

SECURITIES AND EXCHANGE COMMISSION

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FILER

AMERICAN CAPITAL SMALL CAPITALIZATION FUND INC

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VAN KAMPEN AMERICAN CAPITAL

SMALL CAPITALIZATION FUND

Annual Report
October 31, 1996

Management Discussion

The objective of the Van Kampen American Capital Small Capitalization Fund is to achieve long-term capital appreciation by investing in a portfolio of equity securities with a market capitalization of between \$125 million and \$1 billion. During the fiscal year ended October 31, 1996, the Fund's performance was helped by a strong stock market, in general, and the strong performance of small cap energy stocks, consumer distribution, and finance companies, in particular.

Stocks are selected for the Fund based on their attractiveness in terms of recent earnings estimate revisions and relative valuations measures, such as price/sales ratio. Purchasing small cap stocks with recent earnings estimate revisions has helped the Fund outperform the Wilshire Next 1750 Index, a small cap index. Purchasing stocks based on relative valuation measures alone has not helped the Fund this year. However, the subset of stocks with recent earnings estimate revisions and attractive relative valuation measures has outperformed all stocks with recent earnings estimate revisions.

For the 12 months ended October 31, 1996, the Fund achieved a total return at net asset value of 18.50 percent, including reinvestment of dividends totaling \$0.5275 per share. By comparison, the Standard & Poor's 500-Stock Index achieved a total return of 24.02 percent and the Wilshire Asset Management Next 1750 Index achieved a total return of 17.35 percent.*

[GRAPH]

Change in Value of a \$10,000 Investment

Van Kampen American Capital Small Capitalization Fund vs. Wilshire Asset Management Next 1750 Index* and the Standard & Poor's 500-Stock Index* (November 1993 through October 1996)

<TABLE>
<CAPTION>
<S>

<S>	<C> Standard & Poor's 500-Stock Index*	<C> Wilshire Asset Management Next 1750 Index*	<C> Van Kampen American Capital Small Capitalization Fund
Nov 1993	10,000	10,000	10,000
Dec 1993	10,168	10,363	10,129
June 1994	9,827	9,636	9,124
Dec 1994	10,306	10,187	9,413
June 1995	12,382	11,751	11,161
Dec 1995	14,165	13,270	12,726
June 1996	15,592	14,634	13,806
Oct 1996	16,491	14,565	14,488

</TABLE>

Past performance is not indicative of future performance.

*The Standard & Poor's 500-Stock Index is a broad-based, unmanaged index that reflects general stock market performance. The Wilshire Asset Management Next 1750 Index is an unmanaged, monthly index that reflects the general performance of small-capitalization stocks. Keep in mind that neither indices reflect any commissions or fees that would be paid

by an investor purchasing the securities they represent.

<TABLE>
<CAPTION>

	1 Year	Since Inception (11/23/93)
<S>	<C>	<C>
Average Annual Total Return	18.50%	13.60%

Van Kampen American Capital Small Capitalization Fund

Portfolio of Investments
October 31, 1996

Security Description	Shares	Market Value

Common Stocks		
Consumer Distribution 6.3%		
Carson Pirie Scott & Co. (b)	23,000	\$ 575,000
Claire's Stores, Inc.	56,250	956,250
CompUSA, Inc. (b)	7,000	324,625
Consolidated Stores Corp. (b)	29,000	1,112,875
DIMON, Inc.	5,000	93,125
Dollar Tree Stores, Inc. (b)	5,000	190,000
Eckerd Corp. (b)	19,600	546,350
Fingerhut Companies, Inc.	39,000	570,375
Herman Miller, Inc.	4,000	173,500
Hollywood Entertainment Corp. (b)	10,000	206,250
HON Industries, Inc.	19,000	665,000
Just For Feet, Inc. (b)	6,000	157,500
Lear Seating Corp. (b)	5,000	185,625
Meyer (Fred), Inc. (b)	3,000	104,250
Neiman Marcus Group, Inc. (b)	4,000	131,000
Pier 1 Imports, Inc.	38,900	549,463
Proffitts, Inc. (b)	2,940	119,254
Revco D.S., Inc. (b)	4,000	120,500
Rexel, Inc. (b)	6,000	86,250
Rite Aid Corp.	10,000	337,500
Ross Stores, Inc.	23,000	966,000
Tech Data Corp. (b)	13,000	333,125
Tiffany & Co.	16,000	590,000
TJX Companies, Inc.	17,000	673,625
U. S. Office Products Co. (b)	5,000	145,000
Vons Companies, Inc. (b)	14,000	775,250
Waban, Inc. (b)	37,000	966,625
Zale Corp. (b)	28,000	535,500

		12,189,817

Consumer Durables 3.1%

Borg Warner Automotive, Inc.	8,000	305,000
Breed Technologies, Inc.	19,500	448,500
Brunswick Corp.	39,000	916,500
Callaway Golf Co.	11,000	339,625
Champion Enterprises, Inc. (b)	21,000	417,375
Department 56, Inc. (b)	1,500	32,625
Echlin, Inc.	7,000	228,375
Ethan Allen Interiors, Inc.	19,000	676,875

Galoot Toys, Inc. (b)	5,000	131,250
Harman International Industries, Inc.	2,400	123,000

Van Kampen American Capital Small Capitalization Fund

Portfolio of Investments (Continued)
October 31, 1996

Security Description	Shares	Market Value
Consumer Durables (Continued)		
Mohawk Industries, Inc. (b)	17,000	\$ 403,750
Smith (A. O.) Corp.	7,000	184,625
Snap-On Tools, Inc.	21,000	677,250
Stanley Works	10,000	283,750
Sturm, Ruger & Company, Inc.	8,000	150,000
Toro Co.	22,000	682,000
		6,000,500

Consumer Non-Durables 10.4%

Alberto Culver Co., Class B	14,100	638,025
American Greetings Corp., Class A	15,000	438,750
Amway Asia Pacific Ltd.	5,000	177,500
Barefoot, Inc.	54,000	546,750
Brown Group, Inc.	17,500	358,750
Burlington Industries, Inc. (b)	20,000	225,000
Donnkenny, Inc. (b)	25,000	312,500
First Brands Corp.	10,000	285,000
Fruit of the Loom, Inc. (b)	25,000	887,500
Herbalife International, Inc.	25,000	496,875
Hillenbrand Industries, Inc.	10,400	388,700
Hormel (G. A.) & Co.	16,000	380,000
IBP, Inc.	26,000	650,000
International Imaging Materials, Inc. (b)	20,000	472,500
Jones Apparel Group, Inc. (b)	44,000	1,331,000
Jostens, Inc.	10,000	212,500
Kellwood Co.	14,000	248,500
Lancaster Colony Corp.	17,000	654,500
Liz Claiborne, Inc.	36,000	1,503,000
Morningstar Group, Inc. (b)	30,000	498,750
Nautica Enterprises, Inc. (b)	42,000	1,291,500
Nu-Kote Holding Inc., Class A (b)	5,000	47,813
Oakley, Inc. (b)	62,000	914,500
Paragon Trade Brands, Inc. (b)	27,000	712,125
Revlon Inc., Class A (b)	10,600	367,025
Russell Corp.	44,800	1,276,800
St. John Knits, Inc.	16,000	746,000
Starbucks Corp. (b)	25,000	821,875
Tambrands, Inc.	7,000	299,250
Timberland Co. (b)	6,000	201,000

Van Kampen American Capital Small Capitalization Fund

Portfolio of Investments (Continued)
October 31, 1996

Market

Security Description	Shares	Value
Consumer Non-Durables (Continued)		
Unifi, Inc.	19,000	\$ 586,625
Warnaco Group, Inc.	25,000	615,625
Westpoint Stevens, Inc. (b)	45,000	1,192,500
Wolverine World Wide, Inc.	20,200	499,950

		20,278,688

Consumer Services 5.7%

Anchor Gaming (b)	2,000	99,500
APAC Teleservices, Inc. (b)	3,000	138,000
Applebee's International, Inc.	4,000	99,000
Banta Corp.	15,000	315,000
Boston Chicken, Inc. (b)	27,000	988,875
Bowne & Co., Inc.	20,000	455,000
Corrections Corp. of America (b)	3,000	76,500
Equifax, Inc.	13,000	390,000
Gartner Group, Inc. (b)	16,000	496,000
Kelly Services, Inc.	30,000	810,000
King World Productions, Inc. (b)	20,000	705,000
Media General, Inc., Class A	5,300	156,350
MGM Grand, Inc. (b)	10,000	390,000
Mirage Resorts, Inc. (b)	8,000	177,000
National Education Corp. (b)	17,000	276,250
New York Times Co., Class A	19,000	684,000
Omnicom Group	16,700	818,300
Papa John's International, Inc. (b)	11,500	575,000
PHH Corp.	16,400	483,800
Promus Hotel Corp. (b)	7,200	232,200
Regal Cinemas, Inc.	36,750	950,906
Robert Half International, Inc.	18,000	731,250
Sbarro, Inc.	26,000	685,750
Sitel Corp. (b)	4,200	79,800
Sonic Corp. (b)	6,000	132,000
Station Casinos, Inc. (b)	5,000	55,625
Valassis Communications, Inc. (b)	7,000	124,250

		11,125,356

Energy 9.3%

Ashland, Inc.	7,000	294,875
BJ Services Co. (b)	1,400	62,650
Brooklyn United Gas Co.	20,000	585,000
Canadian Occidental Petroleum	18,000	319,500
Chesapeake Energy Corp. (b)	3,000	177,000

Van Kampen American Capital Small Capitalization Fund

Portfolio of Investments (Continued)
October 31, 1996

Security Description	Shares	Market Value
Energy (Continued)		
Columbia Gas Systems, Inc.	8,000	\$ 485,000
Eastern Enterprises	24,100	918,812
El Paso Natural Gas Co.	20,200	967,075

Energy Ventures, Inc. (b)	7,000	309,750
Global Marine, Inc. (b)	67,000	1,256,250
Marine Drilling Co., Inc. (b)	40,000	550,000
MCN Corp.	30,000	832,500
Mitchell Energy & Development, Class B	5,000	103,750
NACCO Industries, Inc., Class A	16,800	766,500
National Fuel Gas Co.	2,500	92,186
Newfield Exploration Co. (b)	12,000	562,500
NICOR, Inc.	5,000	173,750
ONEOK, Inc.	24,400	652,700
Oryx Energy Co. (b)	28,000	553,000
Pacific Enterprises	30,000	918,750
Parker & Parsley Petroleum Co. (b)	10,000	295,000
Pennzoil Co.	7,000	358,750
Questar Corp.	10,000	365,000
Reading & Bates Corp. (b)	40,000	1,185,000
Seagull Energy Corp. (b)	17,688	384,714
Smith International, Inc. (b)	30,000	1,143,750
Tesoro Petroleum Corp. (b)	11,000	162,250
Tosco Corp.	11,500	648,313
Union Texas Petroleum Holdings, Inc.	34,300	737,450
Valero Energy Corp.	11,000	262,625
Varco International, Inc. (b)	11,200	219,800
Washington Gas & Light Co.	21,000	462,000
WICOR, Inc.	19,400	691,125
Williams Cos.	10,188	536,144

		18,033,469

Finance 14.6%

20th Century Industries (b)	24,000	384,000
Aames Financial Corp.	6,000	267,000
Alex. Brown, Inc.	4,000	229,000
Alliance Capital Management, LP	5,000	138,750
AMBAC, Inc.	20,000	1,257,500
American Financial Group, Inc.	14,000	500,500
American Re Corp.	20,000	1,290,000
Bankers Life Holding Corp.	39,000	955,500
California Federal Bancorp, Inc. (b)	18,000	418,500
Charter One Financial, Inc.	11,550	503,869

Van Kampen American Capital Small Capitalization Fund

Portfolio of Investments (Continued)
October 31, 1996

Security Description	Shares	Market Value
Finance (Continued)		
City National Corp.	48,000	\$ 846,000
CMAC Investment Corp.	15,000	1,038,750
Commercial Federal Corp.	18,000	753,750
Countrywide Credit Industries, Inc.	7,500	212,812
Donaldson Lufkin & Jenrette, Inc.	16,000	512,000
Edwards (A. G.), Inc.	26,000	776,750
Finova Group, Inc.	2,000	122,750
First American Corp.	7,000	348,250
First American Financial Corp.	6,900	263,925
Fremont General Corp.	30,450	898,275
GreenPoint Financial Corp.	11,800	548,700
Lehman Brothers Holdings, Inc.	25,000	621,875
Mercury Financial Co.	46,500	540,562

Mercury General Corp.	5,000	245,000
MGIC Investment Corp. of Wisconsin	12,300	850,237
NationsBank Corp.	8,000	757,000
North American Mortgage Co.	6,000	123,000
North Fork Bancorporation	23,500	743,188
Northern Trust Corp.	12,000	831,000
Olympic Financial, LTD (b)	7,000	111,125
Orion Capital Corp.	9,100	490,263
Paine Webber Group, Inc.	30,000	716,250
Penncorp Financial Group, Inc.	10,000	347,500
Peoples Heritage Financial	3,182	73,584
PMI Group, Inc. (b)	2,000	114,500
Protective Life Corp.	20,000	695,000
Reliance Group Holding	25,600	211,200
Republic New York Corp.	10,000	762,500
Roosevelt Financial Group, Inc.	23,000	398,188
Southtrust Corp.	20,500	679,063
Sovereign Bancorp, Inc.	63,650	751,866
Star Banc Corp.	13,300	1,190,350
Summit Bancorp	5,000	205,625
TCF Financial Corp.	22,000	852,500
Transatlantic Holdings, Inc.	13,000	937,625
Union Planters Corp.	28,000	976,500
Vesta Insurance Group, Inc.	22,500	579,375
Washington Federal, Inc.	7,000	167,125
Washington Mutual, Inc.	28,000	1,204,000

		28,442,582

Van Kampen American Capital Small Capitalization Fund

Portfolio of Investments (Continued)
October 31, 1996

Security Description	Shares	Market Value

Health Care 8.9%		
Advanced Technology Labs, Inc. (b)	20,000	\$ 601,250
ALZA Corp. (b)	20,000	522,500
American HomePatient, Inc. (b)	5,000	114,375
Ballard Medical Products	9,000	158,625
Bausch & Lomb, Inc.	24,000	807,000
Beckman Industries, Inc.	14,000	518,000
Bio Rad Labs, Inc., Class A (b)	9,000	222,750
Bio-Technology General Corp. (b)	20,000	163,437
Biomet, Inc. (b)	25,000	404,687
ClinTrials Research, Inc. (b)	10,000	371,250
CNS, Inc. (b)	12,100	201,162
Coherent, Inc. (b)	7,000	263,375
Dura Pharmaceuticals, Inc. (b)	6,000	205,500
Guidant Corp.	3,000	137,625
Haemonetics Corp. (b)	22,000	387,750
HBO & Co.	12,000	708,000
Health Management Associates, Inc., Class A (b)	34,500	724,500
Healthcare Compare Corp. (b)	7,000	306,250
Healthcare & Retirement Corp. (b)	15,000	373,125
Healthsouth Rehabilitation (b)	23,400	877,500
Horizon/CMS Healthcare Corp. (b)	9,000	93,375
ICN Pharmaceuticals, Inc.	37,535	713,165
Lincare Holdings, Inc. (b)	29,000	1,094,750
Manor Care, Inc.	8,000	312,000
Medpartners/Mullikin, Inc. (b)	32,722	711,703
MiniMed, Inc. (b)	7,200	185,400
Nellcor Puritan Bennett, Inc. (b)	17,000	331,500
Omnicare, Inc.	20,000	540,000
Ornda Healthcorp (b)	20,000	540,000

Pacificare Health Systems, Inc., Class B (b)	7,000	479,500
Quintiles Transnational Corp. (b)	13,000	867,750
Quorum Health Group, Inc. (b)	11,000	294,938
Renal Treatment Centers, Inc. (b)	19,800	522,225
RoTech Medical Corp. (b)	4,800	75,600
Steris Corp. (b)	8,000	307,000
Sybron International Corp. (b)	24,000	699,000
TheraTx, Inc. (b)	14,000	140,000
U S Surgical Corp.	3,000	124,875
Universal Health Services, Inc., Class B (b)	24,000	597,000
Vencor, Inc. (b)	9,000	261,000
Watsons Pharmaceuticals, Inc. (b)	10,320	347,010

17,306,452

Van Kampen American Capital Small Capitalization Fund

Portfolio of Investments (Continued)
October 31, 1996

Security Description	Shares	Market Value

Producer Manufacturing 8.0%		
ACX Technologies, Inc. (b)	16,000	\$ 282,000
American Power Conversion Corp. (b)	7,000	144,375
American Standard Cos., Inc. (b)	7,300	273,750
Ametek, Inc.	5,000	101,250
Aptar Group, Inc.	9,600	306,000
Blount International, Inc., Class A	3,500	125,563
Briggs & Stratton Corp.	16,000	644,000
Camco International, Inc.	7,000	279,125
Cummins Engine Co., Inc.	12,000	499,500
Danaher Corp.	26,000	1,059,500
Detroit Diesel Corp. (b)	6,700	123,950
Duriron Co., Inc.	2,500	67,500
Global Industrial Technologies, Inc. (b)	53,400	967,875
Global Industries, Ltd. (b)	26,000	468,000
Granite Construction, Inc.	10,500	204,750
Harnischfeger Industries, Inc.	6,000	240,750
IDEX Corp.	13,500	504,562
Intermet Corp.	10,000	116,250
Johnson Controls, Inc.	4,000	289,000
Kaydon Corp.	5,000	203,125
Litton Industries, Inc.	15,400	696,850
MEMC Electronic Materials, Inc. (b)	10,000	192,500
Mueller Industries, Inc. (b)	11,500	462,875
National Service Industries, Inc.	6,000	207,000
Navistar International Corp. (b)	14,000	131,250
Oregon Metallurgical Corp.	10,000	307,500
PACCAR, Inc.	19,000	1,054,500
Ruddick Corp.	10,000	131,250
Southdown, Inc.	32,000	872,000
Tecumseh Products Co., Class A	10,000	562,500
Thermo Instrument Systems, Inc. (b)	30,375	918,844
Timken Co.	16,000	716,000
Trinity Industries, Inc.	8,000	278,000
United Waste Systems, Inc. (b)	32,000	1,104,000
Wolverine Tube, Inc. (b)	23,000	911,375

		15,447,269

Van Kampen American Capital Small Capitalization Fund

Portfolio of Investments (Continued)
October 31, 1996

Security Description	Shares	Market Value
Raw Materials/Processing Industries 5.8%		
A K Steel Holding Corp.	12,000	\$ 423,000
Allegheny Teledyne, Inc.	36,175	768,719
Cleveland Cliffs, Inc.	12,000	492,000
Cytec Industries, Inc. (b)	30,000	1,080,000
First Mississippi Corp.	16,000	460,000
Glatfelter (P. H.) Co.	39,500	745,562
Goodrich (B. F.) Co.	10,000	423,750
Handy & Harman	46,000	874,000
Homestake Mining Co.	5,000	71,250
IP Timberlands	32,000	416,000
J&L Specialty Steel, Inc.	15,100	175,537
Longview Fibre Co.	25,000	412,500
Lyondell Petrochemical Co.	16,000	342,000
Medusa Corp.	3,500	116,812
Owens-Illinois, Inc. (b)	47,000	740,250
Pegasus Gold, Inc. (b)	55,000	556,875
Potlatch Corp.	7,000	297,500
Rayonier, Inc.	11,000	437,250
Safeskin Corp. (b)	7,000	277,375
Sigma-Aldrich Corp.	4,000	235,000
Sonoco Products Co.	5,000	133,750
Terra Industries, Inc.	37,000	536,500
Texas Industries, Inc.	3,400	192,950
UCAR International, Inc. (b)	10,000	392,500
USG Corp. (b)	11,000	324,500
Vulcan Materials Co.	5,200	319,800

		11,245,380

Technology 12.2%

Adaptec, Inc. (b)	10,000	597,500
America Online, Inc. (b)	15,000	416,250
Andrew Corp. (b)	12,500	607,812
Ascend Communications, Inc. (b)	10,000	656,094
Auspex Systems, Inc. (b)	18,200	184,275
Avnet, Inc.	5,000	252,500
BMC Software, Inc. (b)	10,000	837,500
Cadence Design Systems, Inc. (b)	33,000	1,204,500
Cascade Communications (b)	11,700	880,425
Ciber, Inc. (b)	2,900	102,225
Citrix Systems, Inc. (b)	5,000	278,750
Compuware Corp. (b)	15,000	791,250
Dell Computer Corp. (b)	7,000	567,875

Van Kampen American Capital Small Capitalization Fund

Portfolio of Investments (Continued)
October 31, 1996

Security Description	Shares	Market Value
Technology (Continued)		
Documentum, Inc. (b)	24,000	\$ 888,000
DSP Communications, Inc. (b)	6,000	225,000

Dynatech Corp. (b)	16,500	820,875
Electroglas, Inc. (b)	15,000	200,625
Fiserv, Inc. (b)	8,000	302,000
FORE Systems, Inc. (b)	22,000	882,750
Gateway 2000, Inc. (b)	11,000	530,062
GenRad, Inc. (b)	14,000	278,250
Geotek Communications, Inc. (b)	20,000	147,500
Harris Corp.	13,000	814,125
Hyperion Software Corp. (b)	18,000	362,812
International Rectifier Corp. (b)	8,900	110,138
Legato Systems, Inc. (b)	9,000	313,875
McAfee Associates, Inc. (b)	9,000	409,500
Microchip Technology, Inc. (b)	10,000	363,750
Molex, Inc.	14,000	504,000
Network General Corp. (b)	8,000	193,000
Novellus Systems, Inc. (b)	5,500	225,500
PairGain Technologies, Inc. (b)	6,000	421,500
Paychex, Inc.	7,500	422,813
P-Com, Inc. (b)	5,000	111,250
Perkin-Elmer Corp.	16,000	864,000
PictureTel Corp. (b)	3,000	84,000
Rational Software Corp. (b)	6,000	227,250
Recoton Corp. (b)	9,000	122,625
Remedy Corp. (b)	16,000	764,000
Rohr Industries, Inc. (b)	10,000	182,500
SCI Systems, Inc. (b)	15,000	748,125
Shiva Corp. (b)	11,000	451,000
SMART Modular Technologies (b)	10,000	210,625
Storage Technology Corp. (b)	24,000	1,035,000
Sundstrand Corp.	7,000	283,500
Sunguard Data Systems, Inc. (b)	10,000	420,000
Systemsoft Corp. (b)	10,000	284,375
Teradyne, Inc. (b)	5,000	79,375
Unitrode Corp. (b)	19,000	451,250
Vantive Corp. (b)	6,000	199,500

Van Kampen American Capital Small Capitalization Fund

Portfolio of Investments (Continued)
October 31, 1996

Security Description	Shares	Market Value

Technology (Continued)		
Varian Associates, Inc.	10,500	\$ 473,813
Vitesse Semiconductor Corp. (b)	5,000	157,500
Wyle Electronics, Inc.	19,000	567,625
Wyman-Gordan Co. (b)	5,000	110,000
Xircom, Inc. (b)	3,400	69,275

		23,689,619

Transportation 1.5%

Alaska Air Group, Inc. (b)	5,000	108,125
Continental Airlines, Inc., Class B (b)	25,000	615,625
Illinois Central Corp.	18,000	585,000
Northwest Airlines, Inc., Class A (b)	12,000	382,500
Pittston Brink's Group	9,000	258,750
UAL Corp. (b)	8,000	371,000
USAir Group, Inc. (b)	20,200	348,450
USFreightways Corp.	11,000	242,688

		2,912,138

Utilities 9.8%

360 Communications Co. (b)	50,000	1,143,750
AES Corp. (b)	29,000	1,268,750
Boston Edison Co.	46,100	1,106,400
C-TEC Corp. (b)	15,500	372,000
Calenergy, Inc. (b)	25,000	721,875
Centerior Energy Corp.	59,000	582,625
Central Hudson Gas & Electric Corp.	19,500	582,562
Century Telephone Enterprises, Inc.	26,000	841,750
Cincinnati Bell, Inc.	8,000	389,000
Citizens Utilities Co., Class A (b)	20,645	229,676
Commnet Cellular, Inc. (b)	30,000	840,000
Commonwealth Energy System Cos.	5,000	118,750
Delmarva Power & Light Co.	19,000	387,125
DQE, Inc.	22,000	638,000
Eastern Utilities Association	18,000	288,000
Idaho Power Co.	5,000	155,625
Kansas City Power & Light Co.	22,000	602,250
LCI International, Inc. (b)	11,000	354,750
Long Island Lighting Co.	46,900	855,925
MidAmerican Energy Co.	35,000	546,875
Montana Power Co.	15,000	320,625
New York State Electric & Gas Corp.	30,000	633,750
NIPSCO Industries, Inc.	24,000	909,000

Van Kampen American Capital Small Capitalization Fund

Portfolio of Investments (Continued)
October 31, 1996

Security Description	Shares	Market Value
Utilities (Continued)		
Oklahoma Gas & Electric Co.	16,500	\$ 645,563
Portland General Corp.	27,000	1,184,625
Public Service Co. of Colorado	18,000	668,250
Public Service Co. of New Mexico	33,000	622,875
Southern New England Telecommunications	19,200	715,200
United Illuminating Co.	6,400	212,000
VideoServer, Inc. (b)	10,000	461,250
Western Reserve, Inc.	20,000	605,000

		19,003,826

Total Long Term Investments 95.6%
(Cost \$152,735,835) (a) 185,675,096

Repurchase Agreement 4.8%

SBC Capital Markets, Inc. (\$9,400,000 par collateralized by U.S. Government obligations with a coupon rate of 7.25% and a maturity date of 05/15/16 in a pooled cash account, dated 10/31/96, to be sold on 11/01/96 at \$9,401,441) 9,400,000

Liabilities in Excess of Other Assets (0.4%) (867,504)

Net Assets 100.0% \$194,207,592
=====

- (a) At October 31, 1996, for federal income tax purposes, cost is \$152,847,091, the aggregate gross unrealized appreciation is \$37,938,915, and the aggregate gross unrealized depreciation is \$5,110,910, resulting in net unrealized appreciation of \$32,828,005.
- (b) Non-income producing security as this stock currently does not declare dividends.

<TABLE>

Van Kampen American Capital Small Capitalization Fund

Statement of Assets and Liabilities
October 31, 1996

<CAPTION>

ASSETS:

<S>	<C>
Long-Term Investments, at Market Value (Cost \$152,735,835) (Note 1)	\$ 185,675,096
Repurchase Agreement (Note 1)	9,400,000
Cash	1,928
Receivables:	
Securities Sold	7,864,858
Dividends	249,830
Unamortized Organizational Expenses (Note 1)	26,856
Other	13,675

Total Assets	203,232,243

LIABILITIES:

Payables:	
Fund Shares Repurchased	9,000,000
Distributor and Affiliates (Note 2)	4,850
Deferred Compensation and Retirement Plans (Note 2)	13,098
Accrued Expenses	6,703

Total Liabilities	9,024,651

NET ASSETS	\$ 194,207,592
	=====

NET ASSETS CONSIST OF:

Capital (Note 3)	\$ 147,072,447
Net Unrealized Appreciation on Securities	32,939,261
Accumulated Net Realized Gain on Securities	11,780,941
Accumulated Undistributed Net Investment Income	2,414,943

NET ASSETS	\$ 194,207,592
	=====

Net Asset Value, Offering Price and Redemption Price Per Share (Based on net assets of \$194,207,592 and 14,065,878 shares of beneficial interest issued and outstanding) (Note 3)	\$ 13.81
	=====

</TABLE>

<TABLE>

Van Kampen American Capital Small Capitalization Fund

Statement of Operations
For the Year Ended October 31, 1996

<CAPTION>	
<S>	<C>
INVESTMENT INCOME:	
Dividends	\$ 2,758,370
Interest	270,834

Total Income	3,029,204

EXPENSES:	
Accounting (Note 2)	90,363
Audit	26,045
Trustees' Fees and Expenses (Note 2)	18,564
Legal (Note 2)	17,809
Shareholder Services (Note 2)	14,823
Amortization of Organizational Expenses (Note 1)	12,395
Printing	9,794
Other	4,809

Total Expenses	194,602
Less Expenses Reimbursed (Note 2)	3,600

Net Expenses	191,002

NET INVESTMENT INCOME	\$ 2,838,202
	=====
REALIZED AND UNREALIZED GAIN/LOSS ON SECURITIES:	
Net Realized Gain on Investments	\$11,896,653

Unrealized Appreciation/Depreciation on Securities:	
Beginning of the Period	19,691,003
End of the Period:	
Investments	32,939,261

Net Unrealized Appreciation on Securities During the Period	13,248,258

NET REALIZED AND UNREALIZED GAIN ON SECURITIES	\$25,144,911
	=====
NET INCREASE IN NET ASSETS FROM OPERATIONS	\$27,983,113
	=====
</TABLE>	

<TABLE>

Van Kampen American Capital Small Capitalization Fund

Statement of Changes in Net Assets
For the Years Ended October 31, 1996 and 1995

<CAPTION>

	Year Ended October 31, 1996	Year Ended October 31, 1995
<S>	<C>	<C>
FROM INVESTMENT ACTIVITIES:		
Operations:		
Net Investment Income	\$ 2,838,202	\$ 1,931,971
Net Realized Gain on Securities	11,896,653	7,254,104

Net Unrealized Appreciation on Securities During the Period	13,248,258	19,737,220
Change in Net Assets from Operations	27,983,113	28,923,295
Distributions from:		
Net Investment Income	(2,187,156)	(501,439)
Net Realized Gains on Securities (Note 1)	(6,520,200)	0
Total Distributions	(8,707,356)	(501,439)
NET CHANGE IN NET ASSETS FROM INVESTMENT ACTIVITIES	19,275,757	28,421,856
FROM CAPITAL TRANSACTIONS (Note 3):		
Proceeds from Shares Sold	91,004,000	200,761,987
Net Asset Value of Shares Issued Through Dividend Reinvestment	8,707,356	501,439
Cost of Shares Repurchased	(125,124,342)	(49,999,993)
NET CHANGE IN NET ASSETS FROM CAPITAL TRANSACTIONS	(25,412,986)	151,263,433
TOTAL INCREASE/DECREASE IN NET ASSETS	(6,137,229)	179,685,289
NET ASSETS:		
Beginning of the Period	200,344,821	20,659,532
End of the Period (Including undistributed net investment income of \$2,414,943 and \$1,763,897, respectively)	\$ 194,207,592	\$ 200,344,821

</TABLE>

<TABLE>

Van Kampen American Capital Small Capitalization Fund

Financial Highlights

The following schedule presents financial highlights for one share of the Fund outstanding throughout the periods indicated.

<CAPTION>

	Year Ended October 31,		November 23, 1993 (Commencement of Investment Operations) to October 31, 1994 (a)
	1996	1995 (a)	
<S>	<C>	<C>	<C>
Net Asset Value, Beginning of the Period	\$ 12.17	\$ 9.82	\$ 10.00
Net Investment Income	0.197	0.17	0.21
Net Realized and Unrealized Gain on Securities	1.968	2.26	(0.37)
Total from Investment Operations	2.165	2.43	(0.16)
Less:			
Distributions from Net Investment Income	0.133	0.08	0.02
Distributions from Net Realized Gains on Securities (Note 1)	0.395	0.00	0.00
Total Distributions	0.528	0.08	0.02
Net Asset Value, End of the Period	\$ 13.807	\$ 12.17	\$ 9.82

	=====	=====	=====
Total Return	18.50%	25.00%	1.80%**
Net Assets at End of the Period (In millions)	\$ 194.2	\$ 200.3	\$ 20.7
Ratio of Expenses to Average Net Assets *	0.10%	0.08%	0.30%
Ratio of Net Investment Income to Average Net	1.45%	1.59%	1.99%
Portfolio Turnover	75%	85%	34%**
Average Commission Paid Per Equity Share Trade	\$ 0.0222	----	----

* The Ratios of Expenses to Average Net Assets and Net Investment Income to Average Net Assets were not affected by the reimbursement of expenses by VKAC.

** Non-Annualized

(a) Based on average shares outstanding.

(b) Represents the average brokerage commission paid per equity share traded during the period for trades where commissions were applicable. This disclosure was not required in fiscal years prior to 1996.

</TABLE>

Van Kampen American Capital Small Capitalization Fund
Notes to Financial Statements
October 31, 1996

1. Significant Accounting Policies

The Van Kampen American Capital Small Capitalization Fund (the "Fund") is organized as a Delaware business trust, and is registered as a diversified open-end management investment company under the Investment Company Act of 1940, as amended. The Fund's investment objective is to approximate the performance of the small capitalization sector of the equities market by investing primarily in common stocks of small capitalization companies. The Fund commenced investment operations on November 23, 1993.

The following is a summary of significant accounting policies consistently followed by the Fund in the preparation of its financial statements. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

A. Security Valuation - Investments listed or traded on a national securities exchange are stated at value using market quotations as of 2:00PM Eastern Standard Time. Unlisted and listed securities for which the last sale price at 2:00PM Eastern Standard Time is not available are valued at the last reported bid price. Short-term securities with remaining maturities of 60 days or less are valued at amortized cost.

B. Security Transactions - Security transactions are recorded on a trade date basis. Realized gains and losses are determined on an identified cost basis.

The Fund may invest in repurchase agreements which are short-term investments in which the Fund acquires ownership of a debt security and the seller agrees to repurchase the security at a future time and specific price. The Fund may invest independently in repurchase agreements, or transfer uninvested cash balances into a pooled cash account along with other

investment companies advised by Van Kampen American Capital Asset Management, Inc. (the "Adviser") or its affiliates, the daily aggregate of which is invested in repurchase agreements. Repurchase agreements are collateralized by the underlying debt security. The Fund will make payment for such securities only upon physical delivery or evidence of book entry transfer to the account of the custodian bank. The seller is required to maintain the value of the underlying security at not less than the repurchase proceeds due the Fund.

C. Investment Income - Dividend income is recorded on the ex-dividend date and interest income is recorded on an accrual basis.

D. Organizational Expenses - The Fund will reimburse Van Kampen American Capital Distributors, Inc. or its affiliates ("collectively VKAC") for costs incurred in connection with the Fund's organization in the amount of \$62,000. These costs are being amortized on a straight line basis over the 60 month period ending October, 1998. The Adviser has agreed that in the event any of the initial shares of the Fund originally purchased by VKAC are redeemed during the amortization period, the Fund will be reimbursed for any unamortized organizational expenses in the same proportion as the number of shares redeemed bears to the number of initial shares held at the time of redemption.

E. Federal Income Taxes - It is the Fund's policy to comply with the requirements of the Internal Revenue Code applicable to regulated investment companies and to distribute substantially all of its taxable income and gains to its shareholders. Therefore, no provision for federal income taxes is required.

Net realized gains or losses may differ for financial and tax reporting purposes as a result of the deferral of losses for tax purposes resulting from wash sales.

F. Distribution of Income and Gains - The Fund declares and pays dividends annually from net investment income and net realized gains on securities, if any. Distributions from net realized gains for book purposes may include short-term capital gains, which are included as ordinary income for tax purposes.

2. Investment Advisory Agreement and Other Transactions with Affiliates

The Adviser serves as the investment manager of the Fund, but receives no compensation for its investment management services.

Certain legal expenses are paid to Skadden, Arps, Slate, Meagher & Flom, counsel to the Fund, of which a trustee of the Fund is an affiliated person.

For the year ended October 31, 1996, the Fund recognized expenses of approximately \$90,400, representing VKAC's cost of providing accounting services to the Fund. These services are provided by VKAC at cost.

ACCESS Investor Services, Inc. ("ACCESS"), an affiliate of the Adviser, serves as the shareholder servicing agent for the Fund. For the year ended October 31, 1996, the Fund recognized expenses of approximately \$14,800, representing ACCESS' cost of providing transfer agency and shareholder services plus a profit.

The Adviser has agreed to reimburse the Fund for certain trustees' compensation in connection with the July, 1995 increase in the number of trustees of the Fund. This reimbursement is expected to continue through December 31, 1996.

Certain officers and trustees of the Fund are also officers and directors of VKAC. The Fund does not compensate its officers or trustees who are officers of VKAC.

The Fund has implemented deferred compensation and retirement plans

for its trustees. Under the deferred compensation plan, trustees may elect to defer all or a portion of their compensation to a later date. The retirement plan covers those trustees who are not officers of VKAC.

At October 31, 1996, the Fund was owned by two investment companies advised by the Adviser; Van Kampen American Capital Common Sense Trust Growth Fund and Van Kampen American Capital Pace Fund owned 53.4% and 46.6% of the Fund, respectively.

3. Capital Transactions

The Fund is authorized to issue an unlimited number of shares of beneficial interest with a par value of \$.01 per share. Fund shares are only available for purchase by Funds for which VKAC serves as investment adviser.

At October 31, 1996 and 1995, capital aggregated \$147,072,447 and \$172,485,433, respectively. Transactions in common shares were as follows:

	Year Ended October 31, 1996	Year Ended October 31, 1995
	-----	-----
Beginning Shares	16,467,558	2,104,130
Shares Sold	6,965,729	18,994,170
Shares Issued Through Dividend Reinvestment	731,096	54,151
Shares Redeemed	(10,098,505)	(4,684,893)
Net Increase/Decrease in Shares Outstanding	(2,401,680)	14,363,428
Ending Shares	14,065,878	16,467,558
	=====	=====

4. Investment Transactions

During the period, the cost of purchases and proceeds from sales of investments, excluding short-term investments, were \$143,072,474 and \$176,906,152, respectively.

Price Waterhouse LLP

REPORT OF INDEPENDENT ACCOUNTANTS

To the Shareholders and Board of Trustees of
Van Kampen American Capital
Small Capitalization Fund

In our opinion, the accompanying statement of assets and liabilities, including the portfolio of investments, and the related statements of operations and of changes in net assets and the financial highlights present fairly, in all material respects, the financial position of Van Kampen American Capital Small Capitalization Fund (the "Fund") at October 31, 1996 and the results of its operations, the changes in

its net assets and the financial highlights for the periods presented, in conformity with generally accepted accounting principles. These financial statements and financial highlights (hereafter referred to as "financial statements") are the responsibility of the Fund's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these financial statements in accordance with generally accepted auditing standards which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits, which included confirmation of securities at October 31, 1996 by correspondence with the custodian and brokers and the application of alternative auditing procedures where confirmations from brokers were not received, provide a reasonable basis for the opinion expressed above.

/s/ Price Waterhouse LLP
Price Waterhouse LLP

Houston, Texas
December 9, 1995

Van Kampen American Capital
Small Capitalization Fund

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John L. Sullivan*
Treasurer

Tanya M. Loden*
Controller

Peter W. Hegel*
Alan T. Sachtleben*
Paul R. Wolkenberg*
Vice Presidents

Investment Adviser

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Asset Management, Inc.
One Parkview Plaza
Oakbrook Terrace, Illinois 60181

Distributor

Van Kampen American Capital
Distributors, Inc.
One Parkview Plaza
Oakbrook Terrace, Illinois 60181

Shareholder Servicing Agent

ACCESS Investor
Services, Inc.
P.O. Box 418256
Kansas City, Missouri 64141-9256

Custodian

State Street Bank and Trust Company
225 Franklin Street
P.O. Box 1713 Boston, Massachusetts 02105

Legal Counsel

Skadden, Arps, Slate, Meagher & Flom
333 West Wacker Drive
Chicago, Illinois 60606

Independent Accountants

Price Waterhouse LLP
1201 Louisiana Houston, Texas 77002

* "Interested" persons of the Fund as defined in the Investment Company
Act of 1940

A Special Meeting of Shareholders of the Trust was held on October 25, 1996,
where shareholders voted on a new investment advisory agreement, the
ratification of independent accountants and changes to investment policies.
With regard to these items, all shares voted for the proposals, with none
against and none abstained.