

The Prospect Japan Fund Limited

Bloomberg Yen / USD	PJF LN 103.83	NAV Performance (USD) %				
			August	YTD	1 Year	3 Year
NAV (USD)	1.32	The Prospect Japan Fund Limited	-4.35	2.33	11.86	38.95
Price (USD)	1.13	MSCI Japan Small Cap Index	-0.70	6.13	18.01	33.38
Premium/ Discount %	-14.08%					

The Prospect Japan Fund Limited 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. (Source: Prospect Asset Management, Inc.) Although the Company is not managed to a benchmark, it measures its performance against the MSCI Japan Small Cap Index (Total Return) for comparison purposes only. The MSCI Developed Markets Small Cap Indices offer an exhaustive representation of this size segment by targeting companies that are in the Investable Market Index but not in the Standard Index in a particular developed market. The indices include Value and Growth style indices and industry indices based on the Global Industry Classification Standard (GICS®). (Source: Bloomberg)

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 retreated 4.35% (USD) on the month, underperforming the MSCI Japan Small Cap index' 0.70% month-on-month USD loss. Year-to-date, the Fund has underperformed, up 2.33% vs. the index' 6.13% gain.

Weakness came from Shaklee Global Group (8205) and Tri-Stage Inc (2178). Shaklee Global Group, a seller of nutrition and personal care products, declined despite strong Q1 FY2015 results, as profits were subdued by adverse FX effects. Shaklee continues to strongly outperform year-to-date. Tri-Stage, a marketing consultant service provider, fell sharply towards month-end, following the announcement of modest internal operations reorganization following the company's board meeting.

Positive performance was seen from Tomoe Corp (1921) and Daito Bank (8563). Tomoe Corp, a steel frame construction company, reached a 7-month high following positive Q1 FY 2015 results. The company is benefiting from a glut of construction orders (+143% YoY), as well as increased revenue from rental real estate holdings. Daito Bank, a regional bank in Fukushima, gained following Q1 FY 2015 results that came in well ahead of full-period forecasts due to lower than expected funding costs.

Q2 CY2015 corporate sales and profits remained positive YoY, as the Ministry of Finance reported revenues up 1.1% and recurring profits up 4.5% YoY. However, the overarching economic data for the month was weak, reflecting pullback following the April consumption tax increase. Core CPI (ex. Fresh food) was unchanged from the previous month at 1.3% (excluding effects of the consumption tax increase) in July. Household spending (-5.9% YoY) and Industrial Production (-0.9% YoY) were below economist forecasts, signalling a weaker than expected rebound heading into Q3.

The Q2 GDP release during the month showed a stark 7.1% annualized contraction (vs +6.1% Q1 GDP growth), with pullback in consumer spending and business investment following the rise in consumption tax in April.

The Abe administration announced a reshuffling of his cabinet early in the month. Of particular note is the appointment of Yasuhisa Shiozaki, an outspoken proponent of pension fund reforms, as health minister overseeing the Government Pension Investment Fund (GPIF) ahead of expected allocation changes at the JPY 1.2 trillion fund. Positions on economic and financial management remain unchanged. Following the announcement, Prime Minister Abe saw his approval rating climb 11ppt to 60%, lending support for coming initiatives in the legislative session, including corporate tax cuts.

Construction orders were up 24.4% YoY in July, continuing to see strong gains from both private, national government, and regional government sectors. Miki Shoji reported that vacancy rates in Tokyo's Central Business District declined to its lowest level since the end of 2008, falling 0.25 ppt to 6.20% in July from a June 2013 peak of 8.46%. Year-on-year, the vacancy rate has fallen 2.09 ppt. Average rents in the CBD rose year-on-year for the third consecutive month, up 2.2%, versus last month's 1.4% YoY increase. With firm improvements in rent and occupancy taking hold, the short-term outlook for the real estate market remains strong.

REIT

In USD, the TSEREIT index saw a total return of +1.23% month-on-month, underperforming the Nikkei 225's 2.32% decline. Year-to-date, J-REITs continue to outperform, +12.59% vs the Nikkei's -3.44% performance. The TSEREIT index reached a 16-month high in August, supported by accretive property acquisitions, improved fundamentals, and a widening yield gap as Japanese government bond yields dropped below 0.5% for the first time since April 2013, when the BoJ first announced its aggressive JGB buying program.

In a decision that could have a large impact on the J-REIT market, the Japanese Cabinet has lifted a ban on J-REIT investment in a number of assets, including renewable power generation facilities (solar, wind, geothermal, hydroelectric, and biomass power).

The Bank of Japan purchased a total of JPY 2.0 billion in J-REIT units during the month, bringing total purchases to JPY 14.2 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 155.2 billion.

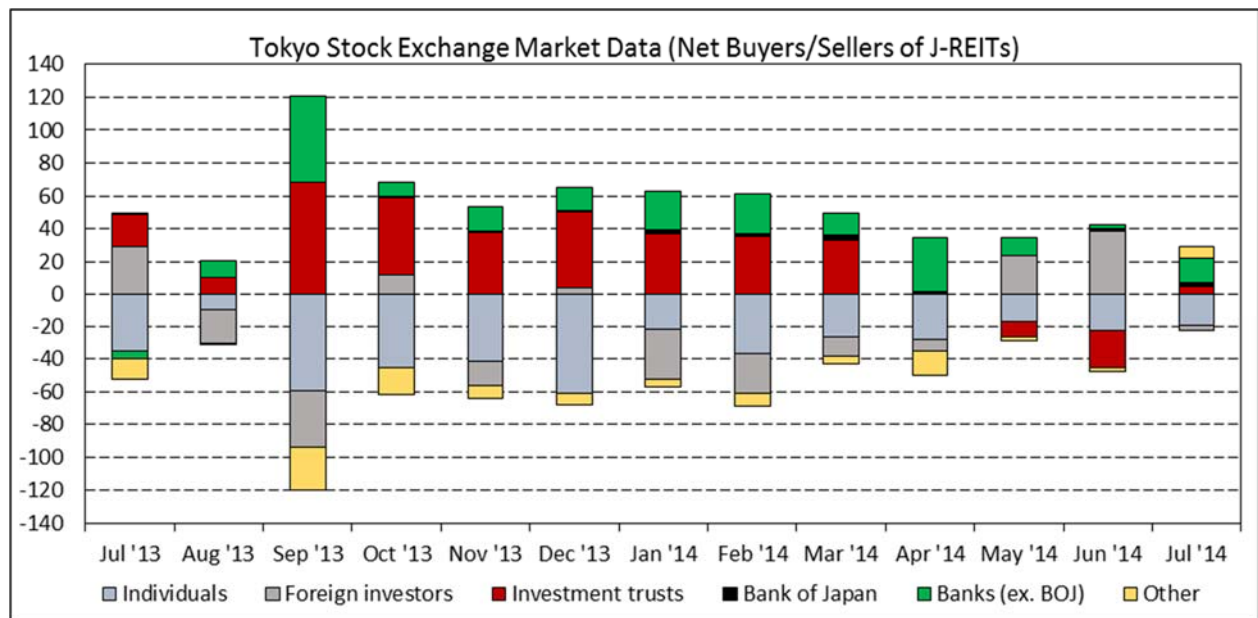
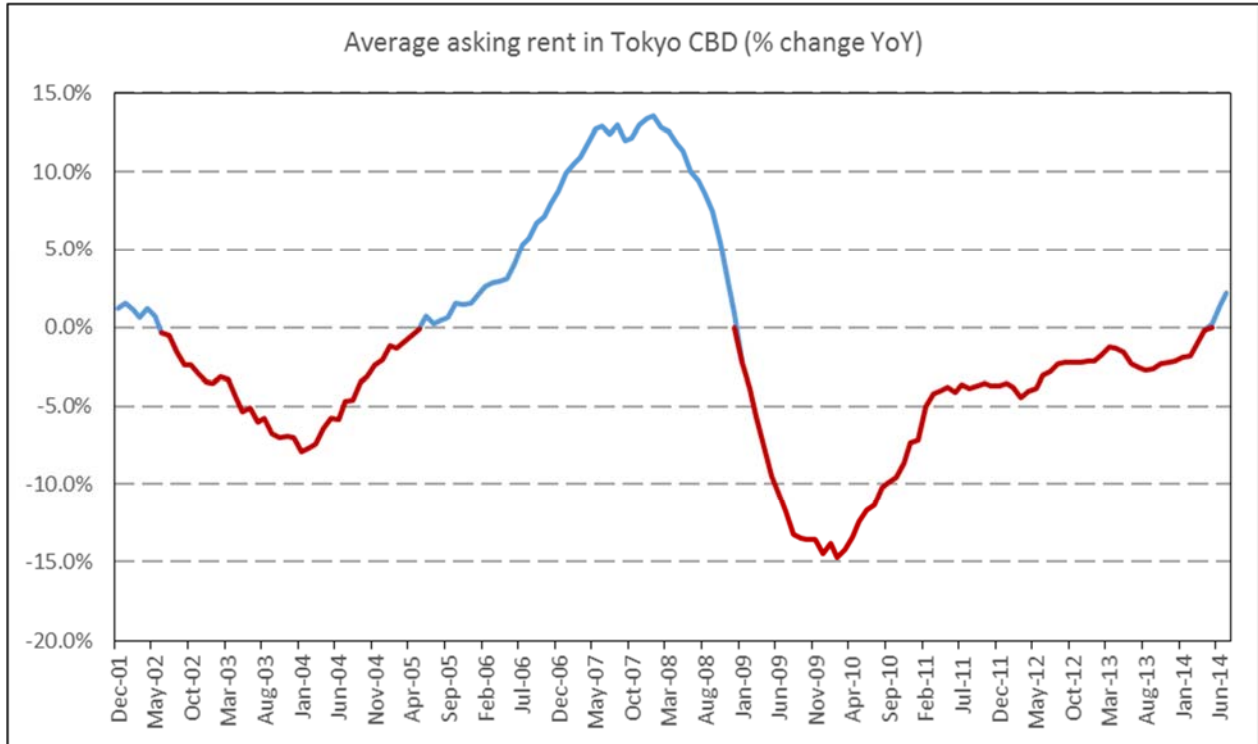
Three J-REITs announced new equity issuances during the month, planning to raise a total of about JPY 83 billion for property acquisition.

There was a total JPY 137.1 billion in property acquisitions announced during the month, bringing the year-to-date total to JPY 1 trillion.

Note:

- As of 31 August 2014, of the Fund, Tomoe Corp (1921) is 7.63%, Tri-Stage Inc (2178) is 8.76%, Shaklee Global Group (8205) is 11.64%, and Daito Bank (8563) is 8.08%.
- Starting from this month's Newsletter and onward, we will be using MSCI Japan Small Cap Index in replacement with Topix Small Index.

(Sources: Bloomberg, Miki Shoji, TSE)



Sector Weightings

Retail	11.8
Diversified Financial Services	11.6
Real Estate	11.5
Storage/Warehousing	9.6
Advertising	8.8
Banks	8.1
Engineering & Construction	7.6
Machinery-Diversified	5.4
Transportation	3.3
Building Materials	1.2
Distribution/Wholesale	0.6
REITs	0.0
Total**	79.5
No of Positions	23

Top 10 Holdings

Symbol	Security	% of Total Assets
8205	SHAKLEE GLOBAL GROUP INC	11.6
2178	TRI-STAGE INC	8.8
8563	DAITO BANK LTD/THE	8.1
1921	TOMOE CORP	7.6
3001	KATAKURA INDUSTRIES CO LTD	6.7
8737	AKATSUKI FINANCIAL GROUP INC	5.8
7404	SHOWA AIRCRAFT INDUSTRY CO LTD	5.4
9324	YASUDA LOGISTICS CORPORATION	4.6
gktaihei	GODO KAISHA TAIHEIYO JISHO #1 BOND	4.2
9313	MARUHACHI WAREHOUSE CO LTD	2.6

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.

NAV performance calculations are provided by PAMI and are un-audited. Fund price and index performance calculations are obtained from Bloomberg and are as of the end of the month. Although the Company is not managed to a benchmark, it measures its performance against the MSCI Japan Small Cap Index (Total Return) for comparison purposes only. 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.