

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: 114.30p

Feb return: +0.26%

Share price: 117.25p*

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

Performance review

Stock markets were flat to down for the month of February. The market's performance was uneven, however, as stocks recovered ground in the second half of February following declines of nearly 3% across the major indices during the first half of the month. Both equity and bond volatility remained at historic lows. Credit markets posted another positive month, with auto-related exposures continuing to be a focus of the markets given the structural issues.

In addition, positive performance was seen in corporate bonds, leveraged loans and in distressed debt, with default rates remaining at historically low levels. The portfolio remained net long, and the managers' positive returns were generated primarily from their long portfolios. Short positions remained a hedge and generated mixed performance. The leading sectors for positive long equity attribution were retail, financials, healthcare, and industrials. The weakest performing investments were exposures to energy and homebuilding stocks which had generated significant returns in previous months but came under pressure in February. Other managers experienced losses in their long positions in basic materials and industrials. The Company's **long/short generalist equity managers** generated a gross return of -0.02%. The top managers for the month returned +2.75% and +3.02% (gross). Positive returns were generated across a diverse set of long positions including a US broker/dealer, a pharmacy service provider, and multiple positions in the retail and healthcare sectors. The Company's **long/short sector equity managers** generated a gross return of +0.92%. The highest return was generated by a financial institutions sector manager (+1.53%), whose performance was led by long positions in bank stocks in the US and UK. The Company's **relative value arbitrage/event driven managers** performed well across all strategies and generated a gross return of +1.26%, contributing +0.17% to the portfolio performance. The three relative value/multi-strategy managers all generated positive returns for the month. Overall, managers in this sector see opportunities for increased investment in international markets, including Europe and Asia. However, they expect that low volatility and a low level of new issuance in the convertibles market will limit investment opportunities in the near term. The Company's **specialist credit managers** generated a gross return of +0.70%. Overall, the credit managers outperformed their respective indices, reflecting their superior security selection. The fund's distressed allocations posted mixed returns for the month though they were positive overall. Credit spreads remain at historically tight levels as the level of liquidity in all ranges of credit valuation and ratings remains high. The convertible market was quiet with equity and fixed income markets relatively flat, equity volatility on the decline and a relatively inactive new-issues market. The fund's convertible managers outperformed the convertible market indices due to a pick up in volatility for selected single names. The Company's **alternate strategy manager** (only 1% of the portfolio) generated a gross return of +0.26%.

	Feb %	YTD %	ITD* %	Volatility*%	Sharpe Ratio*^
Dexion Equity Alternative (£)	0.26	2.25	8.21	3.21	1.10
FT All Share (TR) (£)	1.20	4.15	20.31	7.01	2.23
FT Govt All Stocks (TR) (£)	0.13	0.83	7.26	2.81	0.91
HFRI Fund of Funds Index (US\$)	0.41	3.34	7.61	4.23	1.14

* 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 (2.80%) for USD investments. Averages calculated using daily data from inception date of DEA. Source: Bloomberg (data), Dexion (calculation)

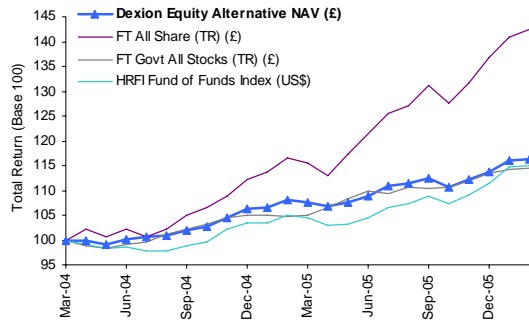
Outlook

Looking forward, the environment for equity-related hedge fund strategies remains positive. While economic growth prospects have been reduced, this has been balanced by positive news regarding earnings reports, balance sheets and price-earnings valuation ratios. Furthermore, a moderate increase in security performance dispersion for equity markets is expected, which will be beneficial for the sector. The outlook for bond-related hedge fund strategies is less positive: these may perform below historic levels in the near-term as global bond investors now face a coordinated liquidity tightening cycle in the major developed markets. In short, market conditions currently favour equity-related hedge fund investments over those in fixed income.

Key facts

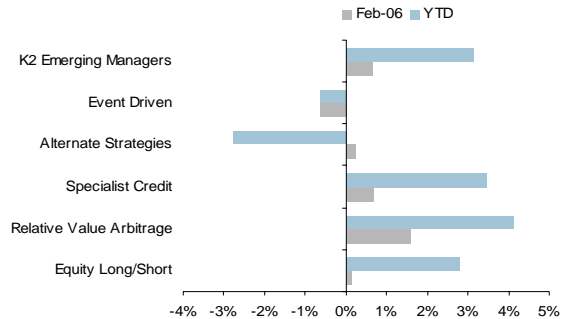
Manager	Dexion Capital (Guernsey) Ltd	Bloomberg	DEA LN
Investment Advisor	K2 Advisors LLC	Reuters	DEA.L
Investment Consultant	Dexion Capital Plc	ISIN	GB0034312321
Inception date	1 April 2004	SEDOL	3431232
Total net assets	£142.4m		

Comparative Performance



Source: Bloomberg

Performance by Strategy

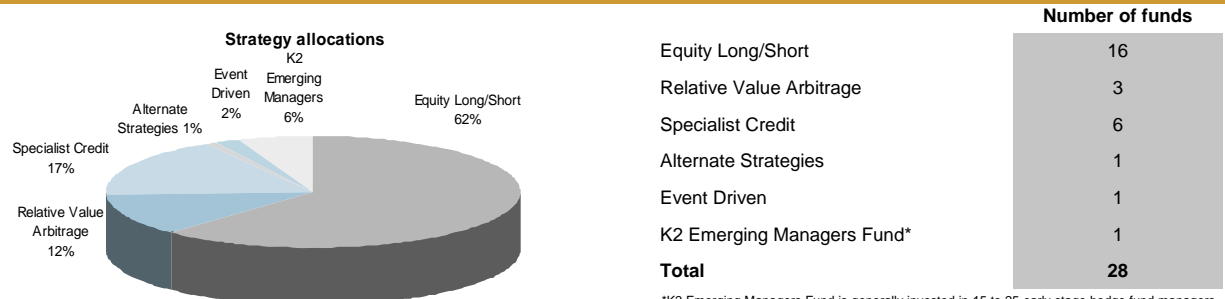


Note: strategy returns are net of underlying manager fees only, and not inclusive of Dexion Equity Alternative's fees and expenses

Historical NAV performance (%)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
2006	1.98	0.26											2.25
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 March 2006



*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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