

The Prospect Japan Fund Limited

Monthly Review

Bloomberg	PJF LN	NAV Performance (USD) %	October	YTD	1 Year	3 Year
Yen / USD	120.66	The Prospect Japan Fund Limited	8.20	14.78	5.60	32.00
NAV (USD)	1.32	MSCI Japan Small Cap Index	6.67	13.32	13.27	48.84
Price (USD)	1.02					
Premium/ Discount %	-22.61					

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 gained 8.20% (USD) during the month, outperforming the MSCI Japan Small Cap index's 6.67% MoM USD gain. Year to date, the Fund has outperformed, up 14.78% versus the index's 13.32% gain.

Strength came from holdings in Daito Bank (8563) and Tri-Stage Inc. (2178). Daito Bank, a Fukushima based regional bank, reached eight-year highs ahead of H1 results announcement next month. Consolidation in the regional bank space continues to unfold, with Joyo Bank (8333) and Ashikaga Holdings (7167) reported to be in the final stages of talks for a possible merger. Negotiations are expected to conclude this November for integration in autumn of 2016. The merged entity would be the country's third largest regional bank by assets (approximately JPY 15 trillion), with a strong network in northern Kanto. Daito Bank, the second largest bank in Fukushima prefecture, could benefit from the consolidation trend in the sector. Tri-Stage, a marketing consultant service provider, announced, on 20 October, 2015, that it had agreed to buy back all 996,000 shares held by the Prospect Japan Fund at a price of JPY 2,100 per share. The buyback is a result of Prospect's lobbying management to deliver greater value to shareholders. The proceeds of this buyback have brought the fund's cash position to roughly 28% which the manager plans to redeploy.

Weakness for the month came from Shaklee Global Group (8205), a seller of nutrition and personal care products, which declined ahead of H1 results announcement next month. The company has large exposure to the Chinese market, where sales declined sharply in Q1, and consumer sentiment remains depressed. On the back of the fall in price, the fund has added to the position

The Link Up loan, which was due in October is now in default. The fund has given notice to Link Up that it intends to take possession of the collateral, which the fund can do as of November 16. The collateral is shares of Tri-Stage Inc. which Link Up owns. Meanwhile, the advisor remains in conversations with Link Up regarding the repayment of the loan. If Link Up is unable to repay the loan the collateral for the loan is materially in excess of the principal, interest and other costs associated with the loan.

Trans Pacific Partnership negotiations concluded during the month, with the 12 nation group resolving impasses on

agriculture, autos and pharmaceutical patents. The trade pact will create the world's largest regional trading zone, with participating countries representing 40% of the global economy. Details released thus far include the elimination of Japanese tariffs on 95% of the over 9,000 items covered in the agreement. The deal will now go to individual nation's legislatures for ratification.

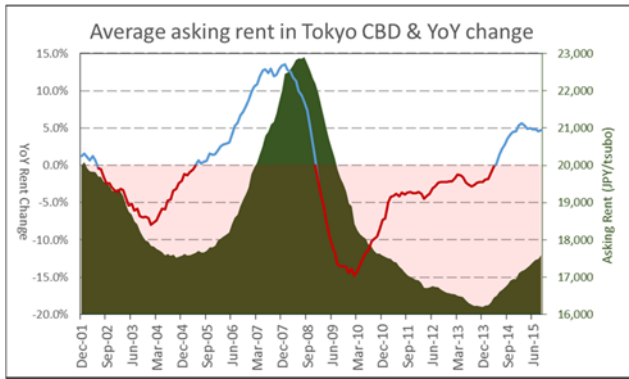
The Nikkei newspaper reported that the Japanese government plans to settle on a supplementary budget by the end of the year. The budget is expected to include funding for public works construction, which would benefit Fund holding names like Tomoe Corp (1921).

Exports for September gained just 0.6% YoY, well below consensus estimates of 3.8%, as shipments to Asia fell sharply. Import value fell 11.1% YoY on continued sluggish domestic demand. The trade deficit improved from the previous month to JPY -114.5 billion, though well below estimates of a JPY 87.0 billion surplus. September Household Spending disappointed, falling 0.4% YoY versus consensus estimates for a 1.1% gain.

The Bank of Japan (BoJ) left its monetary policy unchanged, unfazed by weaker than expected exports and a second month of declining consumer prices. Ahead of the October 30 meeting, 16 of 36 economists surveyed by Bloomberg expected an announcement of ramped up stimulus. The BoJ continues to see low oil prices as a drag on core CPI, which came in negative for a second consecutive month, down 0.1% YoY, ahead of Bloomberg consensus forecasts for a 0.2% decline. Excluding fresh food and energy, national CPI rose 0.9% YoY.

Miki Shoji reported that vacancy rates in Tokyo's Central Business District (CBD) declined 0.19 points to 4.53% in August. Year-on-year, the vacancy rate has fallen 1.12 points.

Miki Shoji reports that average office rents in the CBD rose 4.7% year-on-year, versus last month's 4.5% increase. Rent levels are now 8.6% above the December 2013 lows, though well below historical highs.



1 tsubo = 3.306 sqm

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 2.4 billion in J-REIT units. This brings total purchases to date to JPY 257.2 billion. YTD the BoJ has used 87.8% of its stated JPY 90 billion annual purchase allocation for 2015.

Note: As of 31 October 2015, of the Fund, Daito Bank (8563) is 20.78%, Shaklee Global Group (8205) is 9.37%, and Tomoe Corp (1921) is 6.22%. The Fund has sold out of Tri-Stage Inc. (2178) during the month, and Joyo Bank (8333) and Ashikaga Holdings (7167) are not holdings in the Fund.

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

Sector Weightings

Banks	20.8
Real Estate	10.6
Storage/Warehousing	9.7
Retail	9.4
Advertising	7.5
Engineering & Construction	6.2
Machinery-Diversified	4.1
Transportation	3.5
Diversified Financial Services	0.2
REITs	0.0
Total*	72.0
No of Positions	14

Top 10 Holdings

Symbol	Security	% of Total Assets
8563	DAITO BANK LTD/THE	20.8
8205	SHAKLEE GLOBAL GROUP INC	9.4
3001	KATAKURA INDUSTRIES CO LTD	9.2
LN022178	Linkup Loan 4% 10/01/15	7.5
9313	MARUHACHI WAREHOUSE CO LTD	6.6
1921	TOMOE CORP	6.2
7404	SHOWA AIRCRAFT INDUSTRY CO LTD	4.1
9082	DAIWA MOTOR TRANSPORTATION CO	3.5
9324	YASUDA LOGISTICS CORPORATION	3.1
8833	TOHO REAL ESTATE CO LTD	0.8

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.

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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.