard of the Nominating Committee is to treat all equally qualified nominees in the same manner. The Nominating Committee takes the overall diversity of the Board into account when considering and evaluating potential director candidates. Although the Nominating Committee has no specific policy regarding diversity, when considering nominees, the Nominating Committee generally evaluates the manner in which each nominee’s professional experience, background, skills in matters that are relevant to the oversight of the Fund and leadership experience are complementary to the existing Directors’ qualities.

The Nominating Committee met and, after discussion, recommended the re-election of Messrs. Buck and Chemidlin as Class III Directors by the Board and the shareholders of the Fund. The Nominating Committee may modify its policies and procedures for Director nominees and recommendations from time to time in response to changes in the Fund’s needs and circumstances, and as applicable legal or listing standards change.

Governance and Compliance Committee. The principal purpose of the Governance and Compliance Committee is to monitor the procedures of the Board and its Committees and make recommendations for any changes, including the creation or elimination of standing or ad hoc Board Committees. This Committee also reviews and may make recommendations to the Board relating to those issues that pertain to the effectiveness of the Board in carrying out its responsibilities in governing the Fund and overseeing the management of the Fund. The Committee also oversees the Fund’s compliance policies and procedures and those of its service providers adopted purs