

Prospect Japan Fund

Bloomberg	PJF LN	NAV Performance (USD) %				
		September	YTD	1 Year	3 Year	
Yen / USD	77.57					
NAV (USD)	1.01	Prospect Japan Fund	4.12	20.24	12.22	38.36
Price (USD)	0.80	Topix Small Index	2.09	4.99	-0.17	12.60
Premium/ Discount %	-20.97%					

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 rose 4.12% for the month of September, outperforming the Topix Small Index' 2.09% gain. The Fund has maintained strong outperformance of the index, gaining 20.24% year-to-date versus the Topix Small Index' 4.99% increase. With a cash position of 18%, the Fund is positioned to take advantage of extremely low valuations.

Positive performance came from Tri-Stage Inc (2178) and Katakura Industries (3001). Tri-Stage Inc, a marketing consultant service provider, saw its share price rise sharply, leading up to announcements of H1 results. Katakura Industries, a shopping mall operator engaged in the manufacture and sale of textiles, pharmaceuticals, and auto parts, continued share price recovery following its 2Q results announcement.

Weakness in the Fund came from Shaklee Global Group (8205), a seller of nutritional and personal care products, retreated slightly from a two year high, following a strong Q1 earnings announcement last month.

A confluence of negative global economic data weighed on sentiment during the first half of the month, with China reporting its slowest industrial output growth since 2009, Japan cutting initial estimates of 1Q GDP growth in half to an annualized 0.7%, below estimate US jobs growth and the Greek coalition government failing to reach agreement on spending cuts. Central banks responded with renewed stimulus efforts.

The European Central Bank rolled out a bond-buying program titled Outright Monetary Transactions (OMT), under which the ECB would purchase sovereign debt in the secondary markets. The support would come under condition that the country must request aid, and agree to reforms and oversight.

The US Fed announced an open-ended QE 3 program, which will purchase \$40 billion of mortgage-backed securities each month, until such time as it determines that the job market has improved.

The Bank of Japan exceeded market expectations with a JPY 10 trillion expansion of its asset purchase program, adding JPY 5 trillion each to its JGB and treasury bill purchasing allotments. It also extended the programs matur-

ity by six months to the end of 2013, falling short of other central bank's now open-ended commitment to easing. The BoJ also lifted the 10 bps minimum yield requirement for bond purchases, expected to help it meet its purchase targets. These moves were accompanied by a downgrading of the country's economic outlook, with the BoJ saying that Japanese growth has "come to a pause" amidst ongoing global challenges.

Miki Shoji reported that office vacancy in Tokyo's Central Business District declined 13 bps month-on-month to 9.17% in August. This mars the second consecutive decline, with improved occupancy at both existing and new buildings. The data supports the view that office vacancy has peaked, with new supply limited in coming months.

REIT

In USD, the TSEREIT index saw a total return of +5.95% month-on-month, outpacing the Nikkei 225's +1.56% month-on-month performance. J-REITs have been buoyed by improved supply-demand conditions, and positive Tokyo office occupancy data releases. The index ended September at a 14 month high. While foreign investors turned net sellers last month, J-REITs enjoyed a third consecutive month of strong net buying from investment trusts.

The Bank of Japan purchased JPY 3.8 billion in J-REIT units during the month, the first action seen in almost two months. At the end of September, the total amount of J-REIT units purchased stands at JPY 97.1 billion (80.9% of total allotment).

Japan's Teachers' Mutual Aid Co-operative Society (JPY 600 billion AUM), will begin a new strategy to diversify its investments with JPY 100 billion in new asset class allocations, including J-REITs, this fiscal year ending March 2013. Up to JPY 12 billion will be allocated to J-REITs, with the same allocated to global REITs, hedge funds and foreign bonds. About 50 billion will be invested in foreign bonds. They will be targeting a 3 to 5% annual return. The organization returned just 0.8% on assets in FY 2012, holding domestic stocks and bonds.

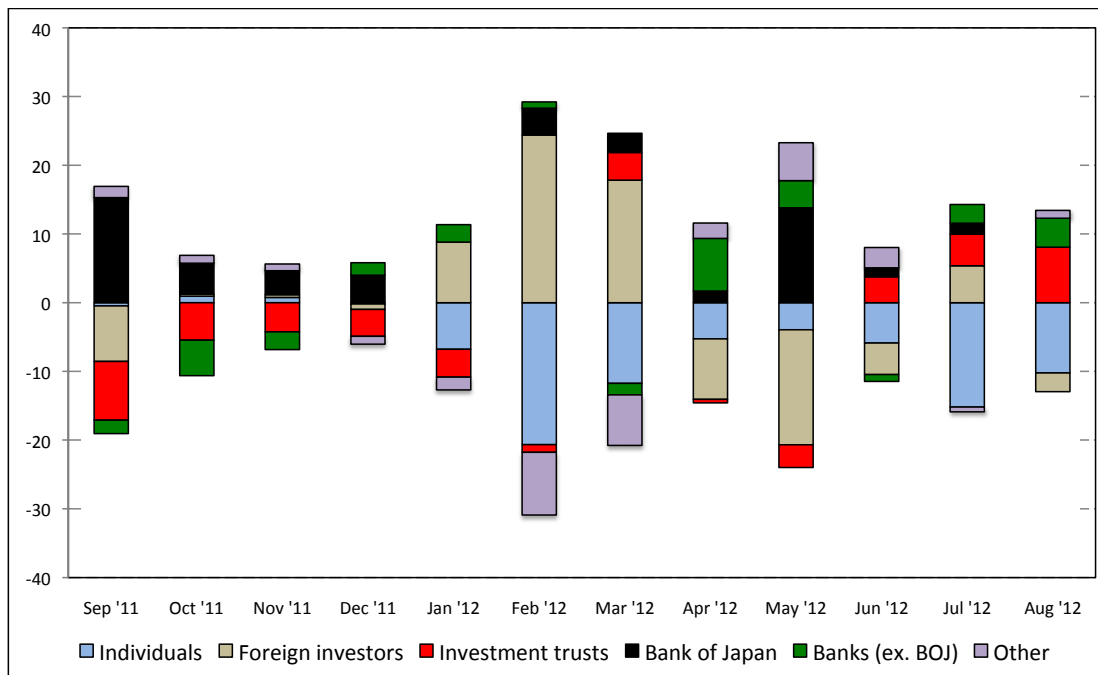
Two J-REITs announced public offerings of new units during the month. Sekisui House SI Investment (SSI, 8973), a diversified REIT sponsored by Sekisui House, announced an offering for up to 22,000 units (19.1% dilution). SSI expects to raise JPY 7.2 billion, with proceeds going towards the purchase of 5 new properties. Japan Retail Fund (JRF, 8953), a commercial REIT sponsored by Mitsubishi, announced offerings for up to 199,000 new units (10.6% dilution). JRF expects to raise JPY 21.1 billion, with proceeds going towards the purchase of 7 new properties.

There was a total JPY 90.5 billion in property acquisitions announced during the month, along with JPY 4.8 billion in announced dispositions.

The TSEREIT index is up 25.89% year-to-date, versus the Nikkei 225 index's 5.62% gain.

Note: As of 30th September, 2012, of the Fund, Tri-Stage (2178) is 9.44%, Katakura Industries (3001) is 9.12%, and Shaklee Global Group (8205) is 6.53%. Japan Retail Fund (8953) and Sekisui House SI Investment (8973) are not holdings of the Fund.

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



Sector Weightings

Advertising	9.4
Apparel	9.1
Banks	0.0
Beverages	7.7
Building Materials	1.7
Diversified Financial Services	6.1
Engineering & Construction	10.0
Investment Companies	3.1
Leisure Time	0.4
Machinery-Diversified	1.4
Real Estate	1.5
REITs	12.6
Retail	9.8
Storage/Warehousing	9.0
Total**	82.0
No of Positions	21

Top 10 Holdings

Symbol	Security	% of Total Assets
1921	TOMOE CORP	10.0
8963	INVINCIBLE INVESTMENT CORP (REIT)	10.0
2178	TRI-STAGE INC	9.4
3001	KATAKURA INDUSTRIES CO LTD	9.1
9304	SHIBUSAWA WAREHOUSE CO LTD/THE	9.0
2533	OENON HOLDINGS INC	7.7
8205	SHAKLEE GLOBAL GROUP INC	6.5
gktaiei	GODO KAISHA TAIHEIYO JISHO #1 BOND	5.3
3528	GRO-BELS CO LTD	3.1
3278	KENEDIX RESIDENTIAL INV CORP (REIT)	2.6

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.