

# The Prospect Japan Fund Limited

Monthly Review

Bloomberg	PJF LN	NAV Performance (USD) %	March	YTD	1 Year	3 Year
Yen / USD	120.21	The Prospect Japan Fund Limited	1.67	6.09	-9.63	27.08
NAV (USD)	1.22	MSCI Japan Small Cap Index	2.07	9.32	11.48	33.15
Price (USD)	1.04					
Premium/ Discount %	-14.85					

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 1.67 % (USD) during the month, underperforming the MSCI Japan Small Cap index's 2.07% MoM USD gain.

Strength came from Prospect Co., Ltd (3528) and Tomoe Corp (1921). While Prospect shares retreated sharply during the month, due to the low conversion price of the convertible bond held by the Fund, it was the top contributor to monthly performance. Tomoe Corp, a steel frame construction company, gained strongly during the month, coming back in line with the TOPIX Construction Index after trailing it for much of the year.

The Tokyo District Court announced the results of the case involving the Toho (9602) TOB of Toho Real Estate at month end, with the court ordering the price be raised 13.6% to JPY 835. While an improvement, the price is still significantly discounted to book value of Toho Real Estate when adjusted for unrealized gains on its real estate holdings. The Fund is currently appealing the ruling.

Weakness came from Shaklee Global Group (8205), a seller of nutrition and personal care products, which fell to a 12 month low early in the month. Shaklee Global had gained strongly following February Q3 results showing that the company remains in line to meet FY guidance.

With the Nikkei 255 index reaching 15-year highs during the month, a key theme was "corporate governance", in no small part due to the surprising announcement by robotics maker Fanuc (6954) that it will pursue efforts to become more shareholder friendly. The company credited the move to the final draft of the Tokyo Stock Exchange (TSE)'s new corporate governance code, though the vocal criticism by activist Third Point likely helped bring the kettle to boil. The Financial Times reports that Hong Kong-based Oasis Management has taken a position in cash-rich Kyocera Corp (6971), with an eye on increasing shareholder value via restructuring of the company's solar business and reducing investments in other listed companies. Oasis head Seth Fisher cites Japan's stated push for improved governance as a key factor in realizing these objectives.

Another focus point this month was wage growth. Labor Cash Earnings for January rose more than expected, up 1.3% YoY (against consensus estimates of a 0.5% increase), an 11<sup>th</sup>

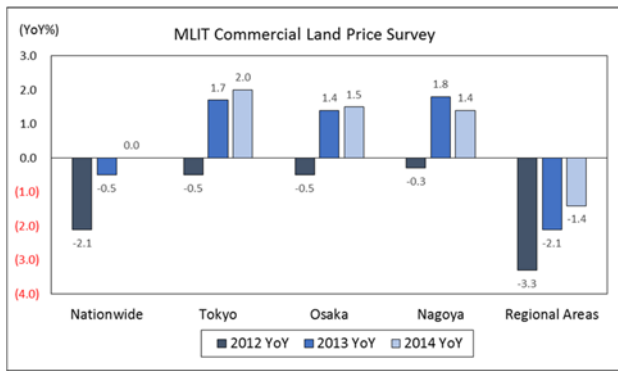
month of increases. Adjusted for inflation, however, earnings continued to decline for a 19<sup>th</sup> consecutive month, down 1.5% YoY. Negative real wage growth is expected through April, when the elimination of the effects of last year's consumption tax increase should dovetail with easing inflation and results of this year's spring negotiations for union employees. Front and center was Toyota Motors, which agreed to a record base wage increase of JPY 4,000/month, against last year's JPY 2,700 increase. Total monthly wages (including bonuses) will increase 3.2%.

Finalized GDP number for the quarter ending December 2014 was at 1.5% against initial estimates of 2.2% YoY, with disappointing corporate investment undercutting a rise in consumer spending. Private consumption rose more than expected, +0.5% QoQ (against survey of 0.3% gain), but was offset by business spending reporting -0.1% QoQ performance (against survey of 0.2% gain).

In volume terms February exports retreated by 2.1% YoY, led by a 22.7% YoY decline in exports to China. In value terms, however, February's trade balance improved more than expected, with export value rising 2.5% YoY (against 0.3% survey) and imports down -3.6% YoY (against +3.2% survey).

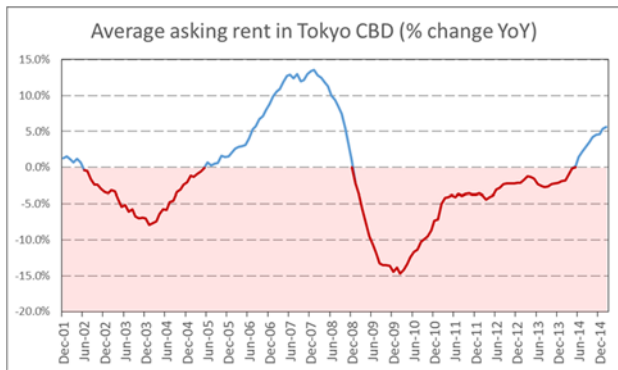
The Bank of Japan (BoJ) voted to maintain easing at current levels following its March meeting, despite downgrading inflation expectations in deference to the move in oil prices. Core inflation adjusted for the effect of last April's consumption tax increase came in unchanged YoY for February.

Official land prices released by the Ministry of Land, Infrastructure, Transport and Tourism (MLIT) showed that in Greater Tokyo both commercial and residential land prices made YoY gains. Commercial land prices gained 2.0% (+1.7% previously) and residential land price rose 0.5% (+0.7% previously).

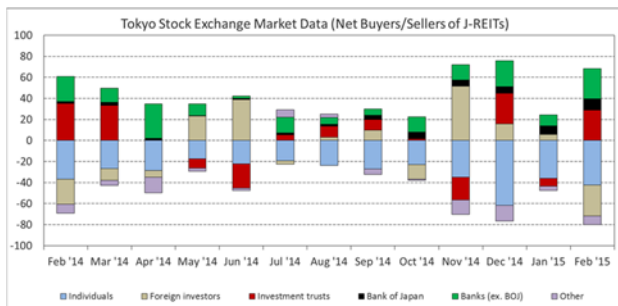


Miki Shoji reported that vacancy rates in Tokyo's Central Business District (CBD) declined for a 20th consecutive month, falling 0.05 ppt to 5.31% in February. YoY, the vacancy rate has fallen 1.70 ppt.

Miki Shoji reports average office rents in the CBD rose 5.6% YoY, against last month's 5.3% increase. Rents are now 5.9% above the December 2013 lows.



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 reflation via direct purchase of investment units. During the month, the BoJ purchased a total of JPY 8.4 billion in J-REIT units. This brings total purchases to date to JPY 205.8 billion. YTD the BoJ has used 30.7% of its stated JPY 90 billion annual purchase allocation for 2015.



(JPY billion)

Note: As of 31 March 2015, of the Fund, Tomoe Corp. (1921) is 6.42%, Prospect Co., Ltd. (3528) is 2.07%, Prospect Co., Ltd. (3528) convertible bond is 11.08%, and Shaklee Global Group (8205) is 6.80%. Fancu (6954), Kyocera Corp (6971) and Toho (9602) are not holdings of the Fund.

(Sources: Bloomberg, Miki Shoji, TSE)

## Sector Weightings

Real Estate	23.0
Advertising	18.8
Banks	13.0
Storage/Warehousing	8.7
Agriculture	7.0
Retail	6.8
Engineering & Construction	6.4
Machinery-Diversified	5.0
Diversified Financial Services	5.0
Transportation	3.5
REITs	0.0
Total**	97.3
No of Positions	18

## Top 10 Holdings

Symbol	Security	% of Total Assets
8563	DAITO BANK LTD/THE	13.0
3528CB02	PROSPECT #2 CB 4% 05/25/2020	11.1
2178	TRI-STAGE INC	10.4
3001	KATAKURA INDUSTRIES CO LTD	9.1
LN022178	Linkup Loan 4% 06/05/15	8.4
1378	YUKIGUNI MAITAKE CO LTD	7.0
8205	SHAKLEE GLOBAL GROUP INC	6.8
1921	TOMOE CORP	6.4
9313	MARUHACHI WAREHOUSE CO LTD	5.2
7404	SHOWA AIRCRAFT INDUSTRY CO LTD	5.0

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

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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.