

The Prospect Japan Fund Limited

Monthly Review

| Bloomberg | PJF LN | NAV Performance (USD) % | February | YTD | 1 Year | 3 Year |
|---------------------|--------|---------------------------------|----------|-------|--------|--------|
| Yen / USD | 112.84 | The Prospect Japan Fund Limited | 0.79 | -6.57 | 6.67 | 23.08 |
| NAV (USD) | 1.28 | MSCI Japan Small Cap Index | -1.02 | -7.32 | 0.17 | 26.49 |
| Price (USD) | 0.98 | | | | | |
| Premium/ Discount % | -23.49 | | | | | |

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 0.79% (USD) during the month, outperforming the MSCI Japan Small Cap index's 1.02% MoM USD decline.

Strength during the month came from holdings in Tomoe Corporation (1921) and Daiwa Motor Transportation (9082). Tomoe Corporation, a steel structure construction company, gained strongly following robust Q3 results released during the month. Tomoe recorded double-digit growth in revenue and profits due to strong order completion and improved margins. The company also announced a large upward revision to FY forecasts and dividends. Daiwa Motor Transportation, a provider of taxi and chartered limousine services, outperformed on strong profit growth reported in Q3 results due to lower fuel costs and gains on the sale of a central Tokyo rental property.

Weakness came from holdings in Fukushima Bank (8562) and Daito Bank (8563), regional banks based in Fukushima prefecture. Both banks fell victim to the rout in Japanese bank shares during the first half of the month. Banks fell to all time PBR lows in February, on profitability concerns related to the Bank of Japan's (BoJ) negative interest rate policy (NIRP), though only about 9.0% of financial institution deposits at the BoJ will be subject to the charge.

During the month, The Fund received shareholder approval of the Exercise Agreement for the Prospect Co., Ltd (3528) SARs. The holding is valued at cost of JPY 288 million.

The Fund raised its holding in Fukushima Bank (8562), a regional bank in Fukushima prefecture, from 7.3% to 12.7% 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. Realignment of the regional bank space continued with an announcement that Fukuoka Financial Group (8354) will absorb Eighteenth Bank (8396). The consolidation is planned for completion by April 2017, after which Eighteenth Bank will merge with Fukuoka FG's subsidiary, Shinwa Bank, by April 2018. The combined entity will have about 70% share of the Nagasaki Prefecture loans market and 50% of deposits.

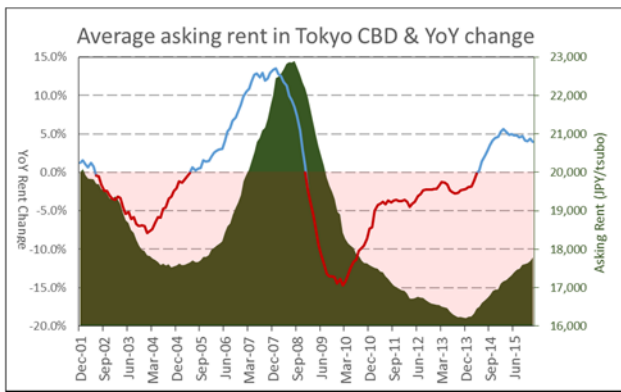
When Quantitative and Qualitative Monetary Easing (QQE) was announced on 1 April 2013, the market rallied for nearly two

months. The follow-up expansion (QQE2) announced 31 October 2014 caused markets to rally for about one month. The afterglow of last month's move into negative interest rates lasted just two days, as a renewed slump in oil prices and concerns over the global economy wiped out gains and global equities continued to struggle throughout the month. The Yen strengthened past the level it traded prior to the NIRP announcement to end the month at 113 JPY/USD. The effects on the JGB market were more sustained, ending the month at -0.70% yield on 10-year JGBs.

GDP fell an annualized 1.4% during the 4th quarter, underperforming consensus estimates for a 0.8% decline. Q3 GDP gained 1.3%. Weakness was due to poor private consumption (-0.8% QoQ), though business spending was stronger than expected, up 1.4% against consensus estimates for a 0.2% decline. National Core CPI for the month of January fell to 0.0%. Inflation rose 0.7% YoY when energy is stripped out. With Japan headed towards national elections this summer, the weak GDP report and lackluster inflation have led to increased expectations for further fiscal or monetary stimulus, or a possible postponement of the scheduled April 2017 VAT increase.

Miki Shoji reported that vacancy rates in Tokyo's Central Business District (CBD) declined 2 basis points to 4.01% in January, the ninth consecutive month of improvement. Year-on-year, the vacancy rate has fallen 135 basis points.

Miki Shoji reports that average office rents in the CBD rose 4.0% YoY, against last month's 4.4% increase. Rent levels are now 9.8% 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 7.2 billion in J-REIT units. This brings total purchases to date to JPY 288.3 billion, 20% of its stated JPY 90 billion annual purchase allocation.

Note: As of 29 February 2016, of the Fund, Tomoe Corporation (1921) is 6.25% Daiwa Motor Transportation (9082) is 5.81%, Fukushima Bank (8562) is 12.71%, and Daito Bank (8563) is 25.57%. Fukuoka FG (8354) and Eighteenth Bank (8396) are not holdings in the Fund.

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

Sector Weightings

| | |
|--------------------------------|------|
| Banks | 41.8 |
| Real Estate | 11.6 |
| Storage/Warehousing | 10.3 |
| Retail | 10.1 |
| Advertising | 9.4 |
| Engineering & Construction | 6.2 |
| Transportation | 5.8 |
| Machinery-Diversified | 3.2 |
| Diversified Financial Services | 0.8 |
| REITs | 0.0 |
| | |
| Total* | 99.3 |
| No of Positions | 18 |

Top 10 Holdings

| Symbol | Security | % of Total Assets |
|--------|-----------------------------------|-------------------|
| 8563 | DAITO BANK LTD/THE | 25.6 |
| 8562 | FUKUSHIMA BANK LTD/THE | 12.7 |
| 8205 | SHAKLEE GLOBAL GROUP INC | 10.1 |
| 2178 | TRI-STAGE INC | 9.4 |
| 3001 | KATAKURA INDUSTRIES CO LTD | 8.4 |
| 9313 | MARUHACHI WAREHOUSE CO LTD | 7.2 |
| 1921 | TOMOE CORP | 6.2 |
| 9082 | DAIWA MOTOR TRANSPORTATION CO LTD | 5.8 |
| 7404 | SHOWA AIRCRAFT INDUSTRY CO LTD | 3.2 |
| 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.

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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.