

Overview

**Dexion Absolute Limited** is a Guernsey registered, closed-ended investment company listed on the London Stock Exchange. The Company's investment objective is to generate consistent long-term capital appreciation with low volatility and little correlation with the general equity and bond markets through a portfolio having a diversified risk profile. The Company seeks to achieve this through investment in an actively managed portfolio of hedge funds diversified by investment strategy, style and manager. The Company's shares are denominated in Sterling, Euros, US Dollars and Australian Dollars. The Company invests in underlying assets which are predominantly US Dollar denominated and the Company implements a hedging policy in an attempt to reduce the impact of currency fluctuations on the Sterling, Euro and Australian Dollar Shares.

Monthly commentary

Global equity markets ended the year on a positive note, with broad-based gains posted in most regions and sectors. The DJIA reached another all-time high before retreating slightly to post a +2.1% gain by the end of the month. Large cap stocks outperformed small cap stocks, while weakness in a handful of technology companies left the tech-laden NASDAQ in the doldrums. Other regional equity markets enjoyed powerful gains with most European bourses outperforming the DJIA. Asian markets also performed well, the only exception being Thailand's politically-induced 8% sell-off. Conversely, US Treasuries sustained losses that were in part attributable to revived inflationary concerns toward the end of the month, while corporate issues enjoyed gains on upbeat business prospects. Commodity markets witnessed an acute sell-off, with natural gas falling by -34%, while oil and most metals also traded lower. Finally, stronger than anticipated retail sales in the US contributed to a rally in the US Dollar against the Yen.

**Long/Short Equities: +2.1%.** The year closed strongly, particularly for managers with exposure to regions outside the US, with European specialists among the greatest contributors. Positive performance was generated by exposure to financials, basic materials, industrials and utilities. In the UK, profits came from long exposure to the retail sector and well-timed short trades. Performance was mixed for sector specialist managers. Spectacular returns came from those with exposure to financials, while others benefited from long positions in consumer, industrial sectors and short trades in energy companies. Gains were partially offset by two specialists who sustained losses due to their technology sector focus. Generalists were also profitable, with holdings in US large caps outperforming those from small cap stocks. **Fundamental Opportunistic: +1.5%.** A healthy pipeline of corporate activity, favourable earnings reports and a surging stock market all contributed to profits. Corporate deal-making in a variety of industries was the largest driver of returns. Takeover activity was strong in the financial sector, with a REIT and a financial services concern bought by competitors. Other gains came from short plays in copper and oil. **Long/Short Credit: +1.8%.** All managers were profitable due to high yield and distressed securities exposure, company specific events and improved fundamentals. Distressed debt and equity valuations for a telecommunications company and the approval of a restructuring plan for a European infrastructure project were some of the specific events that benefited managers. **Macro: +1.1%.** Skilful positioning in global equities and fixed income investments led to gains. Profits also came from select longs in emerging market currency trades versus the US Dollar, and accurate positioning on the front end of the European yield curve. Elsewhere, choppy commodity markets led to mixed results as declines in gold offset a rally in select agricultural products. **Activist: +1.3%.** Activist managers posted solid returns resulting from appreciation in core positions as markets reacted favourably to news. This included the acceptance of a proposal to change the board of a telecommunications company and plans by a diversified media corporation to overhaul a business unit. **Portfolio Hedge: +0.3%.** Despite the US equity market rally, good stock selection delivered positive returns. Short-sellers benefited from the underperformance of small caps; specifically several managers were short a fuel cell development company whose stock price plummeted during the month. **Relative Value Opportunistic: +4.0%.** Global equity strategies were pivotal to gains; fundamental, quantitative, special situations and derivatives strategies all contributed to performance. Opportunistic trades from natural gas volatility and declining crude oil prices also added to performance, in addition to fundamentally-based credit trades, convertible bond arbitrage and structured finance. One manager suffered a setback from a distressed US manufacturer which was offset by a position in the distressed debt of a cable operator. Event-driven strategies were also profitable, while macro trades and exposure to Asian markets resulted in modest losses.

**Outlook -** Surveying the investment landscape, attractive opportunities are expected to continue for most hedge fund strategies across most regions and asset classes in 2007. European and Asian equities have been very strong, corporate activity has increased markedly and large cap US stocks have enjoyed renewed interest. Our long/short equity, activist and fundamental opportunistic managers are positioned to take advantage of many of these opportunities, while earnings strength coupled with increased cash flows should continue to fuel performance gains from our long/short credit managers.

Performance data

	December (%)	YTD <sup>1</sup> (%)	ITDs <sup>*2</sup> (%)	Volatility <sup>*2</sup> (%)	Sharpe <sup>*1^2</sup>
Dexion Absolute £ Share NAV	1.34	8.13	9.56	3.14	1.63
Dexion Absolute € Share NAV	1.23	6.32	7.46	3.79	1.26
Dexion Absolute US\$ Share NAV	1.33	8.79	9.73	3.82	1.32
Dexion Absolute A\$ Share NAV	1.40	4.46	-	-	-
HFRI Fund of Funds Index (US\$)	1.78	10.43	9.08	3.72	1.70
MSCI World Index Gross (TR) (US\$)	2.06	20.65	19.65	9.15	1.84
JPM Global Gov't Bond Index (TR) (US\$)	-1.89	5.94	6.25	6.86	0.51

<sup>1</sup> Cumulative performance from inception for DAB A\$ Shares. <sup>2</sup> Insufficient data points for DAB A\$ Shares. \* Annualised from inception date of DAB £, DAB € and DAB US\$, based on monthly data. ^ Risk free rate is average 1M GBP LIBOR since December 2002 (4.43%) for DAB £, average 1M EUR LIBOR since June 2005 (2.68%) for DAB €, average 1M USD LIBOR since June 2005 (4.68%) for DAB US\$ and average 1M USD LIBOR since December 2002 (2.78%) for US\$ indices. <sup>2</sup> MSCI World Index and JPM Global Gov't Bond Index annualised since December 2002 and HFRI Fund of Funds Index annualised from 1st January 2003. Source: Bloomberg (data), Dexion Capital (calculation)

£  
NAV 141.57p  
Return +1.34%  
Share price\* 147.50p

€  
NAV €2.0414  
Return +1.23%  
Share price\* €2.1350

US\$  
NAV \$2.5470  
Return +1.33%  
Share price\* \$2.6313

A\$  
NAV \$3.5575  
Return +1.40%  
Share price\* \$3.5650

Note:

\* Closing mid-price at month end.  
Opening NAV per £ share 98.25p,  
€ Share €1.8325, US\$ Share  
US\$2.2158 and A\$ Share A\$3.4055.

Key facts

Manager

Dexion Capital  
(Guernsey) Limited

Investment  
Advisor

Harris Alternatives LLC

Investment  
Consultant

Dexion Capital plc

Total net assets  
£791.0m

Management Fee  
1.50%

Performance Fee  
10%  
(trigger 3%)

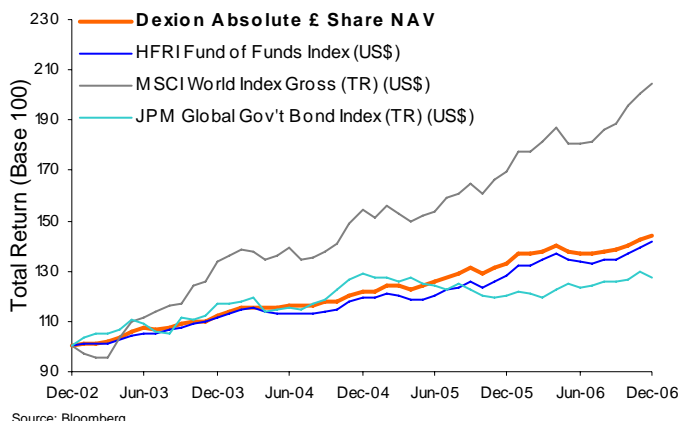
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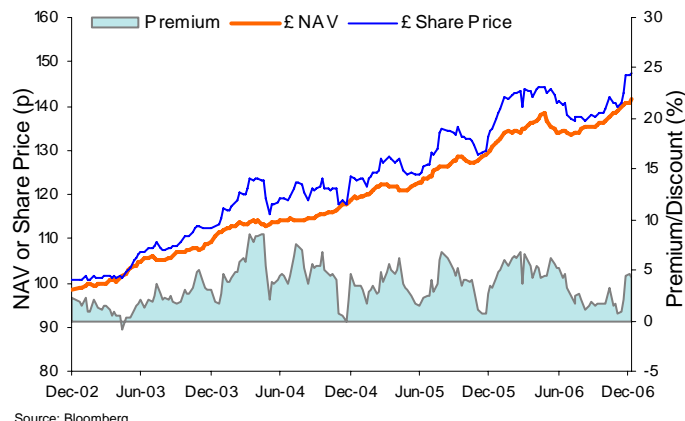
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**Net asset value performance**

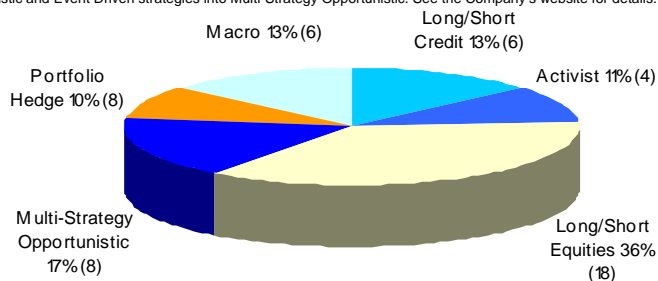


**Share price performance**

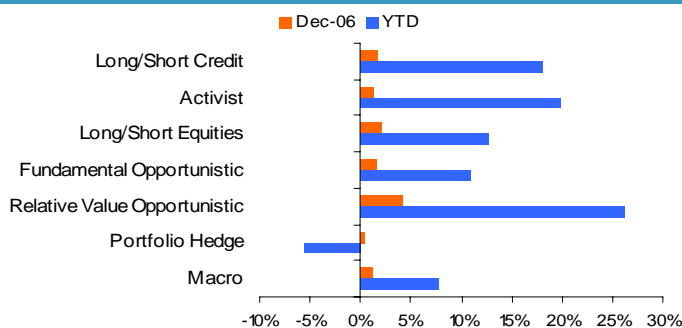


**Portfolio as of 1 January 2007**

Effective 1st January 2007 Harris Alternatives have combined the Fundamental Opportunistic, Relative Value Opportunistic and Event Driven strategies into Multi-Strategy Opportunistic. See the Company's website for details.



**Performance by strategy**



Note: Allocations are net of cash effect and include, for portfolio hedge only, the delta-adjusted exposure derived from option hedges, if any. Numbers in brackets indicate number of managers.

Note: Strategy returns are in US\$ and net of underlying manager fees only, and not inclusive of Dexion Absolute's fees and expenses.

**Historical NAV performance (%)**

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
<b>£</b>													
2006	2.54	0.28	0.71	1.42	-1.52	-0.78	-0.08	0.83	0.35	1.39	1.44	1.34	8.13
2005	0.29	1.54	0.06	-0.87	0.88	1.38	1.51	0.86	1.75	-1.41	1.40	1.72	9.46
2004	1.39	0.96	0.38	-0.18	0.03	0.61	-0.06	0.39	0.86	0.41	1.70	1.38	8.13
2003	1.44	0.02	0.78	1.37	2.11	1.56	-0.48	0.27	1.48	0.72	0.31	2.39	12.59
<b>€</b>													
2006	2.26	0.15	0.52	1.31	-1.68	-0.91	-0.04	0.55	0.21	1.30	1.30	1.23	6.32
2005	-	-	-	-	-	-	1.28	0.67	1.64	-1.58	1.16	1.54	4.78
<b>US\$</b>													
2006	2.58	0.25	0.71	1.54	-1.45	-0.71	-0.01	0.92	0.38	1.45	1.53	1.33	8.79
2005	-	-	-	-	-	-	1.37	0.82	1.74	-1.41	1.32	1.72	5.66
<b>A\$</b>													
2006	-	-	-	-	-	-	-	-	-	1.46	1.54	1.40	4.46

Share Class	Inception date	Bloomberg	Reuters	ISIN	Sedol	Total net assets
£	19 Dec 2002	DAB LN	DAB.L	GB0032287020	3228702	£588.57m
€	28 Jun 2005	DABE LN	DABx.L	GB00B0FXK920	B0FXK92	€142.74m
US\$	28 Jun 2005	DABU LN	DABu.L	GB00B0FXL332	B0FXL33	US\$150.91m
A\$	26 Sep 2006	DABA LN	DABA.L	GB00B1BPPM77	B1BPPM7	A\$72.53m

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