

# The Prospect Japan Fund Limited

Monthly Review

Bloomberg	PJF LN	NAV Performance (USD) %	May	YTD	1 Year	3 Year
Yen / USD	111.11	The Prospect Japan Fund Limited	-0.74	-2.19	9.84	16.52
NAV (USD)	1.34	MSCI Japan Small Cap Index	-0.01	3.22	5.74	32.42
Price (USD)	0.99	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.				
Premium/ Discount %	-25.93					

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 0.74% (USD) during the month, underperforming the MSCI Japan Small Cap index's 0.01% MoM USD decline.

Weakness came from holdings in Fukushima Bank (8562), Shaklee Global Group (8205) and Showa Aircraft Industry (7404). Fukushima Bank, a regional bank based in Fukushima prefecture, retreated with the TOPIX Bank index early in the month, following last month's strong rally after a technical adjustment by the Bank of Japan (BoJ) that increased the proportion of current account funds not subject to negative interest rates. Shaklee Global Group, a seller of nutrition and personal care products, retreated ahead of its FY results announcement at month's end. The company reported lower revenue and profits due to sluggish sales in Asia and higher operating expenses. Showa Aircraft Industry, a real estate operator and aircraft equipment manufacturer, released FY results showing large year-on-year declines in profits resulting from opening and promotional costs for a new Tokyo shopping center, along with start-up costs related to overseas production of honeycomb panels.

Strength during the month came from holdings in Maruhachi Warehouse (9313) and Katakura Industries (3001). Maruhachi Warehouse, a warehousing and logistics company, gained strongly towards month's end, following a 2-for-1 reverse stock split and lowering of trading lots to 100 from 1,000 shares. Katakura Industries, a shopping mall operator engaged in the manufacture and sale of textiles, pharmaceuticals and auto parts, gained following the announcement of strong Q1 results due to improved performance in the pharmaceutical and real estate segments.

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.

Whereas the G-7 meeting and President Obama's historic visit to Hiroshima stole most of the headlines this month, the more lasting impact is likely to be from the widespread reporting of the Abe administration's planned two and a half year delay of the next scheduled consumption tax increase to October 2019. 63% of the citizenry opposed the proposed April 2017 tax increase according to a Nikkei/TV Tokyo poll taken before the announcement. The administration is also expected to seek a JPY 5 to 10 trillion stimulus package during the July diet session.

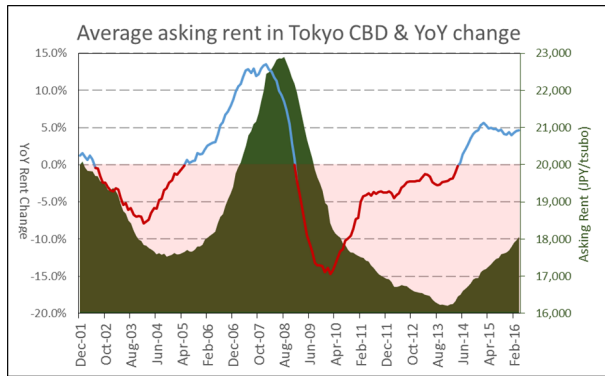
Japan looks to have avoided a technical recession with initial GDP numbers surprising to the upside, rising to an annualized 1.7% during the first quarter, and outperforming consensus estimates for a 0.3% gain. The previous quarter saw GDP fall 1.7%. Strength came from higher government spending (+2.6%) and improved private consumption (+0.5% QoQ, versus last quarter's -0.8% QoQ performance) aided by an extra leap-year day in February. Business investment was weaker than expected, down 1.4% against consensus estimates for a 0.8% decline.

The trade balance reached JPY 823.5 billion in April, an improvement over the previous month's JPY 754.2 billion surplus, and well in advance of consensus estimates of JPY 540.0 billion. The trade surplus advanced despite a seventh consecutive month of export declines (-10.1% YoY) due to a steeper than estimated drop in imports (-23.3% YoY, versus -19.2% consensus estimate).

National Core CPI for the month of April was -0.3% YoY (versus consensus estimate of -0.4%), unchanged from the previous month. CPI rose 0.7% YoY when energy is stripped out. Overall Household Spending declined 0.4% in March, outperforming the consensus estimate of a 1.3% decline. The underwhelming inflation and consumption numbers should put increased pressure on the BoJ to ease further following its 16 June policy meeting.

Miki Shoji reported that vacancy rates in Tokyo's Central Business District (CBD) fell 11 basis points to 4.2% in April, after two consecutive monthly increases. Year-on-year, the vacancy rate has fallen 111 basis points.

Miki Shoji reports that average office rents in the CBD rose 4.7% YoY, versus last month's 4.5% increase. Rent levels are now 11.4% 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 14.4 billion in J-REIT units, the largest monthly purchase since the initiation of QQE. This brings total purchases to date to JPY 313.5 billion, 48.0% of its stated JPY 90 billion annual purchase allocation.

*Note: As of 31 May 2016, of the Fund, Fukushima Bank (8562) is 16.9%, Shaklee Global Group (8205) is 9.5%, Showa Aircraft Industry (7404) is 2.7%, Maruhachi Warehouse (9313) is 8.6%, Katakura Industries (3001) is 5.9% and Prospect Co. (3528) is 4.5% (including the SARs).*

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

## Sector Weightings

Banks	47.3
Storage/Warehousing	10.9
Real Estate	10.4
Retail	9.5
Advertising	7.9
Transportation	5.2
Engineering & Construction	4.7
Machinery-Diversified	2.7
Diversified Financial Services	0.1
REITs	0.0
Total*	98.8
No of Positions	16

## Top 10 Holdings

Symbol	Security	% of Total Assets
8563	DAITO BANK LTD/THE	24.9
8562	FUKUSHIMA BANK LTD/THE	16.9
8205	SHAKLEE GLOBAL GROUP INC	9.5
9313	MARUHACHI WAREHOUSE CO LTD	8.6
2178	TRI-STAGE INC	7.9
3001	KATAKURA INDUSTRIES CO LTD	5.9
9082	DAIWA MOTOR TRANSPORTATION CO LTD	5.2
1921	TOMOE CORP	4.7
3528	PROSPECT CO LTD	4.5
8521	NAGANO BANK LTD/THE	4.1

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.