

## 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: 109.44p**

**Aug return: +0.37%**

**Share price: 115.50p\***

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

## Performance review

Following a strong run-up in July, equity markets all fell modestly in August. The S&P 500, Nasdaq Composite, and Russell 2000 fell 1.1%, 1.5%, and 1.9%, respectively. The losses were across the board with large cap, small cap, value and growth stocks all declining. Despite bullish reports on job growth, new home sales, and the core CPI in July, energy prices, consumer sentiment, and rate increases weighed heavily on stocks. Oil and natural gas prices hit new highs, with oil rising to over \$70/barrel while natural gas rose to \$11/mmBtu. Hurricane

Katrina devastated the US Gulf Coast and shut down offshore production, transportation, and refinery capacity in the region. The market also started to see signs emerge that oil finally was taking its toll on consumer spending. Consumer sentiment, impacted by high retail gasoline prices, at \$3/gallon, fell more than expected. Weakening sentiment seemed to translate into weak retail sales reports and outlooks by retailers such as Wal-Mart. Lastly, the Federal Reserve raised short-term interest rates 25 bps, to 3.5%, for the tenth consecutive time since June 2004. And minutes from the Fed's early August meeting suggested that most Fed policymakers believe that inflation has accelerated. In August the majority of sectors experienced mark-downs. Real estate, consumer cyclical, basic material, and industrial stocks were the hardest hit sectors. Additionally, financials stocks, due to worries about higher interest rates, claims on insurance companies caused by Hurricane Katrina, along with consumer staples and technology stocks, traded down. On a positive note, energy stocks once again had a robust month, riding a wave of commodity price inflation.

The Company's **core equity long/short** managers generated an estimated return of +0.37% in August. Key drivers of the month's positive performance were long positions in energy and financial services stocks and short positions in homebuilding, technology, and consumer-related stocks. Eleven of the eighteen long/short managers were positive for the month with returns for all managers ranging from -2.99% to +4.37%. The Company's **specialist credit** managers reported solid returns for the month gaining +1.76%. Their returns reflected both the direction of the credit markets as well as good security selection and portfolio construction. Of the 7 credit managers in this strategy all posted positive numbers ranging from +0.55% to +4.07%. The Company's **relative value arbitrage** managers gained +1.38% for the month with returns ranging from +1.07% to +1.76%. All three had good performances given tightening credit spreads which directly impacted credit related exposures. Equity event exposures also performed well based on specific event-driven exposures. The Company's **other low volatility** manager lost -11.82% for the month but with its low weighting did not have a major impact on performance. The manager was impacted by Hurricane Katrina and while the initial damage from Katrina to the Gulf Coast was manageable, the extensive damage caused later by flooding in New Orleans has resulted in significantly higher claims against the fund.

	Aug %	YTD %	ITD* %	Volatility* %	Sharpe Ratio**
<b>Dexion Equity Alternative (£)</b>	<b>0.37</b>	<b>4.84</b>	<b>7.91</b>	<b>2.90</b>	<b>1.10</b>
FT All Share (TR) (£)	1.17	13.18	18.33	6.48	2.10
FT Govt All Stocks (TR) (£)	1.36	5.37	7.48	3.02	0.91
HFRI Fund of Funds Index (US\$)	0.78	3.52	5.05	3.74	0.74

\* 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 (2.29%) for USD investments. Averages calculated using daily data from inception date of DEA. Source: Bloomberg (data), Dexion (calculation)

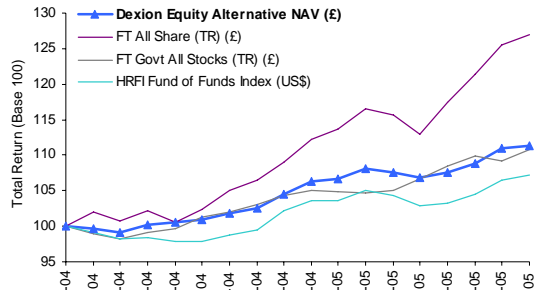
## Outlook

The impact Hurricane Katrina will have on the global economy and markets remains uncertain. Furthermore, the continuing steep rise in energy prices will undoubtedly have an effect on company profits and the economy generally. It is not known how long these events will continue to have an impact, but we expect that over the coming months, our managers will be able to differentiate between the winners and losers in this environment and to benefit from the increased dispersion which is expected to be seen in the markets.

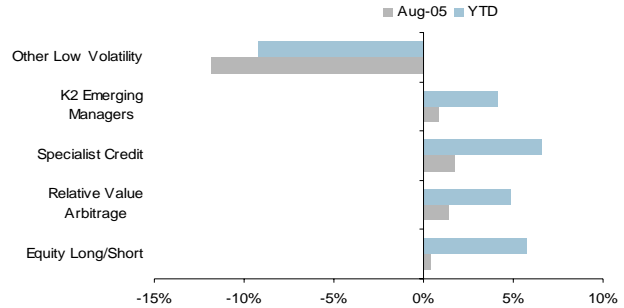
## Key facts

<b>Manager</b>	Dexion Capital (Guernsey) Ltd	<b>Bloomberg</b>	DEA LN
<b>Investment Advisor</b>	K2 Advisors LLC	<b>Reuters</b>	DEA.L
<b>Investment Consultant</b>	Dexion Capital Plc	<b>ISIN</b>	GB0034312321
<b>Inception date</b>	1 April 2004	<b>SEDOL</b>	3431232
<b>Total net assets</b>	£136.3m		

**Comparative Performance**



**Performance by Strategy**

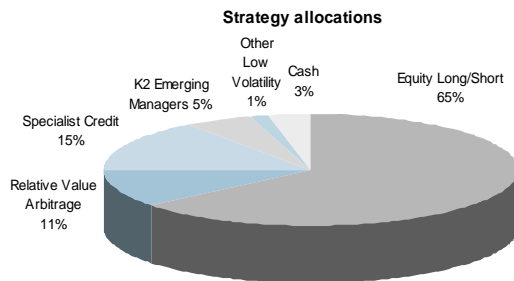


Note: strategy returns are net of underlying manager fees only, and not inclusive of Dexion Equity Alternative's fees and expenses

**Historical NAV performance (%)**

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
<b>2005</b>	0.32	1.47	-0.47	-0.77	0.67	1.27	1.92	0.37					<b>4.84</b>
<b>2004</b>	-	-	-	-0.24	-0.54	1.02	0.36	0.35	0.95	0.71	1.84	1.67	<b>6.25</b>

**Portfolio as of 1 September 2005**



- Equity Long/Short
- Relative Value Arbitrage
- Specialist Credit
- Other Low Volatility
- K2 Emerging Managers Fund\*

**Number of funds**

Equity Long/Short	18
Relative Value Arbitrage	3
Specialist Credit	7
Other Low Volatility	1
K2 Emerging Managers Fund*	1
<b>Total</b>	<b>30</b>

\*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

**Dexion Equity Alternative Ltd, Arnold House, St Julian's Avenue, St Peter Port, Guernsey GY1 3NF**  
**Email: info@dexionequity.com Website: www.dexionequity.com**

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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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