

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 July, 2017

Material Changes – Item 2

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 31, 2017.

Material Changes since the Last Update

The material changes made by this brochure to the previous version dated March 2017 are the following:

1. The types of Advisory Services under Advisory Business – Item 4 have been updated to reflect change of assets to the most recent.
2. Fees and Compensation – Item 5 and Performance Based Fees – Item 6 have been updated to reflect current customer contracts.
3. Methods of Analysis, Investment Strategies and Risk of Loss – Item 8 has been update to describe Cyber Security Risk and more fully describe other risks.
4. Disciplinary Information – Item 9 - Legal and Disciplinary has been updated to reflect that on 15 June 2017, the Financial Services Agency of Japan (“FSAJ”) issued an administrative monetary penalty order of ¥3,290,000 (USD 29,750) to Prospect Asset Management, Inc. (“PAMI”). PAMI has made the payment on 28 June 2017 resolving the order. Neither the Securities and Exchange Surveillance Commission of Japan (“SESC”) nor the FSAJ has initiated any proceedings against PAMI or any individual involved in the trades in question and it is not expected that the SESC will take any further action in relation to this matter.
5. Brokerage Practice – Item 12 has been updated to describe Principle transactions.
6. Voting Client Securities – Item 17 has been updated to incorporate language concerning the resolution of conflicts when voting client proxies.

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Advisory Business – Item 4

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, 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.

PAMI is strictly a fee-only 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 May 31, 2017, PAMI manages approximately \$136 million in assets for approximately 3 clients, all of which is managed on a discretionary basis.

Fees and Compensation – Item 5

Fees related to accounts directly managed by PAMI are paid directly to PAMI. Depending on the specific agreement with each client, 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; 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 1.5 to 2% of the net assets under management, of which the investors in the Fund are charged, and 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.

Performance-Based Fees – Item 6

PAMI does not receive any performance based fees.

Types of Clients – Item 7

Description

PAMI provides investment advice to unregistered investment companies (i.e. private funds) and managed accounts. Client relationships vary in scope and length of service.

Methods of Analysis, Investment Strategies and Risk of Loss – Item 8

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 Financial Services Agency of Japan ("FSAJ"), 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: Currency Risk, Cyber Security Risk, Interest Rate Risk, Liquidity Risk, Market Risk, Political Risk and Risks related to Regulation.

Currency Risk - Currencies may be purchased or sold for a portfolio through the use of forward contracts or other instruments. A portfolio that seeks to trade in foreign currencies may have limited access to certain currency markets due to a variety of factors including government regulations, adverse tax treatment, exchange controls, and currency convertibility issues. A portfolio may hold investments denominated in currencies other than the currency in which the portfolio is denominated. Currency exchange rates can be volatile, particularly during times of political or economic unrest or as a result of actions taken by central banks. A change in the exchange rates may produce significant losses to a portfolio.

Cyber Security Risk - With the increased use of technologies such as the Internet to conduct business, a portfolio is susceptible to operational, information security and related risks. In general, cyber incidents can result from deliberate attacks or unintentional events and are not limited to, gaining unauthorized access to digital systems, and misappropriating assets or sensitive information, corrupting data, or causing operational disruption, including the denial-of-service attacks on websites. Cyber security failures or breaches by a third party service provider and the issuers of securities in which the portfolio invests, have the ability to cause disruptions and impact business operations, potentially resulting in financial losses, the inability to transact business, violations of applicable privacy and other laws, regulatory fines, penalties, reputational damage, reimbursement or other compensation costs, and/or additional compliance costs, including the cost to prevent cyber incidents.

Interest Rate Risk - When interest rates increase, fixed income securities or instruments will generally decline in value. Long-term fixed income securities or instruments will normally have more price volatility because of this risk than short-term fixed income securities or instruments.

Liquidity Risk - Liquidity risk exists when particular investments are difficult to purchase or sell (e.g., not publicly traded and/or no market is currently available or may become less liquid in response to market developments). This can reduce a portfolio's returns because the portfolio may be unable to transact at advantageous times or prices. Investments that are illiquid or that trade in lower volumes may be more difficult to value.

Market Risk - The market value of the instruments in which a portfolio invests may go up or down in response to the prospects of individual companies, particular sectors or governments and/or general economic conditions throughout the world due to increasingly interconnected global economies and financial markets.

Political Risk – A portfolio's valuation and the value of each individual stock may be adversely affected due to political changes within the country in which the company is domiciled. Such political changes are not limited to: change in political party running the government through elections or a coup d'état, or change in internal policy on international trade, or imposed trade sanctions from US or other nations against target country.

Risks Related to Regulation. Laws and regulations affecting our business change from time to time, and we are currently operating in an environment of significant regulatory reform, both in the U.S. and globally. We cannot predict the effects, if any, of future legal and regulatory changes on our business or the services we provide.

Disciplinary Information – Item 9

Legal and Disciplinary

On 22 March 2017, it was announced that the Securities and Exchange Surveillance Commission of Japan ("SESC") had recommended to the Commissioner of the Financial Services Agency of Japan ("FSAJ"), that an administrative monetary penalty order be issued to Prospect Asset Management, Inc. ("PAMI"). This order is in regard to the trading of shares of Tri-Stage Inc. ("Tri-Stage") by PAMI.

The SESC and FSAJ contend that certain trades in the shares of Tri-Stage by PAMI during September and October 2015, were made on the basis of information conveyed to an investment officer of PAMI concerning a buyback by Tri-Stage of its own shares before such information was made public. The SESC contends that the actions of PAMI in connection with these trades were in violation of the Financial Instruments and Exchange Act (Act No. 25 of 1948, as amended) of Japan.

On 15 June 2017, the FSAJ issued an administrative monetary penalty order of ¥3,290,000 (USD 29,750) to PAMI. PAMI has made the payment on 28 June 2017 resolving the order. Neither the SESC nor the FSAJ has initiated any proceedings against PAMI or any individual involved in the trades in question and it is not expected that the SESC will take any further action in relation to this matter.

Other Financial Industry Activities and Affiliations – Item 10

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 – Item 11

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 certain transactions in Japanese securities, IPO’s and private placements and in PAMI’s managed funds and related securities. PAMI’s Code of Ethics also covers certain restrictions on the receipt and providing of gifts and entertainment. 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 – Item 12

Selecting Brokerage Firms

PAMI selects brokers based on fundamental research and service. PAMI does not allow clients to direct brokerage. 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. While research or brokerage services obtained in this manner may be used in servicing any or all of PAMI's client accounts, such products and services may disproportionately benefit one or more clients relative to others based on the amount of brokerage commissions paid, the nature of the research or brokerage products and services acquired and their relative use or value for particular accounts. For example, in some cases, the research or brokerage services that are paid through a client's commissions might not be used in managing that client's account. In addition, other PAMI clients may receive the benefit, including disproportionate benefits, of economies of scale or price discounts in connection with products and services provided as a result of transactions executed on behalf of a client account for which such products and services are also used. To the extent that PAMI uses client commission dollars to obtain research or brokerage services, it will not have to pay for those products and services itself.

Products and services include, but may not be limited to, Bloomberg. Other research or brokerage services that may be acquired by PAMI with soft dollars include, without limitation and to the extent permitted by applicable law: (i) research reports on companies, industries and securities; (ii) economic and financial data; (iii) financial publications; (iv) quantitative analytical software; and (v) market data related software and services. Such

services may be proprietary (i.e., created and provided by the broker-dealer) or third-party (created by a third-party but provided by the broker-dealer).

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 accounts 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.

PRINCIPAL TRANSACTIONS

From time to time PAMI may engage in what is deemed as principal transactions. When engaging in principal transactions, PAMI is required to comply with Section 206(3) of the Investment Advisers Act disclosure and consent requirements, prior to the completion of each principal transaction. The SEC views “completion” of the transaction as occurring upon its settlement. In this regard, PAMI will obtain client consent prior to the completion of each principal trade.

Review of Accounts – Item 13

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

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 – Item 14

PAMI does not have client referrals.

Custody – Item 15

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.

PAMI generally does not have custody of its clients' assets. However, because certain clients may authorize PAMI to receive its advisory fees out of the assets in such clients' accounts by sending invoices to the respective custodians of those accounts, PAMI may be deemed by the SEC to have custody of the assets in those accounts. Such clients generally will receive account statements directly from their third-party custodians for the accounts and should carefully review these statements. Such clients should contact PAMI immediately if they do not receive account statements from their custodian on at least a quarterly basis. As noted above in “Regular Reports” of this Brochure, PAMI may provide clients with separate reports or account statements providing information about the account. Clients should compare these carefully to the account statements received from the custodian. If clients discover any discrepancy between the account statement provided by PAMI and the account statement provided by the custodian, then they should contact PAMI immediately.

PAMI may also be deemed to have custody of certain Private Funds advised by an Adviser for which it or an affiliate serves as managing member or general partner. Investors in such Private Funds generally will receive the fund's annual audited financial statements. Such investors should review these statements carefully. If investors in the Private Funds do not receive audited financial statements in a timely manner (120 days for most Private Funds and 180 days for Private Funds that are funds of funds), then they should contact PAMI immediately.

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. Clients should compare these carefully to the account statements received from PAMI. If clients discover any discrepancy between the account statement provided by PAMI and the account statement provided by the custodian, then they should contact PAMI immediately.

Investment Discretion – Item 16

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 – Item 17

Consistent with applicable rules under the Advisers Act, PAMI has adopted and implemented written proxy voting policies and procedures (“Proxy Voting Policy”) that are reasonably designed: (i) to ensure that proxies are voted, consistent with its fiduciary obligations, in the best interests of clients; and (ii) to prevent conflicts of interest from influencing proxy voting decisions made on behalf of clients. Nevertheless, when votes are cast in accordance with the Proxy Voting Policy and in a manner that PAMI believes to be consistent with its fiduciary obligations, actual proxy voting decisions made on behalf of one client may have the effect of favoring or harming the interests of other clients, PAMI or its affiliates.

PAMI has contracted Institutional Shareholder Services Inc. (“ISS”) to provide proxy voting services for PAMI’s funds and managed accounts. Proxy guidelines and voting history are available upon request.

When exercising voting rights, PAMI will normally vote on specific proxy issues in accordance with the Guidelines for the relevant market. The Guidelines are reviewed regularly and are amended consistent with changes in the local market practice, as developments in corporate governance occur, or as otherwise deemed advisable by ISS.

Occasionally, a conflict of interest may arise in connection with proxy voting. When we identify an actual or potential conflict of interest between our firm and our clients with respect to proxy voting, the matter is presented to senior management who will resolve such issue in consultation with compliance and legal.

Financial Information – Item 18

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 delivers 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.

Kaori Matsumoto is President, Director and Funds Controller of PAMI. Kaori joined PAMI in June 2005. She obtained a Bachelor of Arts Degree in Languages from International Christian University in Tokyo in 1988.

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.

Disciplinary Information

None

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.