

## Prospect Japan Fund

Bloomberg	PJF LN	NAV Performance (USD) %				
			May	YTD	1 Year	3 Year
Yen / USD	100.64					
NAV (USD)	1.15	Prospect Japan Fund	-1.71	13.86	21.05	47.44
Price (USD)	0.96	Topix Small Index	-7.84	10.24	19.89	36.50
Premium/ Discount %	-16.96%					

*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 -1.71% during the month, versus the Topix Small Index' -7.84% performance. Year-to-date the Fund has outperformed, gaining 13.86% versus the Topix Small Index' 10.24% increase.

Positive performance came from Shaklee Global (8205) and Toyo Engineering Works (6443). Shaklee Global, a seller of nutrition and personal care products, rose sharply as it exceeded guidance for full year performance. Toyo Engineering, a freezer and air-conditioner manufacturer and servicer, rose on news that its largest shareholder Mitsubishi Heavy Industry Industries (7011) will seek to acquire the company. The announced buyout at JPY 542 yen share represents a 123% premium to the closing price on 30 May.

Weakness in the Fund came from Tomoe Corp (1921) and Gro-Bels (3528). Tomoe Corp, a steel frame construction company, following the release of full-year results including a net loss of JPY 1.3 billion. Gro-Bels, a property developer retreated from near recent highs, following the release of full-year results that showed weak parent level earnings, despite strong consolidated performance.

Q1 GDP grew at an annualized rate of 3.5% yoy (vs. consensus estimate of 2.7%) as exports and domestic consumption increased on improved sentiment from Abenomics-driven yen depreciation and a resurgent stock market. This follows a Q4 performance of +0.9%. Sentiment has yet to move to the corporate level, however, with business spending declining during the quarter.

Exports for April missed consensus estimates, rising 3.8% yoy vs. the median target of 5.4%. The trade deficit grew to a 3 month high of JPY 879.9 billion, despite the JPY weakening to a 4-year low.

Tokyo CPI excluding fresh food, a bellwether for the nation as a whole, inched up 0.1% during the month, the first positive figure since March 2009. Industrial Production (-2.3% yoy), Housing Starts (+5.8% yoy) also surprised on the upside vs. economist forecasts. Household spending (+1.5% yoy) in April, disappointed after the previous month's sharp 5.2% yoy expansion.

Prime Minister Shinzo Abe continued the slow roll out of more details of his "third arrow" growth and deregulation agenda during the first of three scheduled speeches, as well as in a draft preview of the Japan Industrial Competitiveness Council's strategy statement. Most policy initiatives addressed in Abe's first speech focused on long-term goals, i.e. the tripling of infrastructure exports to JPY 30 billion over the next ten years, promotion of development of new automobile technologies such as self-driving vehicles, raising the number of foreign national students and teachers at Japanese schools and establishing a public land bank to spur agriculture output.

The Japan Industrial Competitiveness Council statement outlined goals for the next 5 years through 2017, which it designated as a priority time-frame for structural reform. While the finalized recommendations will be released in June, key components mentioned included establishing a requirement for outside directors and providing incentives through the tax-code for the hiring of women or supporting working mothers. Notably, proposed changes to the corporate tax code were left undecided.

While the speech and council states centered more around aspirational, as opposed to concrete structural reforms, the bulk of the administration's policy prescriptions are expected at the end of June.

The government is reportedly looking to increase the percentage of total trade from FTA partners from 19% to 70% by 2018. This would be accomplished by pursuing the TPP, as well as separate trade agreements in the Asia-Pacific, EU and a trilateral Japan-Korea-China agreement.

The Bank of Japan has left monetary policy unchanged following the 22 May ending of the regular policy board meeting.

Yields on benchmark 10-year government securities climbed about 23 basis points in the two weeks through 17 May, the biggest such advance since May 2008, according to data compiled by Bloomberg. Reaching intraday levels as high as 1% for the first time since April 2012.

Miki Shoji reported that vacancy in the Tokyo Central Business District fell by 0.02 ppts to 8.54% last month on limited new supply. Signs of a strengthening real estate market continued this month, as the semi-annual Japan Real Estate Institute report showed CAP rates declining in all fourteen of the surveyed Tokyo office areas.

**REIT**

In USD, the TSEREIT index saw a total return of -17.05% month-on-month, underperforming the Nikkei 225's 3.91% month-on-month decline. J-REITs retreated month-on-month, as a surge in long-term benchmark government bond yields compressed dividend yield spreads and sparked further profit taking. The index has now fallen 24.26% from its March highs, though still maintaining a +23.20% gain year-to-date.

The Bank of Japan purchased J-REIT units fourteen times during the month, worth JPY 4.0 billion. The total amount of J-REIT units purchased is JPY 137.8 billion (98.4% of the JPY 140 billion allotted through 2013 end). The BOJ left the J-REIT allocation amount unchanged after this month's policy board meeting, but limited capacity for the rest of the year is expected to lead to adjustment after the 10 June /11 June meeting.

Nomura Real Estate (3231) announced the planned IPO of Nomura Real Estate Master Fund (3285), a diversified J-REIT with logistics and commercial properties. The IPO is expected to raise JPY 175.1 billion, making it the largest J-REIT listing to date.

Nippon Prologis REIT (3283) announced a PO of 96,200 shares (52.8% dilution) during the month. The J-REIT expects to raise JPY 79.3 billion, with the proceeds used for the

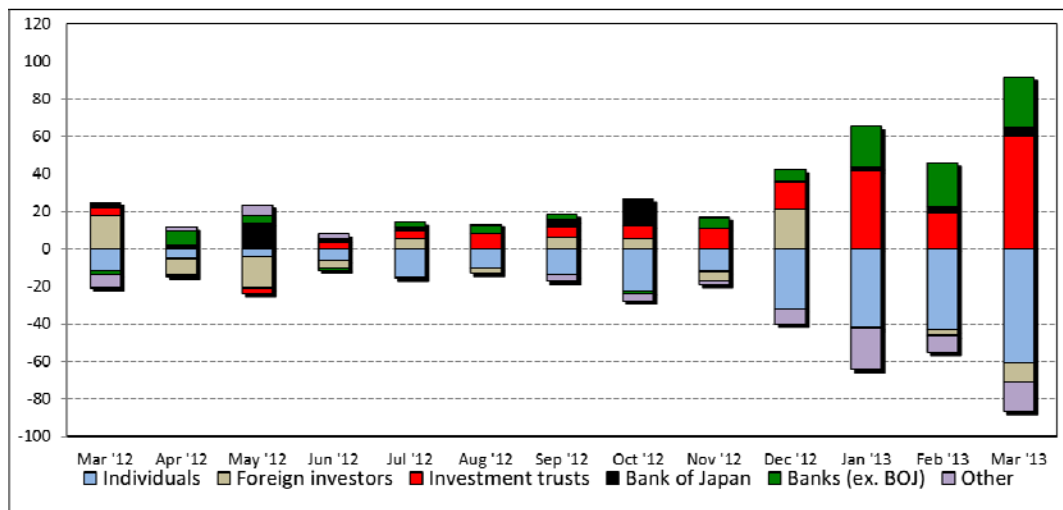
acquisition of JPY 132.4 billion in new logistic properties from sponsor Prologis.

Hankyu REIT (8977) announced its first secondary issuance of new shares since 2007 during the month. The J-REIT will issue 9,800 new shares (23.2% dilution), for an expected total of JPY 10.4 billion. The proceeds will be used to purchase two land-lease assets at a cost of JPY 10.0 billion.

There was a total JPY 390.7 billion in property acquisitions announced during the month, along with JPY 6.5 billion in sales.

*Note: As of 31<sup>st</sup> May, of the Fund, Shaklee Global (8205) is 13.15%, Toyo Engineering Works (6443) is 3.52%, Gro-Bels (3528) is 4.08%, and Tomoe Corp (1921) is 9.60%. Nomura Real Estate (3231), Nomura Real Estate Master Fund (3285), Nippon Prologis REIT (3283), Mitsubishi Heavy Industry Industries (7011), and Hankyu REIT (8977) are not holdings of the Fund.*

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



(JPY billion)

## Sector Weightings

Advertising	7.5
Apparel	6.1
Asset Allocation Fund	3.5
Auto Manufacturers	1.1
Building Materials	7.0
Distribution/Wholesale	0.8
Diversified Financial Services	7.4
Engineering & Construction	9.6
Food	0.1
Internet	1.7
Investment Companies	4.1
Real Estate	8.6
REITs	18.9
Retail	17.9
Storage/Warehousing	2.1
Textiles	0.4
Transportation	1.4
Total**	98.2
No of Positions	40

## Top 10 Holdings

Symbol	Security	% of Total Assets
8205	SHAKLEE GLOBAL GROUP INC	13.1
1921	TOMOE CORP	9.6
8833	TOHO REAL ESTATE CO LTD	8.5
2178	TRI-STAGE INC	7.5
3227	MID (REIT)	6.9
3001	KATAKURA INDUSTRIES CO LTD	6.1
gktaihei	GODO KAISHA TAIHEIYO JISHO #1 BOND	4.7
3528	GRO-BELS CO LTD	4.1
6443	TOYO ENGINEERING WORKS LTD	3.5
6932	ENDO LIGHTING CORP	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.