

The Prospect Japan Fund Limited

Monthly Review

Bloomberg	PJF LN	NAV Performance (USD) %	July	YTD	1 Year	3 Year
Yen / USD	103.64	The Prospect Japan Fund Limited	6.52	7.30	17.60	25.64
NAV (USD)	1.47	MSCI Japan Small Cap Index	5.37	8.13	9.58	36.86
Price (USD)	1.01	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 %	-31.44					

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 6.5 % (USD) during the month, outperforming the MSCI Japan Small Cap index's 5.4% MoM USD advance.

Strength during the month came from holdings in Daito Bank (8563), Fukushima Bank (8562) and Tri-Stage Inc (2178). Daito Bank and Fukushima Bank, both regional banks based in Fukushima prefecture, gained strongly following mid-month election results and subsequent expectations of bold fiscal stimulus, and again at month-end when the Bank of Japan (BoJ) refrained from expanding its negative interest rate policy. Tri-Stage Inc, a marketing consultant service provider, gained following Q1 results that strongly outperformed expectations and the acquisition of a 15% stake in Thailand based "TV Direct", which is part of the company's ongoing expansion into ASEAN markets.

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.

Prime Minister Shinzo Abe secured a landslide victory in last month's upper house elections, winning a two-thirds super majority for the ruling coalition. The victory can be seen as a mandate for more aggressive fiscal spending and structural reforms that have thus far failed to materialize under the administration's "Abenomics" framework. There remains concern, however, that the PM could shift focus towards pushing through an unpopular revision to Japan's pacifist constitution.

10-year JGBs rallied amidst the Brexit vote aftershock, with 20-year bond yields falling into negative territory for the first time, and 10-year JGBs reaching new record lows of -0.302%.

Exports for June improved to -7.4% YoY from -11.3% YoY in May, well above consensus estimates for a -11.3% YoY decline. YoY declines were due to falloffs in exports to China and the US. This marks the ninth consecutive month of export decline. Imports for June declined 18.8% YoY, leaving a trade surplus of JPY 692.8 billion, improved from last month's JPY 40.7 billion deficit.

Labor Cash earnings for May fell to -0.2% YoY, well below the consensus estimate of +0.5%, and the first negative reading since June 2015. Real Cash earnings came in +0.2 YoY, reflecting the return to a deflationary environment.

Overall Household Spending declined sharply, -2.2% in June, twice the previous month's decline, and well below the consensus estimate of a 0.4% decline.

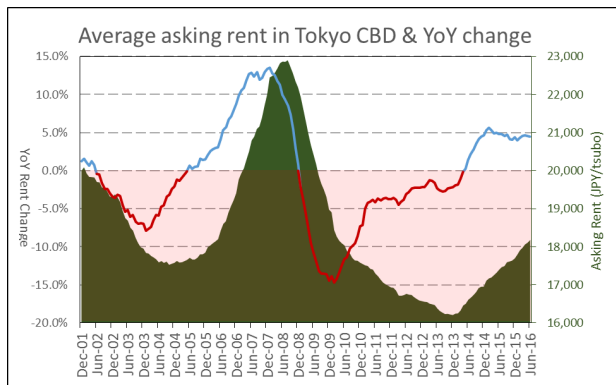
National Core CPI for the month of June was -0.5% YoY (versus consensus estimate of -0.4%), down 10 basis points from the previous month. CPI rose 0.4% YoY when energy is stripped out, down from 0.6% during the previous month. CPI continues to slide further from the central bank's 2.0% target, and the June TANKAN survey of business sentiment showed a decline in expected inflation to 0.7%, down 0.1% from the previous quarterly survey.

At month end, the BoJ announced a near doubling of targeted ETF purchases to JPY 6 trillion from JPY 3.3 trillion, while leaving JGB purchases and negative interest rate policies unchanged. The BoJ also announced a doubling of its US dollar lending program to USD 24 billion. Additionally, Governor Kuroda ordered a "comprehensive assessment" of the effectiveness of policy to be undertaken at the next scheduling meeting in September, leaving the door open for further easing. The Yen strengthened against the dollar following the announcement of the relatively small policy change, ending the month at JPY 102.35/USD.

In the wake of yet another disappointing move by the BoJ, market attention will now turn forcibly to the Abe administration's upcoming fiscal stimulus package, particularly how much of the headline JPY 28 trillion will be actual new spending versus provisions for lending. Details are expected to be announced in early August with parliamentary approval likely in October. PM Abe signaled that the stimulus would exceed JPY 28 trillion.

Miki Shoji reported that vacancy rates in Tokyo's Central Business District (CBD) rose 2 basis points to 4.07% in June, the first rise in 3 months. Year-on-year, the vacancy rate has fallen 105 basis points.

Miki Shoji reports that average office rents in the CBD rose 4.5% YoY, unchanged from last month's YoY increase. Rent levels are now 12.2% 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 4.8 billion in J-REIT units. This brings total purchases to date to JPY 325.5 billion, 61.3% of its stated JPY 90 billion annual purchase allocation.

Note: As of 29 July 2016, of the Fund, Daito Bank (8563) is 27.0%, Fukushima Bank (8562) is 21.6%, Tri-State Inc (2178) is 6.3% and Prospect Co. Ltd is 2.1% (not including the SARs).

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

Sector Weightings

Banks	54.2
Retail	9.1
Storage/Warehousing	10.5
Real Estate	8.6
Advertising	6.3
Engineering & Construction	4.2
Machinery-Diversified	2.5
Diversified Financial Services	0
Transportation	0
REITs	0
Total*	95.4
No of Positions	15

Top 10 Holdings

Symbol	Security	% of Total Assets
8563	DAITO BANK LTD/THE	27.0
8562	FUKUSHIMA BANK LTD/THE	21.6
8205	SHAKLEE GLOBAL GROUP INC	9.1
9313	MARUHACHI WAREHOUSE CO LTD	8.6
2178	TRI-STAGE INC	6.3
3001	KATAKURA INDUSTRIES CO LTD	4.6
8521	NAGANO BANK LTD/THE	4.6
1921	TOMOE CORP	4.2
3528	PROSPECT CO LTD	4.0
7404	SHOWA AIRCRAFT INDUSTRY CO LTD	2.5

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.