

The Prospect Japan Fund Limited

Monthly Review

Bloomberg	PJF LN	NAV Performance (USD) %	November	YTD	1 Year	3 Year
Yen / USD	112.91	The Prospect Japan Fund Limited	-9.29	-7.30	-3.79	-1.55
NAV (USD)	1.27	MSCI Japan Small Cap Index	-4.69	6.28	6.94	23.64
Price (USD)	0.91	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 %	-28.09					

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 9.29% (USD) during the month, underperforming the MSCI Japan Small Cap index's 4.69% MoM USD decline.

Weakness during the month came from holdings in Fukushima Bank (8562), Shaklee Global Group (8205) and Daito Bank (8563). Fukushima Bank, a regional bank based in Fukushima prefecture, reported weaker than expected Q2 results during the month, along with a downward revision to FY forecasts. Performance was hampered by lower interest income from outstanding loans resulting from decaying borrowing rates, while investment income fell on investment trust cancellations and lower received dividends. The bank maintains its YTD outperformance of the TOPIX Banks Index. Shaklee Global Group, a seller of nutrition and personal care products, announced a sharply lower YoY revenue and profits for the Q2 period due to reduced sales and profits in Asia and adverse FX conditions. The company remains in line to meet FY forecasts. Shares in Shaklee fell sharply following the US election, despite the advantageous FX move, as US policy towards China became uncertain. China accounts for nearly 40% of total sales. Daito Bank, a regional bank based in Fukushima prefecture, reported YoY declines in revenue during the Q2 period, due to declines in loan interest income, though it saw positive contribution from a double-digit YoY improvement in income from investments. Expenses related to changes in the accounting system resulted in large double-digit declines in profits. The bank remains on track to comfortably meet FY forecasts.

The Fund exited positions in Showa Aircraft Industry (7404) and Yasuda Logistics (9324) during the month, selling into strong price performance following Q2 results announcements. The Fund reduced its holdings in Katakura Industries (3001) to 1.8% of the fund (from 3.2% at October 2016-end), selling into strong price performance following a Q3 results announcement showing a solid return to profitability in the pharmaceuticals segment and improved contributions from the real estate segment after last year's large redevelopment efforts. The Fund has reduced its holdings in Tri-Stage Inc (2178) to 2.5% of the fund (From 4.2% at October 2016-end), selling into continued strong price performance following the October announcement that the company will raise its holding in Indonesian TV shopping company PT Merdis International from 37.3% to 74.0%, making it a subsidiary company.

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. Following the month end, Prospect Co., Ltd. announced an increase in its dividend forecast for FY March 2017 to JPY 3/share from JPY 1/share, which was positively received by the market.

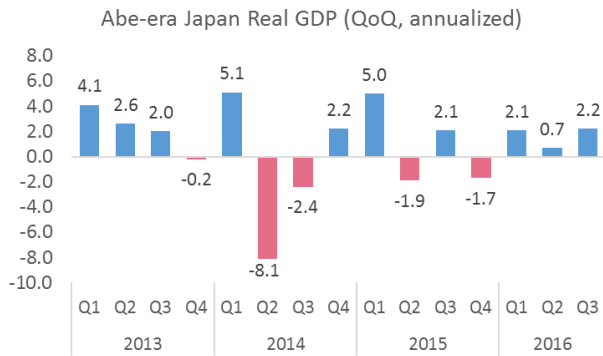
The unexpected outcome of this month's US presidential election shook global politics and markets, with acute effects on Japanese bond yields and currency momentum.

The 10-year JGB regained positive territory for the first time since the negative interest rate policy (NIRP) was announced this February, reaching 0.048% on 14 November. The move resulted in the Bank of Japan (BoJ) executing its first yield control operation under the new framework announced in September.

The Yen weakened copiously following the US election results on expectations of inflationary fiscal policy in the US leading to a faster normalization of Fed policy. The Yen saw the largest monthly decline versus the dollar since 1995 following the election, with the dollar reaching JPY 114.13 (+9.5% MoM) at month's end. The equity market rallied with the weaker Yen, entering a bull market from June lows.

While the details of a Trump administration's policy outlook remain clouded, some of the key issues regarding the Japanese economy include a potentially stronger dollar, US abandonment of the Trans-Pacific Partnership (TPP) and closer attention paid to the China-backed Regional Comprehensive Economic Partnership (RCEP), a 16-nation initiative of Asian nations scheduled to hold its next round of talks on 2 December and excludes North and South American countries, such as TPP excluded China.

Initial estimates for Q3 GDP came in at an annualized 2.2%, well above the forecasted 0.8% growth, and Q2's +0.7% performance. The primary reasons for the outperformance were strong net exports and residential investments (+2.3% QoQ), while other domestic drivers like personal consumption (+0.1% QoQ) and capital expenditure (0.0% QoQ) remained subdued. Final GDP numbers are scheduled for release on 8 December.



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 10.3 billion in J-REIT units. This brings total purchases to date to JPY 353.8 billion, 92.8% of its stated JPY 90 billion annual purchase allocation.

Note: As of 30 November 2016, of the Fund, Fukushima Bank (8562) is 24.7%, Shaklee Global Group (8205) is 8.0%, Daito Bank (8563) is 25.7%, Katakura Industries (3001) is 1.8%, Tri-Stage Inc (2178) is 2.5% and Prospect Co. Ltd is 2.1% (not including the SARs). Showa Aircraft Industry (7404) and Yasuda Logistics (9324) are no longer holdings in the Fund.

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

October exports declined 10.3% YoY, underperforming consensus estimates for a 8.5% YoY decline, following the previous month's -6.9% performance. This marks the 13th consecutive month of YoY export declines. Imports fell -16.5% YoY, leaving a trade surplus of JPY 496.2 billion, versus consensus estimates for a JPY 610 billion surplus.

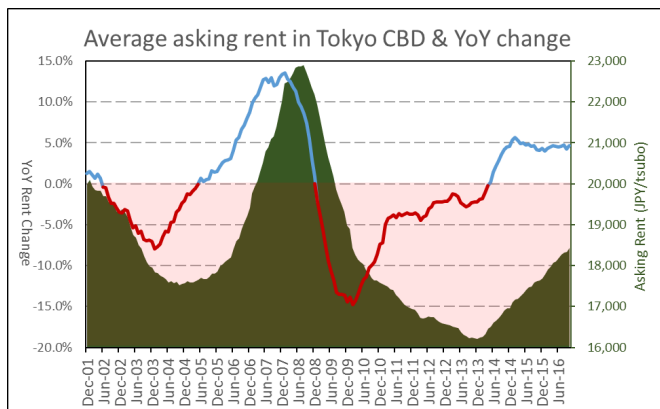
National Core CPI (excluding fresh food) for the month of October came in at -0.4% YoY, in line with consensus forecasts, and a small improvement over the previous month's -0.5% reading. This marks the eighth consecutive month of YoY declines.

Overall household spending improved to -0.4% YoY in October, above consensus estimates of -1.0% YoY, and the previous month's -2.1% YoY performance. This marks the eighth consecutive month of YoY declines.

Labor Cash earning for September gained 0.2% YoY, matching consensus estimates. Real Cash earnings came in at +0.9% YoY. The labor market remains tight, with unemployment for October at 3.0%, a positive sign for potentially higher wage increases going forward.

Miki Shoji reported that vacancy rates in Tokyo's Central Business District (CBD) declined 6 basis points (bps) to 3.64% in October, a fourth consecutive monthly decline. Year-on-year, the vacancy rate has fallen 82 bps.

Miki Shoji reports that average office rents in the CBD rose 4.7% YoY, the 30th consecutive monthly gains. Rent levels are now 13.7% above the December 2013 lows, while remaining 19.5% below the 2008 highs when vacancies were at similar levels.



1 tsubo = 3.306 sqm

Sector Weightings

Banks	54.9
Storage/Warehousing	9.5
Retail	8.0
Real Estate	5.9
Engineering & Construction	4.0
Advertising	2.5
REITs	0
Total*	84.9
No of Positions	12

Top 10 Holdings

Symbol	Security	% of Total Assets
8563	DAITO BANK LTD/THE	25.7
8562	FUKUSHIMA BANK LTD/THE	24.6
9313	MARUHACHI WAREHOUSE CO LTD	9.5
8205	SHAKLEE GLOBAL GROUP INC	8.0
8521	NAGANO BANK LTD/THE	4.4
3528	PROSPECT CO LTD	4.1
1921	TOMOE CORP	4.0
2178	TRI-STAGE INC	2.5
3001	KATAKURA INDUSTRIES CO LTD	1.8
8349	TOHOKU BANK LTD/THE	0.3

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.

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.