

The Prospect Japan Fund Limited

Monthly Review

Bloomberg	PJF LN	NAV Performance (USD) %	April	YTD	1 Year	3 Year
Yen / USD	108.42	The Prospect Japan Fund Limited	3.85	-1.46	6.30	15.38
NAV (USD)	1.35	MSCI Japan Small Cap Index	2.85	1.70	5.38	20.11
Price (USD)	0.95					
Premium/ Discount %	-29.55					

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 3.85% (USD) during the month, outperforming the MSCI Japan Small Cap index's 2.85% MoM USD gain.

Strength during the month came from holdings in Fukushima Bank (8562) and Daito Bank (8563), regional banks based in Fukushima prefecture. Bank shares rallied strongly following a technical adjustment by the Bank of Japan (BoJ), increasing the proportion of current account funds that will be considered part of the "macro add-on balance" not subject to negative policy rates. The benchmark ratio was set at 2.5% (up from 0.0%) for the period 16 April to 16 May 2016. The BoJ estimates the "policy rate balance" (subject to negative rates) for the period will range from JPY 10 to 30 trillion, versus the JPY 23.1 trillion during February and March. The next benchmark ratio period (June to August) will be announced on June 9.

Weakness came from holdings in Maruhachi Warehouse (9313), a warehousing and logistics company, following Q1 results showing net income declined sharply YoY on the elimination of last year's JPY 2.0 billion gain on the partial sale of a central Tokyo land site.

The Fund reduced its holding in Tri-Stage Inc (2178), a marketing consultant service provider, from 9.4% of the Fund to 7.8% during the month. The Fund is reducing exposure to Tri-Stage, following FY results reporting strong YoY revenue gains on both television advertising and direct mailing operations, but profitability declines due to aggressive new hiring for new business expansion.

While the Fund has started the process of converting the Stock Acquisition Rights ("SARs") it holds in Prospect Co., Ltd. (3528), no SARs were converted during the month.

Over the last several months the fund's NAV has had inordinate volatility in its valuation. This was due to the Fund's valuation policy of using bid price, rather than last traded price, for valuing its holdings. In one holding, Shaklee Global Group (8205), a seller of nutrition and personal care products, there were often bid prices at the close that were greater than 15% below the last traded or next day's traded prices. These discrepancies consistently distorted the value of the position, and created unwarranted volatility in the Fund's NAV. To

remove this distortion, the Fund's Board has adopted a policy of valuing Shaklee Global Group at its last traded price.

A string of deadly earthquakes in the southwestern prefectures of Kumamoto and Oita marked the worst natural disaster to hit the country since the 2011 Great East Japan Earthquake. Recovery and support for the over 100,000 evacuees remain the leading concern, with PM Abe deciding against holding a double election this summer, given logistical challenges in the area. Implications for a possible delay of next year's consumption tax increase are also cloudy, with senior government officials floating the possibility of incremental increases instead of the 2 percentage point jump already scheduled.

National Core CPI for the month of March was -0.3% YoY, the first deflationary reading in five months and the largest decline since April 2013. Inflation rose 0.7% YoY when energy is stripped out. Overall Household Spending dropped 5.3% in March, well below the consensus estimate of a 4.1% decline, the weakest in the last 12 months.

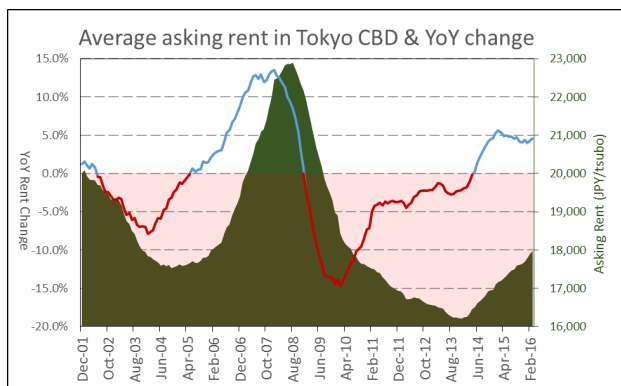
Thus it was a negative surprise when the Bank of Japan refrained from additional easing following its policy meeting at month-end, citing a need to monitor the effects of its negative interest rate policy. Ahead of the meeting, 56% (23 of 41) of economists surveyed by Bloomberg expected the central bank to announce additional easing, as weak growth, a strong yen and economic risks related to the Kyushu earthquakes made a strong case for further stimulus. Markets reacted strongly to the surprise, with the yen strengthening to its strongest level since October 2014.

In what could at best be interpreted as a mixed signal, given the explicit goal of the QQE policy and Governor Kuroda's repeated insistence that monetary policy has not reached its limit, the BoJ also announced another delay in the timing for reaching its 2 percent inflation target to "during FY 2017". With BoJ inaction, the pressure falls back onto the Abe administration's decisions on fiscal stimulus and tax policy.

Miki Shoji reported that vacancy rates in Tokyo's Central Business District (CBD) rose 30 basis points to 4.34% in March, the second consecutive monthly increase. March had the highest concentration of new building supply (6 buildings; 39%

of scheduled 2016 supply). Year-on-year, the vacancy rate has fallen 96 basis points.

Miki Shoji reports that average office rents in the CBD rose 4.5% YoY, versus last month's 4.3% increase. Rent levels are now 10.9% 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 8.4 billion in J-REIT units. This brings total purchases to date to JPY 299.1 billion, 32.0% of its stated JPY 90 billion annual purchase allocation.

Note: As of 28 April 2016, Fukushima Bank (8562) is 17.04%, Daito Bank (8563) is 24.43%, Maruhachi Warehouse (9313) is 6.91%, Tri-Stage Inc is 7.76%, Prospect Co. is 2.53% and Shaklee Global Group (8205) is 9.68% of the Fund..

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

Sector Weightings

Banks	46.1
Real Estate	10.5
Retail	9.7
Storage/Warehousing	9.3
Advertising	7.8
Transportation	6.0
Engineering & Construction	4.8
Machinery-Diversified	2.9
Diversified Financial Services	0.1
REITs	0.0
Total*	97.2
No of Positions	16

Top 10 Holdings

Symbol	Security	% of Total Assets
8563	DAITO BANK LTD/THE	24.4
8562	FUKUSHIMA BANK LTD/THE	17.0
8205	SHAKLEE GLOBAL GROUP INC	9.7
2178	TRI-STAGE INC	7.8
9313	MARUHACHI WAREHOUSE CO LTD	6.9
3001	KATAKURA INDUSTRIES CO LTD	6.0
9082	DAIWA MOTOR TRANSPORTATION CO LTD	6.0
1921	TOMOE CORP	4.8
8521	NAGANO BANK LTD/THE	3.6
7404	SHOWA AIRCRAFT INDUSTRY CO LTD	2.9

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.