

The Prospect Japan Fund Limited

Monthly Review

Bloomberg	PJF LN	NAV Performance (USD) %	June	YTD	1 Year	3 Year
Yen / USD	102.71	The Prospect Japan Fund Limited	2.99	0.73	12.20	20.00
NAV (USD)	1.38	MSCI Japan Small Cap Index	-0.58	2.61	3.60	32.00
Price (USD)	0.98	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 %	-29.16					

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 2.99% (USD) during the month, outperforming the MSCI Japan Small Cap index's 0.59% MoM USD decline.

Strength during the month came from holdings in Daito Bank (8563) and Shaklee Global Group (8205). Daito Bank, a regional bank based in Fukushima prefecture, gained following last month's announcement of FY results, which beat upwardly revised forecasts, due to higher than initially expected commission and fee revenue. The bank's outstanding loan balance grew for a 5th consecutive year. Shaklee Global Group, a seller of nutrition and personal care products, gained on low volume during the month, despite weak FY results announced last month. The company reported lower revenue and profits due to reduced sales and profits in Asia and a move to operating loss in the United States.

Weakness came from holdings in Katakura Industries (3001) and Prospect Co. (3528). Katakura Industries, a shopping mall operator engaged in the manufacture and sale of textiles, pharmaceuticals and auto parts, retreated following last month's robust gains in the wake of strong Q1 results. Prospect Co, retreated following last month's FY results announcement, showing reduced profitability in the asset management and construction segments.

Daiwa Motor Transportation (9082), a provider of taxi and chartered limousine services, bought back 1.4 million shares (including 1.24 million from The Fund) at the 15 June closing price of JPY 553 per share.

In March 2016 the Tokyo High Court announced its decision on the appeal involving the Toho (9602) TOB of Toho Real Estate. 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. The Fund summarily submitted an appeal of the High court decision to the Supreme Court, which accepted the request for appeal during the month.

The Company is currently engaged in an appraisal rights petition, challenging the fairness of the JPY 245 per share squeeze out price of Yukiguni Maitake (1378), a manufacturer and seller of fresh mushrooms and bean sprouts, by Bain Capital. A decision is expected around mid-October 2016.

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.

Global currency and equity markets were shaken towards month's end when the United Kingdom referendum on European Union membership ended with an unexpected victory for "Leave". The Yen briefly strengthened past 100 yen/dollar following the 23 June result, and 10-year JGB yields reached a record low of -0.245%. Japanese equity markets experienced their worst one day fall since the immediate aftermath of the March 2011 earthquake.

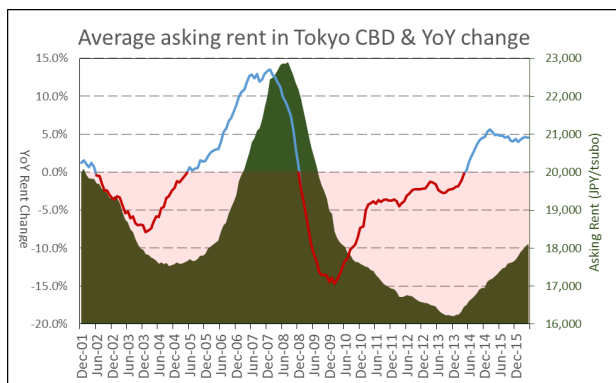
The Bank of Japan (BoJ) left monetary policy unchanged following its two-day meeting mid-month. Ahead of the meeting, a Bloomberg poll of 40 economists showed only 11 (27.5%) expected a policy change to be announced this month. 55% of those surveyed predicted more easing following next month's meeting, which would have the benefit of being held after the next US Fed meeting, Japanese upper house election and U.K. "Brexit" referendum. Higher ETF buying and lower NIRP are seen as likely tools, while Nobuyuki Nakahara, a former BoJ official, has floated the idea of European-style buying of corporate debt.

Exports declined for an eighth consecutive month in May, down 11.3% YoY vs consensus estimates of a 10% YoY decline, with falloffs in exports to China, US and Europe. The trade deficit of JPY 40.7 billion was the first deficit recorded in 4 months, undershooting the consensus estimates for a JPY 70 billion surplus.

The Ministry of Land, Infrastructure, Transport and Tourism (MLIT) quarterly land price survey for 1Q CY16 saw a record-high 90% of locations with prices rising and none seeing a decline. The percentage of locations with increasing land prices jumped 6-8 points depending on asset type and location.

Miki Shoji reported that vacancy rates in Tokyo's Central Business District (CBD) fell 18 basis points to 4.05% in May, the second consecutive monthly decline. Year-on-year, the vacancy rate has fallen 112 basis points.

Miki Shoji reports that average office rents in the CBD rose 4.5% YoY, versus last month's 4.7% increase. Rent levels are now 11.7% 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 320.7 billion, 56.0% of its stated JPY 90 billion annual purchase allocation.

Note: As of 30 June 2016, of the Fund, Daito Bank (8563) is 25.45%, Shaklee Global Group (8205) is 10.54%, Katakura Industries (3001) is 5.08%, Prospect Co. Ltd is 2.21% (not including the SARs), and Daiwa Motor Transportation (9082) is 0.02%.

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

Sector Weightings

Banks	50.8
Retail	10.5
Storage/Warehousing	9.9
Real Estate	9.4
Advertising	8.2
Engineering & Construction	4.3
Machinery-Diversified	2.6
Diversified Financial Services	0.0
Transportation	0.0
REITs	0.0
Total*	95.6
No of Positions	16

Top 10 Holdings

Symbol	Security	% of Total Assets
8563	DAITO BANK LTD/THE	25.4
8562	FUKUSHIMA BANK LTD/THE	19.3
8205	SHAKLEE GLOBAL GROUP INC	10.5
2178	TRI-STAGE INC	8.2
9313	MARUHACHI WAREHOUSE CO LTD	7.9
3001	KATAKURA INDUSTRIES CO LTD	5.1
8521	NAGANO BANK LTD/THE	4.9
1921	TOMOE CORP	4.3
3528	PROSPECT CO LTD	4.3
7404	SHOWA AIRCRAFT INDUSTRY CO LTD	2.6

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.