

## Prospect Japan Fund

Bloomberg Yen / USD	PJF LN 97.84	NAV Performance (USD) %				
			July	YTD	1 Year	3 Year
NAV (USD)	1.17	Prospect Japan Fund	1.74	15.84	23.16	39.29
Price (USD)	0.94	Topix Small Index	2.07	11.46	17.32	35.80
Premium/ Discount %	-19.83%					

*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 1.74% during the month, versus the Topix Small Index' 2.07% increase. Year-to-date the Fund has outperformed, gaining 15.84% versus the Topix Small Index' 11.46% increase.

Positive performance came from Shaklee Global Group (8205) and Tri-Stage (2178). Shaklee Global, a seller of nutrition and personal care products, continued its outperformance since the mid-May peak. Tri-Stage, a marketing consultant service provider, released strong Q1 results on contributions from recently consolidated subsidiaries and a change from top-line to bottom-line management focus.

Weakness in the Fund came from Katakura Industries (3001). Katakura Industries, a shopping mall operator engaged in the manufacture and sale of textiles, pharmaceuticals and auto parts, continued to retreat after rising to a four-year high in April, though still outperforming the TOPIX by 18.2% YTD. Katakura holds JPY 99.2 billion in rental real estate assets with implied unrealized capital gains of JPY 77 billion.

The Nikkei 225 index gained strongly for most of the month in the lead up to upper house elections, before surrendering most of its performance as the yen strengthened at month's end.

National CPI excluding fresh food rose 0.4% yoy in June, the highest rise since 2008, lending support to inflation expectations. The government is reportedly planning to forecast 3.2% nominal, 1.0% real GDP growth for FY 2014; assuming next April's consumption tax increase is implemented as scheduled. FY 2013 forecasts stand at 2.8% real GDP growth.

June unemployment dropped 2bp to 3.9%, though household spending and industrial production numbers disappointed at an annualized -0.4% and -4.8% respectively. On the company level, performance remains positive, with 62% of companies announcing earnings in excess of analyst's expectations this earnings season.

PM Shinzo Abe's Liberal Democratic Party and its allies secured a ruling majority in both houses of the Diet this month, with a decisive victory in upper house elections. Attention will now turn to post election regulatory issues,

including: 1) relaxing restrictions on hiring/firing, 2) revising the corporate tax code, currently the 2<sup>nd</sup> highest among advanced economies at 35.6% (however, as 75% of Japanese corporates do not pay any corporate tax the administration has been resistant) and 3) promoting corporate investment.

Japan formally joined TTP negotiations in Malaysia this month, with the government looking to strike a balanced tariff elimination position. The Nikkei newspaper reports the administration will seek to preserve import tariffs on stable-food variety rice (brown and white), while showing willingness to lower tariffs on processed rice (crackers, rice-wine, etc.). The Abe administration has a stated goal of doubling Japan's food exports to JPY 1 trillion by 2020.

The government will make a final discussion on whether to proceed with the scheduled consumption tax increase following the Q2 estimates to be released 9 September. The administration must weigh the need to support the nation's still delicate recovery against its obligation to address the public debt. Under current law the consumption tax is scheduled to increase from 5% to 8% in 2014, and 10% in 2015. Bank of Japan Governor Kuroda has expressed confidence that Japanese economy can maintain its growth without diverging from the planned tax increases.

Miki Shoji reported that vacancy in the Tokyo Central Business District increased 0.13 ppt to 8.46% in June. The real estate market remains strong, with the Urban Research Institute reporting that corporate purchased for the first half of 2013 stands at JPY 2.36 trillion, the highest H1 figure since 2005.

Of note are the results of the Toho (9602) TOB of Toho Real Estate (8833), which offered an undervalued JPY 735/share compared to a book value of JPY 1,397/share when adjusted for JPY 45.3 billion in unrealized gains on real estate holdings. While successful, the TOB resulted in the lowest tender of independent shareholders in Japanese market history. Minority shareholders are expected to receive a fairer price through upcoming court arbitration.

## REIT

In USD, the TSEREIT index saw a total return of -4.82% month-on-month, underperforming the Nikkei 225's 0.97% month-on-month rise. The TSEREIT index has gained 5.19% year-to-date, versus the Nikkei 225's +16.20% performance.

The Bank of Japan purchased J-REIT units three times in July, for a total JPY 300 million, conserving its remaining firepower. The total amount of J-REIT units purchased is JPY 138.0 billion (98.6% of the JPY 140 billion allotted through 2013 end).

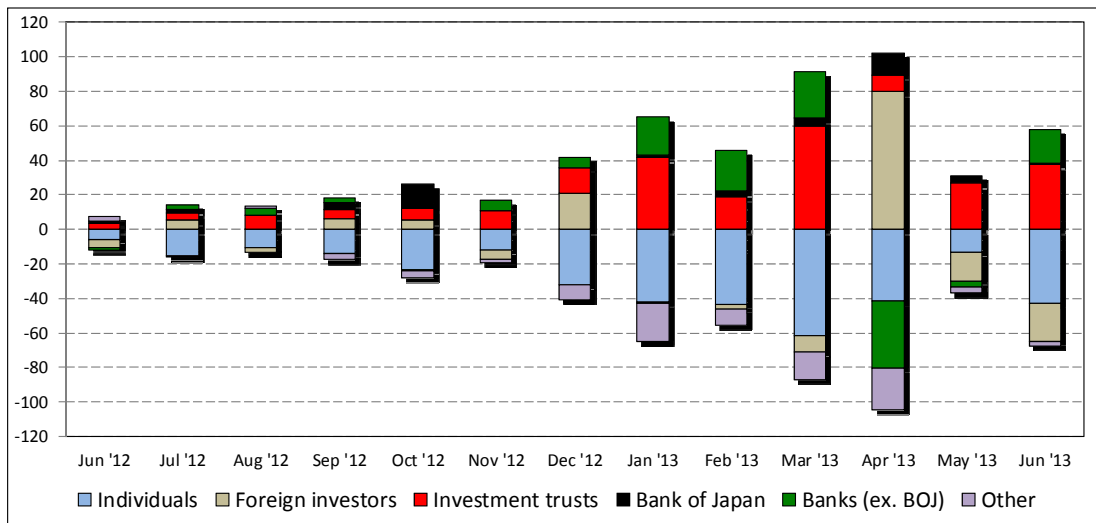
Kenedix Residential Investment (3278), a residential J-REIT focused on family-type housing, announced a secondary offering of units during the month. The J-REIT will issue 170,000 unit (225.3% dilution), for a total of JPY 36.9 billion. The proceeds will be used to purchase 60 new properties, tripling the portfolio size.

Tokyu REIT (8957), a diversified J-REIT holding office and retail properties, announced a secondary offering of 26,140 new units (15.4% dilution). The J-REIT expects to raise a total of JPY 13.9 billion, with the proceeds going towards the acquisition of three new properties.

There was a total of JPY 116.8 billion in property acquisitions announced during the month.

*Note: As of 30<sup>th</sup> June, of the Fund, Katakura Industries (3001) is 5.62%, Kenedix Residential Investment (3278) is 8.36%, Tri-Stage (2178) is 7.41%, Shaklee Global Group (8205) is 12.92%, and Toho Real Estate (8833) is 8.68%. Tokyu REIT (8957) and Toho Co. Ltd. (9602) are not holdings of the Fund.*

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



(JPY billion)

## Sector Weightings

Advertising	7.4
Auto Manufacturers	1.4
Building Materials	3.0
Distribution/Wholesale	1.2
Diversified Financial Services	7.5
Engineering & Construction	10.3
Entertainment	0.6
Home Builders	1.2
Internet	1.3
Pharmaceuticals	5.6
Real Estate	15.1
REITs	23.8
Retail	13.8
Storage/Warehousing	3.1
Textiles	0.0
Transportation	1.6
Total**	97.1
No of Positions	35

## Top 10 Holdings

Symbol	Security	% of Total Assets
8205	SHAKLEE GLOBAL GROUP INC	12.9
1921	TOMOE CORP	9.8
8833	TOHO REAL ESTATE CO LTD	8.7
3278	KENEDIX RESIDENTIAL INV CORP (REIT)	8.4
3227	MID (REIT)	7.5
2178	TRI-STAGE INC	7.4
3001	KATAKURA INDUSTRIES CO LTD	5.6
gktaihei	GODO KAISHA TAIHEIYO JISHO #1 BOND	4.6
8966	HEIWA REAL ESTATE REIT (REIT)	4.3
3528	GRO-BELS CO LTD	3.7

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.

---

### **Important Legal Information – Please Read**

This information is for use by investment professionals only. Past performance is no indication of future results. This document does not constitute an offer of shares of Prospect Japan Fund nor the solicitation of an offer to buy such shares. This document is confidential and should not be forwarded or distributed to any other person except with the prior written consent of Prospect Asset Management Inc (PAMI).

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.