

## The Prospect Japan Fund Limited

Bloomberg Yen / USD	PJF LN 102.98	NAV Performance (USD) %				
			March	YTD	1 Year	3 Year
NAV (USD)	1.35	The Prospect Japan Fund Limited	0.00	4.65	18.42	53.41
Price (USD)	1.08	Topix Small Index	1.87	-0.50	8.10	29.54
Premium/ Discount %	-19.61%					

*The Prospect Japan Fund Limited's inception date is 20 December 1994. Above performance of the Fund is net of fees and expenses and includes reinvestment of dividends and capital gains. Topix Small Cap Index (TPXSM) performance cited above is the total return including the reinvestment of net dividends into the index denominated in US Dollars (Source: Bloomberg). One cannot invest directly in an index. TPXSM is a capitalization - weighted index designed to measure the performance of the stocks listed on the First Section of the Tokyo Stock Exchange, excluding the TOPIX 500 stocks and non-eligible stocks.*

The NAV is published in the 'Other Offshore Funds' column of the Financial Times. The NAV and Price are located on Bloomberg page PJF LN. The NAV and Indicated Prices are also listed on Bloomberg page LCFR and Reuters page LCFR07.

Fund performance was flat on the month, underperforming the Topix Small Index' 1.87% increase. The Fund has outperformed YTD, gaining 4.65% versus the index' 0.50% decline.

Strong performance came from Katakura Industries (3001) and Tomoe Corp (1921). Katakura, a shopping mall operator engaged in the manufacture and sale of textiles, pharmaceuticals and auto parts, outperformed following its full year results announcement. The company reported that the redevelopment of a large commercial facility near Tokyo proceeds on schedule. Tomoe Corp, a steel frame construction company, recovered strongly into the end of its fiscal year. Tomoe is forecasting strong revenue growth and a return to profit for the full year.

Weakness came from Tri-Stage (2178) and Akatsuki Financial (8737). Tri-Stage, a marketing consultant service provider, fell ahead of its full year results announcement after reporting poor February parent level sales. Akatsuki Financial, a commodity futures trader, continued its decline from six-year highs along with the broader securities and commodities traders market.

The yen strengthened and equities retreated during the month, on geo-political concerns following the Russian incursion into Crimea. On the domestic front, the trade balance deficit came in at JPY 800.3 billion during February, an improvement from January's record JPY 2.79 trillion level but still well above consensus estimates of JPY 600 billion. Export growth outpaced imports for only the second time in over 3 years, raising hopes that import costs are stabilizing to the effects of a weaker yen and higher energy demand. Small business confidence rose to 53.5 points, a post-bubble record.

Miki Shoji reported that vacancy rates in Tokyo's Central Business District continued their downward march, falling 0.17 ppt to 7.01% in February. The decline in vacancy was caused by higher demand for office space (0.12 ppt contribution), as well as a reduction in net floor space caused by building demolitions (0.05 ppt contribution).

MLIT announced the 2013 YoY land price data during the month, showing the 3 major cities (Tokyo, Osaka, Nagoya) emerging from 6 years of price deflation. Standout

areas included the areas directly impacted by the Tokyo 2020 Olympic selection. Fund holdings Inui Warehouse (9308) and Tomoe Corp (1921) have large property holdings in this area.

### REIT

In USD, the TSEREIT index saw a total return of -3.31% month-on-month, underperforming the Nikkei 225's 0.41% decline. Year-to-date, J-REITs continue to outperform, -0.46% vs the Nikkei's -6.54% performance.

The Bank of Japan purchased a total of JPY 3.0 billion in J-REIT units during the month, bringing total purchases to JPY 6.9 billion out of the JPY 30 billion target for direct purchases in 2014. The total amount of units purchased to date now stands at JPY 147.9 billion.

Four J-REITs announced new equity issuances during the month, planning to raise a total of about JPY 97.6 billion for property acquisition and debt repayment.

Trading house and retail facility operator Sojitz Corp (2768) announced its intention to list a J-REIT with AUM of JPY 70.4 billion this April. Nippon REIT (3296) will be the second J-REIT IPO this year following Hulic REIT (3295). Nippon REIT is a diversified J-REIT focused on central Tokyo office, and residential assets.

There was a total JPY 284.2 billion in property acquisitions announced during the month, along with JPY 9.2 billion in dispositions.

*Note: As of 31 March 2014, of the Fund, Tomoe Corp (1921) is 6.61%, Tri-Stage (2178) is 6.27%, Katakura Industries (3001) is 9.54%, and Akatsuki Financial (8737) is 5.83%. Sojitz Corp (2768), Hulic REIT (3295), and Nippon REIT (3296) are not holdings of the Fund.*

*Sources: Bloomberg, Miki Shoji, Tokyo Stock Exchange, and company announcements*

## Sector Weightings

Real Estate	17.6
Diversified Financial Services	10.5
REITs	7.6
Storage/Warehousing	7.5
Engineering & Construction	6.6
Machinery-Diversified	6.3
Advertising	6.3
Retail	4.6
Banks	2.2
Transportation	1.8
Distribution/Wholesale	0.9
Building Materials	0.7
Total**	72.6
No of Positions	28

## Top 10 Holdings

Symbol	Security	% of Total Assets
3001	KATAKURA INDUSTRIES CO LTD	9.5
1921	TOMOE CORP	6.6
2178	TRI-STAGE INC	6.3
8737	AKATSUKI FINANCIAL GROUP INC	5.8
7404	SHOWA AIRCRAFT INDUSTRY CO LTD	5.3
3528	GRO-BELS CO LTD	5.3
3227	MID (REIT)	4.8
9324	YASUDA WAREHOUSE CO LTD/THE	4.3
8205	SHAKLEE GLOBAL GROUP INC	4.2
gktaihei	GODO KAISHA TAIHEIYO JISHO #1 BOND	4.0

Percentage weightings are Prospect Asset Management's internal calculations and have not been reconciled by the administrator.

\*\*Results of calculations as presented may not be exact due to rounding and precision of stored values.

### Important Legal Information – Please Read

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The Prospect Japan Fund Limited "Company" is a closed-end investment company incorporated in Guernsey and listed on the London Stock Exchange. The Company's investment objective is to achieve long-term capital appreciation from a portfolio of securities primarily of smaller Japanese companies listed or traded on Japanese Stock Markets.

There are risks involved with investing, including possible loss of principal. In addition to the normal risks associated with investing, narrowly focused investments, investments in smaller companies, illiquid investments and investments in a single country typically exhibit higher volatility. International investments may involve risk of capital loss from unfavorable fluctuation in currency values, from differences in generally accepted accounting principles or from economic or political instability in other nations.

Fund price and index performance calculations are obtained from Bloomberg and are as of the end of the month. NAV performance calculations are provided by PAMI and are un-audited. As of August 2003, the benchmark index changed from TSE2 to Topix Small since its characteristics with respect to average market capitalization more closely resemble the investment strategy pursued by the portfolio. The investment return and principal value of an investment will fluctuate so that an investor's shares when redeemed may be worth more or less than their original cost and current performance may be lower or higher than the performance quoted. Additional information regarding policies for calculation and reporting returns is available upon request.

The Board of The Prospect Japan Fund Limited decided that the PJF should become a member of the AIC (The Association of Investment Companies) in 2005. The AIC only accepts valuations where the underlying assets are valued on a 'Fair' basis, which in the case of PJF, means on a bid basis (per the AIC). Upon The Prospect Japan Fund Limited's Board approval, the Fund's administrator Northern Trust made a change to the pricing methodology in February 2006, whereby underlying assets in the Fund are valued using the 'last bid price.' Consequently, the Fund's Net Asset Value and performance from February 2006 reflects the change in this pricing methodology. In addition, in newsletters from February to September 2006, as a result of the new pricing methodology, Prospect had been calculating a performance based on an un-rounded Net Asset Value. In October 2006, Prospect made a decision to calculate performance based on a Net Asset Value rounded to the nearest hundredth. Therefore, the monthly performance from February to September was modified to reflect this change. The performance from October 2006 and going forward will incorporate this change.