

The Prospect Japan Fund Limited

Monthly Review

Bloomberg	PJF LN	NAV Performance (USD) %	October	YTD	1 Year	3 Year
Yen / USD	104.96	The Prospect Japan Fund Limited	-0.71	2.19	6.06	6.87
NAV (USD)	1.40	MSCI Japan Small Cap Index	1.33	11.53	13.65	28.90
Price (USD)	0.95	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 %	-32.10					

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 0.71% (USD) during the month, underperforming the MSCI Japan Small Cap index's 1.3% MoM USD gain.

Strength during the month came from holdings in Fukushima Bank (8562), Shaklee Global Group (8205) and Yasuda Logistics (9324). Fukushima Bank, a regional bank based in Fukushima prefecture, performed well following last month's decision by the Bank of Japan (BoJ) to forego a further push into negative interest rates. Yasuda Logistics, a warehousing and logistics company, saw robust performance ahead of next month's quarterly results announcement on strong reported results for Hulic Co. Ltd (3003), of which Yasuda Logistics is a large shareholder. Shaklee Global Group, a seller of nutrition and personal care products, gained towards month's end, as a weakening yen improved the profitability outlook for overseas operations that account for 85% of annual revenue.

Weakness during the month came from holdings in Daito Bank (8563), a regional bank based in Fukushima prefecture. Daito Bank saw its share price relatively unaffected by the jump in financial related shares following last month's BoJ decision, though it maintains its YTD outperformance of TOPIX Banks Index.

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.

Ahead of the November earnings season, the Japanese market is adjusting to the new paradigm set by the BoJ following the adoption of the "QQE with Yield Controls" framework, with strong gains seen in the financial sector as the negative interest rate was left unchanged.

The Yen ended the month down 3.4% versus the dollar, after hitting a 3-month low during the month, leading to solid performance in export related names, despite September export figures showing a 6.9% YoY decline. Exports outperformed consensus estimates for a 10.8% YoY decline, following the previous month's -9.6% YoY performance. Imports fell -16.3% YoY, leaving a trade surplus of JPY 498.3 billion, beating the consensus estimates for a surplus of JPY 211 billion.

Labor cash earnings for August fell -0.1% YoY, below consensus estimate of +0.4% YoY, and well below last month's revised +1.2% YoY reading. Real cash earnings came in +0.5% YoY. The labor market continues to tighten, with

unemployment ticking down to 3.0%, a positive sign for potentially higher wage increases going forward.

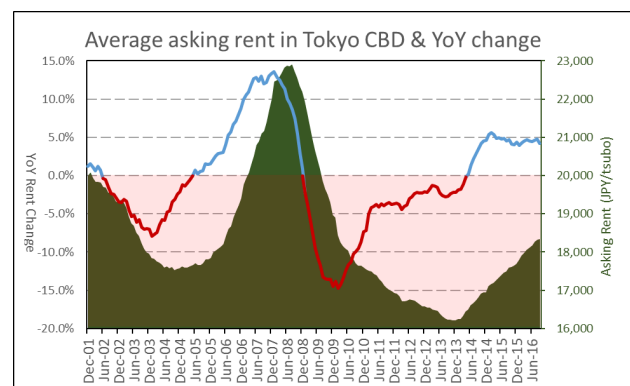
National Core CPI (excluding fresh food) for the month of October remained unchanged at -0.5% YoY, the seventh consecutive month of YoY declines.

Overall household spending declined for the seventh consecutive month in October, falling 2.1% YoY, below consensus estimates of -2.7% YoY, but improved from the previous month's -4.6% YoY performance.

The BoJ left monetary policy unchanged following last month's re-set, though it pushed back its target date for reaching its 2% inflation target to as late as spring 2019.

Miki Shoji reported that vacancy rates in Tokyo's Central Business District (CBD) declined 20 basis points (bps) to 3.70% in September, a third consecutive monthly decline. Year-on-year, the vacancy rate has fallen 83 bps.

Miki Shoji reports that average office rents in the CBD rose 4.2% YoY, the 29th consecutive month of gains. Rent levels are now 13.1% above the December 2013 lows, while remaining 20% below the 2008 highs 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 deflation 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 343.5 billion, 81.3% of its stated JPY 90 billion annual purchase allocation.

Note: As of 31 October 2016, of the Fund, Fukushima Bank (8562) is 25.0%, Shaklee Global Group (8205) is 9.4%, Yasuda Logistics (9324) is 0.9%, Daito Bank (8563) is 25.0% and Prospect Co. Ltd is 1.9% (not including the SARs). Hulic Co. Ltd (3003) is not a holding of the Fund.

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

Sector Weightings

Banks	54.9
Storage/Warehousing	10.5
Retail	9.4
Real Estate	7.1
Engineering & Construction	4.2
Advertising	4.2
Machinery-Diversified	1.3
REITs	0
Total*	91.5
No of Positions	14

Top 10 Holdings

Symbol	Security	% of Total Assets
8563	DAITO BANK LTD/THE	25.0
8562	FUKUSHIMA BANK LTD/THE	25.0
9313	MARUHACHI WAREHOUSE CO LTD	9.5
8205	SHAKLEE GLOBAL GROUP INC	9.4
8521	NAGANO BANK LTD/THE	4.3
1921	TOMOE CORP	4.2
2178	TRI-STAGE INC	4.2
3528	PROSPECT CO LTD	3.9
3001	KATAKURA INDUSTRIES CO LTD	3.2
7404	SHOWA AIRCRAFT INDUSTRY CO LTD	1.3

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.