

The Prospect Japan Fund Limited

Monthly Review

Bloomberg	PJF LN	NAV Performance (USD) %	November	YTD	1 Year	3 Year
Yen / USD	122.95	The Prospect Japan Fund Limited	0.00	14.78	16.81	33.33
NAV (USD)	1.32	MSCI Japan Small Cap Index	1.27	14.77	16.03	49.70
Price (USD)	1.04					
Premium/ Discount %	-21.60					

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, underperforming the MSCI Japan Small Cap index's 1.27% MoM USD gain. Year to date, the Fund is up 14.78% versus the index's 14.77% gain.

Weakness for the month came from Shaklee Global Group (8205) and Katakura Industries (3001). Shaklee Global Group, a seller of nutrition and personal care products, reported lower revenue and profits during the H1 period, due to reduced sales in Asia, increased SG&A expense and large FX losses resulting in profit margin deterioration. The company announced a steep downward revision to FY Forecasts, citing continuing poor performance in Asia. Katakura Industries, a shopping mall operator engaged in the manufacture and sale of textiles, pharmaceuticals and auto parts, declined following a disappointing Q3 results announcement, along with a downward revision to FY forecasts. The company reported operating losses driven by opening costs for new shopping centers, and underperformance in its pharmaceuticals segment.

Strength during the month came from holdings in Daito Bank (8563), a Fukushima based regional bank, which extended eight-year highs following a strong H1 results announcement, and upward revision to FY forecasts. Consolidation in the regional bank space continues, with three Hokkaido prefecture based credit unions, (Sapporo Shinkin, Hokkai Shinkin and Otaru Shinkin), announcing agreement to merge. This marks the sixth instance of bank consolidation over the past 12 months. Daito Bank, the second largest bank in Fukushima prefecture, could benefit from the consolidation trend in the sector.

The Link Up Loan is in default. Nomura, which holds the collateral account, is blocking the Fund from taking possession of the collateral. The Fund's lawyers have commenced action against Nomura to enforce its rights to the collateral. The collateral is shares in Tri-Stage Inc. (2178) which Link Up owns. The value of the collateral is still substantially in excess of Link Up's obligation to the Fund, including any additional costs of collection.

Fukushima Bank (8562), a regional bank in Fukushima prefecture, was added to the portfolio during the month. The bank is similar in size and valuation to Daito Bank (8563), with no large institutional shareholders, and is seen as a potential beneficiary of ongoing regional bank consolidation.

Following the H1 results season, corporate profits for Japanese companies held strong at 9.0% YoY growth, though Japan entered a technical recession with Q3 GDP falling an annualized 0.8% (consensus -0.2%), the second consecutive decline. Business spending retreated 1.3% YoY, well below consensus estimates for a 0.5% QoQ decline, and overshadowing private consumption gains of 0.5% QoQ. Key to the quarterly drop was a sharp decline in inventory, which contributed -2.1 points annualized to the 3Q figure.

The trade balance rose unexpectedly during October, recording a surplus of JPY 111.5 billion, against a consensus estimate of a JPY 246.3 billion deficit. This marks the first positive number since March 2015. Exports declined for the first time since August 2014, though in line with expectations (-2.1% YoY, consensus -2.0% YoY) on a third consecutive month of declining YoY shipments to China. Imports declined sharply below expectations (-13.4% YoY, consensus -8.6% YoY).

Wage data for September was marginally positive, with wages adjusted for inflation advancing 0.5% YoY, above the consensus 0.3% YoY estimate. This marks the third consecutive month of real wage gains. However, household spending has remained stubbornly weak, disappointing in October with a 2.4% YoY decline, against Bloomberg consensus estimates for no change.

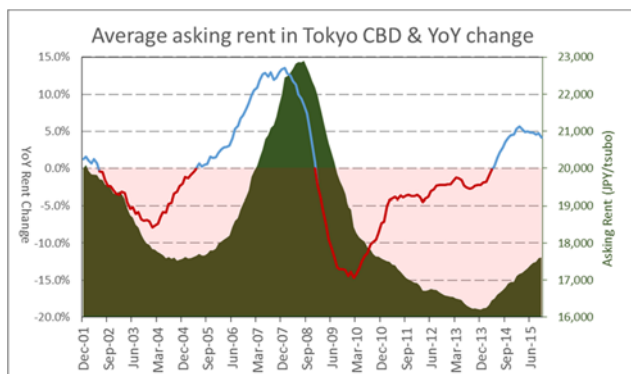
News reports indicate that Prime Minister Abe is now targeting annual minimum wage increases of 3.0%, attempting to take the initiative for pushing wages higher out of corporate hands, seeking a JPY 1,000/hour minimum wage, an increase from the current JPY 798/hour.

The semi-annual real estate investor survey by the Japan Real Estate Institute showed that expected cap rates fell across all property types and regions as of October 2015, aided by improving rents and low long-term interest rates. 87% of those surveyed responded they plan to actively seek new investment opportunities. This could benefit those Fund holdings with large and undervalued real estate holdings like Tomoe Corp (1921), Showa Aircraft (7404), Yasuda Logistics (9324), Maruhachi Warehouse (9313), Katakura Industries (3001) and Daiwa Motor Transportation (9082).

Miki Shoji reported that vacancy rates in Tokyo's Central Business District (CBD) declined 0.7 points to 4.46% in October.

Year-on-year, the vacancy rate has fallen 1.14 points. This marks the lowest vacancy reported since October 2008.

Miki Shoji reports that average office rents in the CBD rose 4.1% year-on-year, versus last month's 4.7% increase. Rent levels are now 8.7% above the December 2013 lows, though well below the highs seen in the last cycle with vacancies at similar levels.



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 Bank of Japan's (BoJ) commitment to asset deflation via direct purchase of investment units. During the month, the BoJ purchased a total of JPY 8.3 billion in J-REIT units. This brings total purchases to date to JPY 265.5 billion. YTD the BoJ has used 97.0% of its stated JPY 90 billion annual purchase allocation for 2015.

Note: As of 30 November 2015, of the Fund, Tomoe Corp (1921) is 6.95%, Katakura Industries (3001) is 9.38%, Showa Aircraft (7404) is 4.12%, Shaklee Global Group (8205) is 9.34%, Fukushima Bank (8562) is 1.21%, Daiwa Motor Transportation (9082) is 3.47%, Maruhachi Warehouse (9313) is 6.85%, Yasuda Logistics (9324) is 3.10%, and Daito Bank (8563) is 24.13%. Tri-Stage (2178) is not a holding of the Fund.

(Sources: Bloomberg, Nikkei, Miki Shoji, TSE, SMBC Nikko, Nomura)

Sector Weightings

Banks	25.3
Real Estate	10.3
Storage/Warehousing	9.9
Retail	9.3
Advertising	7.4
Engineering & Construction	6.9
Machinery-Diversified	4.1
Transportation	3.5
Diversified Financial Services	0.2
REITs	0.0
Total*	77.0
No of Positions	15

Top 10 Holdings

Symbol	Security	% of Total Assets
8563	DAITO BANK LTD/THE	24.1
3001	KATAKURA INDUSTRIES CO LTD	9.4
8205	SHAKLEE GLOBAL GROUP INC	9.3
LN022178	Linkup Loan 4% 10/01/15	7.4
1921	TOMOE CORP	6.9
9313	MARUHACHI WAREHOUSE CO LTD	6.8
7404	SHOWA AIRCRAFT INDUSTRY CO LTD	4.1
9082	DAIWA MOTOR TRANSPORTATION CO LTD	3.5
9324	YASUDA LOGISTICS CORPORATION	3.1
8562	FUKUSHIMA BANK LTD/THE	1.2

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.

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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.