

Prospect Japan Fund

Bloomberg	PJF LN	NAV Performance (USD) %				
		February	YTD	1 Year	3 Year	
Yen / USD	92.40					
NAV (USD)	1.04	Prospect Japan Fund	-	2.97	8.33	38.67
Price (USD)	0.86	Topix Small Index	1.62	4.43	5.61	29.85
Premium/ Discount %	-17.43%					

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.

Fund performance was flat on the month, underperforming the Topix Small Index' +1.62% performance. Year-to-date the Fund has underperformed, gaining 2.97% versus the Topix Small Index' 4.43% increase. The cash position stood at 9.8% at months end.

Positive performance came from OPT Inc. (2389) and Shibusawa Warehouse (9304). OPT Inc, an Internet advertising agency, outperformed after earning "Buy" ratings from MUFJ Morgan Stanley and Ichiyoshi Research analysts. Shibusawa Warehouse, which operates in logistics and real estate, gained sharply on the market's bullish stance on Tokyo real estate. 68% of FY 2012 Shibusawa Warehouse's operating profit was from real estate leasing activities, and the company has JPY 38.7 billion in unrealized gains on its holdings.

Weakness in the Fund came from Tri-Stage (2178) and Tomoe Corp (1921). Tri-Stage Inc, a marketing consultant service provider, reported weak January sales numbers. Tomoe Corp, a steel frame construction company, saw its share price retreat despite an upward revision to full-year forecasts, as Q3 results show margin weakness due to high input costs.

Real gross domestic product for the October-December period came in an annualized 0.4% lower on the quarter, an improvement on the 3.8% decline last quarter.

The government received what could be seen as a light-handed endorsement of its inflationist policies from the international community as the G-20 declined to censor Japan after the yen's sharp fall, and S&P maintained its AA- ratings, citing that the Abe administration's efforts were key to ending economic decline and returning Japan to stable long-term footing.

Bank of Japan leadership transition will happen faster than scheduled, with current governor Masaaki Shirakawa announcing on 6 February that he will step down on 19 March, ahead of the scheduled 8 April term end, matching the term end of two deputy governors. The Bank left its policy unchanged at the 14 February 2013 meeting. On 28 February, the administration formally nominated current Asian Development Bank head Haruhiko Kuroda, a vocal supporter of increased easing, to be the next BOJ

governor. Expectations are for an increase in stimulus as soon as the April meeting.

The administration softened its tone towards the bank during the month, as Prime Minister Abe and Finance Minister Taro Aso both commented that the government is no longer considering changing the central bank law or buying foreign bonds. The latter of which could be seen as a direct attempt to influence the exchange rate, in violation of the pledge made at the G-20 not to target exchange rates for competitive advantage. The creation of a public-private fund for the purchase of foreign bonds was proposed during the December campaign.

Miki Shoji reported that average office vacancies in Tokyo's Central Business District fell again in January, down 0.11pt to 8.56%, the lowest level since January 2010. Further positive news came from the quarterly land price survey, which showed further stabilization in land prices across the country. Of the 150 areas surveyed 51 saw land prices increase (vs. 34 in the previous survey), and only 25 areas reported decreased land prices (vs. 29 previously)

REIT

In USD, the TSEREIT index saw a total return of +6.00% month-on-month, outperforming the Nikkei 225's +2.68% month-on-month performance. J-REITs continue to perform strongly, with the index reaching its highest level since mid-2008. Higher unit prices and lower implied CAP rates are enabling more expansion via new equity issuances at lower NOI yields. At months end, the yield spread between J-REITs and 10-year government bonds was 3.1%

The Bank of Japan purchased J-REIT units twice during the month, acquiring JPY 3.5 billion. The total amount of J-REIT units purchased is JPY 116.4 billion (89.5% of total allotment).

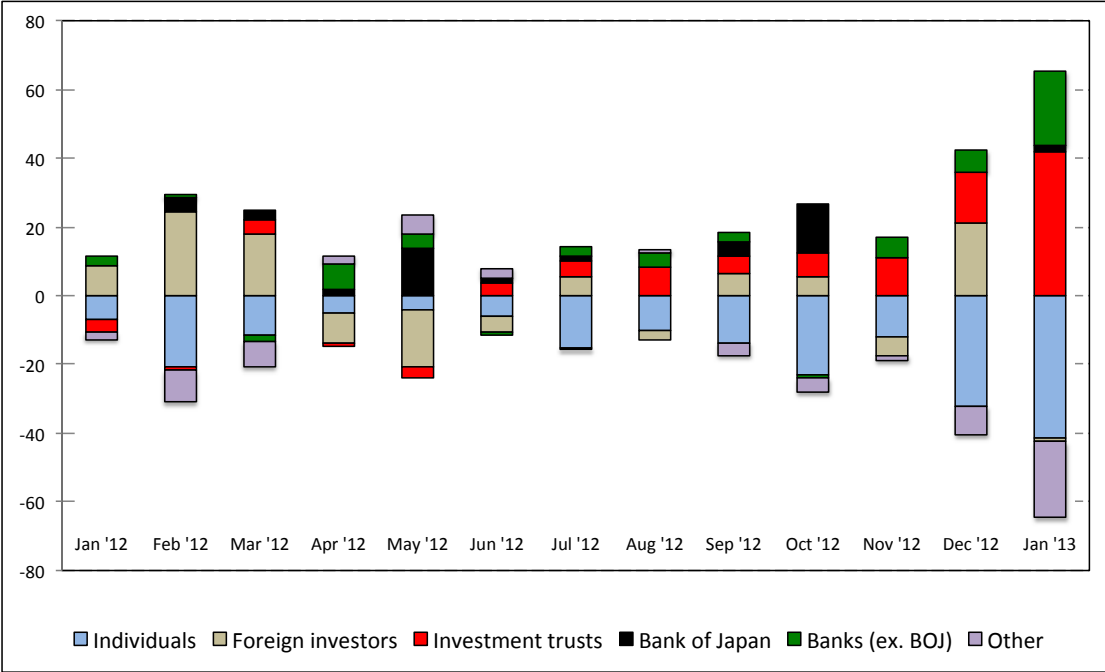
Investment trusts were very strong buyers during January (net JPY 41.7 billion), the eighth consecutive month of buying.

The flurry of equity raisings continued during the month, with five J-REITs announcing new issuances. Nippon Accommodations Fund (3226), Fukuoka REIT (8968), Frontier Real Estate (8964), Mori Hills REIT (3234) and United Urban Investment (8960) all announced public offerings of new units during the month. The total amount raised is expected to be approximately JPY 83 billion, with proceeds going towards the acquisition of new property.

There was a total JPY 167.4 billion in property acquisitions announced during the month, along with JPY 335 million in sales.

Note: As of 28th February, 2013, of the Fund, Tomoe Corp (1921) is 11.03%, Tri-Stage (2178) is 7.95%, OPT Inc. (2389) is 4.48%, Nippon Accommodations Fund (3226) is 1.37%, Frontier Real Estate (8964) is 3.01%, and Shibusawa Warehouse (9304) is 9.23%. Mori Hills REIT (3234), Fukuoka REIT (8968), and United Urban Investment (8960) are not holdings of the Fund.

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



(JPY billion)

Sector Weightings

Advertising	7.9
Apparel	9.7
Auto Manufacturers	1.9
Building Materials	2.3
Distribution/Wholesale	0.1
Diversified Financial Services	8.5
Engineering & Construction	12.7
Internet	4.5
Investment Companies	4.2
Real Estate	12.9
REITs	4.4
Retail	11.6
Storage/Warehousing	9.4
Transportation	0.1
Total**	90.2
No of Positions	27

Top 10 Holdings

Symbol	Security	% of Total Assets
1921	TOMOE CORP	11.0
8833	TOHO REAL ESTATE CO LTD	10.5
3001	KATAKURA INDUSTRIES CO LTD	9.7
9304	SHIBUSAWA WAREHOUSE CO LTD/THE	9.2
8205	SHAKLEE GLOBAL GROUP INC	8.8
2178	TRI-STAGE INC	7.9
gktaihei	GODO KAISHA TAIHEIYO JISHO #1 BOND	5.2
2389	OPT INC	4.5
3528	GRO-BELS CO LTD	4.2
kidohcg1	KIDOH CAPITAL GROWTH #1 BOND	3.3

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.