

Prospect Japan Fund

Bloomberg Yen / USD	PJF LN 98.29	NAV Performance (USD) %				
			October	YTD	1 Year	3 Year
NAV (USD)	1.31	Prospect Japan Fund	-2.24	29.70	31.00	59.76
Price (USD)	1.04	Topix Small Index	-0.16	21.72	28.85	50.66
Premium/ Discount %	-20.32%					

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 was down 2.24% during the month, versus the Topix Small Index' 0.16% decline. Year-to-date the Fund has outperformed, gaining 29.70% versus the Topix Small Index' 21.72% increase.

Weakness in the Fund came from Katakura Industries (3001) and Showa Aircraft Industry (7404). Katakura Industries, a shopping mall operator engaged in the manufacture and sale of textiles, pharmaceuticals and auto parts, surrendered September gains ahead of Q3 results announcement in November. Showa Aircraft Industry, a specialty equipment and vehicle manufacturer, retreated from 6-year highs reached last month as companies with heavy real estate holdings gained following the Tokyo Olympics announcement.

Positive performance came from Gro-Bels (3528) and Endo Lighting (6932). Gro-Bels, a property developer, rose sharply during the month, ahead of its first consolidated results announcement following its merger with Prospect Inc. Endo Lighting, a maker of LED light fixtures, rose to a three month high ahead of H1 results.

The market remained uninspired for most of the month, taking cues from external events that strengthened the Yen, including the US government gridlock and raising expectations that the US Federal Reserve may delay the tapering of QE3.

On the domestic front, consumer confidence in Japanese households was up to near six-year highs in September, which reflected in a 3.7% yoy increase in Household spending, well above economist expectations of a 0.5% rise. Small business confidence was up to 50.8, breaking above 50.0 for the first time since 2007. National consumer prices excluding fresh food ticked up 0.7% yoy in September, with higher energy costs driving the increase.

Construction orders rose 89.8% yoy, far ahead of the previous month's 21.4% yoy gain.

In what could be a telling blow to the structural and regulatory reform known as the third "arrow" in PM Shinzo Abe's economic revitalization policy, the anticipated de-regulation of the labor market to allow for more flexible employment practices may be delayed under heavy resis-

tance from labor unions. The administration has also folded on its efforts to require more outside directors on company boards, now requiring only that companies explain their absence.

Bloomberg reports that the administration will seek to submit to the Diet a bill on the special economic zones that are the center piece to Abe's structural reform efforts as early as next month. Reporting states that the oversight council for the proposed economic zones may exclude key ministry heads, as Abe seeks to prevent hurdles to reform from vested interests.

The Bank of Japan maintained its 2% inflation target following its bi-annual outlook for economic activity.

Miki Shoji reported that vacancy rates in Tokyo's Central Business District declined 0.26 ppt to 7.90% in September, the lowest reading since October 2009.

REIT

In USD, the TSEREIT index saw a total return of -2.26% month-on-month, underperforming the Nikkei 225's -0.98% month-on-month retreat. J-REITs finished the month lower, ahead of the November results season. The TSEREIT index has gained 19.23% year-to-date, versus the Nikkei 225's +22.60% performance.

The Bank of Japan purchased JPY 800 million in J-REIT units during the month. The total amount of units purchased to date stands at JPY 139.9 billion (99.9% of the JPY 140 billion allotted through 2013 end). While the BoJ has only 100 million remaining to purchase under its official allocation, it has stated it may exceeded the JPY 140 billion target.

Aeon Group announced the long-awaited IPO of Aeon REIT (3292), a retail J-REIT with planned AUM of JPY 159 billion at listing. The IPO is expected to raise JPY 94.5 billion, the third largest of the six J-REIT IPOs this year. Aeon REIT is scheduled to list on 22 November.

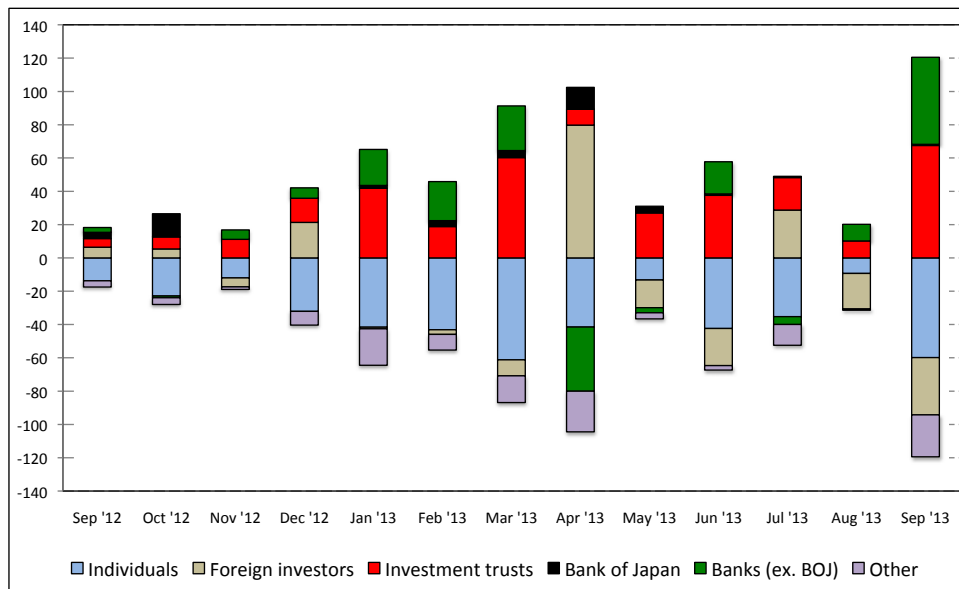
There were another five J-REIT secondary issuances of new shares during the month, raising a total of about JPY 66 billion. Ship Healthcare Holdings (3360), along with

SMBC and NEC Capital Solutions (8793) are reportedly working towards listing a JPY 20 billion J-REIT as soon as June 2014 specializing in nursing care facilities. This follows the previous announcement from Shinsei Bank (8303) of their intention to list a JPY 100 billion nursing home J-REIT. The Financial Services Agency is currently drafting rules for hospital and nursing care properties included in REITs. The rules are expected to be finalized next spring.

There was a total JPY 208.1 billion in property acquisitions announced during the month, and dispositions of JPY 923 million.

Note: As of 31st October, of the Fund, Katakura Industries (3001) is 6.65%, Gro-Bels (3528) is 0.42%, Showa Aircraft Industry (7404) is 3.57%, and Shaklee Global (8205) is 12.02%. Aeon REIT (3292), Ship Healthcare Holdings (3360), Shinsei Bank (8303), and NEC Capital Solutions (8793) are not holdings of the Fund.

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



Sector Weightings

Advertising	7.0
Auto Manufacturers	3.6
Building Materials	3.0
Distribution/Wholesale	1.2
Diversified Financial Services	7.1
Engineering & Construction	4.6
Machinery-Diversified	1.1
Real Estate	15.7
REITs	7.7
Retail	12.8
Storage/Warehousing	3.3
Textiles	0.1
Transportation	1.6
Total**	68.8
No of Positions	32

Top 10 Holdings

Symbol	Security	% of Total Assets
8205	SHAKLEE GLOBAL GROUP INC	12.0
2178	TRI-STAGE INC	7.0
3001	KATAKURA INDUSTRIES CO LTD	6.6
3227	MID (REIT)	6.5
3528CB01	GRO-BELS #1 cb 2% 2018	5.1
gktaihei	GODO KAISHA TAIHEIYO JISHO #1 BOND	4.2
1921	TOMOE CORP	4.1
7404	SHOWA AIRCRAFT INDUSTRY CO LTD	3.6
6932	ENDO LIGHTING CORP	3.0
8818	KEIHANSHIN BUILDING CO LTD	2.5

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.

Important Legal Information – Please Read

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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.