

# The Prospect Japan Fund Limited

Monthly Review

Bloomberg	PJF LN	NAV Performance (USD) %	January	YTD	1 Year	3 Year
Yen / USD	113.94	The Prospect Japan Fund Limited	2.42	2.42	0.00	-4.51
NAV (USD)	1.27	MSCI Japan Small Cap Index	3.79	3.79	19.68	29.98
Price (USD)	1.11	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 %	-12.63					

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 2.42% (USD) during the month, underperforming the MSCI Japan Small Cap index's 3.79% MoM USD gain.

Strength during the month came from holdings in Prospect Co., Ltd (3528) and Daito Bank (8563). Prospect Co., Ltd. gained strongly following the announcement of a possible offer for the entire issued capital of Prospect Japan Fund (PJF LN). Daito Bank, a regional bank based in Fukushima prefecture, gained ahead of Q3 results announcement expected in early February.

Realignment of the regional bank space continued with reports that Mie Bank (8374) and Daisan Bank (8529), both based in Mie prefecture, are considering a merger. If agreement is made, the potential merger is expected within the next fiscal year.

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.

Concerns over a hard Brexit and the tumultuous beginning of the Trump administration weighed heavily on Japanese markets during the first two weeks of the year, with the Yen strengthening on a renewed flight to safety. Upheavals in US domestic policies, ongoing protectionist rhetoric, the official announcement of the US withdrawal from TPP negotiations and incoming US Treasury Secretary Steven Mnuchin's comments on the "excessively strong dollar" can be expected to effect sentiment in Japan, given the countries reliance on global trade and a weak yen.

December exports surprised to the upside, gaining 5.4% YoY, versus consensus estimates for a 1.1% YoY increase. This marks the first YoY gain in exports since September 2015. Imports fell 2.6% YoY, leaving a trade surplus of JPY 641.4 billion, outperforming consensus estimates of JPY 281.1 billion. For CY 2016, Japan reported its first annual trade surplus (JPY 4.1 trillion) since 2011, on a 16% YoY decline in imports, led by lower energy costs.

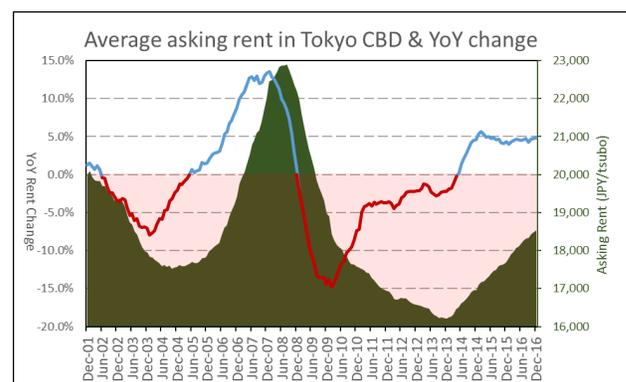
National Core CPI (excluding fresh food) for the month of December came in at -0.2% YoY, slightly ahead of consensus -0.3% estimates, and a small improvement over the previous month's -0.4% reading.

Overall household spending declined 0.3% YoY in December, above consensus estimates for -0.9% YoY, and the previous month's -1.5% YoY performance. This marks the tenth consecutive month of YoY declines, but the strongest reading since February 2016. The labor market remains tight, with unemployment for December holding at 3.1%, and the jobs-to-applicants ratio inching up 2 basis point to 1.43x.

As expected, the Bank of Japan (BoJ) left its monetary easing framework unchanged following a policy board meeting at the end of January, while slightly increasing its GDP growth estimates.

Miki Shoji reported that vacancy rates in Tokyo's Central Business District (CBD) declined 14 basis points (bps) to 3.61% in December, the lowest level since June 2008.

Miki Shoji reports that average office rents in the CBD rose 4.8% YoY, the 32<sup>nd</sup> consecutive monthly gain. Rent levels are now 14.4% above the December 2013 lows, while remaining 19.0% 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 3.7 billion in J-REIT units, the lowest monthly total since March 2016. This brings total purchases to date to JPY 362.7 billion.

*Note: As of 31 January 2017, of the Fund, Prospect Co. Ltd (3528) is 4.1% (not including the SARs) and Daito Bank (8563) is 25.3%. Mie Bank (8374) and Daisan Bank (8529) are not holdings in the Fund.*

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

## Sector Weightings

Banks	53.7
Storage/Warehousing	8.9
Retail	7.5
Real Estate	6.1
Engineering & Construction	3.4
REITs	0
Total*	79.6
No of Positions	9

## Top 10 Holdings

Symbol	Security	% of Total Assets
8563	DAITO BANK LTD/THE	25.3
8562	FUKUSHIMA BANK LTD/THE	25.1
9313	MARUHACHI WAREHOUSE CO LTD	8.9
8205	SHAKLEE GLOBAL GROUP INC	7.5
3528	PROSPECT CO LTD	6.1
8521	NAGANO BANK LTD/THE	3.4
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.

## Important Legal Information – Please Read

---

This information is for use by investment professionals only. Past performance is no indication of future results. This document does not constitute an offer of shares of The Prospect Japan Fund Limited nor the solicitation of an offer to buy such shares. This document should not be forwarded or distributed to any other person except with the prior written consent of Prospect Asset Management Inc (PAMI).

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.