

The Prospect Japan Fund Limited

Monthly Review

Bloomberg	PJF LN	NAV Performance (USD) %	December	YTD	1 Year	3 Year
Yen / USD	119.5	The Prospect Japan Fund Limited	1.77	-10.85	-10.85	36.90
NAV (USD)	1.15	MSCI Japan Small Cap Index	1.06	-0.12	-0.12	31.71
Price (USD)	0.97	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.				
Premium/ Discount %	-15.83					

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 gained 1.77 % (USD) on the month, outperforming the MSCI Japan Small Cap index' 1.06% month-on-month USD advance. Year to date, the Fund has trailed, down 10.85% vs. the index' 0.12% decline

Strength came from Tri-Stage Inc (2178) and Daiwa Motor Transportation (9082). Tri-Stage, a marketing consultant service provider, gained strongly to 4-year highs ahead of its 3Q results announcement at month's end. Results were positive, showing Tri-Stage on pace to meet guidance for a 13.4% YoY gain in FY net income.

Daiwa Motor Transportation, a taxi and limousine service provider, gained strongly following November announcement of H1 results. Daiwa Motor reported net income 28.7% above company guidance, aided by a resurgence in its real estate business.

Weakness was seen in Daito Bank (8563), a regional bank in Fukushima prefecture, on profit taking following two strong months of outperformance. Daito Bank remains significantly undervalued, trading at half book value despite steadily improving fundamentals. The shares could see further attention after two high profile merger announcements among regional banks. Consolidation in the overcrowded regional bank space has been encouraged by government officials.

The Fund's largest position, Prospect Co. Ltd (3528), did well during the month, rising 20.3% following a JPY 3 billion convertible bond issuance to the Fund and an announcement of a TOB for control of Yutaka Shoji (8747), a commodity futures trader (1.4% of the Fund). Outperformance at Prospect was not reflected in Fund performance as the bonds were valued at par. At month's end Prospect Co shares traded at JPY 83, a 38.3% premium to par value of JPY 60.

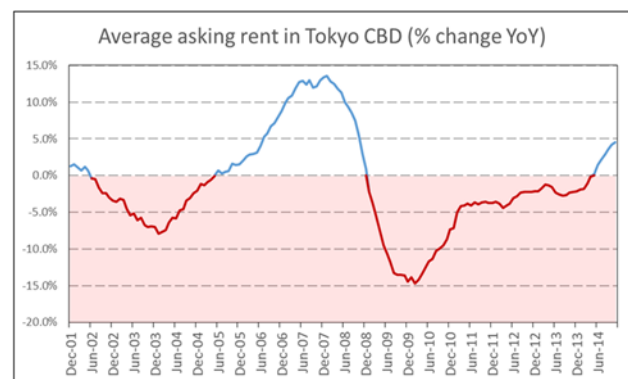
Macro news was mixed during the month, with positive news like 3Q capital spending (+5.5%) and corporate profits (+7.6%) contending with downward revision to 3Q GDP to -1.9% QoQ (-0.3 ppt) and export gain of 4.9% YoY (well below consensus forecast of 7.0%).

With ruling coalition's retention of its super majority following the December snap elections, focus has turned again to government growth policies. These include expected reforms to the Japanese corporate tax code and labor regulations in 2015.

The administration has also announced new stimulus spending totaling JPY 3.5 trillion yen, with focus on revitalization of regional economies, including JPY 1.7 trillion in additional post-disaster reconstruction.

Miki Shoji reported that vacancy rates in Tokyo's Central Business District declined for a 17th consecutive month, improving 0.05 ppt to 5.55% in November. Year-on-year, the vacancy rate has fallen 1.97 ppt.

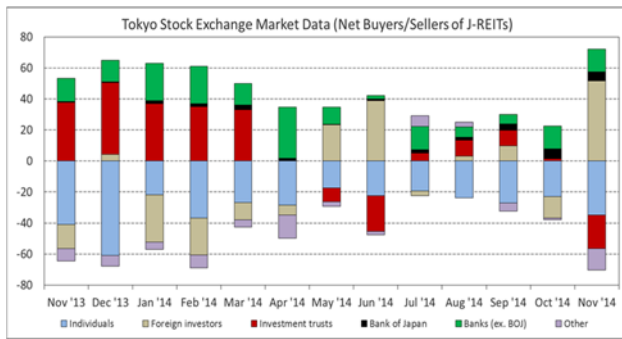
Miki Shoji reports average rents in the CBD rose year-on-year for a seventh consecutive month, up 4.5% year-on-year, versus last month's 4.2% year-on-year increase. Rents are now up 4.6% from the December 2013 lows.



REIT

While the Fund does not invest directly in J-REITs, they serve as a bellwether for the overall Japanese real estate market, and Bank of Japan commitment to asset relation via direct purchase of investment units. During December, the Bank of Japan purchased a total of JPY 6.5 billion in J-REIT units, bringing total purchases to date to JPY178.2 billion of JPY 180 billion target for direct purchases by 2014 end. The annual purchase allocation for 2015 stands at JPY 90 billion.

In USD, the TSEREIT index saw a total return of 3.60% month-on-month, outperforming the Nikkei 225's -0.58% decline. The TSEREIT index rallied to a seven year high at year end, supported by a decline in JGB yields to as low as 0.31%.



(JPY billion)

The Bank of Japan purchased a total of JPY 6.5 billion in J-REIT units during December, bringing total purchases to date to JPY178.2 billion of JPY 180 billion target for direct purchases by 2014 end. The annual purchase allocation for 2015 stands at JPY 90 billion.

There was a total JPY 60.1 billion in property acquisitions announced during the month, along with JPY 30.5 billion in dispositions.

Note: As of 31 December 2014, Tri-Stage (2178) is 11.87% of the Fund, Daito Bank (8563) is 9.29%, and Daiwa Motor Transportation (9082) is 3.45%.

(Sources: Bloomberg, Miki Shoji, TSE)

Sector Weightings

Real Estate	31.8
Advertising	11.9
Banks	9.3
Retail	8.2
Diversified Financial Services	8.1
Storage/Warehousing	8.0
Engineering & Construction	7.4
Machinery-Diversified	5.2
Transportation	3.5
REITs	0.0
Total**	93.3
No of Positions	17

Top 10 Holdings

Symbol	Security	% of Total Assets
3528CB02	PROSPECT #2 CB 4% 05/25/2020	23.6
2178	TRI-STAGE INC	11.9
8563	DAITO BANK LTD/THE	9.3
8205	SHAKLEE GLOBAL GROUP INC	8.2
1921	TOMOE CORP	7.4
3001	KATAKURA INDUSTRIES CO LTD	7.4
7404	SHOWA AIRCRAFT INDUSTRY CO LTD	5.2
gktaihei	GODO KAISHA TAIHEIYO JISHO #1 BOND	4.8
9313	MARUHACHI WAREHOUSE CO LTD	4.3
9324	YASUDA LOGISTICS CORPORATION	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.

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.