

The Prospect Japan Fund Limited

Monthly Review

Bloomberg	PJF LN	NAV Performance (USD) %	December	YTD	1 Year	3 Year
Yen / USD	117.06	The Prospect Japan Fund Limited	-2.36	-9.49	-9.49	-3.88
NAV (USD)	1.24	MSCI Japan Small Cap Index	1.82	8.22	8.22	24.79
Price (USD)	0.90	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 %	-27.45					

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 2.36% (USD) during the month, underperforming the MSCI Japan Small Cap index's 1.82% MoM USD gain. Year to date, the Fund retreated 9.49% versus the index's 8.22% gain.

Weakness during the month came from holdings in Daito Bank (8563) and Shaklee Global Group (8205). Daito Bank, a regional bank based in Fukushima prefecture, underperformed during the month following weak Q2 results reported in November. Shaklee Global Group, a seller of nutrition and personal care products, retreated during the month following weak Q2 results announced last month and ongoing concerns regarding weakening sales in Asia.

Strength during the month came from holdings in Fukushima Bank (8562) and Prospect Co., Ltd (3528). Fukushima Bank, a regional bank based in Fukushima prefecture, saw its share price recover after falling last month on weaker than expected Q2 results. Prospect Co, Ltd. gained strongly during the month following an announced increase in its dividend to JPY 3/share from JPY 1/share. The company also announced a potential investment in a Russia-based wood pellet plant, for export to the Japanese market.

The Fund exited positions in Tri-Stage Inc (2178), Katakura Industries (3001) and Tohoku Bank (8349) during the month, selling into strong price performance at the year end.

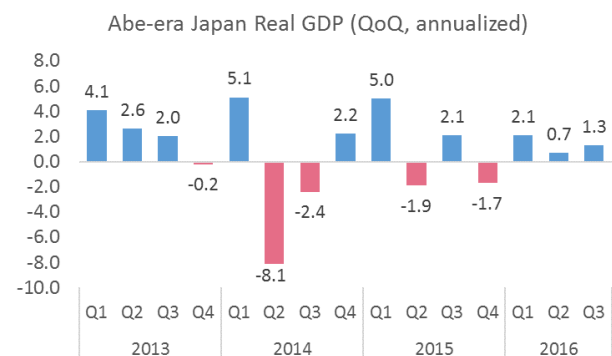
While the Fund has started the process of converting the Stock Acquisition Rights ("SARs") it holds in Prospect Co., Ltd. (3528), no SARs were converted during the month.

After years of speculation, legislation approving "integrated resorts", which include casinos, passed both houses of the Japanese parliament during the month. Though the first Japanese casino openings are likely more than five years off, analysts see the potential for a USD 25 billion gaming market in Japan. The Abe administration views legalized gambling as a way to sustain high tourism numbers following the 2020 Tokyo Olympics.

The Bank of Japan (BoJ) left its core policy unchanged during the month, while announcing a scheduled technical adjustment to its negative interest rate policy (NIRP), increasing the proportion of current account funds that will be considered a part of the "macro add-on balance" not subject to

negative policy rates. The benchmark ratio was set at 13% (up from 10%) for the December though January period. This marks the fourth consecutive increase since NIRP was announced in February 2016. The BoJ estimates the "policy rate balance" (subject to negative rates) for the period will range from JPY 10 to 20 trillion, unchanged from the last three-month period. The next benchmark ratio period (March to May 2017) will be announced on 9 March 2017.

Revised Annualized GDP for Q3 came in +1.3% YoY, below the initial +2.2% YoY figure and +2.3% YoY consensus estimate. Underperformance was due to declines in business spending (-0.4% QoQ vs preliminary figure of 0.0% QoQ) and private-sector inventory (contributed -0.3% from GDP vs preliminary -0.1%).



November exports declined 0.4% YoY, outperforming consensus estimates for a 2.3% YoY decline, following the previous month's -10.3% performance. This marks the 14th consecutive month of YoY export declines. Imports fell -8.8% YoY, leaving a trade surplus of JPY 152.5 billion, versus consensus estimates for a JPY 227.4 billion surplus.

National Core CPI (excluding fresh food) for the month of November came in at -0.4% YoY, below consensus estimates of -0.3%, and unchanged from the previous month's reading.

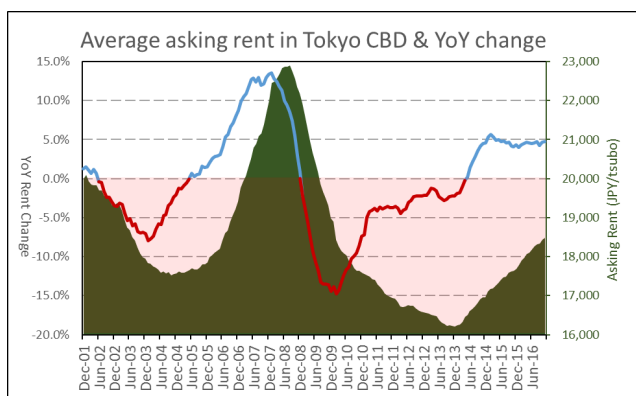
Overall household spending declined 1.5% YoY in November, below consensus estimates for +0.1% YoY, and the previous month's -0.4% YoY performance. This marks the ninth consecutive month of YoY declines. Consumer confidence

index saw a surprising fall to 40.9 in November from 42.3 the previous month. Consensus estimates were for a rise to 42.8.

Labor Cash earnings for October gained 0.1% YoY, below consensus estimates of +0.2% YoY. Real Cash earnings came in flat YoY, versus consensus estimates for a 0.2% YoY gain.

Miki Shoji reported that vacancy rates in Tokyo's Central Business District (CBD) rose 11 basis points (bps) to 3.75% in November, the first monthly increase since June. Year on year, the vacancy rate has fallen 44 bps.

Miki Shoji reports that average office rents in the CBD rose 4.8% YoY, the 31st consecutive monthly gain. Rent levels are now 14.0% above the December 2013 lows, while remaining 19.3% below the 2008 highs when vacancies were 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 5.2 billion in J-REIT units. This brings total purchases to date to JPY 359 billion. In 2016, BoJ fell short of its annual target for J-REIT unit purchases, acquiring JPY 88.7 billion versus a stated target of JPY 90 billion.

Note: As of 30 December 2016, of the Fund, Daito Bank (8563) is 25.1%, Shaklee Global Group (8205) is 7.6%, Fukushima Bank (8562) is 25.3% and Prospect Co. Ltd is 3.3% (not including the SARs). Tri-Stage Inc (2178), Katakura Industries (3001) and Tohoku Bank (8349) are no longer holdings in the Fund.

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

Sector Weightings

Banks	53.9
Storage/Warehousing	9.2
Retail	7.6
Real Estate	5.3
Engineering & Construction	3.4
REITs	0
Total*	79.4
No of Positions	9

Top 10 Holdings

Symbol	Security	% of Total Assets
8562	FUKUSHIMA BANK LTD/THE	25.3
8563	DAITO BANK LTD/THE	25.1
9313	MARUHACHI WAREHOUSE CO LTD	9.2
8205	SHAKLEE GLOBAL GROUP INC	7.6
3528	PROSPECT CO LTD	5.3
8521	NAGANO BANK LTD/THE	3.5
1921	TOMOE CORP	3.4

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.