



The Prospect Japan Fund Limited

Monthly Review

Bloomberg	PJF LN	NAV Performance (USD) %	May	YTD	1 Year	3 Year
Yen / USD	110.94	The Prospect Japan Fund Limited	-2.38	-0.81	-8.21	-9.56
NAV (USD)	1.23	MSCI Japan Small Cap Index	3.64	12.79	18.27	41.89
Price (USD)	1.35	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 %	9.54					

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)

As announced on 31 May 2017, terms have been agreed on the recommended all-share offer for the Fund by Prospect Co., Ltd ("Offer"). It is intended that the Offer will be implemented by way of a scheme of arrangement, further details of which will be set out in the scheme document which is expected to be posted to the Fund's shareholders shortly.

The Fund retreated 2.38 % (USD) during the month, underperforming the MSCI Japan Small Cap index's 3.64% MoM USD gain.

Weakness during the month came from holdings in Daito Bank (8563) and Maruhachi Warehouse (9313). Daito Bank, a regional bank based in Fukushima prefecture, retreated along with the larger TOPIX Bank index following the announcement of FY 2017 earnings showing large profit declines due to tightening loan and investment income yields. Maruhachi Warehouse, a warehousing and logistics company, retreated during the month after strong gains in April following a strong Q1 results announcement.

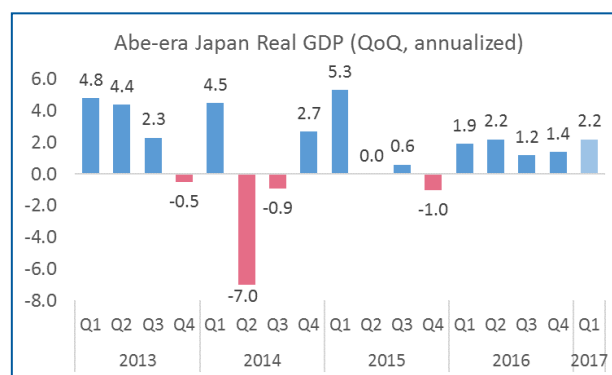
Strength during the month came from holdings in Prospect Co., Ltd (3528) and Tomoe Corporation (1921). Prospect Co, Ltd. gained sharply due to expectations for an end of month announcement of the offer for the entire issued capital of Prospect Japan Fund (PJF LN). Tomoe Corporation, a steel structure construction company, gained on a strong FY earnings announcement highlighting starkly improved order procurement and profitability in the company's steel construction segment.

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 information purposes only, if the SARs were to be 'fair valued' using the Black-Scholes-Merton model, in line with the annual financial statements, there would be an uplift of US\$16,341,473 (31 December, 2016 annual accounts: US\$7,684,136) from the NAV based on retaining the SARs at cost for the same date, the exercise price remains unchanged. A total of 90 SARs have been converted leaving 1,350 at 31 December 2016. None have been converted in 2017.

The Yen strengthened during the month as USD sentiment suffered on renewed concerns for the viability of Republican pro-growth policies following news that US President Trump shared classified information with Russian officials, and may have attempted to interfere with FBI investigations into former administration staff culminating in the appointment of a special prosecutor to investigate the administrations ties to Russia.

The 11 members of the Trans-Pacific Partnership (TPP) have agreed to pursue the sweeping trade deal without the U.S. at a forum of the Asia-Pacific Economic Cooperation. Discussion between TPP officials will continue in Japan this July with proposals for moving forward expected in November.

Initial estimates for Q1 GDP came in at an annualized +2.2%, well above the forecasted +1.7% growth, and Q4's revised +1.4% performance. Final GDP numbers are scheduled for release on 8 June. If the current estimate holds, it will mark five consecutive quarters of expansion, the longest run of quarter-on-quarter growth since 2006.



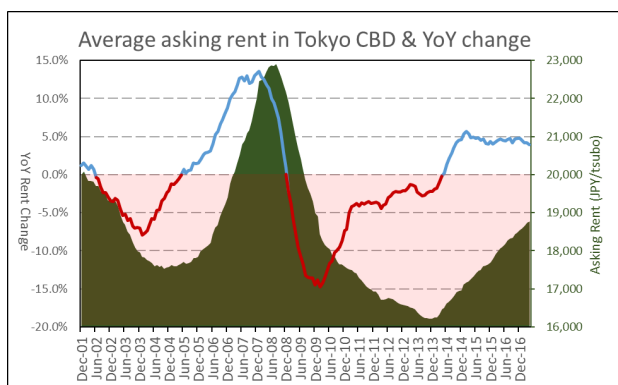
April exports gained 7.5% YoY, down from last month's 12.0% YoY growth and below consensus estimates for an 8.0% YoY increase. This marks a fifth consecutive month of export growth. Imports rose 15.1% YoY, above the consensus estimates for a 14.8% YoY increase. Japan reported an April trade surplus of JPY 481.7 billion, underperforming consensus estimate of JPY 520.7 billion.

The labour market remains tight, with unemployment for April holding to a 20-year low of 2.8%, and the jobs-to-applicant ratio inched up to 1.48x. Real cash earnings declined 0.8% YoY in March, while overall household spending declined 1.4% YoY in April, underperforming the consensus estimate of -0.9% YoY, and marking the 14th consecutive month of YoY declines.

Driven by higher energy costs (+4.5% YoY), National Core CPI (excluding fresh food) for the month of April ticked up to 0.3% YoY, below consensus estimates for +0.4% YoY. This marks the fourth consecutive month of price gains, and the largest reading since April 2015.

Miki Shoji reported that vacancy rates in Tokyo's central business district (CBD) fell 21 basis points (bps) to 3.39% in April, the lowest level recorded since May 2008. Year-on-year, the vacancy rate has fallen 84 bps

Miki Shoji reports that average office rents in the CBD rose 3.9% YoY, the 36st consecutive monthly gain. Rent levels are now 15.8% above the December 2013 lows, while remaining 18.0% 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 Bank of Japan's (BoJ) 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 396.3 billion.

Note: As of 31 May 2017, of the Fund, Daito Bank (8563) is 25.8%, Maruhachi Warehouse (9313) is 9.7%, Prospect Co. Ltd (3528) is 4.3% (not including the SARs), and Tomoe Corporation (1921) is 0.5%.

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

Sector Weightings

Banks	52.5
Storage/Warehousing	9.7
Retail	8.8
Real Estate	6.4
Engineering & Construction	0.5
REITs	0
Total*	77.9
No of Positions	9

Top 10 Holdings

Symbol	Security	% of Total Assets
8563	DAITO BANK LTD/THE	25.8
8562	FUKUSHIMA BANK LTD/THE	24.2
9313	MARUHACHI WAREHOUSE CO LTD	9.7
8205	SHAKLEE GLOBAL GROUP INC	8.8
3528	PROSPECT CO LTD	6.4
8521	NAGANO BANK LTD/THE	2.5
1921	TOMOE CORP	0.5

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.