

Prospect Japan Fund

Bloomberg Yen / USD NAV (USD) Price (USD) Premium/ Discount %	PJF LN 80.59 0.96 0.82 -14.82%	NAV Performance (USD) %				
			February	YTD	1 Year	3 Year
		Prospect Japan Fund	-	12.94	7.87	113.33
		Topix Small Index	0.96	7.54	0.47	57.31

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 performance was even for the month, compared to the Topix Small Index' 0.96% gain.

All names in the Fund provided positive contributions to the Fund in Yen terms, but performance in US dollars was negated due to the large move on the downside for the Japanese Yen. Tomoe Corporation (1921), a specialty steel construction company, was up despite reporting weak third quarter earnings. Third quarter sales declined 18.2% year-on-year and operating profits were down 34.5%. Full year sales figures will likely miss company estimates. The order book has softened after the completion of a large scale project, however strength in the stock price is supported by the positive outlook for future orders for reconstruction in northeast Japan after the debris from the tsunami and earthquake are cleared.

Growell Holdings (3141), a drug store chain, announced robust first quarter earnings. First quarter sales gained 9.4% year-on-year and operating profits jumped 20.4%. Same store sales were up 1.5% in January and +8.5% in February. Operating profit margins are improving at all group companies.

Oenon Holdings (2533), a producer of rice wine, announced further gains in profitability. Full year results saw sales flat (+0.5% year-on-year) and operating profits up 19.6%. Bioethanol sales kept total sales positive, offsetting weakness in the enzyme/pharmaceutical business. Alcohol beverages and bioethanol drove profits on lower advertising and production costs.

The markets were strong on the back of the Bank of Japan announcement to target an inflation rate of 1%. Investors and market pundits were left to ponder if the Bank of Japan is actually serious this time.

By declaring that the central bank aims to achieve 1% inflation more explicitly, the political hurdle for the BoJ to unwind the monetary easing in the future would be higher and the central bank would likely need to keep the very accommodative policy for a longer period. It would be fair to say that the BoJ is still moving incrementally. But with the step taken this time, it seems the central bank has crossed some line. The introduction of a "price stability goal" is likely to mean that the BoJ would conduct its

monetary policy under a different political setting, suggesting more accommodative monetary policy in Japan, whatever the original intention of the BoJ would be, in our view. (Bank of America Merrill Lynch, 17 February, 2012; Masayuki Kichikawa – Japan Economist, Setsuko Yamashita – Japan Economist)

The Bank of Japan inflation target announcement was big news, triggering a sell-off of Japanese Yen. The Yen had a huge monthly move of 5.7%. The weaker Yen along with heavy foreign buying of Japanese stocks were additional market catalysts.

Japan posted a record current account deficit in January amid flagging exports and soaring energy imports. The shortfall in the current account, stood at JPY437.3 billion in January before seasonal adjustment, the data showed. That was the first deficit since January 2009, when Japan registered its previous record shortfall of JPY132.7 billion at the height of the global financial crisis. The January result also marked a sharp reversal from a JPY 547.2 billion surplus a year earlier, and was deeper than a JPY322.4 billion deficit expected by economists surveyed by Dow Jones Newswires and the Nikkei. (Nikkei News)

J-REIT

The TSEREIT index gained 12.6% during the month of February, outpacing the Nikkei 225's +10.5% month-on-month performance.

Capital raising activities continued, with two more J-REITs announcing public offerings during the month. Japan Real Estate Investment (8952) and Industrial & Infrastructure Fund (3249) raised a combined JPY 58.7 billion.

There was a total JPY 100.2 billion in property acquisitions announced during the month, along with JPY 8.9 billion in announced sales. Two J-REITs issued new corporate bonds; Nomura Residential (3240) issued a 5-year, JPY 5 billion bond at 1.03% interest, while Mori Trust Sogo (8961) issued a 3-year, JPY 5 billion bond at 0.76% interest. Financing costs continue to decline for the market as a whole.

The main driver for J-REIT market prices was the surprise 14 February announcement by the BoJ of a 1% inflation “goal” and additional JPY 10 trillion in government debt purchases.

The TSEREIT index is up 14.8% year-to-date, compared to the Nikkei 225 index's 15.0% rise.

Note: Note: As of 29th February, 2012, of the Fund Tomoe Corporation (1921) is 10.6%, Oenon Holdings (2533) is 10.2%, Growell Holdings (3141) is 7.7%, and Industrial & Infrastructure Fund (3249) is 2.0%.

Japan Real Estate Investment (8952), Nomura Residential (3240), and Mori Trust Sogo (8961) are not holdings of the Fund.

Sector Weightings

Advertising	8.5
Apparel	4.3
Beverages	10.2
Engineering & Construction	10.6
Internet	1.5
Investment Companies	3.7
Machinery-Diversified	4.0
Real Estate	15.1
REITs	14.8
Retail	14.6
Storage/Warehousing	9.0
Total**	96.2
No of Positions	19

Top 10 Holdings

Symbol	Security	% of Total Assets
8919	YASURAGI	13.9
1921	TOMOE CORP	10.6
2533	OENON HOLDINGS INC	10.2
9304	SHIBUSAWA WAREHOUSE CO LTD/THE	9.0
2178	TRI-STAGE INC	8.5
3141	GROWELL HOLDINGS CO LTD	7.7
8963	INVINCIBLE INVESTMENT CORP (REIT)	5.1
8205	SHAKLEE GLOBAL GROUP INC	5.1
3001	KATAKURA INDUSTRIES CO LTD	4.3
8976	DAIWA OFFICE INVESTMENT CORP (REIT)	4.0

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.