

## Overview

**Dexion Alpha Strategies Limited** is a Guernsey registered, closed-ended investment company listed on the London Stock Exchange. The investment objective is to maximise medium-term returns in a manner commensurate with acceptable risk management. The Company seeks to achieve its investment objective through investment in an actively managed portfolio of underlying funds diversified across a range of alternative investment strategies which target emerging and/or under-exploited sources of alpha.

The Company's shares are denominated in Sterling, Euros and US Dollars and the Company implements a hedging policy to protect the Sterling and Euro value of its US Dollar denominated investments.

## Monthly commentary

May began well as equities advanced briskly and other asset classes maintained the broad trajectories of previous months. However, this momentum ended abruptly during the second week as global risk appetite fell dramatically for a variety of reasons: a combination of US inflation fears, uncertainty regarding Fed policy and some weak economic data. Extremely sharp and sudden reversals in equities were followed by a flight to safety as risky assets such as emerging markets and commodities fell sharply, while short term Treasuries rose. The S&P 500 fell 3% as volatility spiked and hit a two year high. European and Japanese stocks were down 5% and 8%, respectively, while the MSCI Emerging Markets index fell by around 10%. Following these multi-market sell-offs, the US dollar rose against most other currencies, at least temporarily. The month of May has proven once again that it is extremely difficult for hedge funds to protect their portfolios from the impact of a bull market correction. While many of our **Asian** managers had anticipated some sort of market correction, even the most conservative and bearish managers struggled with the irrational market behaviour and substantial (intra-day) volatility. Most hedge funds find the largest source of alpha in inefficiently researched smaller and mid sized companies, which are difficult to hedge due to their limited correlation to the mostly large-cap driven index instruments. Positive performance came from the Australian manager. The Company's loss from its **Healthcare** exposure was not surprising given the severity of the market correction and, overall, most of our managers performed better than had been anticipated. Positive returns came from good timing in healthcare services and an outsized gain in one of the fund's core positions, to cite two instances. A few managers suffered from the sell-off in mid-cap medical technology names and were less hedged than we would have expected. **Special Situations** managers gave back a little of year-to-date profits during in May, due to the increased beta of their long positions during the downturn which resulted in inadequate hedges, and increased basis risk between the (small / mid-cap) longs and the corresponding index / stock basket hedges. Nevertheless, the M&A deal pipeline remains strong. May was a difficult month for most **Commodity** funds, which struggled with unprecedented intra-day volatility in most markets. Managers that made money captured short term trading opportunities, with contributions to positive performance coming from our grains and oilseeds trader, a shipping fund and managers with larger positions in crude oil options volatility and crude oil calendar futures spreads. Most of our **Energy** managers sustained a loss for the month, generally due to a disconnect between spot and forward markets, particularly in natural gas and in crude. Equities also had a strong negative impact on managers with equity exposure. On the positive side, managers with a long volatility exposure made a good return during May. Electricity traders lost money from short positions in the Nord Pool market established after the sell-off in April, while our net long emissions trader also generated losses. The largest sector loss in May came from our **Emerging Market** managers, who lost substantially on their net long positions in equities and carry trades in Brazil, Mexico and Turkey, where local currencies declined versus the US dollar, contrary to managers' bearish views of the US economy. The **European Loan** portfolio performed well, despite continued spread tightening. Default rates continue to be low and most company fundamentals are strong. The portfolio has become a bit more diversified and leverage has been decreased slightly.

**Outlook** - We believe that the uncertain and volatile markets, arising from mixed messages from central banks, will continue until September, once the summer break is over. At present, markets could swing either way, and this lack of direction has resulted in active risk reduction by most of our managers. Most strategies in the portfolio are expected to suffer in the current risk averse, low liquidity environment, but the outlook longer term is more bullish given the strong fundamentals in each of the strategies. We continue to be mildly positive on Special Situations given the strong M&A deal flow investment banks are seeing. European loans should continue to perform well and prove to be the safe harbour in the portfolio, as anticipated.

## Performance data

	May (%)	YTD <sup>1</sup> (%)	ITD <sup>*^</sup> (%)	Volatility <sup>*^</sup> (%)	Sharpe <sup>*^</sup>
<b>Dexion Alpha Strategies £ Share NAV</b>	<b>-2.53</b>	<b>-1.10</b>	-	-	-
FT All Share (TR) (£)	-4.78	-4.05	-	-	-
FT Govt All Stocks (TR) (£)	0.68	-1.12	-	-	-
<b>Dexion Alpha Strategies € Share NAV</b>	<b>-2.72</b>	<b>-1.43</b>	-	-	-
MSCI Eurozone (TR) (€)	-4.35	-4.13	-	-	-
JPMorgan Eurozone Govt Bond Index (€)	0.24	-1.12	-	-	-
<b>Dexion Alpha Strategies US\$ Share NAV</b>	<b>-2.44</b>	<b>-0.93</b>	-	-	-
MSCI World (TR) (US\$)	-3.33	0.13	-	-	-
JPMorgan World Govt Bond Index (US\$)	1.79	3.89	-	-	-
HFRI Fund of Funds Index (US\$)	-1.62	0.12	-	-	-

<sup>1</sup> Cumulative performance from inception. <sup>\*</sup> Annualised from inception date and based on monthly data. <sup>^</sup> Insufficient Data Points.

Source: Bloomberg (data), Dexion Capital (calculation)

£

NAV 97.17p

Return -2.53%

Share price\* 102.25p

€

NAV €1.4005

Return -2.72%

Share price\* €1.4950

\$

NAV \$1.7052

Return -2.44%

Share price\* \$1.7900

Note:  
\* Closing mid-price at month end.  
Opening NAV per £ share 98.25p,  
€ Share €1.4208 and \$ Share \$1.7212.

## Key facts

## Manager

Dexion Capital  
(Guernsey) Limited

Investment  
Adviser

RMF Investment  
Management

Investment  
Consultant

Dexion Capital plc

**Total net assets**  
£125.3m

**Management Fee**  
1.50%

**Performance Fee**  
10%

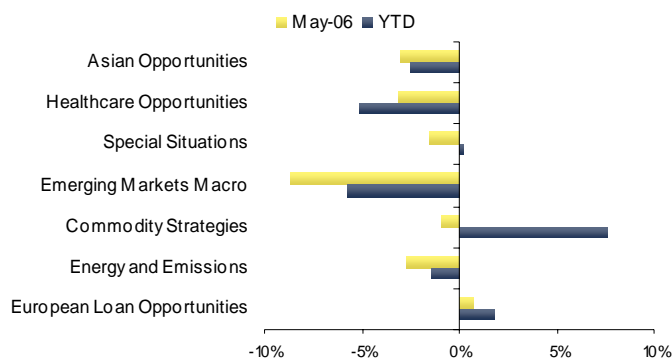
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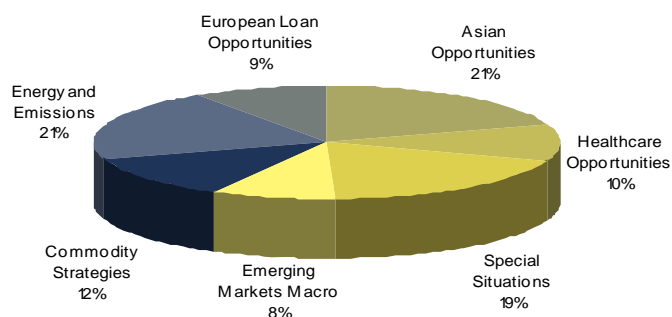
Website  
www.dexionalpha.com

Performance by Strategy



Note: strategy returns are net of underlying manager fees only, and not inclusive of Dexion Alpha Strategies' fees and expenses  
Source : RMF

Portfolio as of 1 June 2006



Strategy	Number of funds
Asian Opportunities	7
Healthcare Opportunities	10
Special Situations	9
Emerging Markets Macro	7
Commodity Strategies	17
Energy and Emissions	10
European Loan Opportunities	1
<b>Total</b>	<b>61</b>

Note: Allocations are net of cash effect and are calculated on a look-through basis, where relevant, as of the end of the previous month.  
Source : RMF

Historical NAV performance (%)

GBP	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
2006	-	-	-	1.47	-2.53								-1.10
EUR													
2006	-	-	-	1.32	-2.72								-1.43
USD													
2006	-	-	-	1.55	-2.44								-0.93

Share Class	Inception date	Bloomberg	Reuters	ISIN	Sedol	Total net assets
GBP	24 Mar 2006	DASL LN	DASL.L	GB00B0ZQ8Q41	B0ZQ8Q4	£85.27m
EUR	24 Mar 2006	DASE LN	DASLx.L	GB00B0ZQ9943	B0ZQ994	€45.17m
USD	24 Mar 2006	DASU LN	DASLu.L	GB00B0ZQBH64	B0ZQBH6	\$17.05m

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Your attention is drawn to the Risk Factors set out in the Dexion Alpha Strategies prospectus dated 10 March 2006 and the fact that no securities are currently being offered by the Company and that certain information in the above prospectus may now be out of date.

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