

# The Prospect Japan Fund Limited

Monthly Review

Bloomberg	PJF LN	NAV Performance (USD) %	January	YTD	1 Year	3 Year
Yen / USD	117.7	The Prospect Japan Fund Limited	6.96	6.96	-7.52	28.13
NAV (USD)	1.23	MSCI Japan Small Cap Index	3.36	3.36	3.53	30.77
Price (USD)	1.09					
Premium/ Discount %	-11.50					

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 gained 6.96 % (USD) on the month, outperforming the MSCI Japan Small Cap index's 3.36% month-on-month USD gain.

Strength came from holdings in Prospect Co. Ltd (3528) and Maruhachi Warehouse (9313). Prospect saw strong share performance following the JPY 3 billion convertible bond issuance to the Fund in Nov 2014 and an announcement of a TOB for control of Yutaka Shoji (8747), a commodity futures trader (1.36% of the Fund). The Fund holds both Prospect Co. listed shares and convertible bonds, which are carried at par value of JPY 60 per share against the market price of JPY 122. Maruhachi Warehouse, a warehousing and logistics company, outperformed following its release of FY results well ahead of company guidance.

Weakness was seen in Tomoe Corp (1921), a steel frame construction company, and Katakura Industries (3001), a shopping mall operator engaged in the manufacture and sale of textiles, pharmaceuticals and auto parts. Both companies have large real estate holdings and retreated during the month in line with the broader TOPIX Real Estate Index.

The Bank of Japan (BoJ) kept its monetary easing policy largely unchanged following its January meeting, while lowering the FY 2015 inflation forecast to 1% against its October 2014 forecasts of 1.7%, citing the decline in energy prices. While asset purchase targets were left constant, the BoJ decided to extend by one year its bank lending facility while increasing the provision from JPY 7 trillion to JPY 10 trillion, and increase the maximum amount provided to financial institutions from JPY 1 trillion to JPY 2 trillion.

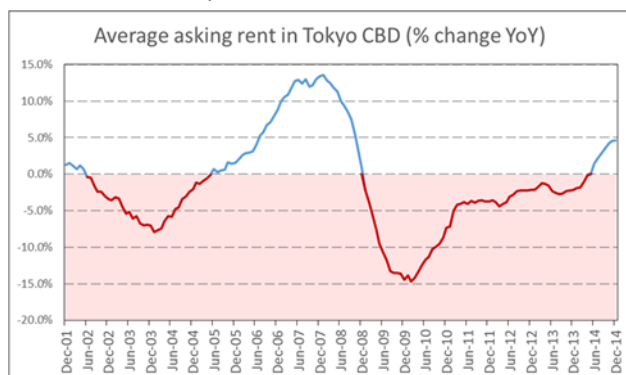
There continues to be strong expectations for additional easing from the BoJ this year, given the nearly 60% decline in oil prices since June 2014 and the bank's expressed commitment to achieving the 2% inflation target. The form of additional stimulus is in focus, as the BoJ is already buying up to 85% of newly issued debt and interest rates for 10-year JGBs reaching record lows during the month. BoJ Governor Kuroda seemed open to more creative monetary stimulus policies, but feels that the economic benefits of lower oil (the largest contribution to declining inflation in recent months) and a tight labor market will see inflation reach the BoJ target by 2015 end.

Spring wage negotiations have begun, with the Japanese Trade Union Confederation aiming for a pay-scale hike of at least 2%, along with wage gains at a broader range of companies. Negotiations will take place in an environment with strong double-digit profit growth and a tightening labor market which saw unemployment drop to its lowest level since 1997 last December.

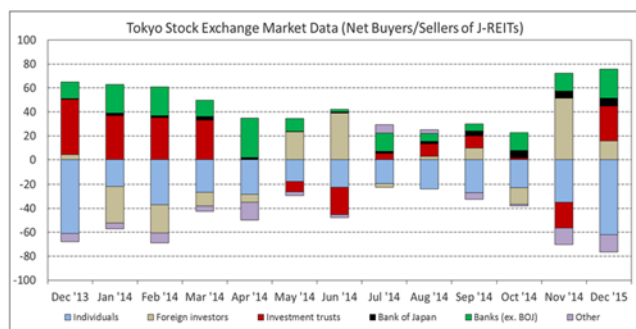
Miki Shoji reported that vacancy rates in Tokyo's Central Business District (CBD) declined for an 18th consecutive month, improving 0.08 ppt to 5.47% in December. Year-on-year, the vacancy rate has fallen 1.87 ppt.

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

According to a survey by At Home, a major Japanese Real Estate search site, Tokyo's 23 special wards showed residential rents rose year-on-year on new contracts for both new and existing condominiums (8.6% and 0.4% respectively), the tenth consecutive monthly rise.



While the Fund does not invest directly in J-REITs, they serve as a bellwether for the overall Japanese real estate market, and the BoJ's commitment to asset relation via direct purchase of investment units. During the month, the BoJ purchased a total of JPY 8.4 billion in J-REIT units, bringing total purchases to date to JPY 186.6 billion. The annual purchase allocation for 2015 stands at JPY 90 billion.



(JPY billion)

Note: As of 31 January 2015, of the Fund, Tomoe Corp (1921) is 6.89%, Katakura Industries (3001) is 8.95%, Prospect Co. Ltd (3528) is 19.12% (CB & shares combined), Yutaka Shoji (8747) is 1.36%, and Maruhachi Warehouse (9313) is 4.90%.

(Sources: Bloomberg, Miki Shoji, At Home, TSE)

## Sector Weightings

Real Estate	28.9
Advertising	11.1
Banks	9.8
Storage/Warehousing	8.3
Retail	7.7
Diversified Financial Services	7.1
Engineering & Construction	6.9
Machinery-Diversified	4.9
Transportation	3.4
REITs	0.0
Total**	88.1
No of Positions	19

## Top 10 Holdings

Symbol	Security	% of Total Assets
3528CB02	PROSPECT #2 CB 4% 05/25/2020 *	15.7
2178	TRI-STAGE INC	11.1
8563	DAITO BANK LTD/THE	9.8
3001	KATAKURA INDUSTRIES CO LTD	9.0
8205	SHAKLEE GLOBAL GROUP INC	7.7
1921	TOMOE CORP	6.9
9313	MARUHACHI WAREHOUSE CO LTD	4.9
7404	SHOWA AIRCRAFT INDUSTRY CO LTD	4.9
gktaihei	GODO KAISHA TAIHEIYO JISHO #1 BOND	4.5
9324	YASUDA LOGISTICS CORPORATION	3.4

Percentage weightings are Prospect Asset Management's internal calculations and have not been reconciled by the administrator.

\*In addition, as of 31 January, 2015, the fund holds 3,750,000 ordinary shares in Prospect Co., Ltd, amounting to 3.42 % of the portfolio.

\*\*Results of calculations as presented may not be exact due to rounding and precision of stored values.

## Important Legal Information – Please Read

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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.