

Prospect Japan Fund

Bloomberg	PJF LN	NAV Performance (USD) %				
		March	YTD	1 Year	3 Year	
Yen / USD	94.13					
NAV (USD)	1.14	Prospect Japan Fund	9.62	12.87	18.75	50.00
Price (USD)	0.98	Topix Small Index	6.68	11.40	9.37	32.26
Premium/ Discount %	-15.52%					

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 up 9.62% on the month, versus the Topix Small Index' +6.68% performance. Year-to-date the Fund has outperformed, gaining 12.87% versus the Topix Small Index' 11.40% increase.

Positive performance came from Shibusawa Warehouse (9304) and Katakura Industries (3001). Shibusawa Warehouse, which operates in logistics and real estate, gained on the market's bullish stance on Tokyo real estate. 68% of the company's FY 2012 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 OPT Inc (2389), an Internet advertising agency that retreated slightly after reaching a four-year high in February on strong FY results and a "Buy" rating from MUFJ Morgan Stanley and Ichiyoshi Research.

On the heels of the strong rally in real estate developers and J-REITs since November 2012, this month saw a surge in demand for non-real estate companies with large unrealized gains on rental real estate portfolios.

There was reporting this month that the government may seek to reform the Government Pension Investment Fund, the world's largest public pension fund with JPY 112 trillion in assets, to diversify investments and improve returns. Current investment weightings are 60% Japanese government debt, 13% in domestic equities, 10% in foreign debt and 13% in foreign equity. Increased weighting towards equities could have a significant impact.

The administration announced that Japan would join US-led Trans-Pacific Partnership or T.T.P. negotiations, as Japan looks for ways to spur growth. The government estimates that Japan's participation could boost GDP by as much as 3.2 trillion yen (0.66 ppt), assuming elimination of all tariffs, though this outcome is unlikely considering pushback from Japanese farmers and American auto-makers. Other participants include the US, Canada, Mexico, Australia, New Zealand, Vietnam, Singapore, Malaysia, Brunei, Peru and Chile.

Other economic revitalization programs reportedly under consideration include Public-Private partnerships in IT integration, as well as medical equipment and services

promotion. There was also a report that the government is considering a reduction of corporate tax rates for foreign firms operating in "special economic zones" and loosening visa rules to attract overseas talent.

The Bank of Japan offered no policy changes following the final meeting of outgoing governor Masaaki Shirakawa's term. The board rejected member proposals to begin open-ended asset purchases immediately and combine the banks two government bond buying operations. The outright purchase operations, known as "rinban" in Japanese, are currently separate from those of the asset-purchase program.

Former Asian Development Bank President Haruhiko Kuroda was confirmed as the new BoJ governor, along with Kikuo Iwata and Hiroshi Nakaso as deputy governors. In his first appearance before the Diet, Governor Kuroda reaffirmed the bank's intention to reach its 2% inflation goal within the next two years by engaging in bold monetary easing in both the quantity and quality. The focus will be on bringing down the long-term interest rates, suggesting the BoJ will purchase longer maturity government debt. The new Kuroda lead BoJ is expected to begin ramping up stimulus as soon as the next scheduled meeting in April. Consumer prices declined 0.7% year-on-year during February, the steepest decline since 2010.

Tokyo condominium data was broadly positive during the month, with new supply contract ratio rising to 76.4% from 69.2%, and second hand condo prices +1.3% month-on-month (Jan 2013).

The Ministry of Land, Infrastructure, Transport and Tourism released official land price data this month, with price declines slowing year-on-year for the third consecutive year. Nationwide, prices were down 1.6% (from 2.3%) for residential property, and 2.1% (from 3.1%) for commercial property. Miki Shoji reported that vacancy in the Tokyo Central Business District rose by 0.01 ppts to 8.57% last month.

The Bank of Japan, under new governor Kuroda, has terminated the Asset Purchase Program in favor of "Quantitative and Qualitative" monetary easing, aimed at lowering long-term interest rates and supporting asset

prices in pursuit of reaching its 2% inflation target within the next two years. The bank will now target up to an annual JPY 60 -70 trillion expansion of the monetary base, achieved by 1) annual purchases of JPY 50 billion of JGB's with maturities up to 40 years, 2) annual purchases of ETF and J-REIT units of JPY 1 trillion and JPY 30 billion respectively. JGB purchasing operations have been consolidated under the new program, and the bank has suspended the "banknote principle" under which the BoJ was prohibited from buying more than banknotes in circulation.

The BoJ action benefits J-REITs through the direct purchases providing floor, lowering long-term interest rates, and by widening the yield-spread as JGB yields decline. Higher unit prices also provide more opportunity for J-REITs to issue new equity and grow through AUM expansion.

The announcement reassured markets of the bank's seriousness in ending persistent deflation, and the yen resumed its weakening trend, nearing JPY/USD 100, from 92.87 the day before the announcement.

REIT

In USD, the TSEREIT index saw a total return of +22.03% month-on-month, outperforming the Nikkei 225's +5.83% month-on-month performance. J-REITs continue to perform strongly, with the index reaching its highest level since early 2008. Higher unit prices and lower implied CAP rates are enabling accelerated asset expansion via new equity issuances at lower NOI yields. At months end, the yield spread between J-REITs and 10-year government bonds was 2.39%.

The Bank of Japan purchased J-REIT units once during the month, acquiring JPY 4.2 billion. The total amount of J-REIT units purchased is JPY 120.6 billion (92.8% of total allotment).

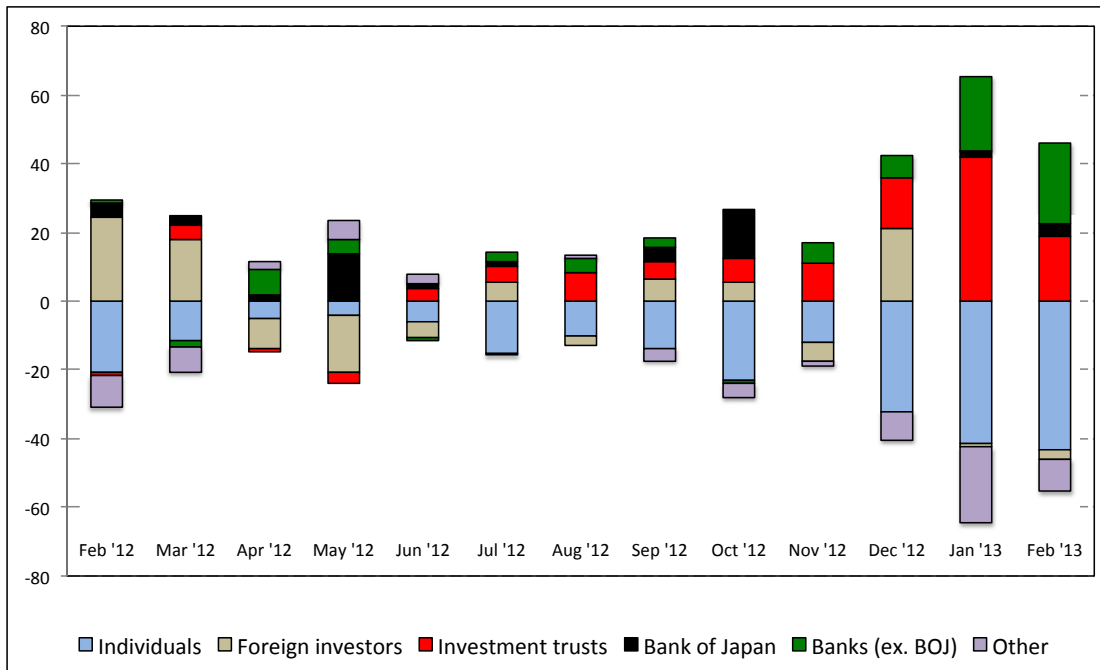
Daiwa House Residential (8984), and Orix J-REIT (8960) announced public offerings of new units during the month. The total amount raised is expected to be approximately JPY 31.5 billion, with proceeds going towards the acquisition of new property. Equity financing in the first 3 months of 2013 is already over 70% of the 2012 total (JPY 496.4 billion).

Unlisted resort hotel and hot spring operator Hoshino Resort is reported to have plans on listing a J-REIT as soon as June 2013. The portfolio would consist of "Ryokan" (Japanese style hotel), hotel and hot spring assets, and list with AUM of around JPY 30 billion yen.

There was a total JPY 118.0 billion in property acquisitions announced during the month, along with JPY 33.0 billion in sales.

Note: As of 31st March, 2013, of the Fund, OPT Inc (2389) is 4.01%, Katakura Industries (3001) is 8.93%, and Shibusawa Warehouse (9304) is 0.62%. Orix J-REIT (8960) and Daiwa House Residential (8984) 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	8.9
Auto Manufacturers	1.9
Building Materials	2.3
Diversified Financial Services	7.7
Engineering & Construction	12.1
Internet	4.0
Investment Companies	4.1
Real Estate	9.9
REITs	5.7
Retail	11.4
Storage/Warehousing	1.5
Transportation	0.1
Total**	77.5
No of Positions	26

Top 10 Holdings

Symbol	Security	% of Total Assets
1921	TOMOE CORP	10.7
8833	TOHO REAL ESTATE CO LTD	9.1
3001	KATAKURA INDUSTRIES CO LTD	8.9
8205	SHAKLEE GLOBAL GROUP INC	8.4
2178	TRI-STAGE INC	7.9
gktaihei	GODO KAISHA TAIHEIYO JISHO #1 BOND	4.7
3528	GRO-BELS CO LTD	4.1
2389	OPT INC	4.0
kidohcg1	KIDOH CAPITAL GROWTH #1 BOND	2.9
3278	KENEDIX RESIDENTIAL INV CORP (REIT)	2.9

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.