

JAPAN EQUITY FUND INC
Form N-CSRS
July 02, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM N-CSR

**CERTIFIED SHAREHOLDER REPORT OF REGISTERED
MANAGEMENT INVESTMENT COMPANIES**

Investment Company Act file number 811-06142

The Japan Equity Fund, Inc.
(Exact name of registrant as specified in charter)

1735 Market Street, 32nd Floor
Philadelphia, PA
(Address of principal executive offices)

19103
(Zip code)

Ms. Andrea Melia

Aberdeen Asset Management Inc.

1735 Market Street, 32nd Floor
Philadelphia, PA 19103
(Name and address of agent for service)

Registrant's telephone number, including area code: 866-839-5205

Date of fiscal year end: October 31

Date of reporting period: April 30, 2013

Item 1. Reports to Stockholders.

The Japan Equity Fund, Inc.

General Information (unaudited)

The Fund

The Japan Equity Fund, Inc. (the "Fund") is a diversified, closed-end management investment company. The investment objective of the Fund is to outperform over the long term, on a total return basis (including appreciation and dividends), the Tokyo Stock Price Index ("TOPIX"), a composite market-capitalization weighted index of all common stocks listed on the First Section of the Tokyo Stock Exchange ("TSE"). The Fund seeks to achieve its investment objective by investing substantially all of its assets in equity securities of companies listed on the TSE or listed on the over-the-counter market in Japan or listed on other stock exchanges in Japan. Daiwa SB Investments (U.S.A.) Ltd. (the "Manager") is the Fund's investment manager. Daiwa SB Investments Ltd. is the Fund's investment adviser. The Fund implements an "active" portfolio management policy, which is an approach that involves quantitative valuation of securities to identify an appropriate universe of securities from which to select investments, with judgmental analysis then applied to this universe to determine the actual investments to be made by the Fund.

Stockholder Information

The Fund's shares are listed on the New York Stock Exchange ("NYSE"). The Fund understands that its shares may trade periodically on certain exchanges other than the NYSE, but the Fund has not listed its shares on those other exchanges and does not encourage trading on those exchanges.

The Fund's NYSE trading symbol is "JEQ". The Fund's daily net asset value is available by contacting the Fund's administrator, Aberdeen Asset Management Inc. by:

- Calling toll free at 1-866-839-5205 in the United States,
- E-mailing InvestorRelations@aberdeen-asset.com, or
- Visiting the website at www.japanequityfund.com.

Also, the Fund's website includes press releases, a monthly market review and a list of the Fund's top ten industries and holdings. The Fund has also placed its Fund governance documents on its website under the section titled "Information", which includes the Fund's proxy voting policies and procedures, its code of ethics and its audit committee charter.

Inquiries

Inquiries concerning your registered share account should be directed to the American Stock Transfer & Trust Company (the "Plan Agent") at the number noted on the next page. All other written inquiries should be directed to The Japan Equity Fund, Inc., c/o Aberdeen Asset Management Inc., 1735 Market Street, 32nd Floor, Philadelphia, PA 19103.

Proxy Voting Policies and Procedures

A description of the policies and procedures that are used by the Manager to determine how to vote proxies relating to the Fund's portfolio securities is available (1) without charge, upon request, by calling toll free

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1-866-839-5205 in the United States; (2) by visiting www.japanequityfund.com; and (3) as an exhibit to the Fund's annual report on Form N-CSR which is available on the website of the Securities and Exchange Commission (the "Commission") at www.sec.gov. Information regarding how the Manager votes these proxies is now available by calling the same number and is available on the Commission's website. The Fund files with the Commission its report on Form N-PX covering the Fund's proxy voting record for the 12-month period ended June 30 by August 30 of the relevant year.

Quarterly Portfolio of Investments

A Portfolio of Investments is filed with the Commission as of the end of the first and third quarters of each fiscal year on Form N-Q and is available on the Commission's website at www.sec.gov and the Fund's website at www.japanequityfund.com. Additionally, the Portfolio of Investments may be reviewed and copied at the Commission's Public Reference Room in Washington, D.C. Information on the operation of the Public Reference Room may be obtained by calling (800) SEC- 0330. The quarterly Portfolio of Investments will be made available without charge, upon request, by calling 1-866-839-5205.

Dividend Reinvestment and Cash Purchase Plan

A Dividend Reinvestment and Cash Purchase Plan (the "Plan") is available to provide Stockholders with automatic reinvestment of dividends and capital gain distributions in additional Fund shares. The Plan also allows you to make optional annual cash investments in Fund shares through the Plan Agent. A brochure fully describing the Plan's terms and conditions is available on the Fund's website at www.japanequityfund.com and from the Plan Agent by calling (866) 669-9904 or by writing The Japan Equity Fund, Inc., c/o the American Stock Transfer & Trust Company, Operations Center, 6201 15th Avenue, Brooklyn, NY 11219.

A brief summary of the material aspects of the Plan follows:

Who can participate in the Plan? If you wish to participate and your shares are held in your name, you may elect to become a direct participant in the Plan by completing and mailing the Enrollment Authorization form on the back cover of the Dividend Reinvestment and Cash Purchase Plan Brochure to the Plan Agent. However, if your shares are held in the name of a financial institution, you should instruct your financial institution to participate in the Plan on your behalf. If your financial institution is unable to participate in the Plan for you, you should request that your shares be registered in your name, so that you may elect to participate directly in the Plan.

May I withdraw from the Plan? If your shares are held in your name and you wish to receive all dividends and capital gain distributions in cash rather than in shares, you may withdraw from the Plan without penalty at any time by contacting the Plan Agent. If your shares are held in the name of a financial institution, you should be able to withdraw from the Plan without a penalty at any time by sending written notice to your financial institution. If you withdraw, you or your financial institution will receive a share certificate for all full shares or, if you wish, the Plan Agent will sell your shares and send you the proceeds, after the deduction of brokerage commissions. The Plan Agent will convert any fractional shares to cash at the then-current market price and send you a check for the proceeds.

How are the dividends and distributions reinvested? If the market price of the Fund's shares on the payment date should equal or exceed their net asset value per share, the Fund will issue new shares to you at the

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higher of net asset value or 95% of the then-current market price. If the market price is lower than the net asset value per share, the Fund will issue new shares to you at the market price. If the dividends or distributions are declared and payable as cash only, you will receive shares purchased for you by the Plan Agent on the NYSE or otherwise on the open market to the extent available.

What is the Cash Purchase feature? The Plan participants have the option of making semi-annual investments in Fund shares through the Plan Agent. You may invest any amount from \$100 to \$5,000 semi-annually. The Plan Agent will purchase shares for you on the NYSE or otherwise on the open market on or about February 15th and August 15th of each year. Plan participants should send voluntary cash payments to be received by the Plan Agent approximately ten days before the applicable purchase date. The Plan Agent will return any cash payments received more than thirty days prior to the purchase date. You may withdraw a voluntary cash payment by written notice, if the notice is received by the Plan Agent not less than two business days before the investment date.

Is there a cost to participate? There are no Plan charges or brokerage charges for shares issued directly by the Fund. However, each participant will pay a service fee of \$2.50 for each investment and a pro rata portion of brokerage commissions for shares purchased on the NYSE or on the open market by the Plan Agent.

What are the tax implications? The automatic reinvestment of dividends and distributions does not relieve you of any income tax which may be payable (or required to be withheld) on such dividends and distributions. In addition, the Plan Agent will reinvest dividends for foreign participants and for any participant subject to federal backup withholding after the deduction of the amounts required to be withheld.

Please note that, if you participate in the Plan through a brokerage account, you may not be able to continue as a participant if you transfer those shares to another broker. Contact your broker or financial institution or the Plan Agent to ascertain what is the best arrangement for you to participate in the Plan.

*The Japan Equity Fund, Inc.***Stockholder Letter (unaudited)****Dear Stockholders:**

It is our pleasure on behalf of the Board of Directors to present the Semi-Annual Report for The Japan Equity Fund, Inc. (the "Fund") for the six months ended April 30, 2013.

Performance Review

Table 1. Performance in comparison with the Benchmark, USD base

	Latest 6-Months	
	(Nov 2012	April 2013)
	%	
JEQ (time weighted return)	29.61 ⁽¹⁾	
Benchmark (TOPIX)	27.69	
Outperformance	1.92	

Table 2. Performance in comparison with the Benchmark, JPY base

	Latest 6-Months	
	(Nov 2012	April 2013)
	%	
JEQ (Equity Only)	60.47	
Benchmark (TOPIX)	58.46	
Outperformance	2.01	

¹ Due to fluctuations in foreign exchange rates, this value may differ from the total investment return based on net asset value at beginning and end of period, assuming reinvestment of dividends, provided in the Financial Highlights section of the Fund's Semi-Annual Report.

Comment

During the period from November 1, 2012 to April 30, 2013, the net asset value ("NAV") of the Fund increased 29.61% in USD terms, versus the benchmark (TOPIX with dividends reinvested), which rose 27.69% over the same period. As a result, the Fund outperformed the benchmark by 1.92% in USD terms.

In Japanese yen terms, the equity portion of the Fund grew 60.47%, while the TOPIX index (with dividends reinvested) returned 58.46%.

Relative to the TOPIX on a Japanese yen basis, the sector selection effect was +0.59%, while that from stock selections contributed +1.41% (see Table 3).

As shown in Table 4, one of the major positive contributors to the sector selection effect was an overweight position in other financing businesses. In addition to the positive impact of falling interest rates, heightened expectations that demand for lending such as leases would increase due to recovery in the Japanese economy

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led to a rally in this sector. Underweight positions in the pharmaceutical and foods sectors also contributed positively to the sector selection effect. The benefit of economic recovery is thought to be relatively limited for these sectors, and they did not rise as much as others as expectations strengthened for economic recovery in Japan.

On the other hand, our overweight position in the wholesale trade sector contributed negatively to the sector selection effect. General trading companies, which have broadly expanded their business in emerging countries, make up the core of this sector and economic deceleration in these countries (including China) led the sector to underperform.

Our stock selection contributed 1.41% to the outperformance against the TOPIX index. Our overweight position in **Sumitomo Mitsui Trust Holdings** was a positive contributor in the banks sector, which contributed significantly to the positive stock selection effect. The company's share price roughly doubled on a strengthened balance sheet and expectations for increased revenue from its overseas businesses. The iron and steel (overweight in **JFE Holdings**), construction (overweight in **Mirait Holdings Corporation**), and warehouse (overweight in **Sumitomo Warehouse**) sectors all contributed positively to the stock selection effect as well. JFE Holdings rose on expectations that its export competitiveness would improve due to yen depreciation. Mirait Holdings' share price was boosted by expectations for increased demand for telecommunications infrastructure work. Sumitomo Warehouse rose as investors took fresh interest in the stock, which had been extremely discounted against its NAV, on expectations that the rental properties' market would see increasing value.

Table 3. Attribution Analysis Summary, JPY base

	Latest 6-Months	
	(Nov 2012	April 2013)
	%	
JEQ (Equity Only)	60.47	
Benchmark (TOPIX)	58.46	
Outperformance	2.01	
Breakdown		
Sector Selection	0.59	
Stock Selection	1.41	
Others	0.01	
Outperformance	2.01	

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Table 4. Sector & Stock Selection Effects, Sector by Sector

	Portfolio Weight %	Market Weight %	Portfolio Return %	Benchmark Return %	Sector Allocation Effect %	Stock Selection Effect %
TOPIX Industry						
Fishery, Agriculture & Forestry	0.00	0.08	0.00	30.88	0.03	0.00
Mining	0.00	0.59	0.00	9.44	0.34	0.00
Construction	2.96	2.53	61.46	46.11	0.01	0.62
Foods	0.00	4.00	0.00	46.21	0.53	0.00
Textiles & Apparel	0.52	0.82	40.14	45.53	0.06	0.03
Pulp & Paper	0.00	0.27	0.00	41.98	0.05	0.00
Chemicals	5.99	5.69	40.95	51.22	0.06	0.54
Pharmaceutical	0.81	5.01	32.75	45.49	0.50	0.20
Oil & Coal Products	1.19	0.75	26.06	32.65	0.12	0.09
Rubber Products	1.81	0.89	97.43	98.16	0.19	0.00
Glass & Ceramics Product	0.36	0.94	58.59	45.92	0.03	0.14
Iron & Steel	3.19	1.66	82.63	58.16	0.07	0.70
Nonferrous Metals	1.00	1.06	12.68	40.04	0.02	0.34
Metal Products	0.56	0.68	40.84	44.91	0.03	0.00
Machinery	5.50	5.10	71.13	68.32	0.03	0.17
Electrical Appliances	13.11	11.74	53.22	48.28	0.18	0.41
Transportation Equipment	12.30	11.23	73.95	75.27	0.03	0.23
Precision Instruments	0.02	1.34	22.42	33.05	0.38	0.02
Other Products	0.69	1.38	22.27	37.05	0.16	0.09
Wholesale Trade	8.96	5.14	32.82	33.86	1.19	0.18
Retail Trade	5.98	4.24	59.43	53.90	0.05	0.42
Banks	12.37	10.51	83.23	75.62	0.24	0.71
Other Financing Business	4.05	1.04	100.96	88.22	0.97	