

Prospect Japan Fund

Bloomberg	PJF LN	NAV Performance (USD) %				
		June	YTD	1 Year	3 Year	
Yen / USD	79.61					
NAV (USD)	0.96	Prospect Japan Fund	1.05	12.94	4.35	37.14
Price (USD)	0.81	Topix Small Index	5.09	5.12	2.47	21.21
Premium/ Discount %	-15.82%					

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 gained 1.05% for the month of June, versus a 5.09% increase in the Topix Small Index.

The year to date performance for the Fund gained 12.94% while the Index performance was up 5.12%.

The two top performing names in the Fund were Oeon Holdings (2533) and Tomoe Corporation (1921). Oeon Holdings, a producer of Japanese alcohol, announced a share buy-back program at the end of May 2012. Oeon bought back 542,000 shares for 102 million JPY in June, roughly one-fifth of their announced upper limit. The buy-back period ends in November 2012. Tomoe Corporation, a company that specializes in steel frame construction, gained on no particular news. Although Tomoe is assumed to benefit from the reconstruction orders from the Tohoku region in response to the March 2001 tsunami, reconstruction orders have been slow to come by due to longer than expected cleanup work. On 3 July, Tomoe announced they will incur a 285 million JPY extraordinary loss in the first quarter (fiscal year March 2013) for securities valuation loss.

The only notable downside came from Tri-Stage (2178). Tri-Stage, a company that provides direct marketing services for clients via television shopping, declined due to continued weakness in monthly sales. Sales for May declined 20.3% year-on-year, after posting poor figures in April (-20% year-on-year).

On 1 July, Japan ended a two-month period without nuclear power after Kansai Electric Power restarted the Oi plant in western Japan. The decision to restart the reactor came from Prime Minister Noda due to concerns of energy shortages despite a swell of protest from demonstrators.

A consumption tax hike passed the lower house of the Diet on 26 June, with a vote in the upper house likely in early August. If there is no change of heart from opposition parties, the consumption tax will be increased from the current 5% level to 8% in April 2014 and then to 10% in October 2015. The Democratic Party of Japan (DPJ) is expected to maintain support from the opposition Liberal Democratic Party and New Komei Party in order to pass the tax increase, despite recent defections from the DPJ by a group of about 50 members led by a fractious Ichiro

Ozawa. The consumption tax alone will not be a panacea for the Japanese government in its quest to fiscal reform.

Domestic demand is expected to strengthen in advance of the tax hike as consumers rush to purchase large ticket items prior to April 2014. Japan has achieved lower unemployment rates amid the global financial crisis, reaching 4.4% in May 2012 from its peak of 5.5% in September 2009. (Japan Ministry of Internal Affairs and Communications) Job offers to applicants has improved from 0.4 times in 2009 to 0.81 times in May 2012.

Office vacancy figures for Tokyo central business district (5 wards) was 9.43% in June, down slightly from the 9.4% mark in May (Miki Shoji data). A supply glut in 2012 is behind the high figures, but the market expects this to be the peak as supply subsides over the next two to three years. On a positive note, Miki Shoji announced that office rents rose 0.2% month-on-month, the second monthly rise in a row after almost four years of declines.

Land values rate of decline slows. The National Tax Agency announced that the benchmark 'Rosenka' benchmark land price, used by the National Tax Agency to calculate inheritance tax for residential land, declined 2.8% year-on-year nationwide, compared to the decline of 3.1% in the previous year. (Nikkei) The data for Tokyo showed a decline of 1.2% year-on-year versus a drop of 2% the prior year.

J-REIT

The TSEREIT index recovered +2.13% month-on-month, underperforming the Nikkei 225's +3.65% month-on-month price performance.

Investor segment breakdown for May 2012 was released by TSE during the month, showing large purchases by the Bank of Japan to offset a second month of foreign investor selling. Banks and insurers were also strong net buyers for the second consecutive month.

The Bank of Japan was relatively disengaged during June, purchasing only JPY 1.3 billion in J-REIT units towards the beginning of the month, as selling pressure abated. The

BoJ has thus far purchased JPY 91.7 billion in J-REIT units (76.4% of total allotment).

Following the successful listing of Activia Properties Investment (3279) on 13 June, eyes have turned to other potential IPO candidates, including Aeon Co. (8267), a leading retailer, which is looking to list a J-REIT as soon as this year, according to an article in the 23 June Nikkei Newspaper. The J-REIT is expected to have AUM of JPY 300 billion, about half the size of Mitsubishi Estate sponsored Japan Retail Fund (8953), the largest listed commercial property focused J-REIT. Other possible IPO's this year include a logistic & commercial J-REIT sponsored by Daiwa House Industry (1925), and a logistics J-REIT sponsored by Global Logistics Properties of Singapore.

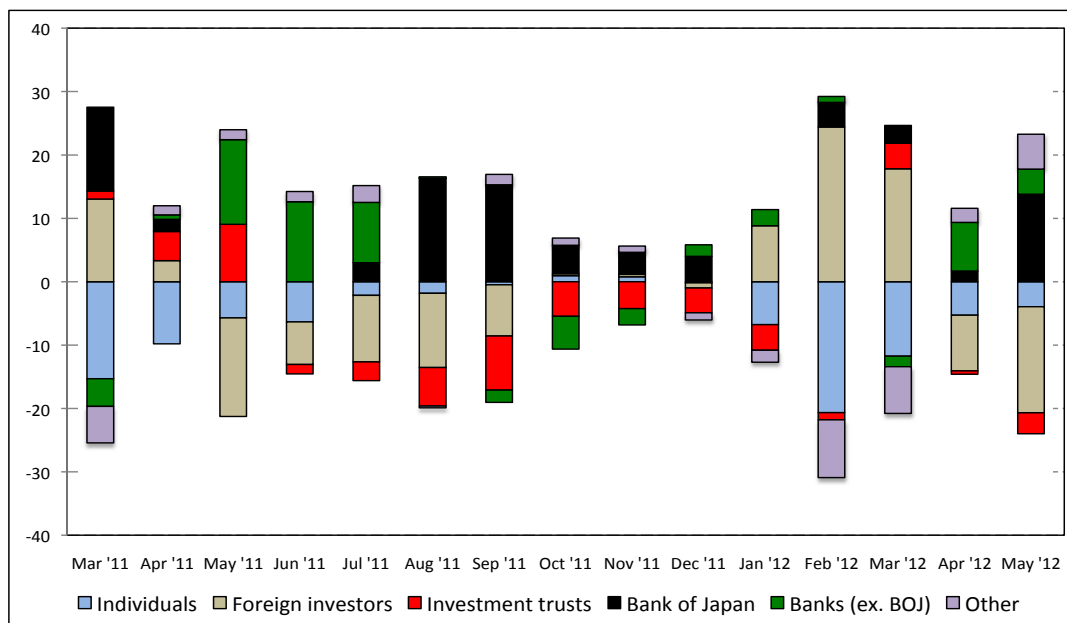
Frontier Real Estate Investment (8964), a logistics REIT sponsored by Mitsui Fudosan, announced plans for a public offering of new units during the month. Frontier expects to raise approximately JPY 20.5 billion, with proceeds used towards the purchase of a new property and early debt repayment.

There was a total JPY 43.8 billion in property acquisitions announced during the month, along with JPY 2.2 billion in announced dispositions.

The TSEREIT index is up 13.80% year-to-date, versus the Nikkei 225 index's 3.74% rise.

Note: As of 30th June, 2012, of the Fund, Tomoe Corporation (1921) is 10.43%, Oeon Holdings (2533) is 8.75%, and Gro-Bels (3528) is 3.45%. Daiwa House Industry (1925), Activia Properties Inc (3279), Aeon Co. (8267), Japan Retail Fund (8953), and Frontier Real Estate Investment (8964) are not holdings of the Fund.

**Tokyo Stock Exchange Market Data
(Net Buyers/Sellers of J-REITs)**



Sector Weightings

Advertising	7.2
Apparel	8.0
Beverages	8.8
Diversified Financial Services	5.5
Engineering & Construction	10.4
Internet	1.3
Investment Companies	3.4
Machinery-Diversified	0.5
Real Estate	0.1
REITs	12.3
Retail	11.7
Storage/Warehousing	9.4
Total**	78.7
No of Positions	18

Top 10 Holdings

Symbol	Security	% of Total Assets
1921	TOMOE CORP	10.4
8963	INVINCIBLE INVESTMENT CORP (REIT)	10.0
9304	SHIBUSAWA WAREHOUSE CO LTD/THE	9.4
2533	OENON HOLDINGS INC	8.8
3001	KATAKURA INDUSTRIES CO LTD	8.0
2178	TRI-STAGE INC	7.2
8205	SHAKLEE GLOBAL GROUP INC	6.4
gktaihei	GODO KAISHA TAIHEIYO JISHO #1 BOND	5.5
3528	GRO-BELS CO LTD	3.4
8184	SHIMACHU CO LTD	2.7

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.