

The Prospect Japan Fund Limited

Monthly Review

Bloomberg	PJF LN	NAV Performance (USD) %	April	YTD	1 Year	3 Year	
Yen / USD	111.29	The Prospect Japan Fund Limited	-2.33	1.61	-6.67	-5.26	
NAV (USD)	1.26	MSCI Japan Small Cap Index	1.71	8.78	14.06	41.28	
Price (USD)	1.08	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 %	-14.27						

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 2.33 % (USD) during the month, underperforming the MSCI Japan Small Cap index's 1.71% MoM USD gain.

Weakness during the month came from holdings in Fukushima Bank (8562) and Daito Bank (8563). Fukushima Bank and Daito Bank, both regional banks based in Fukushima prefecture, retreated along with the larger TOPIX Bank index during the first half of the month on bond yield contraction due to heightened geopolitical risks. While both regional banks recovered somewhat towards month end, ahead of FY 3.2017 results announcements in May.

Strength during the month came from holdings in Maruhachi Warehouse (9313), a warehousing and logistics company, which reported strong Q1 net income growth during the period on the profitable sale of a warehouse facility, and steady progress on real estate redevelopment plans.

In December 2015, the Fund acquired 1,440 Stock Acquisition Rights ("SARs") at a total cost of Yen 288 million. Each SAR gives the right to acquire 100,000 ordinary shares in Prospect Co., Ltd at a price of Yen 54 per share. The SARs are exercisable until 20 December 2020. The SARs have been held at cost in the NAV reports since December 2015 and are not revalued. For the purposes of preparing the annual Financial Statements in line with IFRS, the SARs have to be 'fair valued' but for regular NAV reporting Prospect Asset Management believes the value at cost is more helpful to the investor. A total of 90 SARs have been converted leaving 1,350 at 31 December 2016. None have been converted in 2017.

During the month, the real economy again took a back seat to roiling geopolitical risks, as tensions around Syria and North Korea reached a new height following US missile strikes on a Syrian airfield, and the announced deployment of a US aircraft carrier group into the waters around North Korea. The yen reached a 2017 high versus the dollar, breaking the 109 JPY/USD level as tensions in the Middle East and North Asia drove haven trades. The first round of French presidential elections swung markets back towards month end, with centrist candidate Emmanuel Macron ahead in polls, despite neither traditional party candidate moving onto the second round for the first time.

The February current account balance rebounded strongly to JPY 2.8 trillion, up from JPY 65.5 billion the previous month, and beating consensus estimates of JPY 2.5 trillion. The monthly trade balance returned to surplus (JPY 1.1 trillion) after the timing of the Lunar New Year last month resulted in a trade deficit of JPY 853.4 billion.

March exports gained 12.0% YoY, beating consensus estimates for a 6.2% YoY increase, a fourth consecutive month of export growth. Imports rose 15.8% YoY, well above the consensus estimates for a 10.0% YoY increase. Japan reported a March trade surplus of JPY 614.7 billion, above consensus estimate of JPY 608 billion.

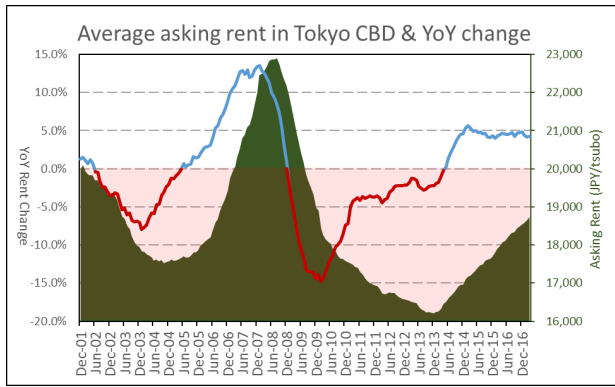
The labor market remains tight, with unemployment for March holding to a 20-year low of 2.8%, and the jobs-to-applicant ratio inched up to 1.45x. Real cash earnings remained unchanged YoY in February, versus a revised -0.1% YoY decline in January. Overall household spending declined 1.3% YoY in March, underperforming the consensus estimate of -0.5% YoY. This marks the 13th consecutive month of YoY declines.

National Core CPI (excluding fresh food) for the month of March was unchanged at 0.2% YoY, in line with consensus estimates.

The Bank of Japan (BoJ) left its policy unchanged, though Governor Haruhiko Kuroda made news ahead of this month's policy board meeting, commenting that the current accommodation would continue for "some time" until the 2% inflation goal was met. Kuroda downplayed the effect of rising global bond yields and the high percentage of JGBs currently on the BoJ's balance sheet.

Miki Shoji reported that vacancy rates in Tokyo's Central Business District (CBD) fell 10 basis points (bps) to 3.60% in March, the lowest level recorded since June 2008. Year-on-year, the vacancy rate has fallen 74 bps.

Miki Shoji reports that average office rents in the CBD rose 4.2% YoY, the 35th consecutive monthly gain. Rent levels are now 15.6% above the December 2013 lows, while remaining 18.2% 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 9.6 billion in J-REIT units. This brings total purchases to date to JPY 390.3 billion.

Note: As of 30 April 2017, of the Fund, Fukushima Bank (8562) is 24.2%, Daito Bank (8563) is 26.2%, and Maruhachi Warehouse (9313) is 9.9%.

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

Sector Weightings

Banks	53.6
Storage/Warehousing	9.9
Retail	9.0
Real Estate	5.5
Engineering & Construction	1.6
REITs	0
Total*	79.6
No of Positions	9

Top 10 Holdings

Symbol	Security	% of Total Assets
8563	DAITO BANK LTD/THE	26.2
8562	FUKUSHIMA BANK LTD/THE	24.2
9313	MARUHACHI WAREHOUSE CO LTD	9.9
8205	SHAKLEE GLOBAL GROUP INC	9.0
3528	PROSPECT CO LTD	5.5
8521	NAGANO BANK LTD/THE	3.2
1921	TOMOE CORP	1.6

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.