

The Prospect Japan Fund Limited

Monthly Review

| Bloomberg | PJF LN | NAV Performance (USD) % | August | YTD | 1 Year | 3 Year |
|---------------------|--------|--|--------|------|--------|--------|
| Yen / USD | 103.28 | The Prospect Japan Fund Limited | -6.80 | 0.00 | 12.30 | 16.10 |
| NAV (USD) | 1.37 | MSCI Japan Small Cap Index | -3.53 | 4.31 | 9.44 | 33.83 |
| Price (USD) | 1.00 | 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 % | -27.29 | | | | | |

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 6.8% (USD) during the month, underperforming the MSCI Japan Small Cap index's 3.5% MoM USD decline.

Weakness during the month came from holdings in Daito Bank (8563), Fukushima Bank (8562) and Shaklee Global Group (8205). Daito Bank and Fukushima Bank, both regional banks based in Fukushima prefecture, retreated following Q1 results that showed YoY declines in interest and investment revenue. Regional banks as a whole saw aggregate loan interest decline 6% YoY during Q1, affected by the Bank of Japan's negative interest rate policy. Shaklee Global Group, a seller of nutrition and personal care products, retreated following Q1 results showing YoY declines in revenue and profits due to reduced sales and profits in Asia. Although results were sharply lower YoY, the company remains in line to meet FY guidance.

Relative strength during the month came from holdings in Tohoku Bank (8349), a regional bank based in Iwate prefecture. Tohoku Bank announced Q1 results comfortably ahead of forecasts, with YoY revenue improvement owing to higher investment returns and JGB sales compensating for a 5.0% YoY decline in loan interest revenue.

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.

On 2 August the Cabinet Office approved a proposed JPY 28.1 trillion economic stimulus package, including JPY 7.5 trillion in net new spending, of which JPY 5.8 trillion is allocated for the current fiscal year.

Initial Q2 GDP came in at an annualized +0.2%, below the forecasted +0.7%, and well below Q1's 2.0% growth. The main cause for the underperformance was lacklustre business spending, down 0.4% QoQ, versus consensus estimates for 0.2% QoQ growth. Revised GDP figures will be announced 8 September.

Exports in July fell the most since 2009, -14.0% YoY, coming in well below the previous month's -7.4% reading. Imports declined 24.7% YoY, leaving a trade balance of JPY 513.5 billion, well above the forecast surplus of JPY 273.2 billion.

Labor Cash earnings for June rebounded to +1.3% YoY, beating consensus estimate of +0.3%, and much improved from last month's -0.2% YoY reading. The bounce was facilitated by a 3.3% YoY growth in bonuses, while contract wages rose 0.1%

YoY. Real Cash earnings came in +1.8% YoY, reflecting the return to a deflationary environment.

Overall Household Spending declined for the fifth consecutive month in July, though the fall surprised to the upside, down 0.5% YoY (versus a consensus estimate of -1.5%), and much improved from the previous month's -2.2% performance.

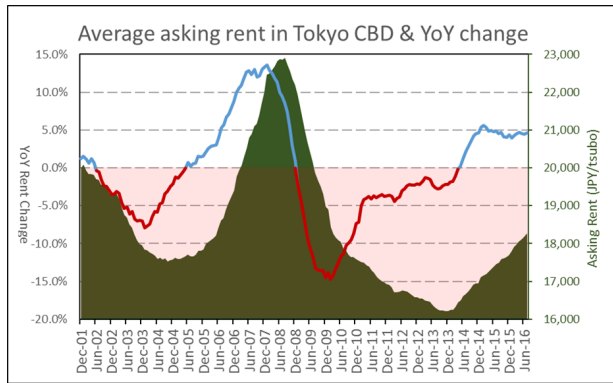
National Core CPI (excluding fresh food) for the month of July was -0.5% YoY (versus consensus estimate of -0.4%), the fifth consecutive month of YoY declines. This marks the sharpest decline in prices since the start of QQE in April 2013.

With the return to deflation firmly established, there is intense focus on the Bank of Japan's (BOJ) comprehensive assessment of monetary policy efficiency due out in September, and what it will mean for policy movement going forward. While the market has taken at face-value Gov. Kuroda's insistence that no pull back in easing is forthcoming, speculation that some form of "helicopter money" is possible continues despite the governor's repeated denials, and the fact that it is currently legally impossible.

The enduring attention on helicopter money reflects concerns regarding the limits of monetary expansion, given that the BoJ currently owns a third of outstanding JGBs. Other expansionary options available include municipal bond purchases, with an eye towards infrastructure project support, which would dovetail with the focus of the economic stimulus package announced earlier in the month. Another option is increasing its holdings in corporate debt.

Miki Shoji reported that vacancy rates in Tokyo's Central Business District (CBD) declined 13 basis points (bps) to 3.9% in July, reaching an 8-year low. Year-on-year, the vacancy rate has fallen 95 bps.

Miki Shoji reports that average office rents in the CBD rose 4.6% YoY, a slight rise from last month's 4.5% increase. Rent levels are now 12.7% 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 6.0 billion in J-REIT units. This brings total purchases to date to JPY 331.5 billion, 68% of its stated JPY 90 billion annual purchase allocation.

Note: As of 31 August 2016, of the Fund, Daito Bank (8563) is 25.4%, Fukushima Bank (8562) is 22.5%, Shaklee Global Group (8205) is 8.7% and Prospect Co. Ltd is 2.1% (not including the SARs).

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

Sector Weightings

| | |
|--------------------------------|------|
| Banks | 53.8 |
| Storage/Warehousing | 11.2 |
| Real Estate | 8.7 |
| Retail | 8.7 |
| Advertising | 5.4 |
| Engineering & Construction | 4.2 |
| Machinery-Diversified | 2.7 |
| Diversified Financial Services | 0 |
| Transportation | 0 |
| REITs | 0 |
| | |
| Total* | 94.7 |
| No of Positions | 14 |

Top 10 Holdings

| Symbol | Security | % of Total Assets |
|--------|--------------------------------|-------------------|
| 8563 | DAITO BANK LTD/THE | 25.4 |
| 8562 | FUKUSHIMA BANK LTD/THE | 22.5 |
| 9313 | MARUHACHI WAREHOUSE CO LTD | 9.2 |
| 8205 | SHAKLEE GLOBAL GROUP INC | 8.7 |
| 2178 | TRI-STAGE INC | 5.4 |
| 8521 | NAGANO BANK LTD/THE | 4.9 |
| 3001 | KATAKURA INDUSTRIES CO LTD | 4.6 |
| 3528 | PROSPECT CO LTD | 4.2 |
| 1921 | TOMOE CORP | 4.2 |
| 7404 | SHOWA AIRCRAFT INDUSTRY CO LTD | 2.7 |

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.