

The Prospect Japan Fund Limited

Monthly Review

Bloomberg	PJF LN	NAV Performance (USD) %	October	YTD	1 Year	3 Year
Yen / USD	111.51	The Prospect Japan Fund Limited	-3.85	-3.10	-4.85	45.35
NAV (USD)	1.25	MSCI Japan Small Cap Index	-2.67	-0.04	0.12	30.25
Price (USD)	1.07					
Premium/ Discount %	-14.86					

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 Prospect Japan Fund Limited inception date is 20 December 1994. The 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 Fund retreated 3.85% (USD) on the month, underperforming the MSCI Japan Small Cap index' 2.67% month-on-month USD decline. Year to date, the Fund has trailed, down 3.10% vs the index' 0.04% decline.

Weakness came from Shaklee Global Group (8205) and Tomoe Corp (1921). Shaklee Global Group, a seller of nutrition and personal care products, with strong overseas sales, fell sharply during the month, on yen volatility. Tomoe Corp, a steel frame construction company, fell in line with the market, ahead of H1 results announcement in November.

Positive performance was seen from Daito Bank (8563) and Inui Global Logistics (9308). Daito Bank, a regional bank in Fukushima prefecture, outperformed on upwardly revised H1 forecasts. Inui Global, a logistics and real estate leasing company, continued to outperform following its 1 October merger with freight shipping and ship leasing company Inui Steamship (9113, delisted 26 September).

Global equity markets declined in tandem during the early part of the month amidst a perfect storm of weaker than expected US economic data and lackluster European growth in the wake of the IMF downgrade of the global economy in early October. The TOPIX index fell as much as 11.3% during the month before global markets bounced back on expectations of additional stimulus in Europe, a surprise announcement by the Bank of Japan (BoJ) expanding its easing program and the release of the Government Pension Investment Fund's (GPIF) new investment weightings. The dual announcements provided a needed boost for Prime Minister Abe leading into the decision whether or not to implement a second consumption tax increase to 10%, from the current 8%.

Bank of Japan Expanded Quantitative & Qualitative Monetary Easing

	2013-end (Actual)	2014-end (Projected)	Pace of Annual Increase (Approx)	Increase from QQE1
JGBs	142	200	80	30
CP	2.2	2.2	--	--
Corp bonds	3.2	3.2	--	--
ETFs	2.5	3.8	3	2
J-REITs	0.14	0.18	0.09	0.06
Total Assets	224	297	--	

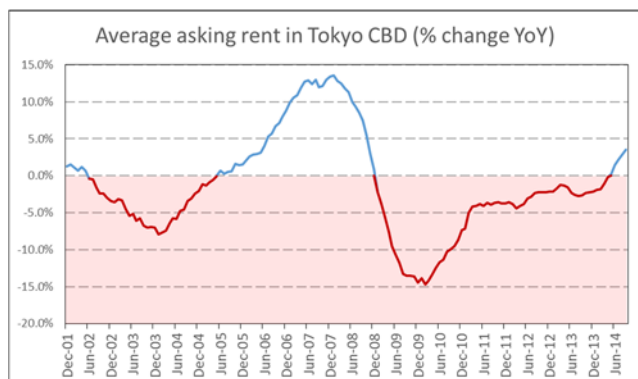
(trillion yen)

The Government Pension Investment Fund (GPIF) released its new investment weightings at the end of October, cutting domestic bond allocation as expected. GPIF will increase the weighting of Japanese and foreign equities to 25% each.

Asset Type	Previous		New	
	Median	Range	Median	Range
Japanese bonds	60%	± 8%	35%	± 10%
Japanese equities	12%	± 6%	25%	± 9%
Foreign bonds	11%	± 5%	15%	± 4%
Foreign equities	12%	± 5%	25%	± 8%
Short-term assets	5%	-	-	-

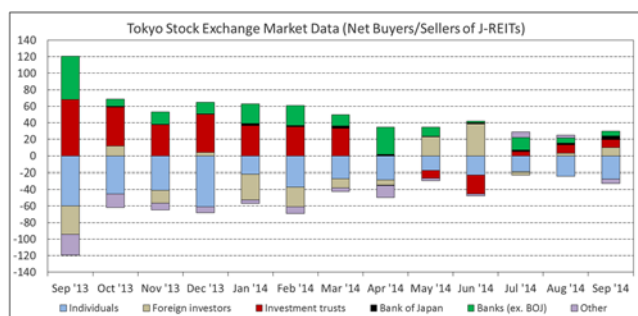
Miki Shoji reported that vacancy rates in Tokyo's Central Business District declined for a 15th consecutive month, falling sharply by 0.37 ppt to 5.65% in September. This marks the first time in over 5 years that vacancies came in under 6%. Year-on-year, the vacancy rate has fallen 2.25 ppt. Average rents in the CBD rose year-on-year for a fifth consecutive month, up 3.5% vs last month's 2.8% increase. Positive supply/demand conditions look to continue in the short-term, with the next large new supply coming online in February 2015.

Rents are now up 3.7% from the December 2013 low, though remaining well below (by 4.3%) the bottom from the previous cycle in 2004. During that cycle, the real estate stocks and J-REIT unit prices gained drastically about 12 to 24 months from the bottom, as improving conditions worked their way through to results.



REIT

In USD, the TSEREIT index saw a total return of 0.62% month-on-month, outperforming the Nikkei 225's 0.76% decline. Year-to-date, J-REITs have strongly outperformed, +9.15% vs the Nikkei's -4.13% performance. The TSEREIT index closed the month at a 7-year high in JPY, supported by the announcement of the BoJ's expanded easing regime, which will support lower interest rates as well as JPY 90 trillion in direct purchase of J-REIT units.



(JPY billion)

The BoJ purchased a total of JPY 6.4 billion in J-REITs during the month, bringing total purchases to JPY 24.7 billion on the year. The total amount of units purchased to date now stands at JPY 165.7 billion, vs BoJ target of JPY 180 by the end of 2014.

Three J-REITs announced new equity issuances during the month, planning to raise a total of approximately JPY 34.5 billion for property acquisitions. In addition, there were three J-REIT IPO announcements.

Daiwa Securities Group (8601) announced the planned 5 November listing of Japan's first healthcare J-REIT. Nippon Healthcare Investment (3308) will list with 14 properties with AUM of JPY 13.3 billion (6.9% NOI CAP), and will be advised by Asia Investment Partners (AIP).

Tosei Corp (8923) announced a planned 27 November listing of Tosei REIT Investment (3451). The new J-REIT will list with 12 properties, with AUM of JPY 17.4 billion (6.3% NOI CAP).

Sekisui House (1928) announced a planned 3 December listing of Sekisui House REIT (3309). The office J-REIT will list with 3 properties, with AUM of JPY 114.3 billion (4.2% NOI CAP).

There was a total JPY 238.8 billion in property acquisitions announced during the month, along with JPY 25.9 billion in disposals.

Note: As of 31 October 2014, of the Fund, Tomoe Corp (1921) is 6.57%, Shaklee Global Group (8205) is 13.23%, Daito Bank (8563) is 9.47%, and Inui Global Logistics (9308) is 0.26%. Sekisui House (1928), Nippon Healthcare Investment (3308), Daiwa Securities Group (8601), and Tosei Corp (8923) are not holdings of the Fund.

(Sources: Bloomberg, Miki Shoji, TSE)

Sector Weightings

Retail	13.4
Diversified Financial Services	10.4
Banks	9.5
Advertising	9.2
Storage/Warehousing	8.5
Real Estate	8.5
Engineering & Construction	6.6
Machinery-Diversified	5.2
Transportation	2.8
Distribution/Wholesale	0.5
REITs	0.0
Total**	74.7
No of Positions	22

Top 10 Holdings

Symbol	Security	% of Total Assets
8205	SHAKLEE GLOBAL GROUP INC	13.2
8563	DAITO BANK LTD/THE	9.5
2178	TRI-STAGE INC	9.2
1921	TOMOE CORP	6.6
3001	KATAKURA INDUSTRIES CO LTD	6.4
7404	SHOWA AIRCRAFT INDUSTRY CO LTD	5.2
8737	AKATSUKI FINANCIAL GROUP INC	4.7
9324	YASUDA LOGISTICS CORPORATION	4.6
gktaihei	GODO KAISHA TAIHEIYO JISHO #1 BOND	4.4
9313	MARUHACHI WAREHOUSE CO LTD	3.7

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.

As announced on 27 October 2014, a circular has been sent to shareholders in respect of the proposed subscription by the Company for up to Yen 3,000 million (approximately US\$28 million) convertible bonds in Prospect Co., Ltd which is subject to shareholder approval at the Extraordinary General Meeting of the Company on 20 November 2014.

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.