

# The Prospect Japan Fund Limited

Monthly Review

Bloomberg	PJF LN	NAV Performance (USD) %	January	YTD	1 Year	3 Year
Yen / USD	120.85	The Prospect Japan Fund Limited	-7.30	-7.30	3.25	22.12
NAV (USD)	1.27	MSCI Japan Small Cap Index	-6.36	-6.36	4.86	32.12
Price (USD)	1.02					
Premium/ Discount %	-19.89					

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 7.30% (USD) during the month, underperforming the MSCI Japan Small Cap index's 6.36% MoM USD decline.

Weakness came from holdings in Daito Bank (8563) and Tri-Stage Inc (2178). Daito Bank, a Fukushima based regional bank, retreated ahead of Q3 results announcement in early February. The bank strongly outperformed through 2015, reaching eight-year highs towards year-end following H1 results ahead of guidance and a large upward revision to full year estimates including a 50% increase in dividends. Tri-Stage Inc, a marketing consultant service provider, retreated from six-year highs seen in December 2015 following strong Q3 results and upwardly revised dividend forecasts.

Strength during the month came from holdings in Daiwa Motor Transportation (9082), a provider of taxi and chartered limousine services, reaching eight-year highs during the month, ahead of Q3 results announcement expected in early February, extending gains from December 2015 following strong H1 results and the announcement of the profitable sale of a central Tokyo rental property.

The Fund raised its holding in Fukushima Bank (8562), a regional bank in Fukushima prefecture, from 4.3% to 7.3% 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.

Global equities entered a risk-off period, dragged down by massive selling in China. Key oil gauges dropped to 12-year lows amidst the ongoing supply glut, and the cloud of the Chinese economic slowdown drove the yen to strengthen to 12-month highs, with Japanese markets experiencing the worst start to a year on record, with six consecutive days of trading losses reversing most of the gains seen in 2015. The TOPIX index fell as much as 13.8% (USD) during the month, before recovering to end the month down 7.7%.

Bank of Japan (BoJ) Governor Kuroda wasted no time attempting to reassure the market that the BoJ was ready to take even bolder steps in reaching its 2% inflation target. At month's end, the BoJ surprised the market by adopting a negative interest rate policy, while foregoing changes to its asset purchase program. The new paradigm, entitled

"Quantitative & Qualitative Monetary Easing with a Negative Interest Rate" will be enforced from 16 February, and aims to mirror the multi-tier system in place at the Swiss National Bank, in which the negative rate is applied a portion of a financial institution's current account balance. The BoJ maintains the option to further lower the rate as deemed necessary. 36 of 42 economists surveyed by Bloomberg had expected no change following the January meeting.

#### Quantitative & Qualitative Monetary Easing with a Negative Interest Rate

Tier	Description	Interest Rate Applied
Basic Balance	Existing balances with Bank of Japan	+0.1%
Macro Add-on Balance	Required reserves and reserves related to BoJ lending support programs	0.0%
Policy-Rate Balance	Reserves in excess of above tiers	-0.1%

The Yen fell sharply on the news, regaining the JPY 120 handle, while 10-year bond yields fell to a low of 0.09%.

The Abe administration suffered a setback with the resignation of Economic Minister Akira Amari over allegedly receiving bribes. Amari, a key advisor and architect of Abenomics and TPP negotiations, will be replaced by Nobuteru Ishihara.

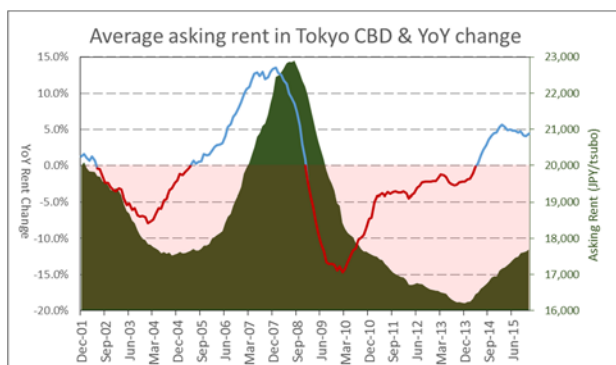
Macro news out this month was skewed to the negative, with labor cash earnings for November 2015, disappointingly flat YoY against the consensus estimates for a 0.7% YoY gain. Real cash earnings, adjusted for inflation, declined 0.4% YoY, the first monthly decline in four months. Overall Household Spending dropped 4.4% in December, well below the consensus estimate of a 2.5% decline.

December trade data release followed a familiar pattern, with the trade balance of JPY 140.2 billion better than the expected JPY 117.0 billion surplus due to YoY import value undershooting more than YoY exports. Export value declined 8.0% YoY during the month (against a 7.0% decline estimate), while import value declined 18.0% YoY (against a 16.4% decline estimate) on lower energy prices.

Miki Shoji reported that vacancy rates in Tokyo's Central Business District (CBD) declined 16 basis points to 4.03% in

December, a seven-year low. Year on year, the vacancy rate has fallen 144 basis points.

Miki Shoji reports that average office rents in the CBD rose 4.4% YoY, against last month's 4.1% increase, marking two years of consecutive monthly gains. Rent levels are now 9.2% above the December 2013 lows, while remaining 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 BOJ's commitment to asset reflation via direct purchase of investment units. During the month, the BoJ purchased a total of JPY 10.8 billion in J-REIT units. This brings total purchases to date to JPY 281.1 billion, 12% of its stated JPY 90 billion annual purchase allocation.

*Note: As of 31 January 2016, of the Fund, Tri-Stage Inc (2178) is 9.59%, Fukushima Bank (8562) is 7.25%, Daito Bank (8563) is 25.59%, and Daiwa Motor Transportation (9082) is 5.35%.*

(Sources: Bloomberg, Nikkei, Miki Shoji, TSE, Bank of Japan)

## Sector Weightings

Banks	32.8
Real Estate	11.8
Storage/Warehousing	10.1
Retail	9.7
Advertising	9.6
Engineering & Construction	6.2
Transportation	5.3
Machinery-Diversified	3.9
Diversified Financial Services	0.4
REITs	0.0
Total*	90.0
No of Positions	16

## Top 10 Holdings

Symbol	Security	% of Total Assets
8563	DAITO BANK LTD/THE	25.6
8205	SHAKLEE GLOBAL GROUP INC	9.7
2178	TRI-STAGE INC	9.6
3001	KATAKURA INDUSTRIES CO LTD	8.8
8562	FUKUSHIMA BANK LTD/THE	7.3
9313	MARUHACHI WAREHOUSE CO LTD	7.0
1921	TOMOE CORP	6.2
9082	DAIWA MOTOR TRANSPORTATION CO	5.3
7404	SHOWA AIRCRAFT INDUSTRY CO LTD	3.9
9324	YASUDA LOGISTICS CORPORATION	3.1

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.