

## Prospect Japan Fund

Bloomberg	PJF LN	NAV Performance (USD) %				
		October	YTD	1 Year	3 Year	
Yen / USD	79.80					
NAV (USD)	1.00	Prospect Japan Fund	-0.99	19.05	16.28	40.85
Price (USD)	0.79	Topix Small Index	-2.14	2.75	1.92	12.96
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 retreated 0.99% during the month of October, outperforming the Topix Small Index' 2.14% decline. The Fund continues to strongly outperform, gaining 19.05% year-to-date versus the Topix Small Index' 2.75% increase. With a cash position of 15%, the Fund is positioned to take advantage of extremely low valuations.

Positive performance came from Shaklee Global Group (8205), which gained 33.97% month-on-month to a 3-year high ahead of November results announcement.

Weakness in the Fund came from Katakura Industries (3001) and Tomoe Corp (1921). Katakura Industries, a shopping mall operator engaged in the manufacture and sale of textiles, pharmaceuticals, and auto parts, saw its share price retreat after reaching a five-month high at the end of September. Tomoe Corp, a steel frame construction company, fell ahead of the Q2 results announcement expected in November. Q1 results were lower than expected due to high input costs and write-offs.

The broad economic outlook remains clouded, with a 10.3% year-on-year slide in exports during the month of September, and a resultant JPY 558.6 billion trade deficit. Industrial production also came in under expectations, falling 8.1% year-on-year. This marked the fourth consecutive month of export and production decline. Both results are the steepest declines since last year's earthquake and tsunami, and evidence an increased likelihood that GDP contracted for a second consecutive quarter. In response, the Bank of Japan (BoJ) added to its asset purchase program for the second time in as many months. The BoJ will expand the program by JPY 11 trillion to a JPY 66 trillion total. JPY 5 trillion each to JGB and Treasury bills allotment, JPY 500 billion to ETFs, JPY 300 billion to corporate bonds, JPY 100 billion to commercial paper and JPY 10 billion to J-REIT allotments. The JPY 25 trillion credit loan program and benchmark interest rate were left unchanged.

The government announced JPY 750 billion in additional stimulus measures mid-month, aimed at countering further economic slowdown as Japan struggles with yen strength, slowing exports, and political stalemate over deficit spending. This round of stimulus will see funds drawn from existing discretionary spending funds.

October saw the announcement of one of the largest in-out acquisitions in recent Japanese history with Softbank Corp's (9984) USD 20.1 billion purchase of a 70% stake in US No. 3 telecom carrier Sprint Nextel Corp (S). The deal is emblematic of a wave of cash rich Japanese corporates seeking growth opportunity abroad in the midst of a stubbornly strong yen. Year to date, Japanese companies have been purchasers to the tune of USD 103 billion, outpacing 2011's USD 91.3 billion total.

Vice-Finance Minister Tsutomu Okubo suggested that Japan might extend a dollar-loan program beyond its current March 2013 deadline, in support of overseas deals. The program was introduced in August 2011, and has a JPY 10 trillion facility of which JPY 2.5 trillion has been pledged in support of 43 deals.

Miki Shoji reported that office vacancy in Tokyo's Central Business District declined 27 bps month-on-month to 8.9% in September, bringing the marker below 9.0% for the first time in 10 months. Occupancy level improved at both existing and new buildings. The data supports the view that office vacancy has peaked, and the suggestion by Mitsubishi Estate (8802) of possible rent increases in existing building contract renewals is a positive indicator or a turn around in the office market.

### REIT

In USD, the TSEREIT index saw a total return of +0.87% month-on-month, outpacing the Nikkei 225's -1.78% month-on-month performance. J-REITs continue to enjoy improved supply-demand conditions, with J-REIT index performance strongly during the month, holdings solidly above the psychologically significant 1,000 point resistance level. Foreign investors turned strong net buyers last month, while banks and investment trusts remained buyers.

The Bank of Japan purchased JPY 14 billion in J-REIT units during the month, its strongest buying in five months, suggesting strong profit-taking elsewhere. At the end of October, the total amount of J-REIT units purchased stands at JPY 111.1 billion (85.5% of total allotment).

Shinsei Bank (8303) announced plans to establish a health-care focused J-REIT, with starting AUM of around JPY 100 billion. Shinsei would invest in the management company, as well as provide lending to the REIT itself. The REIT, which Shinsei hopes to list as early as 2014, would be the first of its asset class in Japan.

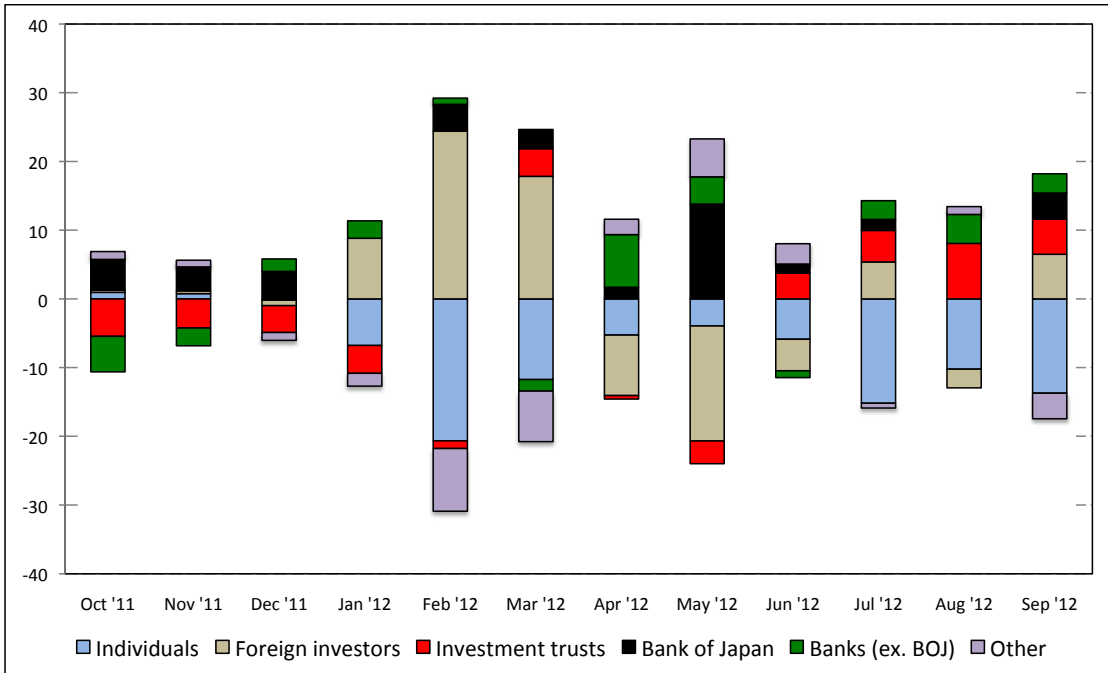
Japan Real Estate Investment (JRE, 8952) announced the issuance of 41,500 new units during the month (8.2% dilution). JRE expects to raise JPY 33.5 billion, with proceeds going towards the acquisition of JPY 41.0 billion in new property. Daiwa House Industries (DHI, 1925), main sponsor of Daiwa House Residential REIT (8984), announced intention to list a diversified REIT focused on logistic and commercial real estate. Daiwa House REIT (DHR, 3263) will issue 107,680 shares for an expected JPY 54.0 billion. Proceeds from the IPO will go towards the purchase of JPY 95.0 billion in property. DHR expects to list on 28 November with AUM of JPY 114.5 billion.

There was a total JPY 148.2 billion in property acquisitions announced during the month.

The TSEREIT index is up 27.03% year-to-date, versus the Nikkei 225 index's 3.74% gain.

*Note: As of 31<sup>st</sup> October, 2012, of the Fund, Tomoe Corp (1921) is 10.11%, Katakura Industries (3001) is 9.19%, and Shaklee Global Group (8205) is 7.54%. Daiwa House Industries (1925), Daiwa House REIT (3263), Shinsei Bank (8303), Mitsubishi Estate (8802), Japan Real Estate Investment (8952), and Softbank Corp (9984) are not holdings of the Fund.*

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



## Sector Weightings

Advertising	9.6
Apparel	9.2
Banks	1.5
Beverages	7.3
Building Materials	1.7
Diversified Financial Services	6.4
Engineering & Construction	13.4
Healthcare-Services	0.9
Investment Companies	3.2
Machinery-Diversified	0.5
Real Estate	1.6
REITs	11.1
Retail	9.1
Storage/Warehousing	9.6
Total**	85.0
No of Positions	21

## Top 10 Holdings

Symbol	Security	% of Total Assets
1921	TOMOE CORP	10.1
9304	SHIBUSAWA WAREHOUSE CO LTD/THE	9.6
2178	TRI-STAGE INC	9.6
8963	INVINCIBLE INVESTMENT CORP (REIT)	9.6
3001	KATAKURA INDUSTRIES CO LTD	9.2
8205	SHAKLEE GLOBAL GROUP INC	7.5
2533	OENON HOLDINGS INC	7.3
gktaihei	GODO KAISHA TAIHEIYO JISHO #1 BOND	5.4
kidoh26	KIDOH CONSTRUCTION #26 BOND	3.3
3528	GRO-BELS CO LTD	3.2

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.