

Overview

Dexion Equity Alternative Limited is a Guernsey registered, closed-ended investment company listed on the London Stock Exchange. The Company's investment objective is to target US dollar annualised returns of 10 percent to 15 percent per annum over any five year period with low correlation to traditional equity benchmarks and an annualised volatility target of less than 8 percent whilst preserving capital in all market conditions. The Company's shares are denominated in Sterling and the Company implements a hedging policy to protect the Sterling value of its US Dollar denominated investments.

NAV: 105.65p
May return: +0.67%
Share price: 107.38p*

*Closing Mid-price as at 31 May 2005. Opening NAV per share 98.25p

Performance review

Equity markets rebounded strongly in May, the S&P 500, Nasdaq, and Russell 2000 rallying 3.0%, 7.6%, and 6.4%, respectively. The run of outperformance by both large cap stocks and value stocks came to an end in May, as small cap stocks and growth stocks led the way. Given the numerous problems plaguing GM and the automotive industry as a whole, the announcement of US billionaire Kirk Kerorian's offer to buy up to 28 million shares of General Motors' common stock caught the market by total surprise and led to a surge, fed in part by a short squeeze among hedge funds in the stocks of autos and auto parts suppliers. Meanwhile, the core CPI in April was flat, below expectations. Non-farm payroll growth, US retail sales, and existing homes sales in April all exceeded forecasts. First quarter 2005 US GDP growth was revised upward, an adjustment which was particularly relevant since softness in the month of March previously had been reported and concerned investors about a potential economic slowdown. Lastly, continued flattening of the yield curve as yields on the 10-year Treasury continued their descent increased the attractiveness of stocks relative to bonds. Dexion Equity's **long/short equity** managers generated an estimated return of 1.02% in May. Key drivers of the month's positive performance were long positions in homebuilders, energy, financials, REITs, and lodging stocks. Diluting the month's performance were losses by select managers on short positions in consumer cyclical and technology stocks and long positions in consumer staples stocks. The Company's **credit managers** were down -0.14%. Performance for credit strategies and managers reflected a continuation of the negative sentiment and selling which occurred in March and April until a sustained rebound occurred later in the month. The change in market sentiment and direction later in May was attributed to a dissipation of technically driven selling. Note default rates remain low by historical standards at 2.15%, the lowest level since January of 1998. In relative value, as in credit, funds continued to post losses on negative sentiment in the first half of the month and then partially recovered as returns improved during the second half. Convertible arbitrage posted significant losses in the first two weeks of the month, but was able to partially recover as many players found valuations sufficiently cheap to reestablish positions before month-end. Volatility arbitrage, and dispersion trades in particular (i.e. trades that attempt to profit from a mismatch in the implied volatility of an index and the sum of its parts), performed well during the month. Dexion Equity's **relative value** managers returned an impressive 0.54% for May, with manager returns ranging from -0.47% to +2.44%. The strategy's performance was driven by the single manager that posted a gain. This manager earned profits primarily in his equity relative value portfolio, but also in volatility arbitrage and merger arbitrage. The Company's **other low volatility** manager gained 0.31% for the month. The fund, which invests directly in insurance risk, had a quiet month.

	May %	YTD %	ITD* %	Volatility*%	Sharpe Ratio*^
Dexion Equity Alternative	0.67	1.21	6.42	2.87	0.59
FT All Share TR £	3.91	4.66	14.71	6.61	1.51
FT Govt All Stocks TR £	1.65	3.11	7.14	2.95	0.81
HFRI Fund of Funds Index \$	0.36	-0.24	2.85	3.77	0.21

* Annualised from inception date of DEA, based on monthly data. ^ Risk free rate is average of 1M GBP LIBOR (4.74%) for GBP investments, average of 1M USD LIBOR (2.04%) for USD investments. Averages calculated using daily data from inception date of DEA. Source: Bloomberg (data), Dexion (calculation)

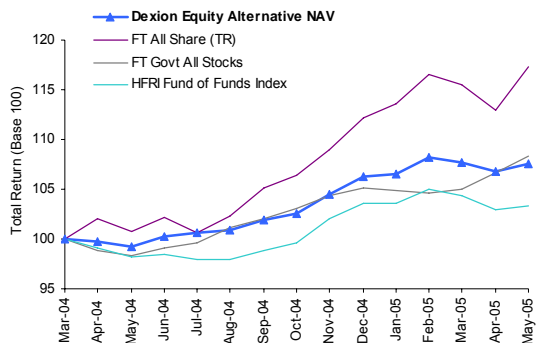
Outlook

Having successfully navigated the pit falls facing hedge fund investors in May, the Company's managers and the portfolio in general continue to be well positioned. Markets remain quite complacent as evidenced by the drop in volatility and historically narrow credit spreads. A divergence between good and bad companies is still awaited and this will most likely be accompanied by an increase in volatility and credit spreads, conditions under which a hedged portfolio should prosper.

Key facts

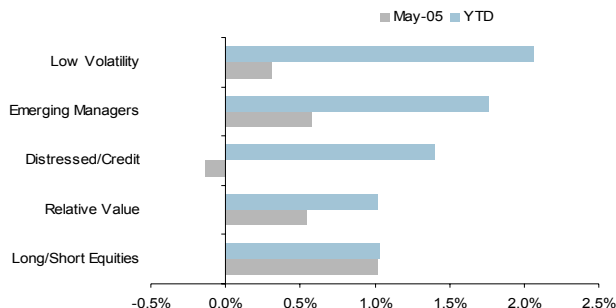
Manager	Dexion Capital (Guernsey) Ltd	Bloomberg	DEA LN
Investment Advisor	K2 Advisors LLC	Reuters	DEA.L
Investment Consultant	Dexion Capital Plc	ISIN	GB0034312321
Inception date	1 April 2004	SEDOL	3431232
Total net assets	£131.6m		

Comparative Performance



Source: Bloomberg

Performance attribution

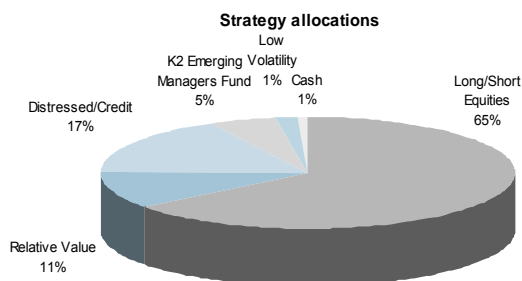


Note: strategy returns are net of underlying manager fees only, and not inclusive of Dexion Equity Alternative's fees and expenses

Historical NAV performance (%)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
2005	0.32	1.47	-0.47	-0.77	0.67								1.21
2004	-	-	-	-0.24	-0.54	1.02	0.36	0.35	0.95	0.71	1.84	1.67	6.25

Portfolio as of 1 June 2005



Long/Short Equities

Relative Value

Distressed/Credit

Low Volatility

K2 Emerging Managers Fund*

Total

Number of funds

19

3

8

1

1

32

*K2 Emerging Managers Fund is generally invested in 20 early stage hedge fund managers with assets under management of less than USD 400m and/or less than a 3 year track record

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Your attention is drawn to the Risk Factors set out in Part I of the Dexion Equity Alternative prospectus dated 1 April 2004.

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