

The Prospect Japan Fund Limited

Bloomberg	PJF LN	NAV Performance (USD) %				
Yen / USD	101.64		May	YTD	1 Year	3 Year
NAV (USD)	1.36	The Prospect Japan Fund Limited	2.26	5.43	18.26	49.45
Price (USD)	1.07	Topix Small Index	2.27	-0.31	9.54	34.46
Premium/ Discount %	-21.10%					

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.

The Fund gained 2.26% for the month, performing in line with the TOPIX Small index' 2.27% month-on-month rise. Year to date, the Fund has outperformed, gaining 5.43% vs. the index' 0.31% retreat.

Strong monthly performance came from Shaklee Global Group (8205) and Akatasuki Financial Group (8737). Shaklee Global Group, a seller of nutrition and personal care products, saw shares rally strongly after reporting triple-digit full year profit growth, beating upwardly revised forecasts. Akatsuki Financial Group, a commodity futures trader, outperformed following the announcement of double-digit full year growth in revenue and profits.

Weakness came from Katakura Industries (3001) and Showa Aircraft Industry (7404). Katakura, a shopping mall operator engaged in the manufacture and sale of textiles, pharmaceuticals and auto parts, retreated following its Q1 results announcement maintaining FY forecasts for large year-on-year decline in profit. Showa Aircraft Industry's shares surrendered gains made following last month's announcement of double-digit full year profit growth.

Gro-Bels (3528), a condominium developer, announced an intention to merge with wholly owned subsidiary Prospect Co., Ltd. The merger date is expected to be 1 October 2014, with the group name changed to Prospect Co., Ltd on the same date.

Equities rose month-on-month for the first time since December, as the effects of April's consumption tax increase have been muted, and corporate profits were strong.

While most news on the administration this month focused on Abe's push for greater military leeway, the elusive Third Arrow of growth strategy came back into the spotlight as administration officials commented on proposals including corporate tax cuts and labour reform.

The Bank of Japan again refrained from expanding stimulus during the month, with the central bank seeing steady progression towards its 2% inflation goal. Eliminating the effects of last month's consumption tax increase, the BOJ is forecasting median price growth of 1.3% this year, 1.9% in fiscal 2015 and 2.1% in fiscal 2016.

News was positive for corporate profits for fiscal year 2014, with Japanese companies boosting dividends by an aggregate 20% to an all-time high, following 56% year-on-year rise in net profits.

The expected Government Pension Investment Fund (GPIF) reshuffling of its investments remains a potential positive catalyst, with expectations being for a shift out of JGBs (currently 60% of assets) and into riskier assets, including foreign bonds, sparking a weakening of the yen and added stimulus for Japanese corporates. Median estimates are for the yen to depreciate to 107 yen to the dollar by year end, vs 101.77 at month end.

Miki Shoji reported that vacancy rates in Tokyo's Central Business District continued to march downward, falling 0.06 ppt to 6.64% in April for a tenth consecutive monthly decline. Average rents in the CBD rose slightly for the fourth consecutive month.

REIT

In USD, the TSEREIT index saw a total return of 5.28% month-on-month, outperforming the Nikkei 225's 2.66% gain, and reaching its highest level since May 2013. Year-to-date, J-REITs continue to outperform, +8.14% vs the Nikkei's -6.52% performance. TSE trading data revealed that Investment Trusts were net-sellers of J-REITs for the first time since May 2012 during April, while Banks were large net buyers starting the new fiscal year.

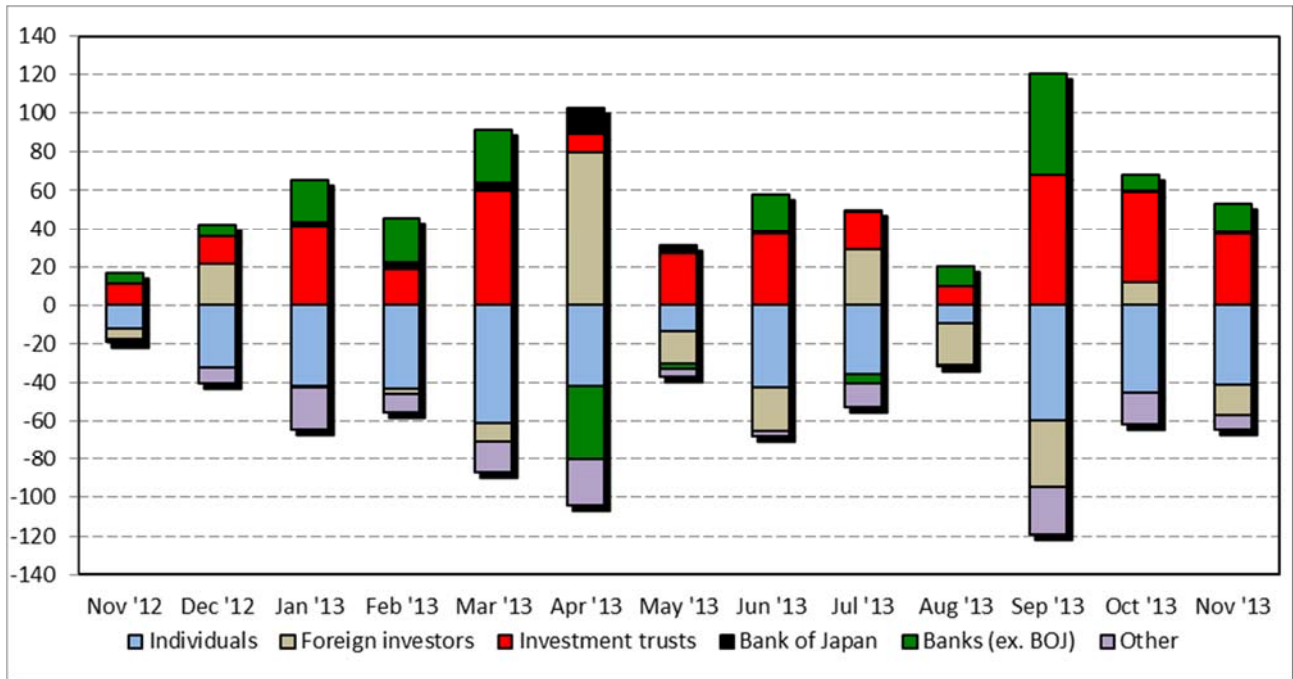
The Bank of Japan purchased a total of JPY 300 million in J-REIT units during the month, bringing total purchases to JPY 9.0 billion out of the JPY 30 billion target for direct purchases in 2014. The total amount of units purchased to date now stands at JPY 150 billion.

US investment manager Invesco Ltd. (IVZ) announced an intention to list Invesco Office J-REIT (3298) during the month. The office focused REIT expects to raise JPY 43.1 billion in the listing, with an AUM of JPY 78.6 billion. Three J-REITs announced new equity issuances during the month, planning to raise a total of about JPY 37.5 billion for property acquisition and debt repayment.

There was a total JPY 133.2 billion in property acquisitions announced during the month, along with JPY 9.6 billion in disposals.

Note: As of 31 May 2014, of the Fund, Katakura Industries (3001) is 8.86%, Gro-Bels (3528) is 3.49%, Showa Aircraft Industry (7404) is 5.53%, Shaklee Global Group (8205) is 9.19%, and Akatsuki Financial Group (8737) is 5.46%. Invesco Office J-REIT (3298) is not a holding of the Fund.

(Sources: Bloomberg, CLSA, Miki Shoji, TSE)



(JPY billion)

Sector Weightings

Real Estate	14.9
Diversified Financial Services	10.3
Retail	9.5
Storage/Warehousing	8.1
Engineering & Construction	7.6
Advertising	6.7
Machinery-Diversified	6.4
Banks	3.2
Transportation	2.6
Building Materials	1.3
REITs	0.9
Distribution/Wholesale	0.9
Total**	72.4
No of Positions	27

Top 10 Holdings

Symbol	Security	% of Total Assets
8205	SHAKLEE GLOBAL GROUP INC	9.2
3001	KATAKURA INDUSTRIES CO LTD	8.9
1921	TOMOE CORP	7.0
2178	TRI-STAGE INC	6.7
7404	SHOWA AIRCRAFT INDUSTRY CO LTD	5.5
8737	AKATSUKI FINANCIAL GROUP INC	5.5
9324	YASUDA WAREHOUSE CO LTD/THE	4.4
gktaihei	GODO KAISHA TAIHEIYO JISHO #1 BOND	4.1
3528	GRO-BELS CO LTD	3.5
8563	DAITO BANK LTD/THE	3.2

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.

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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.

Prospect Asset Management Inc. is registered as an investment adviser under the United States Investment Advisers Act of 1940, as amended, with Securities and Exchange Commission number 801-47749. The company specializes in investment in Japanese equities and real estate and seeks investments offering what PAMI considers above average earnings while trading at reasonable valuations.