

## Prospect Japan Fund

Bloomberg Yen / USD	PJF LN 102.66	NAV Performance (USD) %				
			January	YTD	1 Year	3 Year
NAV (USD)	1.33	Prospect Japan Fund	3.10	3.10	27.88	52.87
Price (USD)	1.05	Topix Small Index	-0.02	-0.02	17.81	28.68
Premium/ Discount %	-21.66%					

*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.

The Fund gained 3.10% during the month, versus the Topix Small Index' 0.02% decline.

Strong performance came from Akatsuki Financial Group (8737) and Gro-Bels (3528). Akatsuki Financial Group, a commodity futures trader, gained strongly following the sale of 471,380 new and existing shares to the Fund. Gro-Bels, a condominium developer, gained ahead of 3Q results.

Weakness came from Tri-Stage Inc. (2178) and Tomoe Corp (1921). Tri-Stage, a marketing consultant service provider, retreated following sharp gains towards the end of 2013. The company remains well above its November/December levels on expectations it will meet its FY guidance. Tomoe Corp, a steel frame construction company, fell in line with the real estate index, following strong out-performance during 2013.

Equities fell and the yen gained strongly towards the end of the month, as emerging market volatility surged and concerns emerged of a slowdown in Chinese output. Domestically, the market was excited by the start of tax-free Nippon Individual Savings Accounts (NISA) for individual investors, of which more than 4 million were registered during the month.

Japan posted a record JPY 11.5 trillion trade deficit in 2013, compared with the JPY 6.9 trillion deficit recorded in 2012, as increased energy imports compounded with the weakening yen. Japan's current-account deficit widened to the largest since comparable data began in 1985 to JPY 592.8 billion during the month of November, outstripping the JPY 368.9 billion median forecast by economists surveyed by Bloomberg News. Rising energy costs were fueled by the weakening yen and rising imports following the shutdown of most of Japan's nuclear power plants. Higher energy costs were a major contributor to rising inflation, with core CPI reaching 1.3% in December. Other indicators were largely positive during the month, with rises in Machine Orders (+16.6% yoy), Industrial Production (+7.3% yoy) and Construction Orders (+4.9% yoy).

As previously observed, key factors to a sustained recovery include the results of spring wage negotiations, as

wage increases will be needed to offset the effects of inflation and higher consumption taxes. Also key are the results of trade deal negotiations expected to progress this year. TTP negotiators were too aggressive in their hopes to finalize the 12-nation trade agreement by the end of the year, with talks extended into 2014. Japan is engaged in five separate trade deal negotiations, in a push to increase exports.

Mitsui Engineering (7003) announced a tender offer for Showa Aircraft (7404) at JPY 1,650 (47.2% premium to last price, vs an Adjusted book value of JPY 2,860/share). Mitsui Engineering will pay up to JPY 16.5 billion, to raise its stake to 60.75% from the current 30.56%. Showa Aircraft will sell 1.77 million of its treasury shares into the tender.

Miki Shoji reported that vacancy rates in Tokyo's Central Business District fell to a four and a half year low, declining 0.18 ppt to 7.34% in December. Miki Shoji forecasts a 4.4% yoy increase in Tokyo CBD office supply (846,000 sqm), though still 46.5% below the 2012 level.

### REIT

In USD, the TSEREIT index saw a total return of +1.82% month-on-month, outperforming the Nikkei 225's 5.89% decline. J-REITs began the year in stride, announcing over JPY 120 billion in new equity issuances for AUM expansion.

The Bank of Japan purchased a total of JPY 2.1 billion in J-REIT units during the month, on pace with the 2014 target of JPY 30 billion for direct purchases. The total amount of units purchased to date now stands at JPY 143.1 billion.

Hulic REIT (3295) announced the first IPO of the year early in the month. Hulic REIT is a diversified J-REIT with planned AUM of JPY 101.4 billion at listing. The IPO is expected to raise JPY 70.2 billion. The REIT is scheduled to list on 7 February.

Japan Excellent (8987), an office J-REIT, announced a secondary offering of units during the month. The J-REIT will issue 88,000 units (7.8% dilution), for a total of JPY

10.4 billion. The proceeds will be used to purchase 3 new properties, for a total cost of JPY 18.5 billion.

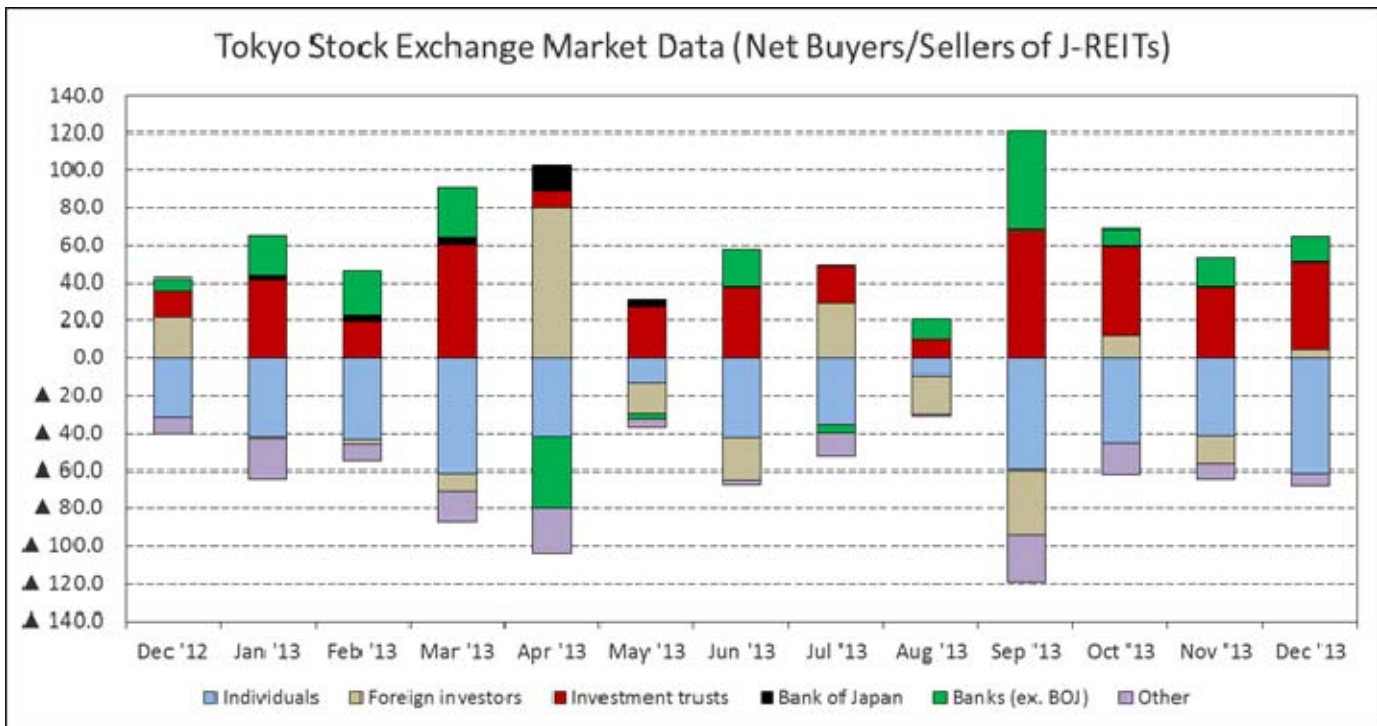
Advance Residence Investment (3269), a residential J-REIT, announced a secondary offering of units during the month. The J-REIT will issue 60,000 units (4.8% dilution), for a total of JPY 12.8 billion. The proceeds will be used to purchase 11 new properties, for a total cost of JPY 15.8 billion.

Comforia Residential REIT (3282), a residential J-REIT, announced a secondary offering of 33,495 new units (49.7% dilution) during the month. Total proceeds of JPY 23.1 billion will be used to purchase 22 new properties for a total cost of JPY 37.4 billion.

Industrial & Infrastructure Fund Investment (3249), a logistics J-REIT, announced a secondary offering of 9,100 new units (5.8% dilution) during the month. Total proceeds of JPY 7.3 billion will be used to purchase 8 new properties for a total cost of JPY 16.6 billion.

There was a total JPY 207.6 billion in property acquisitions announced during the month, along with JPY 6.6 billion in dispositions.

*Note: As of 31 January 2014, of the Fund, Tomoe Corp (1921) is 5.08%, Tri-Stage Inc. (2178) is 7.20%, Gro-Bels (3528) is 5.75%, Showa Aircraft (7404) is 4.91%, and Akatsuki Financial Group (8737) is 6.90%. Industrial & Infrastructure Fund Investment (3249), Advance Residence Investment (3269), Comforia Residential REIT (3282), Hulic REIT (3295), Mitsui Engineering (7003), and Japan Excellent (8987) are not holdings of the Fund.*



## Sector Weightings

Advertising	7.2
Auto Manufacturers	4.9
Banks	1.6
Building Materials	2.2
Distribution/Wholesale	0.9
Diversified Financial Services	14.0
Engineering & Construction	5.1
Machinery-Diversified	1.1
Real Estate	17.1
REITs	10.8
Retail	4.9
Storage/Warehousing	5.0
Transportation	1.6
<b>Total**</b>	<b>76.4</b>
No of Positions	29

## Top 10 Holdings

Symbol	Security	% of Total Assets
3001	KATAKURA INDUSTRIES CO LTD	8.6
2178	TRI-STAGE INC	7.2
8737	AKATSUKI FINANCIAL GROUP INC	6.9
3528	GRO-BELS CO LTD	5.7
3227	MID (REIT)	5.2
1921	TOMOE CORP	5.1
7404	SHOWA AIRCRAFT INDUSTRY CO LTD	4.9
8205	SHAKLEE GLOBAL GROUP INC	4.4
gktaihei	GODO KAISHA TAIHEIYO JISHO #1 BOND	4.1
8986	JAPAN RENTAL HOUSING (REIT)	3.8

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.