

Prospect Japan Fund

Bloomberg Yen / USD NAV (USD) Price (USD) Premium/ Discount %	PJF LN 90.93 1.04 0.87 -15.93%	NAV Performance (USD) %				
			January	YTD	1 Year	3 Year
		Prospect Japan Fund	2.97	2.97	8.33	38.67
		Topix Small Index	2.76	2.76	4.92	29.51

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 2.97% during the month of January, outperforming the Topix Small Index' +2.76% performance. This follows strong outperformance in 2012, which saw the Fund gaining 20.24% versus the Topix Small Index' 7.12% increase. The cash position stood at 10.3% at months end.

Positive performance came from Tomoe Corp (1921) and Gro-Bels (3528). Tomoe Corp, a steel frame construction company, rallied strongly after underperforming other construction related stocks through the end of 2012. Gro-Bels, a property developer, reported solid sales on new condominium units through the end of 2012, achieving 77.2% of full year target unit sales.

Weakness in the Fund came from Tri-Stage (2178). Tri-Stage Inc, a marketing consultant service provider, reported 3Q results that failed to meet guidance, and issued a downward revision to full year forecasts.

Following the January policy meeting, the Bank of Japan set 2% inflation target, as expected. The BoJ also announced an open-ended asset purchases scheme to begin in January of 2014. The plan entails the purchase a relatively small JPY 13 trillion per month (with net increase in its balance of only JPY 10 trillion/year due to the focus on short maturity assets). While the move is less aggressive than PM Abe sought, there is expectation for more aggressive policy from the central bank following the appointment of a new governor in April and two new deputy governors in May. Initial push back on potential nominees seems muted, with the minority DPJ party signaling willingness to cooperate with the new administration.

Given that the new target by the BoJ is mostly lip service until a leadership change is enacted, focus is on government pro-growth policy measures.

The Abe administration lost no time in laying out fiscal measures towards achieving its stated goal of reaching 2% real (3% nominal) GDP growth required to trigger the planned 2014 consumption tax hike approved last year. The government approved a JPY 92.6 trillion draft budget for FY 2013, to compliment the JPY 13.1 trillion supplementary budget for the current fiscal year. As expected, public works spending will serve as the key stimulus

measure, with JPY 5.3 trillion allotted to infrastructure repair spending (+JPY 700 billion year-on-year), with the cost offset by a reduction in grants to local governments.

The administration made good on another campaign promise with a JPY 100 billion increase in defense budget, the first increase in defense spending in over a decade. The increase is a mostly symbolic (little more than 2% of total military budget) response to China's rising power in the region and an escalation of tensions over the disputed Senkaku Islands.

Populist tax increases on top earners were also announced with proposals to raise the top rate to 45 from 40% and the inheritance tax to 55% from 50%. A regiment of tax breaks designed to soften the impact of the scheduled 2014 consumption tax hike have been proposed, including tax cuts on gifts to children and grandchild, in an attempt to quicken the pace of generational wealth transfer. Existing mortgage tax breaks will be extended through 2014, and tax breaks and refunds up to JPY 300,000 will be provided for homebuyers starting in 2014. The budget also provides for generous subsidies for electric and hybrid automobiles, providing for up to JPY 1 million (USD 10,950) of the purchase price.

A key test of the new administrations commitment to economic revitalization will come with its decision to participate in the Trans-Pacific Partnership trade agreement. While there have been talks within the administration, Japanese participation in the trade talks remains undecided.

The yen weakened to its lowest level since mid-2010, amid continued expectations of anti-deflationary policy from the BoJ and the deputy economy minister Yasutoshi Nishimura's comments that suggest the government's implicit support of a 100-yen/dollar level. The administration has since insisted it aims only to end deflation, resisting international worries that Japan may spark a currency war.

Miki Shoji reported that average office vacancies in Tokyo's Central Business District resumed their decline in December, falling to 8.67% (-0.09 ppt) after a slight up-

tick the month before. Vacancies have fallen five out of the last six months.

REIT

In USD, the TSEREIT index saw a total return of +5.01% month-on-month, trailing the Nikkei 225's +1.00% month-on-month performance. J-REITs maintained strong performance during the first month of the year, reaching a 52-month high.

The Bank of Japan purchased J-REIT units for the first time in 3 months in January, acquiring JPY 1.8 billion in units early in the month. The total amount of J-REIT units purchased is JPY 112.9 billion (86.8% of total allotment).

January continued the fever pace of new equity offerings in the J-REIT space, with two new IPO announcements, as well four public offerings of new units by existing J-REITs, raising approximately JPY 240 billion.

Tokyu Land (8815) announced on 7 January plans to list Comforia Residential REIT, the first new IPO of the year, following four in 2012. Comforia plans to list with 53 residential properties, with AUM of JPY 71.2 billion. All properties are within the Tokyo Metro area. Tokyu Land is also the sponsor of Activia Properties Investment (3279), which focuses on office and commercial real estate. The IPO is expected to raise JPY 26.9 billion.

Leading logistics facility developer and manager, Prologis Inc. announced 10 January the planned listing of Nippon Prologis REIT. The J-REIT is to list with a portfolio of 12 A-class properties, with AUM of JPY 173.0 billion. The properties will be concentrated in the Tokyo and Osaka areas. The IPO is expected to raise JPY 95.7 billion.

Japan Building Fund (8951), Advance Residence Investment (3269), Japan Excellent (8987) and Industrial & Infrastructure Fund (3249) all announced public offerings of new units during month. The total amount raised is expected to be approximately JPY 117.5 billion, towards the acquisition of new property.

There was a total JPY 381.3 billion in property acquisitions announced during the month, along with JPY 15.0 billion in sales.

Note: As of 31st January, 2013, of the Fund, Tomoe Corp (1921) is 12.65%, Tri-Stage (2178) is 8.74%, and Gro-Bels (3528) is 4.37%. Industrial & Infrastructure Fund (3249), Advance Residence Investment (3269), Activia Properties Investment (3279), Tokyu Land (8815), Japan Building Fund (8951), and Japan Excellent (8987) are not holdings of the Fund.

Amendment:

Comments in page 1

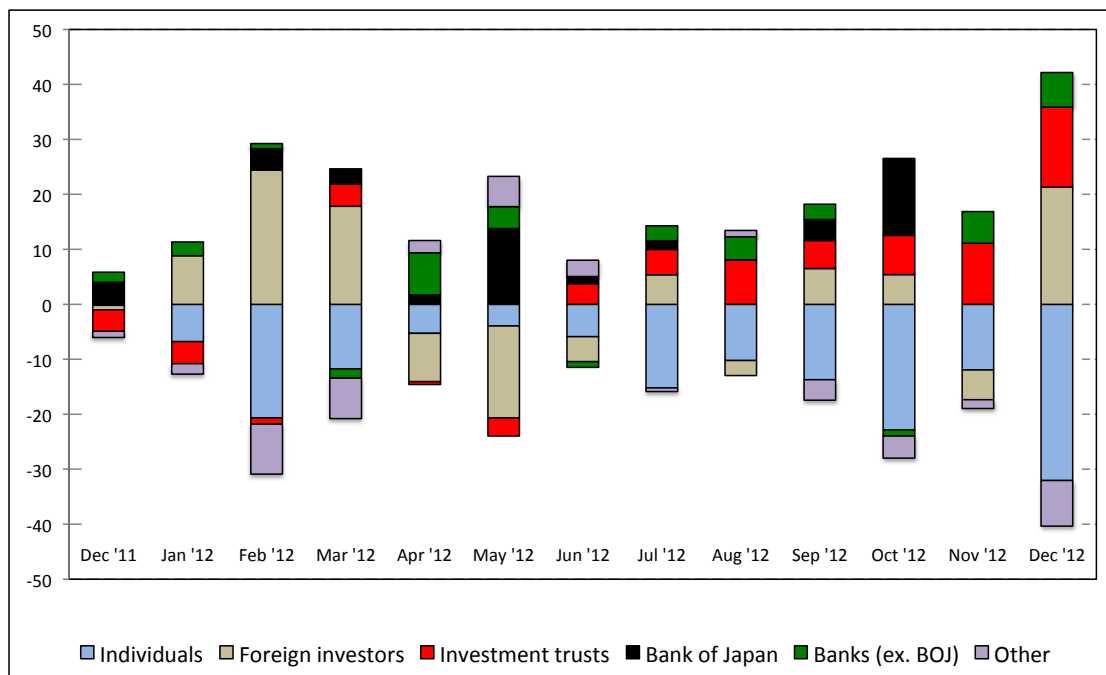
Before the amendment

"The yen strengthened to its highest level since mid-2010, ..."

After the amendment

"The yen weakened to its lowest level since mid-2010, ..."

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



(JPY billion)

Sector Weightings

Advertising	8.7
Apparel	10.3
Auto Manufacturers	0.3
Banks	4.2
Building Materials	2.0
Distribution/Wholesale	1.4
Diversified Financial Services	8.6
Engineering & Construction	14.4
Internet	3.5
Investment Companies	4.4
Real Estate	10.5
REITs	0.0
Retail	10.5
Storage/Warehousing	10.6
Transportation	0.4
Total**	89.7
No of Positions	31

Top 10 Holdings

Symbol	Security	% of Total Assets
1921	TOMOE CORP	12.6
3001	KATAKURA INDUSTRIES CO LTD	10.3
8833	TOHO REAL ESTATE CO LTD	10.0
8205	SHAKLEE GLOBAL GROUP INC	9.2
9304	SHIBUSAWA WAREHOUSE CO LTD/THE	9.1
2178	TRI-STAGE INC	8.7
gktaihei	GODO KAISHA TAIHEIYO JISHO #1 BOND	5.2
3528	GRO-BELS CO LTD	4.4
8304	AOZORA BANK	4.2
2389	OPT INC	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.