

# The Prospect Japan Fund Limited

Monthly Review

Bloomberg	PJF LN	NAV Performance (USD) %	December	YTD	1 Year	3 Year
Yen / USD	120.43	The Prospect Japan Fund Limited	3.79	19.13	19.13	35.64
NAV (USD)	1.37	MSCI Japan Small Cap Index	0.84	15.74	15.74	46.38
Price (USD)	1.05					
Premium/ Discount %	-22.96					

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 3.79% (USD) during the month, outperforming the MSCI Japan Small Cap index's 0.84% MoM USD gain. Year to date, the Fund rose 19.13% versus the index's 15.74% gain.

Strength during the month came from holdings in Tri-Stage Inc (2178) and Daiwa Motor Transportation (9082). Tri-Stage Inc, a marketing consultant service provider, gained on strong Q3 results and an upward revision to FY dividends. The Fund acquired a position in Tri-Stage shares following the default of the Link Up Loan and the fund enforcing its rights to the collateral shares in Tri-Stage in lieu of the repayment of the loan. Daiwa Motor Transportation, a provider of taxi and chartered limousine services, reached two year highs during the month, following strong H1 results and the announcement of the profitable sale of a central Tokyo rental property.

Weakness came from holdings in Shaklee Global Group (8205) and Tomoe Corp (1921). 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. Tomoe Corp, a steel frame construction company, retreated following H1 results showing profits declined YoY on elimination of a high margin bridge order acquired last year, and lower order volume.

The Fund raised its holding in Fukushima Bank (8562), a regional bank in Fukushima prefecture, from 1.2% to 4.3% 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.

Macro data released during the month was largely positive, exemplified by the Japanese economy dodging a technical recession with the announcement that annualized GDP for the 3 months ending September grew 1% YoY, beating consensus estimates of a 0.2% rise, and reversing preliminary estimates of a 0.8% decline. Japanese corporate spending surged the most in eight years during Q3, up 11.2% YoY.

The trade balance returned to deficit in November, following a surprise surplus reported last month. The deficit of JPY 3.3

billion was well below consensus estimates for a JPY 206.7 billion shortfall, as imports fell more sharply than expected (-10.2% YoY versus consensus estimates of -7.3%). Exports also declined, down 3.3% YoY (consensus -1.6%).

The Consumer Price Index (CPI) excluding fresh food rose 0.1% in November, the first positive move in four months, and ahead of consensus expectations of no change.

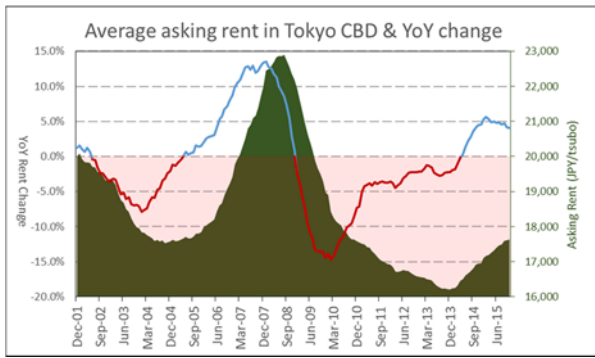
Japanese companies' cash and deposit balances rose 6.1% YoY through September end, according to data released by the Bank of Japan (BoJ). The JPY 247 trillion amount is a record, and highlights the challenge facing the government of PM Abe in spurring the nation's cash rich corporates to invest and raise wages.

The government announced plans to cut the corporate rate to 29.97% from the current 32.11%, beginning in the fiscal year starting April 2016, and the ruling LDP and coalition partner Komeito agreed on new rules to shield fresh and processed foods from the 2017 tax increase to 10% from the current 8%.

On the heels of the long-awaited US Fed liftoff, the BoJ left its own stimulus package largely unchanged, maintaining its target of JPY 80 trillion in annual bond purchases. There were a few minor tweaks announced, including an extension in the maturities of acquired bonds to a maximum of 12 years from the previous 10, and the announcement of an additional JPY 300 billion in ETF purchases to offset the sale of shares acquired during a previous program. The new ETF purchase program will aim to support companies pursuing wage and capex increases. The JPY 90 billion target for annual J-REIT unit acquisitions was left unchanged, though the BoJ increased its limit in individual issues to 10% of total outstanding units from the current 5%.

Miki Shoji reported that vacancy rates in Tokyo's Central Business District (CBD) declined 27 basis points to 4.19% in November, a seven-year low. Year-on-year, the vacancy rate has fallen 136 basis points.

Miki Shoji reports that average office rents in the CBD rose 4.1% YoY, versus last month's 4.1% increase, the 23rd consecutive monthly gain. Rent levels are now 8.8% 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 commitment to asset deflation via direct purchase of investment units. During the month, the BoJ purchased a total of JPY 4.8 billion in J-REIT units. This brings total purchases to date to JPY 270.3 billion. In 2015, BoJ exceeded its annual target for J-REIT unit purchases, acquiring JPY 92.1 billion versus a stated target of JPY 90 billion.

*Note: As of 30 December 2015, of the Fund, Tomoe Corp (1921) is 6.50%, Tri-Stage (2178) is 10.48%, Shaklee Global Group (8205) is 8.87%, and Daiwa Motor Transportation (9082) is 4.09%.*

## Sector Weightings

Banks	28.4
Real Estate	12.0
Storage/Warehousing	10.5
Advertising	10.5
Retail	8.9
Engineering & Construction	6.5
Transportation	4.1
Machinery-Diversified	3.9
Diversified Financial Services	0.3
REITs	0.0
Total*	85.1
No of Positions	16

## Top 10 Holdings

Symbol	Security	% of Total Assets
8563	DAITO BANK LTD/THE	24.1
2178	TRI-STAGE INC	10.5
3001	KATAKURA INDUSTRIES CO LTD	9.2
8205	SHAKLEE GLOBAL GROUP INC	8.9
9313	MARUHACHI WAREHOUSE CO LTD	7.3
1921	TOMOE CORP	6.5
8562	FUKUSHIMA BANK LTD/THE	4.3
9082	DAIWA MOTOR TRANSPORTATION CO	4.1
7404	SHOWA AIRCRAFT INDUSTRY CO LTD	3.9
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.

## 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 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.