

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: 106.99p
Jun return: +1.27%
Share price: 110.50p*

*Closing Mid-price as at 30 June 2005. Opening NAV per share 98.25p

Performance review

Equity markets posted mixed results in June. While the Russell 2000 generated strong performance for a second consecutive month (+3.7%), the S&P 500 and Nasdaq Composite traded sideways within a relatively narrow trading range. Value stocks resumed their outperformance of growth stocks while small cap stocks for the second consecutive month outperformed large caps. Despite a pick-up in M&A activity (including two proposed takeovers of US companies by Chinese firms) and generally positive economic news flow, worries about economic growth precipitated by the headwinds of interest rates and oil ultimately capped gains in equities. The Federal Reserve, which raised short-term interest rates by 25 bps for the ninth consecutive time to 3.25%, failed to signal to the market that its campaign of rate hikes was near an end. While publicly commenting that inflation appears to be under control, the Chairman of the Fed also implicitly suggested that the economy was in a strong enough state to withstand additional increases in short-term borrowing costs. Oil prices, meanwhile, once again fueled investor anxiety about its own potential implications on consumer spending and corporate earnings.

	Jun %	YTD %	ITD* %	Volatility*%	Sharpe Ratio*^
Dexion Equity Alternative	1.27	2.49	7.06	2.84	0.81
FT All Share TR £	3.40	8.21	16.75	6.67	1.80
FT Govt All Stocks TR £	1.42	4.57	7.86	2.94	1.06
HFRI Fund of Funds Index \$	1.43	1.10	3.76	3.78	0.43

* 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 (2.13%) for USD investments. Averages calculated using daily data from inception date of DEA. Source: Bloomberg (data), Dexion (calculation)

Key drivers of the month's positive performance for the Company's **long/short equity** managers were long positions in homebuilders, consumer/retail, telecom/media, financials and energy stocks. Of the nineteen core long/short equity managers in the portfolio, all but three posted a gain for the month and returns ranged from -1.9% to +6.4%. Long positions in basic materials and airline stocks represented pockets of weakness for these managers. The balance of the Company's portfolio also did well in June. The strength was primarily driven by the credit portfolio, although the relative value managers posted an overall return that was competitive relative to other managers in the space. Performance for **credit** strategies and managers generally posted good results driven in part by strength in high yield markets. June's market action reflected a continued rebound from the negative performance which occurred during the spring, which was in large part a reflection of the General Motors and Ford downgrades. All but one of the Company's managers posted positive results for the period and returns ranged from -0.83% to +4.00%. The strongest returns were posted by the long distressed or high yield managers while the hedged managers tended to underperform. The Company's **relative value** managers posted a gain, with manager returns ranging from -0.08% to +2.05%. Convertible arbitrage managed to sustain the recovery that began in the second half of May. The fear that redemption-driven selling by hedge funds ahead of quarter-end would put pressure on convertible bond prices was never realized, but instead, depressed prices continued to attract investors back to the space. While a modest increase in convertible arbitrage exposure helped performance during the month, the Company's managers remain focused on short term profits as the longer term outlook in the strategy is still uncertain.

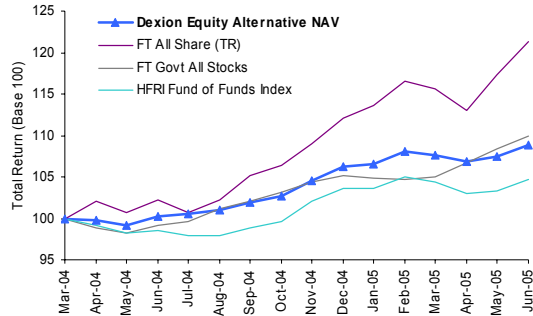
Outlook

While the Fed continues to raise short-term interest rates, longer maturity yields hardly budge. What is it that government bond investors know that equity and corporate bond investors do not? Perhaps bond managers are perpetually bearish, or are they onto something? Spreads continue to narrow on light volume. As markets move higher and spreads continue to tighten, the Company's managers remain cautiously positioned and will welcome the opportunities that should ultimately be created.

Key facts

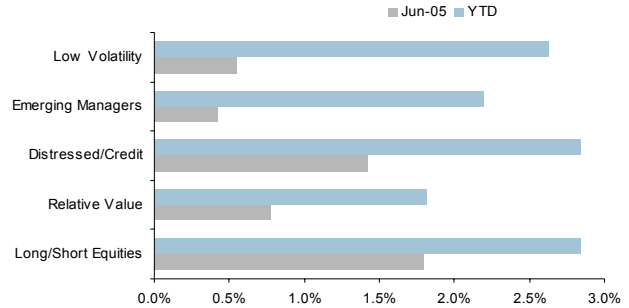
Manager	Dexion Capital (Guernsey) Ltd	Bloomberg	DEA LN
Investment Advisor	K2 Advisors LLC	Reuters	DEA.L
Investment Consultant	Dexion Capital Plc	ISIN	GB0034312321
Inception date	1 April 2004	SEDOL	3431232
Total net assets	£133.3m		

Comparative Performance



Source: Bloomberg

Performance attribution

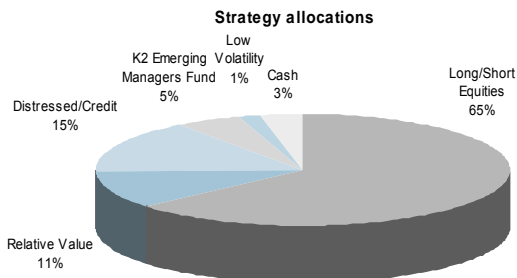


Note: strategy returns are net of underlying manager fees only, and not inclusive of Dexion Equity Alternative's fees and expenses

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	1.27							2.49
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 July 2005



Long/Short Equities

Relative Value

Distressed/Credit

Low Volatility

K2 Emerging Managers Fund*

Total

Number of funds

18

3

7

1

1

30

*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 the Dexion Equity Alternative prospectus dated 11 March 2005.

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