

Prospect Japan Fund

Bloomberg Yen / USD NAV (USD) Price (USD) Premium/ Discount %	PJF LN 76.24 0.96 0.71 -26.73%	NAV Performance (USD) %				
			January	YTD	1 Year	3 Year
		Prospect Japan Fund	12.94	12.94	10.34	81.13
		Topix Small Index	6.52	6.52	3.89	35.07

Prospect Japan Fund inception date is 20 December 1994. Above performance of the Fund is net of fees and expenses and includes reinvestment of dividends and capital gains. Topix Small Cap Index (TPXSM) performance cited above is the total return including the reinvestment of net dividends into the index denominated in US Dollars (Source: Bloomberg). One cannot invest directly in an index. TPXSM is a capitalization - weighted index designed to measure the performance of the stocks listed on the First Section of the Tokyo Stock Exchange, excluding the TOPIX 500 stocks and non-eligible stocks.

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.

The Fund started the year off with stellar performance, gaining 12.9% in January, compared to the Topix Small Index' 6.5% gain.

All names in the Fund were in positive territory this month. The biggest contributor to performance came from Yasuragi (8919). Yasuragi, a real estate brokerage firm focusing on the refurbishing and selling of second-hand single-family homes, announced that they will be acquired by Advantage Partners. Advantage Partners offered JPY 627 per share, a 61% premium to the last traded price on 26 January. Advantage Partners will take the company private.

The next largest gains came from Shibusawa Warehouse (9304) and Zuiko Corporation (6279). Shibusawa Warehouse, a company engaged in warehouse and transportation services, outpaced the Topix Warehousing Index. There was no specific news behind the move in share price, however it appears that gains coincided with the weakening of the Japanese Yen to the US dollar towards the end of January. Zuiko, a manufacturer of machinery for producing sanitary supplies such as diapers and napkins, had another strong month. Zuiko has been trading in tandem with one of their customers, Unicharm (8113). Zuiko sells machinery to Unicharm and Unicharm has strong exports of diapers and feminine products to China and Southeast Asian countries.

Japanese corporate balance sheets are flush with cash, with many looking for acquisition or management buyout opportunities. There were 51 management buyouts in 2011, with a buyout premium of 45% over the last traded price. So far, the number of buyouts announced in 2012 reached 9 deals.

The Fund is invested predominantly in companies focusing on domestic demand. Goldman Sachs points out that there has been a divergence between first half results and full year guidance between domestic demand names and export related names. Full year recurring profit guidance for domestic demand names was raised by 5.7%, supported by reconstruction demand. Export related names cut full year guidance by 15.5% due to weaker exports, the strong Yen, and Thai floods. (GS 1.24.2012)

Third quarter earnings results announcements are under way; to date 60% of TSE first listed companies with March fiscal year ends (excluding financials) have announced earnings. Sales increased 1.1% year-on-year, while operating profits declined 31.6%.

Japan records its first annual trade deficit in 31 years, mainly due to soaring imports of oil and liquid natural gas following the earthquake. Japan's nominal exports fell 8% in December, and nominal imports grew 8.1%. Although this news created headlines in Japan, it is of little concern over the short to mid-term as Japan still benefits from a strong current account balance.

The Bank of Japan unsurprisingly kept the overnight call rate range at 0.0% to 0.1% and lowered their forecast for gross domestic product to 0.4% contraction this year. However, the Bank of Japan is looking for the gross domestic product to increase 2.0% next fiscal year.

J-REIT

The TSEREIT index gained 1.9% for the first month of 2012, underperforming the Nikkei 225's +4.1% month-on-month performance.

Capital raising activities left the gate running, with two J-REITs announcing public offerings within the first two weeks of the new year. Nippon Building Fund (8951) and Advance Residence Investment (3269) raised a combined JPY 37.6 billion.

There was a total JPY 48.1 billion in property acquisitions announced during the month, along with a JPY 30 million partial sale of a property.

Likelihood of changes to J-REIT regulations increased as the Nikkei newspaper reported the Financial Services Agency (FSA) discussed the possibility of adding new tools for raising capital during a council meeting this month. Details of how to change J-REIT regulation could be worked out by year-end, and submitted for Diet ap-

proval in 2013. Among the issues under consideration are rights offerings, CB issuances and insider trading rules.

Note: As of 31st January, 2012, of the Fund Advance Residence Investment (3269) is 0.5%, Zuiko Corporation (6279) is 5.1%, Yasuragi (8919) is 14.6%, and Shibusawa Warehouse (9304) is 9.3%. Unicharm (8113) and Nippon Building Fund (8951) are not holdings of the Fund.

Note: Amendment
Stock ticker number for a company, Unicharm was amended to 8113.

Sector Weightings

Advertising	8.7
Apparel	4.4
Beverages	10.2
Engineering & Construction	9.9
Internet	2.1
Investment Companies	3.7
Machinery-Diversified	5.1
Real Estate	16.2
REITs	11.1
Retail	13.8
Storage/Warehousing	9.3
Total**	94.5
No of Positions	18

Top 10 Holdings

Symbol	Security	% of Total Assets
8919	YASURAGI	14.6
2533	OENON HOLDINGS INC	10.2
1921	TOMOE CORP	9.9
9304	SHIBUSAWA WAREHOUSE CO LTD/THE	9.3
2178	TRI-STAGE INC	8.7
3141	GROWELL HOLDINGS CO LTD	7.0
8975	ICHIGO REAL ESTATE INV CORP (REIT)	5.6
8205	SHAKLEE GLOBAL GROUP INC	5.2
6279	ZUIKO CORP	5.1
8963	INVINCIBLE INVESTMENT CORP (REIT)	5.0

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 “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.

Fund price and index performance calculations are obtained from Bloomberg and are as of the end of the month. NAV performance calculations are provided by PAMI and are un-audited. As of August 2003, the benchmark index changed from TSE2 to Topix Small since its characteristics with respect to average market capitalization more closely resemble the investment strategy pursued by the portfolio. 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 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'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.