

# The Prospect Japan Fund Limited

Monthly Review

Bloomberg	PJF LN	NAV Performance (USD) %	September	YTD	1 Year	3 Year
Yen / USD	120.03	The Prospect Japan Fund Limited	0.00	6.09	-6.15	20.79
NAV (USD)	1.22	MSCI Japan Small Cap Index	-3.49	6.22	3.33	36.50
Price (USD)	0.97					
Premium/ Discount %	-21.00					

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 was flat (USD) during the month, outperforming the MSCI Japan Small Cap index's 3.49% MoM USD decline. Year to date, the Fund has underperformed slightly, gaining 6.09% versus the index's 6.22%.

Strength came from holdings in Tri-Stage Inc. (2178), a marketing consultant service provider. Tri-Stage gained strongly to reach five-year highs, ahead of robust H1 results announced at month end. The company reported double-digit gains in revenue and profits, supported by new client acquisitions and rising ad placement orders from existing clients, along with tighter cost controls.

Weakness for the month came primarily from Tomoe Corp (1921) and Katakura Industries (3001). Tomoe Corp, a steel frame construction company, retreated ahead of weak August national construction order numbers (-15.6% YoY), and delayed visibility on orders for the 2020 Tokyo Olympics national stadium. Katakura Industries, a shopping mall operator engaged in the manufacture and sale of textiles, pharmaceuticals and auto parts, declined after disappointing H1 results announced last month, driven by opening costs for a newly opened shopping center and low profitability from the pharmaceuticals segment.

While the Fund has received payment for shares in its holding of Yukiguni Maitake (1378; delisted), the legal challenge regarding the fairness of the pricing of the TOB is ongoing.

Japanese markets were not spared in the global equity rout during the month, with ongoing concerns related to the China slowdown weighing heavily. Domestically, all eyes were on the Bank of Japan (BoJ), which declined to add to its monetary easing program, signaling confidence in a H2 recovery. Markets remain unconvinced, with 31% of economists surveyed by Bloomberg expecting further easing after the October policy meeting, when the BoJ compiles its Outlook for Economic Activity and Prices.

Following the passage of a controversial security bill that sparked large protest demonstrations and sharp drops in the administration's approval ratings, Prime Minister Abe reverted to campaign mode, announcing "stage two" of Abenomics, along with a fresh quiver of his infamous arrows. The new arsenal, focused on raising Japan's GDP to a post-war high of JPY 600 trillion (from last year's JPY 490 trillion) through

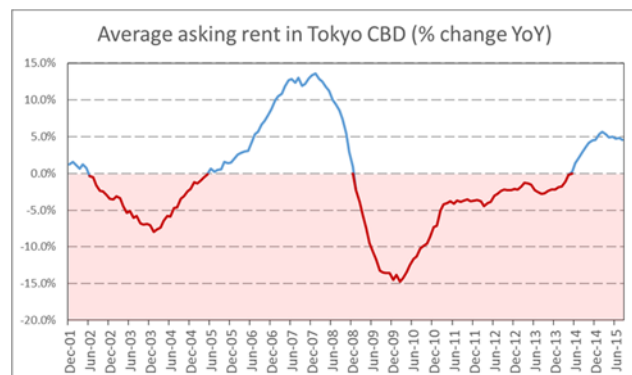
productivity improvements and higher utilization of the nation's women, increased support for child and elderly care, along with revitalization of regional economies, is notable for its lack of a monetary policy dimension, suggesting the limited options available on that front.

Natsu Matsuzawa of Nomura Securities takes it a step further, suggesting that earlier declarations of yen deprecation having reached fair levels, "coupled with the new three arrows of Abenomics, make it likely that the government no longer considers the achievement of 2% inflation as imperative, shifting gradually from overly reflationary policies".

National core CPI turned negative for the first time in 28 months, down 0.1% YoY (in-line with Bloomberg consensus forecasts), on sharply lower energy prices. Excluding fresh food and energy, national CPI rose 0.8% YoY. The inflation outlook took another hit from Prime Minister Abe's call for lower mobile phone rates, with a special panel of experts to convene in October to consider a path towards realizing a cheaper service.

Miki Shoji reported that vacancy rates in Tokyo's Central Business District (CBD) declined 0.17 points to 4.72% in August. Year-on-year, the vacancy rate has fallen 1.30 points.

Miki Shoji reports that average office rents in the CBD rose 4.5% year-on-year versus last month's 4.8% increase. Rent levels are now 7.9% 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 5.2 billion in J-REIT units. This brings total purchases to date to JPY 254.8 billion. YTD the BoJ has used 85.1% of its stated JPY 90 billion annual purchase allocation for 2015.

*Note: As of 30 September 2015, of the Fund, Tri-Stage Inc (2178) is 14.44%, Tomoe Corp (1921) is 6.24% and Katakura Industries (3001) is 9.12%.*

## Sector Weightings

Advertising	22.6
Banks	17.4
Real Estate	11.4
Storage/Warehousing	10.1
Retail	7.3
Engineering & Construction	6.2
Machinery-Diversified	4.1
Transportation	3.7
Diversified Financial Services	0.2
REITs	0.0
Total*	83.0
No of Positions	15

## 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.

## Top 10 Holdings

Symbol	Security	% of Total Assets
8563	DAITO BANK LTD/THE	17.4
2178	TRI-STAGE INC	14.4
3001	KATAKURA INDUSTRIES CO LTD	9.1
LN022178	Linkup Loan 4% 10/01/15	8.2
8205	SHAKLEE GLOBAL GROUP INC	7.3
9313	MARUHACHI WAREHOUSE CO LTD	6.9
1921	TOMOE CORP	6.2
7404	SHOWA AIRCRAFT INDUSTRY CO LTD	4.1
9082	DAIWA MOTOR TRANSPORTATION CO LTD	3.7
9324	YASUDA LOGISTICS CORPORATION	3.2

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.