

## 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: 114.00p**

**Jan return: +1.98%**

**Share price: 117.75p\***

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

## Performance review

US equity markets began the new year on a very positive note with the S&P 500, Nasdaq Composite, and Russell 2000 rising 2.6%, 4.6%, and 8.9%, respectively. Large cap equities performed well but were outpaced by small caps. Within the small cap universe, growth outperformed value stocks for the third consecutive month and for the seventh time in the last nine months although both styles experienced robust rallies in January. In the large cap universe, value stocks outperformed growth stocks for the second consecutive month. Equity market volatility, which has been at historic lows during the last two years, moved about 7% higher although its absolute level remained at historically low levels. Credit markets rallied again experiencing a bit of a "January effect" resulting from new capital investments. The Merrill Lynch High Yield Index returned 1.59% reflecting credit spread tightening.

Dexion Equity's portfolio remained net long and was well positioned to take advantage of market rallies in Europe, Asia and the US. Positive returns were primarily driven by managers' long books continuing a trend from the fourth quarter of 2005. Managers delivered positive returns from a wide range of strategies, industries and geographies. The Company's **long/short equity** managers generated a return of +2.6%. The top manager for the month returned +7.8% having generated positive returns across a diverse set of long positions including the oil refining, drug store retailing and consumer finance sectors. Another strong manager for the month produced returns of +5.1% as a result of good stock selection on the long side. Eight of the manager's top ten positions posted gains and generated a positive return from a geographically diverse set of long positions including a UK based gas distributor, a Japanese manufacturer of water treatment chemicals and a German automotive parts manufacturer. The Company's **relative value arbitrage** managers generated a return of +2.5%. Managers took advantage of new capital in January and a slight pick up in volatility in the convertibles market. Broadly, the managers expect that low volatility and a low level of new issuance in the convertibles market will limit investment opportunities in the near term. Greater opportunity is expected in structured products and private transactions. Dexion Equity's **specialist credit** managers generated a return of +2.8% with all managers making positive returns. One manager benefited from a holding's emergence from restructuring and strong performance of an airline carrier. The best performer generated a return of +4.4% driven by equity distributions in two of the fund's largest distressed names. A home furnishing company was one of the most successful credit positions. The manager was well positioned to take advantage of a broad rally in the distressed markets, so many of the remaining holdings in the fund also performed well. Finally the Company's **alternate strategy** manager, accounting for just 1% of the portfolio, lost ground as a result of deteriorations in 2005's hurricane losses. The manager is currently finalizing positions from the new year insurance renewals and has seen significant pricing increases across all of the portfolio, particularly in US risks.

	Jan %	YTD %	ITD* %	Volatility*%	Sharpe Ratio*^
<b>Dexion Equity Alternative (£)</b>	<b>1.98</b>	<b>1.98</b>	<b>8.45</b>	<b>3.27</b>	<b>1.15</b>
FT All Share (TR) (£)	2.91	2.91	20.54	7.17	2.21
FT Govt All Stocks (TR) (£)	0.70	0.70	7.53	2.85	0.99
HFRI Fund of Funds Index (US\$)	2.89	2.89	7.72	4.32	1.16

\* Annualised from inception date of DEA, based on monthly data. ^ Risk free rate is average of 1M GBP LIBOR (4.70%) for GBP investments, average of 1M USD LIBOR (2.72%) for USD investments. Averages calculated using daily data from inception date of DEA. Source: Bloomberg (data), Dexion (calculation)

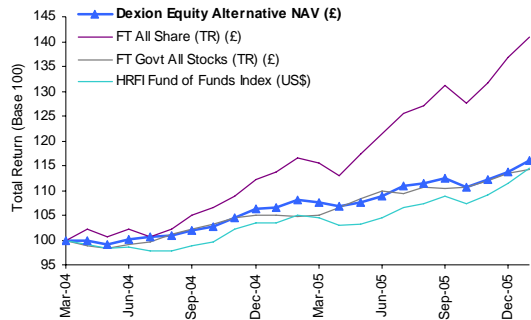
## Outlook

Growth in 2006 is expected to be strong, albeit below the levels seen in 2005. With Price-Earnings valuation ratios at comfortable levels, the potential for negative earnings surprises is limited. This said, the outlook for an increase in sector and stock specific performance variances (dispersion) is much better than was seen in 2005 and this should benefit equity long/short and equity market neutral hedge fund style returns.

## Key facts

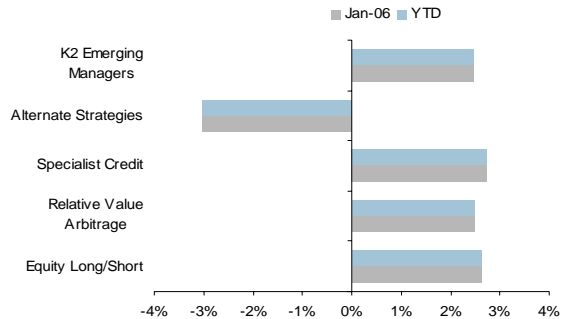
<b>Manager</b>	Dexion Capital (Guernsey) Ltd	<b>Bloomberg</b>	DEA LN
<b>Investment Advisor</b>	K2 Advisors LLC	<b>Reuters</b>	DEA.L
<b>Investment Consultant</b>	Dexion Capital Plc	<b>ISIN</b>	GB0034312321
<b>Inception date</b>	1 April 2004	<b>SEDOL</b>	3431232
<b>Total net assets</b>	£142.0m		

**Comparative Performance**



Source: Bloomberg

**Performance by Strategy**

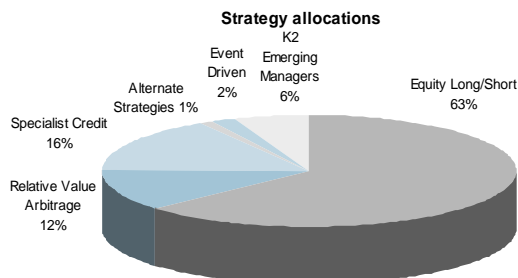


Note: strategy returns are net of underlying manager fees only, and not inclusive of Dexion Equity Alternative's fees and expenses

**Historical NAV performance (%)**

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
<b>2006</b>	1.98												<b>1.98</b>
<b>2005</b>	0.32	1.47	-0.47	-0.77	0.67	1.27	1.92	0.37	0.83	-1.49	1.50	1.31	<b>7.09</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 February 2006**



Strategy	Number of funds
Equity Long/Short	16
Relative Value Arbitrage	3
Specialist Credit	6
Alternate Strategies	1
Event Driven	1
K2 Emerging Managers Fund*	1
<b>Total</b>	<b>28</b>

\*K2 Emerging Managers Fund is generally invested in 15 to 25 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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