

## Prospect Japan Fund

Bloomberg Yen / USD	PJF LN 101.75	NAV Performance (USD) %				
			February	YTD	1 Year	3 Year
NAV (USD)	1.35	Prospect Japan Fund	1.50	4.65	29.81	51.69
Price (USD)	1.07	Topix Small Index	-2.30	-2.33	13.27	20.43
Premium/ Discount %	-20.80%					

*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 1.50% during the month in USD, versus the Topix Small Index' 2.30% decline. The Fund has outperformed YTD, gaining 4.65% versus the index' 2.33% decline.

Strong performance came from Shaklee Global Group (8205), a seller of nutrition and personal care products. Shaklee Global Group contributed strongly to total performance, as shares rallied after the company reported triple-digit profit growth in the 9 months through the end of 2013, and issued a large upward revision to full year forecasts.

Weakness came from Akatsuki Financial Group (8737) and Gro-Bels (3528). Akatsuki Financial Group, a commodity futures trader, retreated from post crisis highs, along with other securities and commodities traders, despite strong 3Q results announced during the month. Gro-Bels, a condominium developer, declined after the announcement of 3Q results, as performance was little changed following the inclusion of recent acquisitions to consolidated results and forecasts.

Equities retreated again during the month, as 4Q annualized GDP underperformed expectations, rising 1.0% vs consensus estimates of 2.8%. Reported corporate profits for the 9-month period to December were up 44.8% YoY (excluding financials, electric power companies).

February's bi-lateral TPP negotiations between Japan and the US hit a temporary road block due to resistance for lifting tariffs on the Japanese automobiles and American farm products. Attention now turns to reaching a framework ahead of US President Obama's planned visit in April.

The Bank of Japan maintained its monetary easing commitment following its February policy meeting, while doubling a low interest lending facility to banks to JPY 7 trillion, and extending the deadlines by one year. Expectations remain for additional monetary stimulus later in the year should the April consumption tax increase impact the Japanese economic growth.

Miki Shoji reported that vacancy rates in Tokyo's Central Business District continued their downward march, falling 0.16 ppt to 7.18% in January. Commercial property transactions hit a six-year high of JPY 4 billion yen in 2013, led by office properties (+82% YoY).

### REIT

In USD, the TSEREIT index saw a total return of +1.09% month-on-month, outperforming the Nikkei 225's 0.28% decline. J-REITs continue to be buoyed by improving fundamentals and attractive dividend yield spreads to the low 0.6% long-term benchmark rate. For the first time in well over a year, no J-REIT issued new equity during the month, opting instead to issue JPY 30 billion in new corporate bonds for refinancing of existing debt.

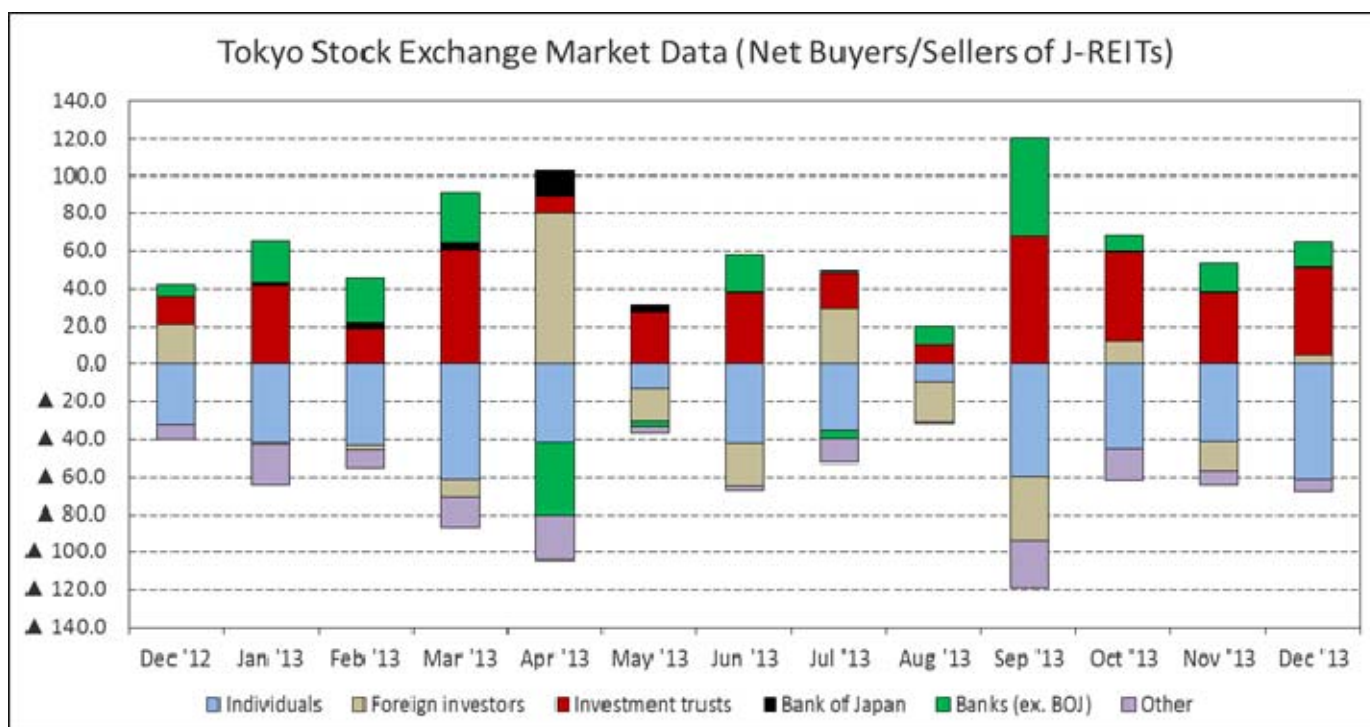
The Bank of Japan purchased a total of JPY 1.8 billion in J-REIT units during the month, on pace with the 2014 target of JPY 30 billion for direct purchases. The total amount of units purchased to date now stands at JPY 144.9 billion.

J-REITs withheld from new equity issuance during the month. However, new bond issuances were plentiful, with JPY 25 billion issued by seven non-portfolio holding J-REITs during the month. The new corporate bonds average a 5 year maturity at 0.49%.

There was a total JPY 53.7 billion in property acquisitions announced during the month, along with JPY 4.2 billion in dispositions.

*Note: As of 28 February 2014, of the Fund, Gro-Bels (3528) is 4.98%, Shaklee Global Group (8205) is 3.97%, and Akatsuki Financial Group (8737) is 4.94%.*

*Sources Bloomberg, Miki Shoji, company releases*



### Sector Weightings

Real Estate	17.2
Diversified Financial Services	12.0
Machinery-Diversified	11.0
Advertising	6.9
Storage/Warehousing	5.9
REITs	5.5
Engineering & Construction	5.4
Retail	4.4
Banks	1.7
Transportation	1.7
Distribution/Wholesale	0.8
Building Materials	0.8
Total**	73.2
No of Positions	28

### Top 10 Holdings

Symbol	Security	% of Total Assets
7404	SHOWA AIRCRAFT INDUSTRY CO LTD	10.0
3001	KATAKURA INDUSTRIES CO LTD	9.4
2178	TRI-STAGE INC	6.9
1921	TOMOE CORP	5.4
3528	GRO-BELS CO LTD	5.0
8737	AKATSUKI FINANCIAL GROUP INC	4.9
3227	MID (REIT)	4.6
gktaihei	GODO KAISHA TAIHEIYO JISHO #1 BOND	4.0
8205	SHAKLEE GLOBAL GROUP INC	4.0
9324	YASUDA WAREHOUSE CO LTD/THE	3.3

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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### **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.