

Firm Brochure

(Part 2A of Form ADV)

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This brochure provides information about the qualifications and business practices of Prospect Asset Management, Inc. If you have any questions about the contents of this brochure, please contact us at: (808) 955 7077, or by email at: info@prospectjapan.com. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission, or by any state securities authority. Additional information about Prospect Asset Management, Inc is available on the SEC's website at www.adviserinfo.sec.gov

Dated March, 2012

Material Changes

Annual Update

The Material Changes section of this brochure will be updated annually when material changes occur since the previous release of the Firm Brochure.

Material Changes since the Last Update

The material changes made by this brochure to the previous version dated December, 2011 which was filed on December 21, 2011 are the following:

The Types of Advisory Services section on page 1 has been updated to reflect change of assets to the most recent.

The paragraph for PAMCI in the Other Financial Industry Activities and Affiliations section on page 4 has been updated.

The Background and Experience in Brochure Supplement on page 9 has been updated to reflect changes on tiles of Hamilton C. Smith and Xin Zhang.

The Other Business Activities in Brochure Supplement on page 9 has been updated to reflect a change that Curtis Freeze is no longer an outside board director of Yasuragi Co., Ltd.

Updated the Soft Dollar section on page 5 to reflect use of multiple soft dollar brokerage agreements.

The last amendment to the Brochure dated March 2011 has been made on December 21, 2011.

Full Brochure Available

Whenever you would like to receive a complete copy of our Firm Brochure, please contact us by telephone at: (808) 955 7077 or by email at: info@prospectjapan.com.

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Advisory Business

Firm Description

Prospect Asset Management, Inc. (the “Adviser” or “PAMI”) was founded in 1994.

PAMI provides investment advisory services in equity portfolio management, specializing in Japanese equities, as well as Japanese real estate investments. The Adviser manages closed and open ended investment companies located in foreign countries, pooled investment vehicles and discretionary investment accounts in long-only equity, long-short equity, private equity, and real estate investments funds in Japan.

PAMI generally serves as the direct advisor to client accounts. In relation to certain accounts, however, Prospect Asset Management (Channel Islands) Limited (“PAMCI”), an affiliated investment manager incorporated in Guernsey, Channel Islands, UK, acts as the direct advisor and sub-contracts its advisory authorities to PAMI. The Adviser has also been appointed by other managers to provide direct management to certain accounts.

PAMI is strictly a fee-only financial planning and investment management firm. The firm does not receive commissions for purchasing or selling annuities, insurance, stocks, bonds, mutual funds, limited partnerships, or other commissioned products. The firm is not affiliated with entities that sell financial products or securities. No commissions in any form are accepted. No finder’s fees are accepted.

Principal Owners

Prospect Co., Ltd (“KKP”) is a 100% stockholder.

Types of Advisory Services

PAMI provides investment supervisory services, also known as asset management services.

As of January 31, 2012, PAMI manages approximately \$275 million in assets for approximately 5 clients, all of which is managed on a discretionary basis.

Fees and Compensation

Fees related to accounts directly managed by PAMI are paid directly to PAMI. These fees range from 0.4% to 1.125% per annum. In addition, with respect to certain accounts particularly hedge funds for qualified investors, the Adviser is entitled to a performance fee of up to 20%. Generally, the fees are calculated based on the net asset value at the end of the month and payable

in arrears; however, there may be instances of accounts in relation to which fees are calculated based on gross asset value, or paid monthly in advance. If the advisory agreement is terminated for any reason prior to the end of the month, a pro rata portion of the management fee paid as of the beginning of such month is typically reimbursed by the Adviser to the client.

Fees in relation to accounts that PAMCI has been appointed to manage are generally paid directly to PAMCI, who subsequently pays a portion of such fee to the Adviser. The offshore Manager is typically paid 1-2% of the net assets under management, of which the Adviser typically receives 60 basis points. Fees are generally paid on a monthly or quarterly basis in arrears. The Manager is entitled to a performance fee on qualified investor hedge funds to up to 20%.

When applicable, specific fee information can also be found in each Offering Memorandum, provided to clients.

Fees are negotiable. The period of termination varies in accordance with the advisory agreement. Certain advisory clients of PAMI and PAMCI, and investors to Funds managed by either, may have negotiated certain contractual arrangements which afford them additional and, in some cases, more advantageous terms than those afforded other clients.

For example, advisory clients may receive fee sharing arrangements, increased levels of transparency and some receive correspondence and information that is not provided to every client. For a list of all negotiated arrangements, please contact PAMI.

Custodians may charge transaction fees on purchases or sales of certain mutual funds and exchange-traded funds. These transaction charges are usually small and incidental to the purchase or sale of a security. The selection of the security is more important than the nominal fee that the custodian charges to buy or sell the security.

Performance-Based Fees

Performance-based compensation is charged in conformity with Rule 205-3 under the U.S. Investment Advisers Act of 1940, as amended (the "Advisers Act"). Any US investors, who are subject to a performance fee arrangement, must meet the "Qualified Client" standard set forth therein. The investors must also have, inter alia, at least \$750,000 under management with the Adviser or more than \$1,500,000 of net worth.

Types of Clients

Description

PAMI provides investment advice to unregistered investment companies and managed accounts. Client relationships vary in scope and length of service.

Methods of Analysis, Investment Strategies and Risk of Loss

PAMI's security analysis methods may include charting, fundamental analysis, technical analysis, and cyclical analysis. The main sources of information include financial newspapers and magazines, inspections of corporate activities, research materials prepared by others, corporate rating services, annual reports, prospectuses, filings with the Securities and Exchange Commission, and company press releases. Other sources of information that PAMI may use include Bloomberg and the World Wide Web.

PAMI offers multiple Investment strategies for the client, such as equity long/short and real estate investments. These Investments include long-term purchases, short-term purchases, trading, short sales, margin transactions, and option writing (including covered options, uncovered options or spreading strategies).

All investment programs have certain risks that are borne by the investor. Our investment approach constantly keeps the risk of loss in mind. Investors face the following investment risks: Interest-rate Risk, Market Risk, Political Risk, Inflation Risk, Currency Risk, Reinvestment Risk, Business Risk, Liquidity Risk and Financial Risk.

Disciplinary Information

Legal and Disciplinary

There are no legal or disciplinary events compromising the integrity of the firm.

Other Financial Industry Activities and Affiliations

KKP is licensed to perform both non-discretionary investment advisory and discretionary real estate investment advisory in Japan. It is also a licensed real estate broker. KKP has a real estate investment team as well as an equity research team. Its team of equity research analysts, to which PAMI has exclusive access, provides Japanese company research on a consultative basis. KKP is 100% owner of PAMI, as well as PAMCI. Prospect

Absolute Return (Japan) LLC (“PARJLLC”), a holding company 98% owned by Curtis Freeze, has a majority interest in KKP, while certain of PAMI’s employees, other persons and institutions own minority interests in KKP.

KKP is also asset manager to certain TK Agreements, which are partnerships invested in physical real estate.

PAMCI is an investment manager registered in Guernsey, UK and has contracted with PAMI to provide investment advisory services to various accounts. PAMCI is a subsidiary of KKP.

Code of Ethics, Interest in Client Transactions and Personal Trading

PAMI has adopted a Code of Ethics and Personal Trading Policy (the “Code of Ethics”) in compliance with Rules 204A-1 under the Advisers Act of 1940, as amended. The Adviser requires all associated persons to adhere to the highest ethical standards and place client interests before personal interest. PAMI requires supervised persons to report initial and annual holdings reports, quarterly transaction reports, and to pre-clear transactions in IPO’s and private placements and in PAMI’s managed funds and related securities. A copy of the Code of Ethics is available upon request.

PAMI principals and employees, as well as related parties, may hold ownership in one or more of the client funds. PAMI may rebalance or utilize cross trades among client funds in which its employees and/or principals are invested. Such trades are utilized to achieve PAMI’s investment strategy goals.

Brokerage Practice

Selecting Brokerage Firms

PAMI selects brokers based on fundamental research and service. When PAMI believes that more than one broker-dealer is able to provide best execution with respect to a particular transaction, it may select a broker-dealer that furnishes research and/or brokerage services. PAMI may cause client accounts to pay a higher commission than otherwise obtainable from other brokers in return for such services only if a good faith determination is made that the commission is reasonable in relation to the services provided. Such transactions are only placed with such broker-dealers if consistent with PAMI’s best execution policies as summarized below.

Best Execution

PAMI reviews executions daily and if a problem arises, the trader generally notifies the broker and obtains backup detail relating to the trade. In addition, PAMI's investment team generally review broker performance on a quarterly basis and document all reviews. When possible, PAMI will aggregate trades to obtain the best execution price for its clients. However, because liquidity is generally thin for Japanese smaller capitalization companies, it is not always possible to trade in large blocks without substantially affecting the price. In certain cases where PAMI cannot aggregate trades, clients may pay a higher commission. When trades are combined, prices and commissions are averaged across all clients.

Soft Dollars

PAMI has several agreements whereby brokerage commissions generated are sometimes used to pay for products and services used in the investment decision-making process. These agreements are currently with The Citation Group (division of Merrill Lynch) and Credit Suisse, but are not limited to those brokers exclusively. The research is used to service those accounts bearing its cost; however, it is possible that products and services may benefit client accounts other than those that generated the soft dollar credits. Products and services include, but may not be limited to, Bloomberg.

PAMI may make a mixed use allocation for certain products and services including, but not limited to, Advent Axys (portfolio accounting) and Macgregor XIP (trade order management system). For such mixed use items, PAMI makes a good faith allocation between the research and non-research uses of the products and services. The percentage of the cost of the product or service that is used for research purposes may be paid for with client commissions, while PAMI will use its own funds to pay for the percentage of the product or service that is used for non-research purposes.

Order Aggregation, Allocation, Cross Trades and Principal Transactions

PAMI's allocation of investment recommendation depends on, among other factors, target portfolio percentage weightings, which for those funds and accounts with non-similar strategies, are particular to their respective strategies and specific investment restrictions. Those with similar strategies and like investment restrictions generally aim to have target weightings be the same across all accounts. PAMI will trade and allocate shares across all accounts on the same day when possible. However, due to liquidity constraints in the Japanese small-cap market, allocation among all clients' accounts may not be completed on the same day. In such cases, PAMI may not purchase or sell the same security for all clients on the same day. PAMI will maintain documentation to justify its allocations. PAMI will not favor one client over another in such allocations. On a best efforts basis PAMI will select different client accounts to receive such purchases in an effort to

mitigate any unintentional inequities that result from purchases on different days or at different prices.

In the event that one of the funds invests in “new issues”, or initial public offerings of equities, there may be investors who are not permitted to participate in such investments or whose participation therein is limited; in which case, the new issues investment will generally be made in a special account in which only non-restricted investors will participate. In addition, there may be funds that are entirely prohibited from investing in new issues. PAMI strives to allocate new issue proceeds fairly among all accounts and, if applicable, in accordance with Conduct Rule 2790 of the National Association of Securities Dealers, Inc (FINRA). A separate account or fund may receive a disproportionate allocation of proceeds relating to an investment in new issues; however, such disproportion will generally only result from account restrictions and varying strategies. PAMI will maintain documentation to support its rationale for new issue allocations.

CROSS TRANSACTIONS

PAMI may engage in cross trades among client accounts. PAMI may sell securities from one or more account and purchase the securities for one or more of the other account in a simultaneous transaction (i.e., a cross transactions) in order to manage each account to its mandate and for rebalancing. No account is favored. Generally, the securities involved in such cross trades are and will be exchange-traded, and the trades will usually be executed in the market at the last traded price of the end of day session using a broker. A copy of cross transactions is available upon request.

PRINCIPAL TRANSACTIONS

PAMI monitors the ownership interests in the unregistered pooled investment vehicles as part of their compliance procedures under rule 206(4)-7.

Review of Accounts

Periodic Reviews

The CIO and trader generally review accounts daily for client objectives. The CCO or designee performs daily compliance reviews using tools from trade order management system and portfolio accounting software and alerts investment team for any compliance warnings. PAMI's trade order management has a compliance rule function which triggers an alert and restricts trading when restriction limits are approached. Monthly, PAMI's Funds Controllers reconcile accounts, verifying number of shares, price, trades, dividend accruals, fees and cash. The account valuations are also confirmed and reported for each client.

Review Triggers

Other conditions that may trigger a review are changes in the tax laws, new investment information, and changes in a client's own situation.

Regular Reports

For separately managed accounts, PAMI provides monthly reports that include client's portfolio assets and weightings, current market values, and performance to date. For funds, investors in funds generally receive reports from the funds' respective administrators. PAMI distributes monthly newsletters for certain funds which provides market outlook and performance information on each fund.

Client Referrals and Other Compensation

PAMI does not receive income from nor pay for referrals.

Custody

SEC "Custody"

From time to time, PAMI may be considered to have custody of certain types of accounts, such as when an employee acts as a trustee of an unrelated trust and the firm acts as the investment adviser to that trust. When the firm has such custody, an annual audit of those custodied accounts is performed by an independent CPA firm in compliance with SEC requirements.

Account Statements

All assets are held at qualified custodians, which means the custodians provide account statements directly to clients at their address of record at least quarterly.

Investment Discretion

PAMI has the authority to determine the securities to be bought or sold, the amount of securities to be bought or sold, and the broker-dealer to be used in effecting the transaction. However, clients may generally place limitations on this authority.

Voting Client Securities

PAMI has contracted ISS/RiskMetrics to provide proxy voting services for PAMI's funds and managed accounts. Proxy guidelines and voting history are available upon request.

Financial Information

PAMI does not have any financial impairment that will preclude the firm from meeting contractual commitments to clients.

A balance sheet is not required to be provided because PAMI does not serve as a custodian for client funds or securities, and does not require prepayment of fees of more than \$1,200 per client, and six months or more in advance.

Business Continuity Plan

PAMI has a Business Continuity Plan in place that provides detailed steps to mitigate and recover from the loss of office space, communications or services.

Information Security Program

Information Security

PAMI maintains an information security program to reduce the risk that your personal and confidential information may be breached.

Privacy Notice

PAMI is committed to maintaining the confidentiality, integrity and security of the personal information that is entrusted to us. PAMI distributes its Privacy Policy on an annual basis and is made available upon request.

We will notify you in advance if our privacy policy is expected to change. We are required by law to deliver this *Privacy Notice* to you annually, in writing.

Brochure Supplement (Part 2B of Form ADV)

Education and Business Standards

Those providing investment advice and research must have a business degree or training in economic and corporate fundamentals and they must demonstrate the ability to interpret and implement this knowledge in giving investment advice.

Background and Experience

Curtis R. Freeze established PAMI in September 1994. Curtis is also Chairman of Prospect Co. Ltd. and Director of PAMCI. Curtis acts as Chief Investment Officer to Prospect's funds and managed accounts. From 1990 to 1994, Curtis was employed by DB Morgan Grenfell Asset Management

Limited in Tokyo, where he was advisor, by the time he left, to \$1.4 billion of investments in Japanese smaller companies. In particular, he was co-manager of the Morgan Grenfell Japan Smaller Companies Fund, an open ended fund with net assets at the end of August 1994 of \$350 million, which was the best performing Japanese fund over 5 years to September 1, 1994 (Source: Micropal). He obtained a Bachelor of Arts Degree in Economics from the University of Utah, Salt Lake City, UT in 1984 and an MBA from the University of Hawaii in 1987. Curtis was born in 1962.

Kaori Matsumoto is President, Director and Funds Controller of PAMI, with over 15 years experience in the financial service business. Kaori joined PAMI in June 2005. From 1988 to 1998, Kaori was employed by Kleinwort Benson Investment Management/Dresdner RCM Global Investors as Funds Controller. She obtained a Bachelor of Arts Degree in Languages from International Christian University in Tokyo in 1988. Kaori was born in 1966.

Hamilton C. Smith serves as the Chief Financial Officer and a Director at PAMI and a Director at KKP. He joined the firm in April 2001. From June 2000 to April 2001 Hamilton worked as Chief Executive Officer and President for a broadband leasing start up company, Pacific World Telecom. He holds a Bachelor of Arts degree in English Literature from the University of Colorado, 1979, and an MBA from the University of Hawaii, 1988. Hamilton was born in 1954.

Xin Zhang is Director, and trader of PAMI, joining the company in October 2006. Xin received a Bachelors of Business Administration in Accounting from the University of Hawaii in 2005. Xin was born in 1982.

Mami Kajiwara is Chief Compliance Officer of PAMI. She joined Prospect in February 2007. Mami received a Bachelors of Arts degree in Translation from the University of Hawaii in 2005. Mami was born in 1983.

Disciplinary Information

There are no legal or disciplinary events to disclose.

Other Business Activities

Curtis Freeze also serves as a director and President of Gro-Bels, a publicly traded company in Japan, the securities of which are or may be held by the advisory clients of PAMI.

Additional Compensation

None.

Other Supervision

None.