

# The Prospect Japan Fund Limited

Monthly Review

| Bloomberg           | PJF LN | NAV Performance (USD) %         | August | YTD   | 1 Year | 3 Year |
|---------------------|--------|---------------------------------|--------|-------|--------|--------|
| Yen / USD           | 120.77 | The Prospect Japan Fund Limited | -2.40  | 6.09  | -7.58  | 25.77  |
| NAV (USD)           | 1.22   | MSCI Japan Small Cap Index      | -3.42  | 10.06 | 3.61   | 45.40  |
| Price (USD)         | 0.98   |                                 |        |       |        |        |
| Premium/ Discount % | -19.61 |                                 |        |       |        |        |

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 retreated 2.40 % (USD) during the month, outperforming the MSCI Japan Small Cap index's 3.42% MoM USD retreat.

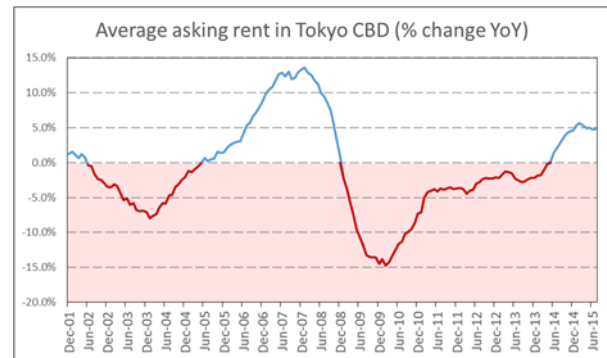
Miki Shoji reports that average office rents in the CBD rose 4.8% year-on-year, versus last month's 4.8% increase. Rent levels are now 7.8% above the December 2013 lows.

Weakness for the month came primarily from Daito Bank (8563), Tomoe Corporation (1921) and Shaklee Global Group (8205). Daito Bank, a regional bank based in Fukushima prefecture, fell sharply MoM, though managing to outperform the broader Topix Bank index. Daito Bank announced strong Q1 results early in the month with double-digit revenue and profit growth. Tomoe Corporation, a steel structure construction company, announced relatively weak Q1 results during the month, with unprofitable steel construction projects resulting in a JPY 280 million YoY swing in that segment to net losses. Revenue from real estate related operations was down YoY, though profit margins improved 5.8 points to 45.7%. Construction orders during the quarter were down YoY, but the order backlog remains healthy, with over a year of revenues on backlog. Shaklee Global Group, a seller of nutrition and personal care products, fell after gaining sharply towards the end of July. The company has large exposure to the Chinese market, where consumer sentiment remains depressed.

Another solid earnings session has come and gone, with non-financial Japanese companies' reported net profit rising 28% YoY to an all-time high at the end of the quarter ending June 2015. Unfortunately, these positive results were overshadowed by domestic macroeconomic challenges and global market volatility. Apr-Jun 2015 quarterly GDP was reported at an annualized -1.6% QoQ, slightly stronger than the consensus estimate of -1.8%. Private domestic consumption (-0.8%) and weaker exports (-4.4%) were drags on performance.

The global market slump in the second half of the month took center stage, as Chinese economic slowdown concerns and government action again dominated headlines. The Japanese market fell sharply, with the TOPIX index enduring its largest monthly loss since 2012 (-7.4% MoM).

Miki Shoji reported that vacancy rates in Tokyo's Central Business District (CBD) declined 0.23 points to 4.89% in July. This marks the first time drop below 5% vacancy since January 2009. Year-on-year, the vacancy rate has fallen 1.31 points.



While the Fund does not currently hold any J-REITs, they serve as a bellwether for the overall Japanese real estate market, and the Bank of Japan's (BoJ) commitment to asset reflation via direct purchase of investment units. During the month, the BoJ purchased a total of JPY 10.4 billion in J-REIT units. This brings total purchases to date to JPY 250.9 billion.

Note: As of 28 August 2015, of the Fund, Tomoe Corporation (1921) is 6.15%, Shaklee Global Group (8205) is 7.67%, and Daito Bank (8563) is 16.98%.

(Sources: Nikkei, Bloomberg, Miki Shoji, TSE)

## Sector Weightings

|                                |      |
|--------------------------------|------|
| Advertising                    | 20.5 |
| Banks                          | 17.0 |
| Real Estate                    | 11.2 |
| Storage/Warehousing            | 10.1 |
| Retail                         | 7.7  |
| Agriculture                    | 7.0  |
| Engineering & Construction     | 6.2  |
| Machinery-Diversified          | 4.1  |
| Transportation                 | 3.7  |
| Diversified Financial Services | 0.2  |
| REITs                          | 0.0  |
|                                |      |
| Total*                         | 87.6 |
| No of Positions                | 16   |

## Top 10 Holdings

| Symbol   | Security                       | % of Total Assets |
|----------|--------------------------------|-------------------|
| 8563     | DAITO BANK LTD/THE             | 17.0              |
| 2178     | TRI-STAGE INC                  | 12.3              |
| 3001     | KATAKURA INDUSTRIES CO LTD     | 8.9               |
| LN022178 | Linkup Loan 4% 10/01/15        | 8.1               |
| 8205     | SHAKLEE GLOBAL GROUP INC       | 7.7               |
| 1378     | YUKIGUNI MAITAKE CO LTD        | 7.0               |
| 9313     | MARUHACHI WAREHOUSE CO LTD     | 6.7               |
| 1921     | TOMOE CORP                     | 6.2               |
| 7404     | SHOWA AIRCRAFT INDUSTRY CO LTD | 4.1               |
| 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.