

JAPAN EQUITY FUND INC

Form N-CSRS

June 20, 2011

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

FORM N-CSR
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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)

c/o Daiwa Securities Trust Company
One Evertrust Plaza, 9th Floor
Jersey City, New Jersey 07302-3051

(Address of principal executive offices) (Zip code)

c/o Daiwa Securities Trust Company
One Evertrust Plaza, 9th Floor
Jersey City, New Jersey 07302-3051

(Name and address of agent for service)

REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE: (201) 915-3054

DATE OF FISCAL YEAR END: October 31

DATE OF REPORTING PERIOD: April 30, 2011

The Japan Equity Fund, Inc.

Item 1. Reports to Stockholders.

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. 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 NAV is available by visiting www.daiwast.com or calling (800) 933-3440 or (201) 915-3020. 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 written inquiries should be directed to The Japan Equity Fund, Inc., c/o Daiwa Securities Trust Company, One Evertrust Plaza, 9th Floor, Jersey City, NJ 07302-3051.

Proxy Voting Policies and Procedures

A description of the policies and procedures that are used by the Fund’s Manager to determine how to vote proxies relating to the Fund’s portfolio securities is available (1) without charge, upon request, by calling collect (201) 915-3054; (2) by visiting www.daiwast.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 has filed with the Commission its report on Form N-PX covering the Fund’s proxy voting record for the 12-month period ended June 30, 2010.

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.daiwast.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 (201) 915-3054.

Certifications

The Fund's principal executive officer has certified to the NYSE that, as of June 2, 2011, he was not aware of any violation by the Fund of applicable NYSE corporate governance listing standards. The Fund also has included the certifications of the Fund's principal executive officer and principal financial officer as required by Section 302 and Section 906 of the Sarbanes-Oxley Act of 2002 in the Fund's Form N-CSR filed with the Commission for the period of this report.

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.daiwast.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, 59 Maiden Lane, New York, NY 10038.

The Japan Equity Fund, Inc.

Shareholder Letter (unaudited)

May 20, 2011

Dear Shareholders:

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, 2011.

Performance Review

Table 1: Net Asset Value ("NAV") performance in comparison with the benchmark (TOPIX), U.S. Dollar ("USD") base

	Latest Six Months (Nov. 2010 – April 2011) %
JEQ (NAV) (time weighted return)(1)	4.20
Benchmark (TOPIX)	3.53
Excess Return	0.67

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

Table 2: Performance in comparison with the benchmark, JPY base

	Latest Six Months (Nov. 2010 – April 2011) %
JEQ (Equity Only)	6.57
Benchmark (TOPIX)	6.38
Excess Return	0.19

Commentary

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During the period from November 2009 to April 2010, the NAV of the Fund rose 4.20% in USD terms, compared to the Fund's benchmark, the TOPIX Index ("TOPIX"), which rose 3.53% over the same period. As a result, the Fund outperformed the benchmark by 0.67% in USD terms. In Japanese yen ("JPY") terms, the equity portion of the Fund grew by 6.57%, while the TOPIX returned +6.38%.

Relative to the TOPIX, the sector allocation effect was +1.84%, while stock selection contributed -1.66% (see Table 3). As shown in Table 4, the major positive contributor to the Fund's sector allocation effect was an underweight in Electric Power & Gas stocks. The earthquake and tsunami that hit the northeastern part of Japan on March 11, 2011 inflicted massive damage. The scale of the disaster is the largest in Japan's post-war history, with more than 24,000 dead or missing, while the Level 7 nuclear accident at the Fukushima Daiichi nuclear power plant, where clean-up efforts continue to be plagued by difficulties, added to the turmoil. The Tokyo Electric Power Co., Inc. ("TEPCO"), which owns and operates the stricken plant, has lost more than 80% of its market capitalization since the disaster struck, while the share prices of other electric utilities have also plummeted, as the Japanese government may require them to share the burden of funding a multi-trillion JPY compensation package to victims of the accident.

Stock selection in Electric Appliances, Info & Communication and Electric Power & Gas names contributed negatively, although selection in the Transport Equipment and Land Transportation sectors mitigated some of the overall underperformance. Major detractors over the six-month period included TDK Corporation ("TDK") and Ricoh Co., Ltd., while significant underweights in Softbank Corp. and Komatsu Ltd. also had a negative impact on the portfolio's performance. On the positive side, Kawasaki Heavy Industries, Ltd. ("KHI") showed some good returns during the period.

Electronic components manufacturer TDK sustained damage from the earthquake and tsunami, as some of its production facilities are located in the hard-hit portion of northeastern Japan. In addition, news of further consolidation in the hard disk drive ("HDD") industry does not bode well for sales of the company's HDD components. Ricoh was also affected by the twin disasters, as sales of its office equipment were weakened by a reduction of business investments following the earthquake.

On the other hand, demand for electric power supply equipment is expected to increase, as power shortages in metropolitan areas of eastern Japan seem set to continue over at least the next few years. As a result, KHI and other manufacturers of this type of equipment are expected to benefit.

Table 3: Attribution analysis summary, JPY base

	Latest Six Months (Nov. 2010 – April 2011) %
JEQ (Equity Only)	6.57
Benchmark (TOPIX)	6.38
Excess Return	0.19
Breakdown	
Sector Allocations	1.84
Stock Selections	-1.66
Others	1.98
Total	2.16

The Japan Equity Fund, Inc.

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

	Portfolio Weight %	Market Weight %	Portfolio Return %	Benchmark Return %	Stock Allocation Effect %	Stock Selection Effect %
Fishery, Agriculture & Forestry	0.00	0.09	0.00	-3.13	0.01	0.00
Mining	0.00	0.59	0.00	45.06	-0.20	0.00
Construction	1.30	2.06	18.30	20.00	-0.06	-0.02
Foods	1.99	2.96	12.52	7.43	-0.03	0.09
Textiles & Apparel	0.00	0.91	0.00	15.13	-0.08	0.00
Pulp & Paper	0.10	0.36	4.71	-4.09	0.03	-0.01
Chemicals	7.02	5.89	7.39	10.04	0.02	-0.19
Pharmaceutical	3.72	4.32	0.81	5.12	-0.08	-0.16
Oil & Coal Products	1.72	0.89	20.35	27.87	0.16	-0.10
Rubber Products	0.90	0.62	23.46	18.94	0.02	0.03
Glass & Ceramics Product	1.84	1.30	36.02	23.33	0.09	0.16
Iron & Steel Nonferrous Metals	2.81	2.33	-1.50	1.28	-0.03	-0.10
Metal Products	2.69	1.36	11.57	14.22	0.12	-0.08
Machinery	0.91	0.68	18.62	17.31	0.02	-0.02
	4.65	5.09				