

## **Firm Brochure**

(Part 2A of Form ADV)

**Prospect Asset Management, Inc.**

**410 Atkinson Drive Suite 434**

**Honolulu, HI 96814**

**Phone: (808) 955-7077**

**Fax: (808) 955-7081**

**Website: [www.prospectjapan.com](http://www.prospectjapan.com)**

**Email: [info@prospectjapan.com](mailto:info@prospectjapan.com)**

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](mailto: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](http://www.adviserinfo.sec.gov)

**Dated March, 2017**

# 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. The last annual update was made on March 26, 2016.

---

## Material Changes since the Last Update

The material changes made by this brochure to the previous version dated March 2016 are the following:

1. The types of Advisory Services under Advisory Business section have been updated to reflect change of assets to the most recent.
2. The section Fees and Compensation and the section Performance Based Fees have been updated to reflect current customer contracts.
3. Disciplinary Information - Legal and Disciplinary has been updated to reflect the Securities and Exchange Surveillance Commission (Japan) ("Japan SESC") is recommending that Prospect Asset Management, Inc. ("PAMI") be fined 3,290,000 yen, the equivalent of \$29,750 U.S., for allegedly trading on inside information in connection with trades in the securities of Tri-Stage. There will now be a proceeding, in which PAMI will have the opportunity to present its defense that it did not act in violation of the provisions of Article 166(1) or (3) of the Financial Instruments and Exchange Act ("Japan FIEA")

---

## 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](mailto:info@prospectjapan.com).

# Table of Contents

<b>Material Changes.....</b>	<b>i</b>
Annual Update .....	i
Material Changes since the Last Update .....	i
Full Brochure Available .....	i
<b>Advisory Business .....</b>	<b>1</b>
Firm Description.....	1
Principal Owners.....	1
Types of Advisory Services.....	1
<b>Fees and Compensation.....</b>	<b>1</b>
<b>Performance-Based Fees .....</b>	<b>2</b>
<b>Types of Clients.....</b>	<b>2</b>
Description .....	2
<b>Methods of Analysis, Investment Strategies and Risk of Loss.....</b>	<b>2</b>
<b>Disciplinary Information .....</b>	<b>3</b>
Legal and Disciplinary .....	3
<b>Other Financial Industry Activities and Affiliations .....</b>	<b>3</b>
<b>Code of Ethics, Interest in Client Transactions and Personal Trading .....</b>	<b>4</b>
<b>Brokerage Practice.....</b>	<b>4</b>
Selecting Brokerage Firms.....	4
Best Execution .....	5
Soft Dollars .....	5
Order Aggregation, Allocation, Cross Trades and Principal Transactions .....	5
<b>Review of Accounts .....</b>	<b>6</b>
Periodic Reviews .....	6
Review Triggers.....	7
Regular Reports.....	7

<b>Client Referrals and Other Compensation .....</b>	<b>7</b>
<b>Custody .....</b>	<b>7</b>
SEC “Custody” .....	7
Account Statements .....	7
<b>Investment Discretion .....</b>	<b>7</b>
<b>Voting Client Securities .....</b>	<b>8</b>
<b>Financial Information .....</b>	<b>8</b>
<b>Business Continuity Plan .....</b>	<b>8</b>
<b>Information Security Program .....</b>	<b>8</b>
Information Security .....	8
Privacy Notice .....	8
<b>Brochure Supplement (Part 2B of Form ADV) .....</b>	<b>8</b>
Education and Business Standards .....	8
Background and Experience .....	9
Disciplinary Information .....	9
Other Business Activities .....	10
Additional Compensation .....	10
Other Supervision .....	10

# 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”, formerly GRO-BELS Co., Ltd.) is a 100% stockholder.

---

## Types of Advisory Services

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

As of February 28, 2017, PAMI manages approximately \$142 million in assets for approximately 3 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 0.55% to 1.125% per annum. 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 paid between 1.25 to 2% of the net assets under management, of which the Adviser typically receives 55 basis points. Fees are generally paid on a monthly or quarterly basis in arrears.

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.

## **Performance-Based Fees**

---

PAMI does not receive any performance based fees.

## **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**

The Securities and Exchange Surveillance Commission (Japan) (“Japan SESC”) is recommending that Prospect Asset Management, Inc. (“PAMI”) be fined 3,290,000 yen, the equivalent of \$29,750 U.S., for allegedly trading on inside information in connection with trades in the securities of Tri-Stage. Although PAMI had traded in the securities of Tri-Stage for some period prior to the events leading to the allegations, the Japan SESC alleges that in connection with negotiations to complete a contract with Tri-Stage, PAMI’s investment officer received knowledge of a material fact regarding Tri-Stage’s intention to repurchase its own shares and that subsequent trades placed by PAMI, for the account of its client, the Shareholder’s Consensus Fund L. P., prior to the date that Tri-Stage announced it was repurchasing its shares, were made while in possession of inside information

The recommendation made by the Japan SESC for the imposition of the monetary penalty against PAMI has been forwarded to the Prime Minister and the Commissioner of the Financial Services Agency in Japan. They will now conduct a proceeding, in which PAMI will have the opportunity and fully intends to present its defense that it did not act in violation of the provisions of Article 166(1) or (3) of the Financial Instruments and Exchange Act (“Japan FIEA”)

## Other Financial Industry Activities and Affiliations

---

KKP, is a public company listed on the Tokyo Stock Exchange (Ticker: 3528) and is the parent company of PAMI and PAMCI. KKP operates in five main business segments, (1) Financial research on Japanese companies which it provides exclusively to PAMI on a consultative basis; (2) general civil engineering and construction, specialized in pre-stressed concrete works, micro-tunneling; (3) the development and sale of condominiums in the Tokyo metropolitan area; (4) the development and sale of built to order single family homes; and (5) solar energy.

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 reviews 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 an agreement whereby brokerage commissions generated are sometimes used to pay for products and services used in the investment decision-making process. This agreement is currently with Credit Suisse, but is not exclusively limited to this broker. 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., 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 the trade order management system and the portfolio accounting software, and alerts the investment team for any compliance warnings. PAMI’s trade order management system 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 the client portfolio's assets and weightings, current market values, and performance to date. The investors in funds generally receive reports from the funds' respective administrators. PAMI distributes monthly newsletters for certain funds which provide market outlook and performance information.

## **Client Referrals and Other Compensation**

PAMI does not receive income from referrals. PAMI has contracted with third party marketing firms 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 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 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.

PAMI will make a notification in advance if its privacy policy is expected to change. PAMI is required by law to deliver this *Privacy Notice* 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 President 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. 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 Compliance and Financial Officer and a Director at PAMI. He joined the firm in April 2001. 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 Bachelor of Business Administration in Accounting from the University of Hawaii in 2005. Xin was born in 1982.

---

## **Disciplinary Information**

The Securities and Exchange Surveillance Commission (Japan) ("Japan SESC") is recommending that Prospect Asset Management, Inc. ("PAMI") be fined 3,290,000 yen, the equivalent of \$29,750 U.S., for allegedly trading on inside information.

The recommendation made by the Japan SESC for the imposition of the monetary penalty against PAMI has been forwarded to the Prime Minister and the Commissioner of the Financial Services Agency in Japan. They will now conduct a proceeding, in which PAMI will have the opportunity and fully intends to present its defense that it did not act in violation of the provisions of Article 166(1) or (3) of the Financial Instruments and Exchange Act ("Japan FIEA")

---

**Other Business Activities**

Curtis Freeze also serves as a director and President of KKP, 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.