

Prospect Japan Fund

| Bloomberg | PJF LN | NAV Performance (USD) % | | | | |
|---------------------|---------|-------------------------|-------|--------|--------|-------|
| | | May | YTD | 1 Year | 3 Year | |
| Yen / USD | 78.81 | | | | | |
| NAV (USD) | 0.95 | Prospect Japan Fund | -3.06 | 11.76 | 4.40 | 66.67 |
| Price (USD) | 0.81 | Topix Small Index | -8.20 | 0.33 | 2.31 | 23.36 |
| Premium/ Discount % | -15.12% | | | | | |

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 down 3.06% for the month of May, significantly outperforming the Topix Small Index' 8.20% loss. Although May was a difficult month, the Fund is still up 11.76% for the year while the Topix Small Index is in negative territory. The Fund is well positioned to take advantage of extremely low prices with a cash position of 21%.

The weakness in Japan was caused primarily by external factors such as lack of macro certainty, concerns of a Greek euro exit, Spanish credit issues, and Chinese growth. The issues plaguing global markets have caused a renewed focus in domestic demand names in Japanese equities, a central focus on the Fund.

Positive performance, although limited, came from Growell Holdings (3141) and Shaklee Global (8205). Growell Holdings, a drug store chain, reached a 52-week high on May 25th. Growell moved to the Tokyo Stock Exchange First Section at the end of April and will also change its name to Welcia Holdings at the end of July. The name change brings familiarity back to the brand as it was previously called Welcia Kanto before taking up the name Growell Holdings. All store sales gained 10.7% year-on-year and same store sales were up 3.9%. Shaklee Global, a producer and seller of nutritional and personal care products, announced an upward revision to full year sales and profits on 17th May. Sales were revised up 5.9% and operating profits were revised up 30.7%.

Weakness in the Fund came from Tomoe Corporation (1921), Oeon Holdings (2533) and Gro-Bels (3528). Tomoe Corporation, a construction company with expertise in specialty steel projects, announced weak sales and profit forecasts for fiscal year March 2013. Sales are expected to increase 1.5% year-on-year and operating profits will decline 93% on loss making orders. The company is expecting large orders for rebuilding post earthquake and tsunami, but they have yet to come through. Oeon Holdings, a producer of rice wine, liquor and seasoning, reported strong first quarter earnings. Sales grew 4.8% year-on-year and operating profits increased 32.1%. Oeon, cognizant of the fact that their shares are cheap, announced that they would buy back up to 3.83% of outstanding shares. Gro-Bels, a condominium developer, achieved full year operating profits that were 23.2%

above forecast. Fiscal year March 2013 calls for sales to decline by 5.4% and operating profits to increase by 23.2%.

The Topix Index hit a 28-year low on Monday, 4th June, falling to the lowest levels since December 1983.

A record 49.7% of publicly traded companies in Japan (non-financials) are effectively debt free as of 31st March, 2012 (Nikkei) as they hold more cash than debt. The figure of 1,681 debt free companies represents a record high and is an increase of 35 from the previous year.

Japan's sovereign credit rating was lowered to 'A+' by Fitch Ratings on 22nd May, maintaining a negative outlook stating that Japan continues to struggle with reining in its dire fiscal balance. According to Fitch, 'the downgrades and negative outlooks reflect growing risks for Japan's sovereign credit profile as a result of high and rising public debt ratios.'

Japan's Gross Domestic Product grew 4.1% (quarter-on-quarter, annualized) in the January to March quarter, on the back on domestic demand and government spending after last year's natural disasters. The growth topped market forecasts of 3.5% growth. Prime Minister Noda is trying to push through an increase in the consumption tax to 10% (from the current 5% level) but faces stiff opposition.

J-REIT

The TSEREIT index performed -1.62% month-on-month, outperforming the Nikkei 225's -7.91% month-on-month total return.

Investor segment breakdown for April 2012 was released by TSE during the month, showing a turnaround in foreign investor sentiment to a net selling of JPY 8.8 billion, following 3 strong months of net buying. Banks turned strong net buyers following the March year-end.

Following the 27th April increase in J-REIT allotment of the Bank of Japan's asset purchase program, the BoJ has aggressively purchased J-REIT units. Acquiring JPY

13.8 billion via six purchases during the month of May. This brings the total purchase amount to JPY 90.4 billion (75.3% of total). However, minutes from the 27th April policy meetings released during the month revealed a desire to dampen market expectations of additional increases in the asset purchase program, which may cause doubts about the seriousness of the banks 1% inflation “goal”.

The Finance Council held a meeting at the Financial Supervisory Agency on 18th May 2012 for its first full discussion on J-REIT regulatory changes. Reports from participants were positive, commenting on member focus on growing the size of the J-REIT market and need for more diversity in fund-raising ability.

Activia Properties Inc (3279, API), a diversified J-REIT sponsored by Tokyu Land Inc. (8815) announced plans for an IPO on 13th June, with assets under management of JPY 170.4 billion. API aims to raise approximately JPY 98.6 billion in the offering, and list with a market cap of JPY 98.8 billion based on the JPY 460,000 offer price. The J-REIT has obtained a credit rating of AA- (stable) credit rating from Japan Credit Rating, qualifying its units for Bank of Japan asset purchases

There was a total JPY 198.9 billion in property acquisitions announced during the month, along with JPY 590 million in dispositions.

The TSEREIT index is up 11.43% year-to-date, versus the Nikkei 225 index's 0.08% return.

Note: As of 31st May, 2012, of the Fund, Tomoe Corporation (1921) is 9.94%, Oeonon Holdings (2533) is 8.86%, Growell Holdings (3141) is 1.98%, Gro-Bels (3528) is 3.14%, and Shaklee Global (8205) is 6.25%. Activia Properties Inc (3279) and Tokyu Land Inc. (8815) are not holdings of the Fund.

Sector Weightings

| | |
|--------------------------------|------|
| Advertising | 8.3 |
| Apparel | 5.8 |
| Beverages | 8.9 |
| Diversified Financial Services | 5.5 |
| Engineering & Construction | 9.9 |
| Internet | 1.3 |
| Investment Companies | 3.1 |
| Machinery-Diversified | 0.9 |
| Real Estate | 0.7 |
| REITs | 14.2 |
| Retail | 10.2 |
| Storage/Warehousing | 9.1 |
| Total** | 78.0 |
| No of Positions | 21 |

Top 10 Holdings

| Symbol | Security | % of Total Assets |
|----------|-------------------------------------|-------------------|
| 1921 | TOMOE CORP | 9.9 |
| 9304 | SHIBUSAWA WAREHOUSE CO LTD/THE | 9.1 |
| 2533 | OENON HOLDINGS INC | 8.9 |
| 2178 | TRI-STAGE INC | 8.3 |
| 8205 | SHAKLEE GLOBAL GROUP INC | 6.2 |
| 3001 | KATAKURA INDUSTRIES CO LTD | 5.8 |
| gktaihei | GODO KAISHA TAIHEIYO JISHO #1 BOND | 5.5 |
| 8963 | INVINCIBLE INVESTMENT CORP (REIT) | 5.3 |
| 8976 | DAIWA OFFICE INVESTMENT CORP (REIT) | 3.5 |
| 3528 | GRO-BELS CO LTD | 3.1 |

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.