

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: 114.75p

May return: -1.50%

Share price: 114.63p*

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

Performance review

Global markets declined in May as investors became net sellers of risk due to concerns about the direction of interest rates, inflation and economic growth. Equity market volatility correspondingly hit high levels. The largest losses were seen in emerging market equities and in asset classes which had experienced strong run-ups in preceding months. Stocks of companies whose sales are tied to economic growth and interest rates were among the hardest hit, including technology, financials, basic materials, real estate and energy stocks. Value

and large cap stocks declined only moderately and outperformed their growth and small cap peers. As expected, there was some flight to quality, and US Treasuries performed relatively well. Commodity prices ended the month relatively unchanged despite significant intra-month price volatility. Credit markets in general also experienced increased intra-month volatility but returns were less negatively affected than global equities. Once again, lower-rated corporate credits outperformed better quality credits indicating strong investor risk appetite. Corporate interest rates remain at low levels, which continue to support demand in corporate credit markets as traditional fixed income investors search for yield. Low levels of recent corporate defaults are also affecting investor behaviour in this sector. Leveraged loans continued to deliver steady gains. The Company's **long/short generalist equity** managers, accounting for 52% of the portfolio, generated a return of -3.04%, with many funds negatively impacted by the market risk embedded in their portfolios. The managers that performed best maintained relatively low net exposures and had recently increased their short exposure to momentum stocks and their long exposure to large cap stocks. Dexion Equity's **long/short sector equity** managers, representing 12% of the portfolio, generated a return of -0.65%. The best performing manager was in the financial services sector (+1.17%), which benefited from a well hedged portfolio and from long and short positions within its commercial bank exposure. The **relative value/multi-strategy** managers, also 12% of the portfolio, generated a return of -0.06%. Long volatility trades generated strong gains for the month while dispersion trades generally underperformed due to the rise in correlation among asset classes. The global market sell-off resulted in spread widening in merger arbitrage exposures. The equity market correction and credit remaining steady has led to continuing improvement in convertible bond arbitrage. The Company's **event driven** manager accounts for 2% of the portfolio and generated a return of -1.22%. The number of corporate actions continues to increase, presenting managers in this sector with opportunities to invest. The **specialist credit** managers (15% of the portfolio) generated a return of +1.26%. We remain cautious regarding the nature of the portfolio's credit exposures. These are at present dominated by a combination of floating rate bank debt, which has benefited from higher short-term rates, and event-driven credit exposures, which have a more attractive risk-adjusted return outlook given tight credit spreads and the potential for increased long-term interest rates.

	May %	YTD %	ITD* %	Volatility* %	Sharpe Ratio*^
Dexion Equity Alternative (£)	-1.50	2.65	7.43	3.37	0.81
FT All Share (TR) (£)	-4.78	4.02	17.71	8.04	1.62
FT Govt All Stocks (TR) (£)	0.68	-1.22	5.40	3.21	0.22
HFRI Fund of Funds Index (US\$)	-1.62	5.12	7.54	4.39	1.02

* Annualised from inception date of DEA, based on monthly data. ^ Risk free rate is average of 1M GBP LIBOR (4.69%) for GBP investments, average of 1M USD LIBOR (3.04%) for USD investments. Averages calculated using daily data from inception date of DEA. Source: Bloomberg (data), Dexion (calculation)

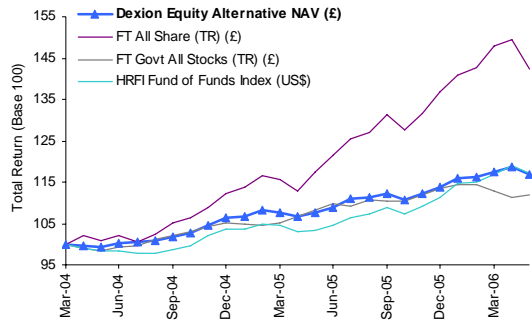
Outlook

The recent increase in market volatility is consistent with investors shifting their perceptions towards a slower economic growth scenario. In addition, several central banks raised their interest rate targets and commented on the "unwelcome" development of inflation remaining above desired levels. Given the current market valuations, much of the shift in investor sentiment regarding macroeconomic fundamentals may be close to completion. Investors continue to focus on hedging their portfolios and adjusting their asset allocation under the assumption that the era of easy liquidity, strong economic growth, rising productivity and cheap raw materials may be ending.

Key facts

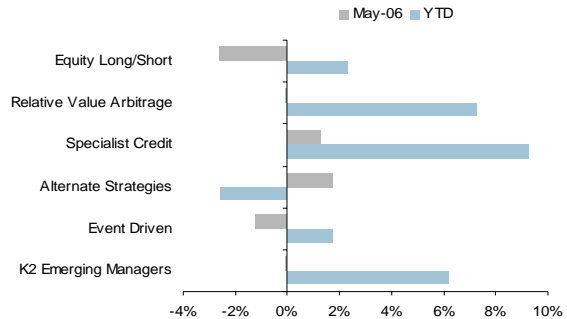
Manager	Dexion Capital (Guernsey) Ltd	Bloomberg	DEA LN
Investment Advisor	K2 Advisors LLC	Reuters	DEA.L
Investment Consultant	Dexion Capital Plc	ISIN	GB0034312321
Inception date	1 April 2004	SEDOL	3431232
Total net assets	£142.9m		

Comparative Performance



Source: Bloomberg

Performance by Strategy

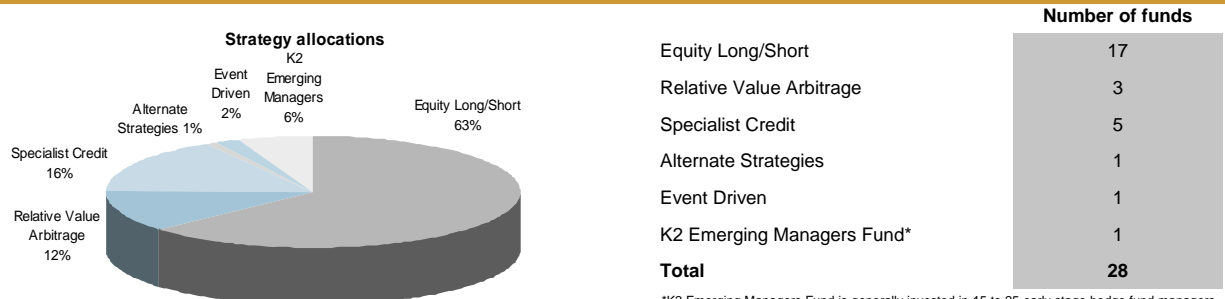


Note: strategy returns are net of underlying manager fees only, and not inclusive of Dexion Equity Alternative's fees and expenses

Historical NAV performance (%)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
2006	1.98	0.26	0.97	0.94	-1.50								2.65
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 June 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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