

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: 111.79p
Dec return: +1.31%
Share price: 112.38p*

*Closing mid-price at month end.
 Opening NAV per share 98.25p

Performance review

US equities traded down slightly in December after strong positive returns in November. The Nasdaq Composite and Russell 2000 declined -1.23% and -0.46%, respectively, while the S&P 500 increased +0.03%. As the year came to a close investors reacted negatively to an inversion of the US yield curve and a 5% rise in crude oil prices to above the \$60/barrel mark. The S&P 500, Nasdaq Composite, and Russell 2000 increased +5.0%, +1.4% and +4.6%, respectively, for the calendar year 2005.

	Dec %	YTD %	ITD* %	Volatility*%	Sharpe Ratio*^
Dexion Equity Alternative (£)	1.31	7.09	7.66	3.19	0.92
FT All Share (TR) (£)	3.94	22.04	19.64	7.27	2.05
FT Govt All Stocks (TR) (£)	1.40	7.93	7.48	2.92	0.95
HFR1 Fund of Funds Index (US\$)	1.78	7.35	6.25	3.98	0.91

* Annualised from inception date of DEA, based on monthly data. ^ Risk free rate is average of 1M GBP LIBOR (4.71%) for GBP investments, average of 1M USD LIBOR (2.64%) for USD investments. Averages calculated using daily data from inception date of DEA. Source: Bloomberg (data), Dexion (calculation)

The Federal Reserve had indicated in late November that it may be nearing an end to monetary tightening. In December, the ECB, Bank of Canada and Federal Reserve all raised rates by 25bps. Both bond market and equity market volatility declined further in December to historically low levels. Credit spreads were unchanged in December. Commodity prices, as measured by the CRB Index, increased significantly. The positive returns achieved by the Company's managers were primarily driven by the returns in their long books despite the poor performance of US equity markets. Market and sector hedges along with short positions partially offset gains. Dexion Equity's **equity long/short** generalist managers account for 56% of the portfolio and generated a strong return. The net long exposure of these long/short managers remains at a relatively high level of approximately 40%. An emerging theme is the increase in positive contribution from security selections in non-US companies. For example, investments in UK domiciled pharmaceutical and chemical companies, a Latin American communications company and several European banks were significant performers for the month. Long positions in industrials, mining and healthcare stocks were also positive drivers of performance. The individual long/short generalist managers generated returns in a range from -1.67% to +4.10%. Only one of the managers was negative for the month, experiencing losses in both the long and short technology books that eliminated positive performance in other sectors. Dexion Equity's **equity long/short** sector managers account for 8% of the portfolio and generated a solid return. Individual manager returns were all positive and ranged from +0.95% to +1.95% with the strongest returns being generated by a realty manager. Positions in the financials sector continued to perform well. The Company's **relative value arbitrage** managers generated good returns of +1.33%. With the exception of slight underperformance in October, this section of the portfolio remained steady and positive from August through to the end of the calendar year. Dexion Equity's **specialist credit** managers gained +0.76% for the month. Long positions generated significant gains across a range of industries. The positive factors with greatest increase in contribution were loan origination and direct lending strategies. Finally the Company's **other low volatility** manager posted a loss of -8.18% due largely to continued adverse loss development from the 2005 hurricane season. The fund management team is currently focused primarily on the current reinsurance renewal season, which is expected to have significantly higher pricing in 2006.

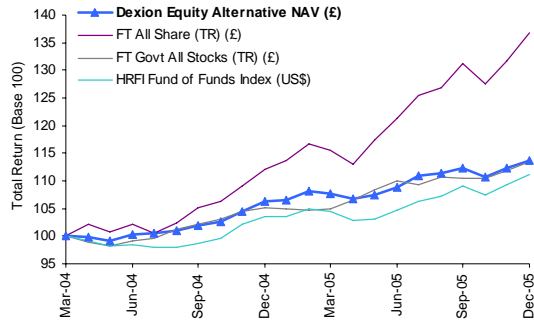
Outlook

Market factors indicate that the outlook for hedge fund returns may continue to improve. Investors may be more selective in 2006. A slowdown in corporate earnings and consequent investor disappointment may lead to greater volatility and security dispersion, creating opportunities for long/short and relative value managers. Specialist credit managers should benefit from strong corporate balance sheets while event driven strategies should benefit from the possible increase of mergers and acquisitions due to the high levels of committed pools of capital in the hands of private equity and activist fund managers.

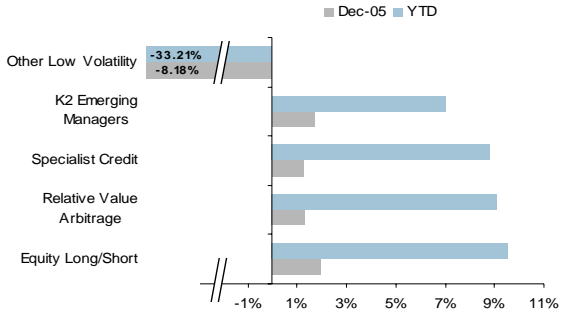
Key facts

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	£139.2m		

Comparative Performance



Performance by Strategy

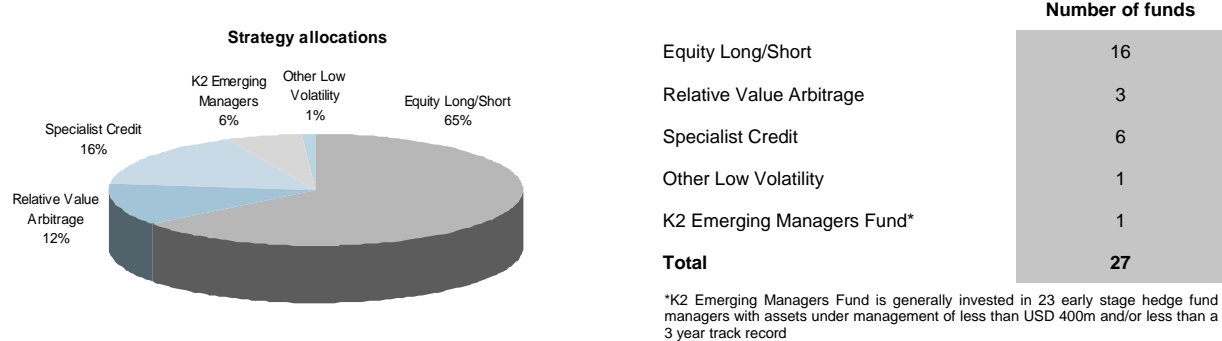


Note: strategy returns are net of underlying manager fees only, and not inclusive of Dexion Equity Alternative's fees and expenses

Historical NAV performance (%)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
2005	0.32	1.47	-0.47	-0.77	0.67	1.27	1.92	0.37	0.83	-1.49	1.50	1.31	7.09
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 January 2006



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