

## Prospect Japan Fund

Bloomberg	PJF LN	NAV Performance (USD) %				
		March	YTD	1 Year	3 Year	
Yen / USD	82.15					
NAV (USD)	0.96	Prospect Japan Fund	-	12.94	9.09	118.18
Price (USD)	0.80	Topix Small Index	3.01	10.78	9.35	58.73
Premium/ Discount %	-17.01%					

*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 was flat for the month, while the Topix Small Index gained 3.01%. The Fund is outperforming the Topix Small Index by 2.16% year to date.

The cash position at the end of March is at recent highs of 23.7% compared to 4.1% in February. The Fund tendered shares in Yasuragi (8919), providing the bulk of the cash position. The high cash balance is also due in part to taking profits as we see the market getting ahead of itself, as well as in preparation for upcoming public offerings in the J-REIT space. The Topix Small Index reached 1,000.9 on 27 March, a 52-week high.

The majority of the names in the Fund provided positive contributions. The biggest drag on performance was the continuing weakness in the Japanese Yen. The Yen further weakened by 1.9% in March.

The bulk of the positive performance came from Growell Holdings (3141), Shibusawa Warehouse (9304) and Oeon Holdings (2533). Growell Holdings, a drug store chain, hit a 52-week high on 30 March. There was no significant news since the company announced first quarter earnings in January, recording sales growth of 9.4% year-on-year and operating profit growth of 20.4%. The shares are trading on a PER of 7.9x (based on Toyo Keizai estimates) for fiscal year August 2012, a significant discount to peers. Visibility is increasing, albeit slowly, as the company is now covered by two domestic brokerage firms (Okasan Securities and Tachibana Securities). Shibusawa Warehouse (9304), a warehousing and inland and marine transport company, gained on no particular market news. The positive move can be attributed to the weaker Japanese Yen, which helps exporters and is therefore good for Shibusawa's transaction volume in transport and warehousing operations. Oeon Holdings (2533), a producer of rice wine, liquor and seasoning, gained on no concrete news. Full year earnings for the year-end period of February 2012 resulted in sales growth of 0.2% and operating profit growth of 19.6%.

Weakness in the Fund came from Gro-Bels (3528) and Yasuragi (8919). Gro-Bels (3528), a condominium developer lost one Yen for the month. Gro-Bels (3528)

announced an upward revision to March 2012 full year earnings on 3 April. Sales were revised upward by 1.1% and operating profits were revised +25%. Yasuragi (8919), a real estate services company, actually gained two Yen for the month; however the negative performance was due to the weaker Yen.

Spring has arrived in Japan as evidenced by the multitude of new hires joining corporate Japan. New hires stand out as they are all dressed in black suits and have an especially eager look on their faces. The Labor Ministry reported that there were 73 jobs available for every 100 applicants, the most since November 2008. (Bloomberg 2 March, 2012)

Foreign investors are leading the market higher; however, as a group, foreigners are still underweight in Japanese equities. Domestic investors are possibly returning to the market as they may be attracted by higher yield spreads at home. The difference between the average dividend yield for Topix and Japanese Government Bond yields has reached a historical high of 150 basis points. (Tokyo Stock Exchange, Thomson Reuters, Goldman Sachs Global ECS Research)

Although market appears to be in a pullback stage, there are positive signs for future corporate earnings growth. Full year earnings will be announced in May and there has already been a fair share of downward revisions. This should mark the point of earnings bottoming and a recovery beginning next fiscal year. Toyo Keizai forecasts are upbeat for TSE 1<sup>st</sup> section (non-financials) for fiscal year March 2013: sales growth of 4% and recurring profit growth 21.8%; March 2014 sales growth 3.1% and recurring profit growth of 15.9%.

In the political arena, most debate centers on a hike in the consumption tax. The consumption tax is 5% and the Democratic Party of Japan (DPJ) aims to raise the rate in stages to 10%. Prime Minister Noda hopes to submit the DPJ's consumption tax increase to the Diet within the next few months. The opposition party would like Noda to

dissolve the Diet and call a lower house election before agreeing on any tax measures.

## J-REIT

The TSEREIT index gained 1.28% for the month, underperforming the Nikkei 225's +1.67% month-on-month performance.

Japanese J-REITs saw a milestone during the month, with Kenedix Inc (4321) announcing the planned listing of Kenedix Residential Investment (3278), which would be the first new J-REIT IPO since 2007. Kenedix Residential Investment is scheduled for listing on 26 April, with expectations of raising about JPY 15 billion.

The Bank of Japan was relatively hands-off this month, with only two purchases within the first week of March for a combined JPY 2.8 billion. The BoJ has now purchased a total of JPY 73.2 billion in J-REIT units (66.5% of total allotment). There was a total JPY 89.9 billion in property acquisitions announced during the month, along with JPY 39.4 billion in dispositions.

There were reports that Japan's Teachers' Mutual Aid Cooperative Society, (USD 8.4 billion under management) plans to start investing in J-REITs and hedge funds in addition to the current equities and bonds as a part of diversification efforts. It may allocate as much as JPY 60 billion (USD 719 MM) as soon as September.

A Financial Services Agency working group to review the legal structure for investment trusts and investment corporations held its first meeting on 7 March. An interim discussion paper is expected around mid-year, with a final report issued before the end of 2012, and submission of related legislation during the regular Diet session in 2013. Topics under consideration include changes to the sponsorship structure, capital strategy options (including unit buybacks) and insider trading rules.

The TSEREIT index is up 10.51% year-to-date, versus the Nikkei 225 index's 11.12% rise.

*Note: As of 31<sup>st</sup> March, 2012, of the Fund, Oeon Holdings (2533) is 10.37%, Growell Holdings (3141) is 9.12%, Gro-Bels (3528) is 3.49%, and Shibusawa Warehouse (9304) is 8.89%. Kenedix Residential Investment (3278), Kenedix Inc (4321) and Yasuragi (8919) are not holdings of the Fund.*

## Sector Weightings

Advertising	8.4
Apparel	4.1
Beverages	10.4
Engineering & Construction	10.4
Internet	0.9
Investment Companies	3.5
Machinery-Diversified	3.4
Real Estate	0.6
REITs	9.8
Retail	16.0
Storage/Warehousing	8.9
<b>Total**</b>	<b>76.3</b>
<b>No of Positions</b>	<b>17</b>

## Top 10 Holdings

Symbol	Security	% of Total Assets
1921	TOMOE CORP	10.4
2533	OENON HOLDINGS INC	10.4
3141	GROWELL HOLDINGS CO LTD	9.1
9304	SHIBUSAWA WAREHOUSE CO LTD/THE	8.9
2178	TRI-STAGE INC	8.4
8205	SHAKLEE GLOBAL GROUP INC	5.1
8963	INVINCIBLE INVESTMENT CORP (REIT)	5.1
8975	ICHIGO REAL ESTATE INV CORP (REIT)	4.2
3001	KATAKURA INDUSTRIES CO LTD	4.1
3528	GRO-BELS CO LTD	3.5

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.

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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.