

The Prospect Japan Fund Limited

Monthly Review

| Bloomberg | PJF LN | NAV Performance (USD) % | March | YTD | 1 Year | 3 Year |
|---------------------|--------|---------------------------------|-------|-------|--------|--------|
| Yen / USD | 112.47 | The Prospect Japan Fund Limited | 1.56 | -5.11 | 6.56 | 14.04 |
| NAV (USD) | 1.30 | MSCI Japan Small Cap Index | 6.42 | -1.36 | 4.35 | 24.43 |
| Price (USD) | 0.98 | | | | | |
| Premium/ Discount % | -24.26 | | | | | |

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 1.56% (USD) during the month, underperforming the MSCI Japan Small Cap index's 6.42% MoM USD gain.

Strength during the month came from holdings in Fukushima Bank (8562) and Maruhachi Warehouse (9313). Fukushima Bank, a regional bank in Fukushima prefecture gained strongly during the month, continuing a recovery from mid-February lows following a collapse in banking shares in reaction to the Bank of Japan's (BoJ) negative interest rate policy ("NIRP"). The Fund raised its holding in Fukushima Bank, from 12.7% to 15.0% 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. Maruhachi Warehouse, a warehousing and logistics company, gained in advance of Q1 earnings results announcement expected in early April.

Weakness came from holdings in Shaklee Global Group (8205) and Daito Bank (8563). Shaklee Global Group, a seller of nutrition and personal care products, retreated following Q3 results announcement last month. The company reported lower revenue and profits due to sluggish sales in Asia and higher operating expenses.

Daito Bank, a regional bank based in Fukushima prefecture, retreated during the month, on continued profitability concerns related to the BoJ's negative interest rate policy. Despite retreating during the month, Daito Bank shares have held up well YTD vs the broader TOPIX Banks Index.

Nagano Bank (8521), a regional bank in Nagano prefecture, was added to the portfolio during the month. The bank is similar in size to Daito Bank and Fukushima Bank, with attractive valuations and no large institutional shareholders. The bank is seen as a potential beneficiary of ongoing regional bank consolidation.

The Tokyo High Court announced the decision on the appeal involving the Toho (9602) TOB of Toho Real Estate during the month. The High Court ruled that the tender offer price amounted to fair value and has therefore eliminated the award of JPY 100 per share decided by The Tokyo District Court. That award had been carried in the Fund's weekly net asset value announcements and will now be written off. The Fund has submitted an appeal of the High court decision to the Supreme

Court, and should learn in the next few months if its appeal has been accepted.

During March, the Fund has started the process of converting the Stock Acquisition Rights ("SARs") it holds in Prospect Co., Ltd. (3528). The Fund successfully completed converting 90 of the 1,440 SARs it holds. 90 SARs is the equivalent of 9 million shares of Prospect Co.

Realignment of the regional bank space continued with an announcement that Chiba Bank (8331; Chiba Prefecture) and Musashino Bank (8836; Saitama Prefecture) will enter into a comprehensive partnership. While the banks will stop short of a merger, the partnership will include integration of back office operations, increased cross-shareholdings and joint marketing of financial productions, as well as an agreement to forego opening new branches in each other's territory.

Macro news was mixed during the month, with corporate profits declining 1.7% YoY in the three months through December 2015, the first quarterly decline since 2011. Overall Household Spending rose 1.2% YoY in February, after recording a 3.1% YoY decline in January. Private consumption continues to struggle along with low wage growth. Spending has risen in just five of the past 26 months.

On the other hand, Q4 GDP was revised to -1.1% annualized, an improvement from the -1.4% preliminary estimate, with business investment during the quarter better than previously indicated. (+1.5% QoQ). Capital Spending rose 8.5% YoY in the three months through December 2015, narrowly missing the consensus estimate of +8.7%. This follows a strong 11.2% YoY increase in the previous quarter.

February's Seasonally Adjusted Trade Balance increased to JPY 166.1 billion, an improvement over the previous month's JPY 73.2 billion surplus, the fourth consecutive month of surpluses and the largest surplus recorded since Feb 2011. The amount was well short of consensus estimates of JPY 235.0 billion on weaker than expected exports (-4.0% YoY, vs -3.0% YoY Estimate) and stronger than expected imports (-14.2% YoY vs -15.8% Estimate).

The government passed a record JPY 96.7 billion budget for the next fiscal year during the month, with reports that Prime Minister Abe has directed front loaded spending in an effort to

jump start the flagging economy. Further fiscal stimulus is expected later in the year with a supplementary budget upwards of JPY 5 trillion to be introduced this fall.

Abe solicited advice from Nobel Laureate economists Joseph Stiglitz and Paul Krugman, both of whom advocated the delay or cancellation of the VAT increase scheduled for April 2017, in favor of increased fiscal stimulus. Current plans are for an increase in the consumption tax from 8% to 10%, with exclusions made for food.

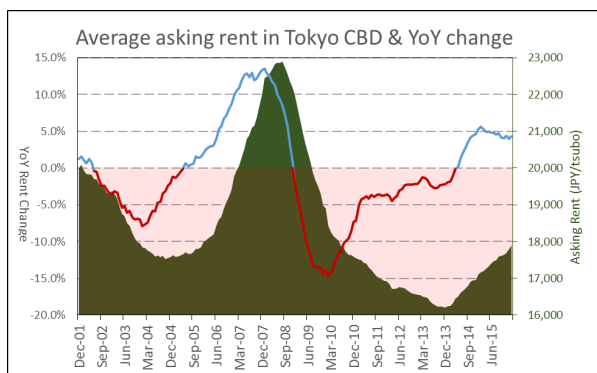
The BoJ left monetary policy largely unchanged following its two day meeting this month, citing the need for continued monitoring of the impact of negative interest rates on some commercial bank deposits, which took effect in February. The BoJ announced that money reserve funds will be exempt from negative rates, a move requested by The Japan Securities Dealers Association. Governor Kuroda brushed off concerns that monetary policy may have reached its limits, testifying before the Japanese Diet that there is room to expand all three dimensions of stimulus, including room to cut negative rates as far as -0.5% from the current -0.1%.

The effects of NIRP continue to be seen most vividly in the JGB market, where 10-year JGBs were auctioned at negative yields for the first time, with an average yield of -0.024%.

Miki Shoji reported that vacancy rates in Tokyo's Central Business District (CBD) rose 3 basis points to 4.04% in February, the first monthly increase since April 2015. Year-on-year, the vacancy rate has fallen 127 basis points.

Miki Shoji reports that average office rents in the CBD rose 4.3% YoY, versus last month's 4.0% increase. Rent levels are now 10.5% above the December 2013 lows, while remaining well below the highs seen in the last cycle with vacancies at similar levels.

The Ministry of Land, Infrastructure, Transport and Tourism (MLIT) published its 2016 land price data during the month, reporting a 0.1% YoY gain in land prices nationwide (all types), marking the first gain since 2008.



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 290.7 billion, 22.7% of its stated JPY 90 billion annual purchase allocation.

Sector Weightings

| | |
|--------------------------------|------|
| Banks | 44.0 |
| Real Estate | 11.6 |
| Storage/Warehousing | 9.8 |
| Advertising | 9.5 |
| Retail | 9.4 |
| Transportation | 5.6 |
| Engineering & Construction | 5.2 |
| Machinery-Diversified | 3.2 |
| Diversified Financial Services | 0.1 |
| REITs | 0.0 |
| Total* | 98.4 |
| No of Positions | 17 |

Top 10 Holdings

| Symbol | Security | % of Total Assets |
|--------|-----------------------------------|-------------------|
| 8563 | DAITO BANK LTD/THE | 24.7 |
| 8562 | FUKUSHIMA BANK LTD/THE | 15.0 |
| 2178 | TRI-STAGE INC | 9.5 |
| 8205 | SHAKLEE GLOBAL GROUP INC | 9.4 |
| 9313 | MARUHACHI WAREHOUSE CO LTD | 7.3 |
| 3001 | KATAKURA INDUSTRIES CO LTD | 6.9 |
| 9082 | DAIWA MOTOR TRANSPORTATION CO LTD | 5.6 |
| 1921 | TOMOE CORP | 5.2 |
| 8521 | NAGANO BANK LTD/THE | 3.5 |
| 7404 | SHOWA AIRCRAFT INDUSTRY CO LTD | 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.

Note: As of 31 March 2016, of the Fund, Fukushima Bank (8562) is 15.02%, Maruhachi Warehouse (9313) is 7.28%, Shaklee Global Group (8205) is 9.39%, and Daito Bank (8563) is 24.72%. Chiba Bank (8331) and Musashino Bank (8836) are not holdings in the Fund.

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

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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