

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: 109.04p

Jul return: +1.92%

Share price: 114.00p*

*Closing Mid-price as at 29 July 2005.
Opening NAV per share 98.25p

Performance review

Despite two separate terrorist events in London, higher oil prices and no signs of an imminent easing of monetary policy, stock prices made impressive gains during July, while volatility contracted for the third consecutive month. The S&P 500, Nasdaq Composite, and Russell 2000 rose by 3.7%, 6.2%, and 6.3%, respectively. Growth stocks resumed their out-performance of value stocks while small cap stocks, for the third consecutive month, outperformed large caps. Based on the reactions of the market to the events in the UK, there

	Jul %	YTD %	ITD* %	Volatility*%	Sharpe Ratio*^
Dexion Equity Alternative (£)	1.92	4.45	8.13	2.98	1.14
FT All Share (TR) (£)	3.39	11.88	18.55	6.69	2.06
FT Govt All Stocks (TR) (£)	-0.60	3.95	6.87	3.04	0.70
HFRI Fund of Funds Index (US\$)	1.69	2.69	4.74	3.83	0.66

* 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 (2.21%) for USD investments. Averages calculated using daily data from inception date of DEA. Source: Bloomberg (data), Dexion (calculation)

appears to have been a terror premium already built into stock prices. Strong second quarter earnings underpinned by data pointing to continued solid US economic expansion provided the backdrop for July's robust rally. A greater than average number of companies reported results which surpassed expectations, although the magnitude by which earnings topped expectations was relatively small. Meanwhile, US economic prospects were positive, as evidenced by a whole host of June economic measures, including: the contraction in the US trade deficit in May, the ninth consecutive quarter of 3%+ US GDP growth, healthy rises in consumer and business spending, a core inflation rate of only 2% and a decision by the Chinese government to revalue its currency relative to the US dollar.

The Company's core **long/short equity** managers generated an estimated return of 2.47% in July. During the month, at the sector level, a rising tide lifted all boats, although the dispersion of positive returns was relatively wide. Fund managers, as a result, had an opportunity to generate alpha through sector allocation decisions. Key drivers of the month's positive performance were long positions in homebuilders, oil and natural gas E&P, industrials, basic materials, and interactive stocks. Seventeen of the nineteen core long/short equity managers in the portfolio made money and returns ranged from -2.6% to +7.9%. The Company's **specialist credit** managers, who gained 1.88% for the month, posted good performance across a range of credit strategies. Of the eight managers, all but one posted positive results for the period and returns ranged from -0.09% to +3.91%. Credit strategies and managers benefited from strong high yield markets during July; credit fundamentals remain strong and default rates are low. The strongest returns were posted by the distressed managers. During July, the Company's **relative value/multi-arbitrage** managers posted a gain of 1.57%, with manager returns ranging from +0.39% to +2.94%. Although performance varied again by sub-strategy during the month, the overall relative value space, like the credit space, continued to advance in July. The best performing strategies included credit arbitrage, merger arbitrage, convertible arbitrage and equity relative value. Volatility arbitrage continued to be challenging as low volatility limited the opportunities in this strategy. The portfolio's **other low volatility** manager gained a modest 0.27% for the month. Activity picked up unexpectedly in the reinsurance markets as two hurricanes threatened the Gulf coast. Hurricane Dennis created the most damage and had a moderate negative impact on the fund.

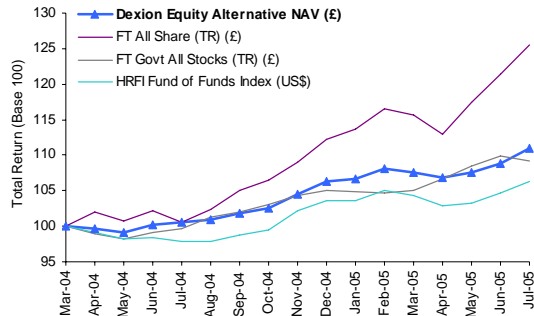
Outlook

With year-on-year corporate earnings growth ahead of estimates at the end of July and positive economic news, it appeared that the equity market might break out on the upside. However, record oil prices and conflicting economic signals in August have held back equity market indices. Following a period of double-digit profit growth and a challenging period for world economies, we are comforted that the portfolio is comprised of high quality managers investing based on the relative value of individual companies rather than anticipated market moves.

Key facts

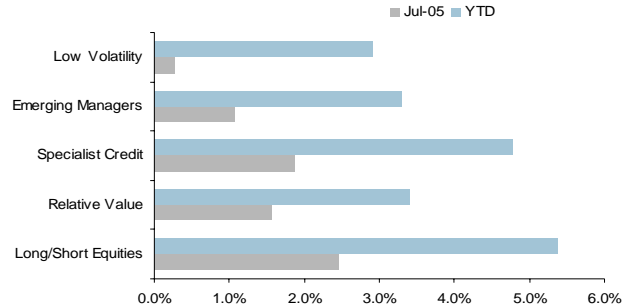
Manager	Dexion Capital (Guernsey) Ltd	Bloomberg	DEA LN
Investment Advisor	K2 Advisors LLC	Reuters	DEA.L
Investment Consultant	Dexion Capital Plc	ISIN	GB0034312321
Inception date	1 April 2004	SEDOL	3431232
Total net assets	£135.8m		

Comparative Performance



Source: Bloomberg

Performance attribution

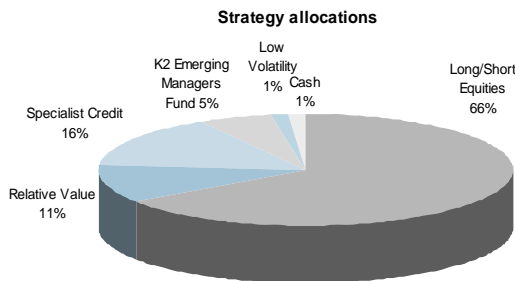


Note: strategy returns are net of underlying manager fees only, and not inclusive of Dexion Equity Alternative's fees and expenses

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	1.92						4.45
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 August 2005



- Long/Short Equities
- Relative Value
- Specialist Credit
- Low Volatility
- K2 Emerging Managers Fund*
- Total**

Number of funds

Long/Short Equities	18
Relative Value	3
Specialist Credit	7
Low Volatility	1
K2 Emerging Managers Fund*	1
Total	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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