

# The Prospect Japan Fund Limited

Bloomberg	PJF LN	NAV Performance (USD) %				
Yen / USD	109.42	September	YTD	1 Year	3 Year	
NAV (USD)	1.30	The Prospect Japan Fund Limited	-1.52	0.78	-2.99	44.44
Price (USD)	1.07	MSCI Japan Small Cap Index	-3.24	2.69	2.43	28.88
Premium/ Discount %	-17.56					

*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 1.52% (USD) on the month, outperforming the MSCI Japan Small Cap index' 3.24% month-on-month USD decline. Year to date, the Fund has underperformed, up 0.78% vs. the index' 2.69% gain

Weakness came from Shaklee Global Group (8205), a seller of nutrition and personal care products, which saw flat performance in JPY terms, after falling sharply last month following Q1 FY2015 results that showed adverse FX effects.

Positive performance was seen from Maruhachi Warehouse (9313) and Tri-Stage Inc (2178). Maruhachi Warehouse, a warehousing and distribution company, reached an 8-year high during the month, after the profitable sale of an asset. Tri-Stage, a marketing consultant service provider, rose following a large upward revision to H1 results forecast.

The strengthening dollar was in focus this month, rising to 109.66 JPY by September end. US economic growth (+4.6% in Q2, the fastest growth in 3 years) and expectations of strong employment data fueled speculation of US Fed interest rates' hike timing.

The Government Pension Investment Fund (GPIF) released its quarterly performance and asset allocation situation for Q2 CY2014, reporting a +1.8 return during the quarter ending in June (vs. -0.8% performance in Q1). The pension fund increased its domestic share allocation to 17.3% from 16.5%, revealing that the expected surge in equity buying has yet to materialise. Current AUM for the GPIF is JPY 127.3 trillion. A move to a 20% allocation for domestic stocks would result in an estimated JPY 3.5 trillion in additional buying.

Ministry of Health, Labor and Welfare reported that nominal wage growth rose for the sixth consecutive month, coming in at +1.4% in August and +2.4% in July (vs an average estimate of +0.9% for both months). The July figure marked the highest pace of growth since 1997. Regular earnings, stripping out overtime and bonus payments, grew +0.6% YoY. With the August unemployment

rate dropping to 0.3 ppt MoM to 3.5%, upward pressure on wages is set to continue.

2014 Official Land Prices were released this month, which showed that the pace of nationwide land price decline had slowed to 1.2% YoY, vs 2013's 1.9% YoY decline. Prices in Tokyo continue to rise, with residential and commercial land price increases outpacing 2013.

Miki Shoji reported that vacancy rates in Tokyo's Central Business District declined for a 14<sup>th</sup> consecutive month, falling 0.18 ppt to 6.02% in August. Year-on-Year, the vacancy rate has fallen 2.14 ppt. Average rents in the CBD rose year-on-year for the fourth consecutive month, up 2.8%, versus last month's 2.2% YoY increase. Vacancy rate improvements were seen nationwide, with MoM and YoY declines in all 7 regions tracked by Miki Shoji.

## REIT

In USD, the TSEREIT index saw a total return of -3.66% MoM, underperforming the Nikkei 225's 0.03% decline. Year-to-date, J-REITs have outperformed, +8.48% vs the Nikkei's -3.47% performance. This month, the TSEREIT index reached a 17-month high in JPY, supported by accretive property acquisitions and improved fundamentals, despite government bond yields rebounded after dipping below 0.5% in August.

The Bank of Japan purchased a total of JPY 4.1 billion in J-REIT units thus far during the month, bringing total purchases to JPY 18.3 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 159.3 billion.

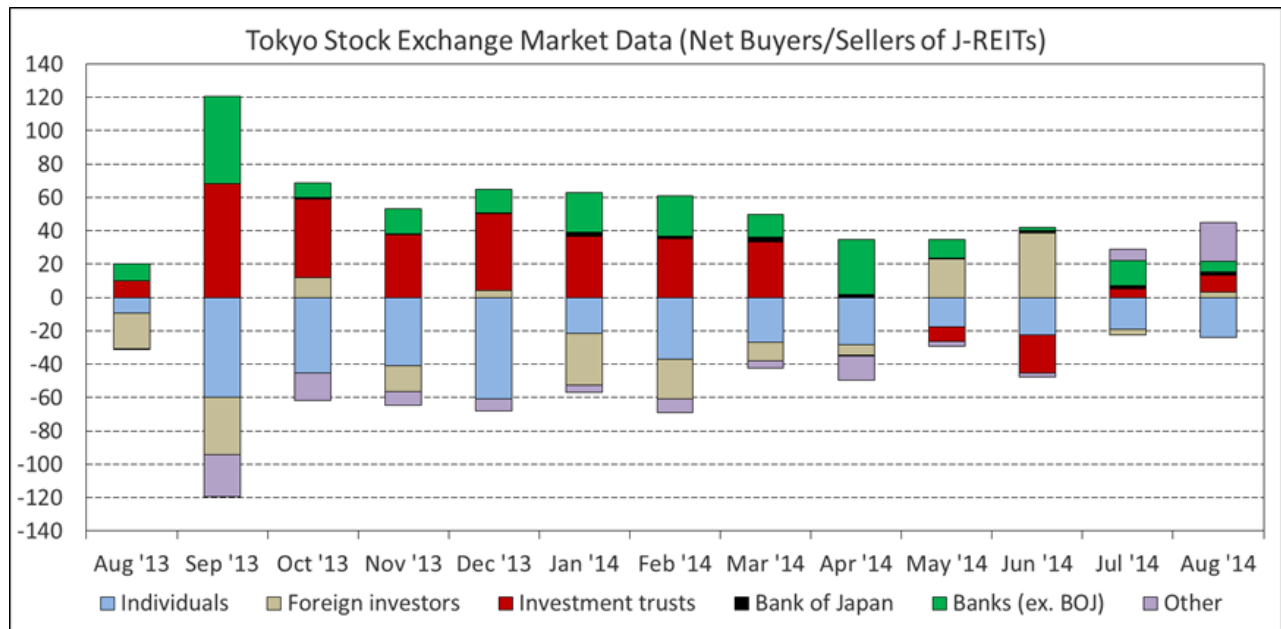
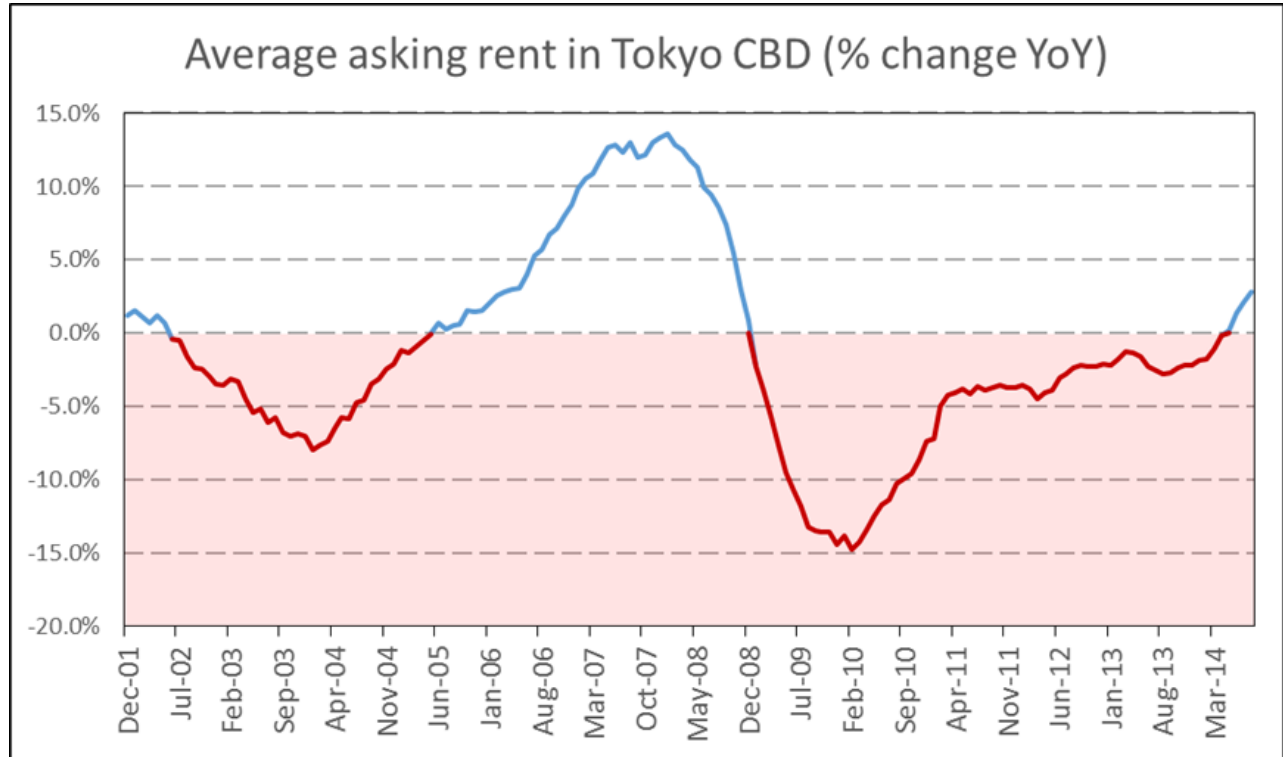
Two J-REITs announced new equity issuances during the month, planning to raise a total of about JPY 46.7 billion for property acquisition. This brings the total number of secondary equity issuances in the J-REIT market to 22 for the year.

There was a total JPY 177.6 billion in property acquisitions announced during the month, along with JPY 17.2 billion in disposals.

Note: As of 30 September 2014, of the Fund, Tri-Stage Inc (2178) is 9.10%, Shaklee Global Group (8205) is 13.67%, and Maruhachi Warehouse (9313) is 3.25%.

As announced on 26 September 2014, the Fund intends, subject to shareholder approval, to subscribe for Yen 3,000 million (approximately US\$28 million) of convertible bonds to be issued by Prospect Co., Ltd (formerly GRO-BELS Co., Ltd) and a further announcement on this will be made in due course.

(Sources: Bloomberg, Miki Shoji, TSE)



(JPY billion)

## Sector Weightings

Retail	13.8
Diversified Financial Services	10.7
Advertising	9.1
Real Estate	8.3
Storage/Warehousing	8.3
Banks	7.9
Engineering & Construction	6.7
Machinery-Diversified	5.1
Transportation	2.6
Distribution/Wholesale	0.5
Building Materials	0.1
REITs	0.0
Total**	73.4
No of Positions	22

## Top 10 Holdings

Symbol	Security	% of Total Assets
8205	SHAKLEE GLOBAL GROUP INC	13.7
2178	TRI-STAGE INC	9.1
8563	DAITO BANK LTD/THE	7.9
1921	TOMOE CORP	6.7
3001	KATAKURA INDUSTRIES CO LTD	5.9
7404	SHOWA AIRCRAFT INDUSTRY CO LTD	5.1
9324	YASUDA LOGISTICS CORPORATION	4.6
8737	AKATSUKI FINANCIAL GROUP INC	4.6
gktaihei	GODO KAISHA TAIHEIYO JISHO #1 BOND	4.3
9313	MARUHACHI WAREHOUSE CO LTD	3.3

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

This information is for use by investment professionals only. Past performance is no indication of future results. This document does not constitute an offer of shares of The Prospect Japan Fund Limited nor the solicitation of an offer to buy such shares. This document should not be forwarded or distributed to any other person except with the prior written consent of Prospect Asset Management Inc (PAMI).

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.