

# The Prospect Japan Fund Limited

Monthly Review

Bloomberg	PJF LN	NAV Performance (USD) %	July	YTD	1 Year	3 Year
Yen / USD	124.23	The Prospect Japan Fund Limited	1.63	8.70	-9.42	31.58
NAV (USD)	1.25	MSCI Japan Small Cap Index	-0.38	13.94	6.51	49.69
Price (USD)	1.00					
Premium/ Discount %	-20.28					

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 gained 1.63 % (USD) during the month, outperforming the MSCI Japan Small Cap index's 0.38% MoM USD retreat.

Strength came from holdings in Tri-Stage Inc. (2178), Shaklee Global Group (8205) and Maruhachi Warehouse (9313). Tri-Stage, a marketing consultant service provider, gained strongly following strong YoY profit gains reported for Q1, supported by new clients and rising ad placement orders, along with tighter cost controls. The company raised its dividend forecast for the FY by 170% to JPY 54 per share, in accordance with its new 100% payout policy. Shaklee Global Group, a seller of nutrition and personal care products, saw shares rebound after two consecutive months of declines, ahead of Q1 results to be announced in early August. Maruhachi Warehouse, a warehousing and logistics company, rose following strong H1 results along with an upward revision to FY estimates and dividends due to contribution from new customers, and continued income from the delayed departure of a tenant at a planned redevelopment site. Profits forecasts have improved due to debt repayment following the partial sale of a property and the resultant lower interest payments.

Weakness for the month came primarily from Daito Bank (8563). The regional bank in Fukushima prefecture retreated after reaching multi-year highs last month.

As of the month end, the Fund has converted all shares of the Prospect Co. Ltd (3528) convertible bond, and reduced its holding in the company to 1.33% of the Fund.

July started with equity markets in turmoil, hit by the double-whammy of a breakdown in European negotiations over the Greece crisis and a sharp correction in Chinese stock markets. Japanese equities fell sharply, with the Nikkei 225 breaching the psychologically significant 20,000 level on a strengthening yen and fears of contagion.

While there has been a temporary resolution to the Eurozone standoff, the Chinese markets remained volatile at month's end. Fund holding Shaklee Global Group (8205; 6.98% of the Fund) derives 49% of sales from China, and remains vulnerable to a slowdown in consumer spending.

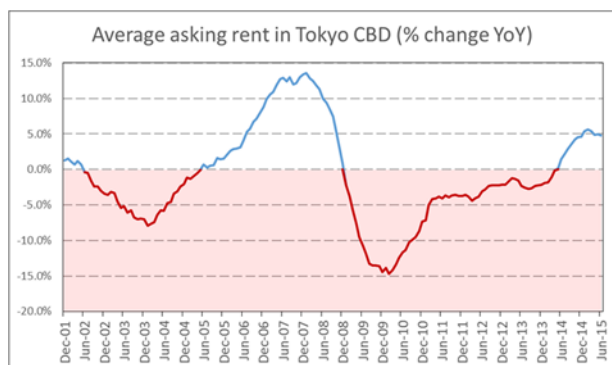
The Bank of Japan (BoJ) opted to keep monetary policy unchanged after its July meeting, though it lowered its growth

expectation for the year by 30 basis points to 1.7%, citing sluggish exports and household spending.

Corporate governance and shareholder engagement with management again took center stage with the accounting scandal at Toshiba (6502) revealing the weakness of insular and unaccountable management, and the re-emergence of Yoshiaki Murakami in a push for increased dividend payouts and outside director status at Osaka based Kuroda Denki (7517).

Miki Shoji reported that vacancy rates in Tokyo's Central Business District (CBD) declined 5 basis points to 5.12% in June. Year-on-year, the vacancy rate has fallen 1.33 points.

Miki Shoji reports that average office rents in the CBD rose 4.8% year-on-year, versus last month's 5.0% increase. Rent levels are now 7.4% 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 direct purchase of investment units. During the month, the BoJ purchased a total of JPY 12.5 billion in J-REIT units, its largest monthly purchase since April 2013. This brings total purchases to date to JPY 239.2 billion. YTD the BoJ has used 67.8% of its stated JPY 90 billion annual purchase allocation for 2015.

Note: As of 31 July 2015, of the Fund, Tri-Stage Inc (2178) is 12.55%, Shaklee Global Group (8205) is 6.98%, Maruhachi Warehouse (9313) is 6.46%, and Daito Bank (8563) is 15.96%. Toshiba (6502) and Kuroda Denki (7517) are not holdings of the Fund.

## Sector Weightings

Advertising	20.3
Banks	16.0
Real Estate	11.4
Storage/Warehousing	9.9
Retail	7.0
Agriculture	6.6
Engineering & Construction	5.9
Machinery-Diversified	4.4
Transportation	3.7
Diversified Financial Services	0.2
REITs	0.0
<b>Total**</b>	<b>85.3</b>
<b>No of Positions</b>	<b>16</b>

## Top 10 Holdings

Symbol	Security	% of Total Assets
8563	DAITO BANK LTD/THE	16.0
2178	TRI-STAGE INC	12.6
3001	KATAKURA INDUSTRIES CO LTD	9.3
LN022178	Linkup Loan 4% 07/01/15	7.7
8205	SHAKLEE GLOBAL GROUP INC	7.0
1378	YUKIGUNI MAITAKE CO LTD	6.6
9313	MARUHACHI WAREHOUSE CO LTD	6.5
1921	TOMOE CORP	5.9
7404	SHOWA AIRCRAFT INDUSTRY CO LTD	4.4
9082	DAIWA MOTOR TRANSPORTATION CO	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

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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 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.