

# The Prospect Japan Fund Limited

Monthly Review

Bloomberg	PJF LN	NAV Performance (USD) %	May	YTD	1 Year	3 Year
Yen / USD	123.72	The Prospect Japan Fund Limited	-3.94	6.09	-10.29	28.42
NAV (USD)	1.22	MSCI Japan Small Cap Index	1.15	12.72	13.46	52.00
Price (USD)	1.03					
Premium/ Discount %	-15.28					

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 declined 3.94 % (USD) during the month, underperforming the MSCI Japan Small Cap index's 1.15% MoM USD gain.

Weakness came from Shaklee Global Group (8205), a seller of nutrition and personal care products. Shaklee Global retreated following FY results showing deep YoY declines in profits on increases in input costs and increased SG&A expense (+12% YoY). Capital expenditure rose 2.5x YoY to JPY 1.2 billion, by far the largest amount of capex done in any FY within the last 10 years. The company announced estimates for further profit declines on continuation of higher costs.

Strength was seen from Katakura Industries (3001), a shopping mall operator engaged in the manufacture and sale of textiles, pharmaceuticals and auto parts. Katakura gained following the announcement of Q1 results in line with forecasts.

The Fund raised its weighting in Daito Bank (8563) during the month to 14.8% from 13.1% following FY results released with performance well above initial forecasts. Outstanding loans at the Fukushima prefecture based regional bank increased 1.4% YoY to JPY 472.7 billion. Dividends were increased by 25%.

The Nikkei 225 index reached 15-year highs during the month, amid a second year of record corporate profits and payouts. Dividends and share buybacks reached JPY 12.8 trillion (+76% YoY). The Yen dropped to 12 year lows against the dollar towards month's end, on speculation regarding the Fed's plans to raise rates within the year.

Q1 2015 GDP rose an annualized 2.4% (vs. consensus forecasts of 1.6%) due to increased business spending. This marks the second consecutive quarter of positive GDP since the surprise recession last year following the rise in the consumption tax.

The March trade balance turned positive for the first time since June 2012, as import values declined 14.5% YoY. The trade surplus of JPY 229.3 billion beat the consensus estimate of JPY 44.6 billion, thanks to lower oil prices and exports supported by the weaker yen.

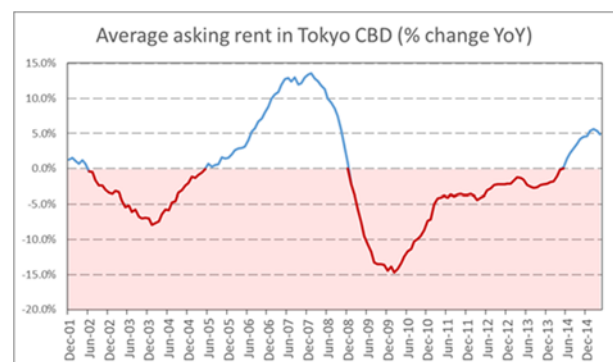
The regional banking sector saw another shakeup during the month, with reports that ShinGinko Tokyo (unlisted) will join the Tokyo TY Financial Group (7173) via share exchange. ShinGinko is currently 80% held by the Tokyo Metropolitan

government. Tokyo TY Financial Group was established in October 2014 via the merger of Tokyo Tomin Bank and Yachiyo Bank.

The Bank of Japan (BoJ) opted to maintain easing at current levels following its May meeting. However, with April core CPI (excluding effects of the consumption tax increase) coming in flat YoY, expectations for another stimulus increase remain.

Miki Shoji reported that vacancy rates in Tokyo's Central Business District (CBD) rose for the first time in nearly two years, gaining 0.04 points to 5.34% in April. YoY, the vacancy rate has fallen 1.30 points.

Miki Shoji reports average office rents in the CBD rose 4.9% YoY, versus last month's 5.3% increase. Rent levels are now 6.5% above the December 2013 lows.



While the Fund does not currently hold any J-REITs, they serve as a bellwether for the overall Japanese real estate market, and the BoJ's commitment to asset reflation via the direct purchase of investment units. During the month, the BoJ purchased a total of JPY 4.8 billion in J-REIT units. This brings total purchases to date to JPY 220.2 billion. YTD the BoJ has used 46.7% of its stated JPY 90 billion annual purchase allocation for 2015.

*Note: As of 30 May 2015, of the Fund, Shaklee Global Group (8205) is 6.14%, Katakura Industries (3001) is 9.25%, and Daito Bank (8563) is 14.80%. Tokyo TY Financial Group (7173) is not a holding of the Fund.*

(Sources: Bloomberg, Miki Shoji, TSE, Nomura Securities)

## Sector Weightings

Real Estate	20.1
Advertising	19.8
Banks	14.8
Storage/Warehousing	8.7
Agriculture	6.8
Retail	6.1
Engineering & Construction	5.9
Machinery-Diversified	4.5
Transportation	3.3
Diversified Financial Services	0.4
REITs	0.0
Total**	90.4
No of Positions	18

## Top 10 Holdings

Symbol	Security	% of Total Assets
8563	DAITO BANK LTD/THE	14.8
2178	TRI-STAGE INC	11.6
3001	KATAKURA INDUSTRIES CO LTD	9.2
3528CB02	PROSPECT #2 CB 4% 05/25/2020 *	8.6
LN022178	Linkup Loan 4% 06/05/15	8.2
1378	YUKIGUNI MAITAKE CO LTD	6.8
8205	SHAKLEE GLOBAL GROUP INC	6.1
1921	TOMOE CORP	5.9
9313	MARUHACHI WAREHOUSE CO LTD	5.2
7404	SHOWA AIRCRAFT INDUSTRY CO LTD	4.5

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

\*In addition, as of 31 May, 2015, the Fund holds 2,596,000 ordinary shares in Prospect Co., Ltd, amounting to 1.36% 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

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 unrounded 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.