

The Prospect Japan Fund Limited

Monthly Review

Bloomberg	PJF LN	NAV Performance (USD) %	February	YTD	1 Year	3 Year
Yen / USD	112.42	The Prospect Japan Fund Limited	2.36	4.84	1.56	-3.70
NAV (USD)	1.30	MSCI Japan Small Cap Index	3.10	7.00	24.66	37.03
Price (USD)	1.25	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 %	-3.64					

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 2.36% (USD) during the month, underperforming the MSCI Japan Small Cap index's 3.10% MoM USD gain.

Strength during the month came from holdings in Daito Bank (8563) and Prospect Co., Ltd (3528). Daito Bank, a regional bank based in Fukushima prefecture, performed strongly following its Q3 results announcement showing the bank remains well positioned to beat FY profit forecasts. Prospect Co, Ltd. gained strongly following its Q3 results announcement showing stronger YoY revenue from real estate sales and solid profitability from the solar energy segment.

Weakness during the month came from holdings in Shaklee Global Group (8205), a seller of nutrition and personal care products. Shaklee shares retreated following its Q3 results announcement showing sharply lower YoY revenue and profits, with trends pointing to higher risk of the company falling short of FY forecasts. The company cited reduced sales in Asia for its underperformance.

Realignment of the regional bank space continued with reports that Kansai Urban Banking (8545), Minato Bank (8543) and Kinki Osaka Bank (8371) are planning to merge in an effort to increase efficiency. The regional banks, group companies of Sumitomo Mitsui Financial Group and Resona Holdings, aim to reach a basic merger agreement by March end. The combined entity is expected to come via a joint holding company with majority stake held by Resona. All three banks operate in the greater Osaka and Hyogo prefecture area.

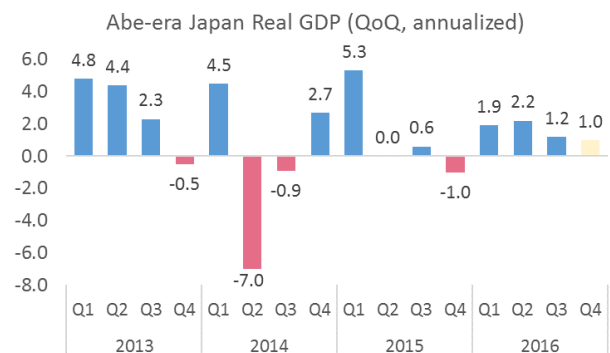
It was also announced that Daisan Bank (8529) is in talks to acquire Mie Bank (8374), targeting an April 2018 completion. Both regional banks are based in the western prefecture of Mie.

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.

The two-day US-Japan summit early in the month was received positively on the home-front, with Prime Minister Abe and US President Donald Trump seeming to build rapport, while former PM and current Finance Minister Taro Aso and US Vice-President Mike Pence moved along talks of economic

cooperation following the US abandonment of TPP with plans for high-level bilateral dialogue in the months to come.

Initial estimates for Q4 GDP came in at an annualized 1.0%, slightly below the forecasted 1.1% growth, and Q3's +1.2% performance. The primary reasons for the outperformance were strong exports (+2.6% QoQ) and business spending (+0.9% QoQ), while personal consumption was unchanged. Final GDP numbers are scheduled for release on 8 March. If the current estimates hold, it will mark the first consecutive four quarters of expansion in over 3 years.



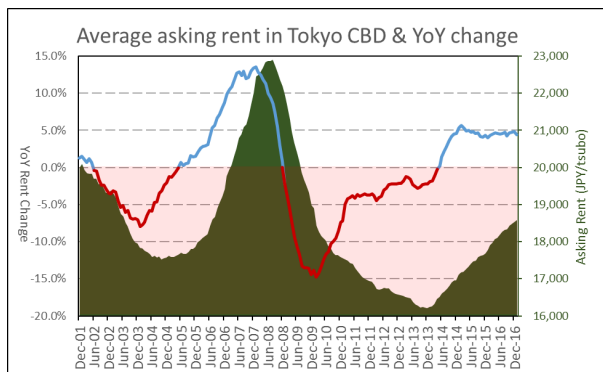
January exports surprised to the downside, gaining 1.3% YoY, versus consensus estimates for a 5.0% YoY increase on lower auto exports. Imports rose 8.5% YoY, well above the consensus estimates for a 4.8% YoY increase, due to higher energy imports. Accordingly, the January trade deficit of JPY 1.1 trillion billion was below consensus estimate for a deficit of JPY 625.9 billion, the first deficit recorded in five months.

Labor Cash earnings for December gained 0.1% YoY, underperforming consensus estimates for 0.4% YoY growth. Real Cash earnings came in at -0.4% YoY, versus the revised 0.0% YoY performance during the previous month. This marks the first negative reading since December 2015. If preliminary readings hold, Japanese total wages will have gained 0.5% YoY during 2016, the largest increase since 2010.

Miki Shoji reported that vacancy rates in Tokyo's Central Business District (CBD) rose 13 basis points (bps) to 3.74% in January, nearly regaining the 3.75% level of November on delivery of a nearly half of 2017 new supply during the month.

Year on year, the vacancy rate has fallen 27 bps. The vacancy rate for existing buildings declined 13 bps to 3.16%, the lowest reading since May 2008.

Miki Shoji reports that average office rents in the CBD rose 4.19% YoY, the 33rd consecutive monthly gain. Rent levels are now 14.7% above the December 2013 lows, while remaining 18.9% 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 6.0 billion in J-REIT units. This brings total purchases to date to JPY 368.7 billion.

Note: As of 28 February 2017, of the Fund, Daito Bank (8563) is 25.7%, Prospect Co. Ltd (3528) is 4.8% (not including the SARs) and Shaklee Global Group (8205) is 7.2%. Kansai Urban Banking (8545), Minato Bank (8543), Kinki Osaka Bank (8371), Daisan Bank (8529) and Mie Bank (8374) are not holdings in the Fund.

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

Sector Weightings

Banks	53.9
Storage/Warehousing	9.2
Retail	7.2
Real Estate	6.8
Engineering & Construction	3.2
REITs	0
Total*	80.3
No of Positions	9

Top 10 Holdings

Symbol	Security	% of Total Assets
8563	DAITO BANK LTD/THE	25.7
8562	FUKUSHIMA BANK LTD/THE	24.9
9313	MARUHACHI WAREHOUSE CO LTD	9.2
8205	SHAKLEE GLOBAL GROUP INC	7.2
3528	PROSPECT CO LTD	6.8
8521	NAGANO BANK LTD/THE	3.4
1921	TOMOE CORP	3.2

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.