

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:** 113.82p  
**Jun return:** -0.81%  
**Share price:** 112.13p\*

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

Performance review

June was a turbulent month for equity long/short managers. The decline in prices that began in May continued amidst uncertainty regarding the direction of US monetary policy, inflation, and the sustainability of economic growth. The S&P 500, Nasdaq Composite, and Russell 2000 declined as much as -3.7%, -4.9%, and -6.7%, respectively, intra-month and subsequently rallied off their mid-month lows +3.8%, +4.8%, and +7.7%, respectively. As the variance in returns of the major market indices would suggest, small cap stocks outperformed large cap stocks in June. Value stocks, meanwhile, outperformed growth stocks. Overseas

	Jun %	YTD %	ITD* %	Volatility*%	Sharpe Ratio*^
<b>Dexion Equity Alternative (£)</b>	<b>-0.81</b>	<b>1.82</b>	<b>6.76</b>	<b>3.43</b>	<b>0.60</b>
FT All Share (TR) (£)	2.01	6.11	18.04	7.90	1.69
FT Govt All Stocks (TR) (£)	-0.52	-1.73	4.95	3.21	0.08
HFRI Fund of Funds Index (US\$)	-0.60	4.19	6.83	4.45	0.83

\* 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 (3.12%) for USD investments. Averages calculated using daily data from inception date of DEA. Source: Bloomberg (data), Dexion (calculation)

stocks offered investors little incremental upside relative to the US markets. Credit markets experienced weakness in June continuing a trend which began in May as investors became particularly focused on the upcoming Federal Reserve meeting at the end of June and the implications for markets generally. The spread widening in June was in part reflective of a heavy new issuance calendar much of which was LBO related which put pressure on an already soft market. Despite the recent widening of credit spreads, spreads remain tighter than at the beginning of 2006 and tight by historical standards. The Company's **long/short generalist equity** managers account for 52% of the portfolio and generated a return of -1.33%. Returns ranged from a loss of -3.23% to a gain of +0.80%. While numerous managers posted gains toward the end of June, those gains failed to offset the losses they incurred earlier in the month. The declines were driven primarily by long portfolios - specifically by holdings in the energy, homebuilding, telecom/media including interactive media, healthcare, and financials sectors. Dexion Equity's **long/short sector equity** managers account for 12% of the portfolio and generated a return of -0.10%. The highest returns were generated by a consumer sector manager that generated a return of +1.22%. Although the consumer sector indices were flat for the month, the manager generated gains in both long and short positions with positive sector selection. The **relative value/multi-strategy** managers account for 12% of the portfolio and generated a return of +0.17%. The long volatility trades generated gains for the second consecutive month, and our volatility focused managers performed well taking advantage of market movement. Our more diversified managers had mixed results caused by the difficulty in timing hedge resets in this type of quick spike and decline environment. Despite the lower implied volatility, convertibles outperformed the underlying equities. The Company's **event driven** manager accounts for 2% of the portfolio and generated a return of +0.08%. Returns were negatively affected by market volatility and the general widening of credit spreads during the month. These factors were offset by still strong global mergers and acquisitions activity creating good opportunity for managers. The **specialist credit** managers account for 16% of the portfolio and generated a return of -0.41%. Despite the slight decline, the allocation to specialist credit continues to preserve wealth during the recent decline in equity prices. As stated in previous months, we remain cautious in terms of the nature of our portfolio credit exposures. The portfolio's credit exposures are dominated by a combination of floating rate bank debt which has benefited from higher short-term rates and is senior in the capital structure and event-driven credit exposures which are catalyst-driven which we believe has a more attractive risk-adjusted return outlook given tight credit spreads and the potential for increased long-term interest rates.

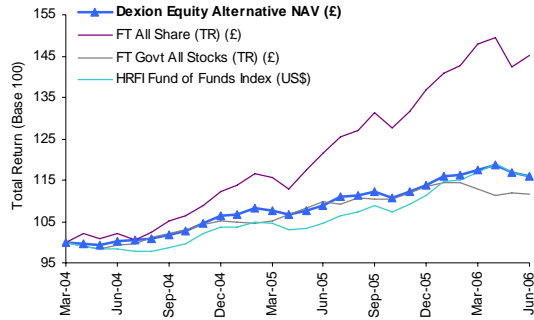
Outlook

The recovery in both US and international markets during the second half of June seems to indicate that the valuations and growth prospects for global equity markets may have adjusted to levels of interest to buyers. The type of high intra-month volatility witnessed recently has historically been evident during market environments where investor uncertainty is above average and their appetite for risk is reduced. The outlook for earnings and GDP growth is seen as stable alongside relatively attractive valuations for equity and bond markets. The next FOMC meeting and the reporting of 2nd quarter corporate earnings season may provide near-term confirmation catalysts for our view of an improved 3rd quarter outlook for global equities and hedge fund strategies.

Key facts

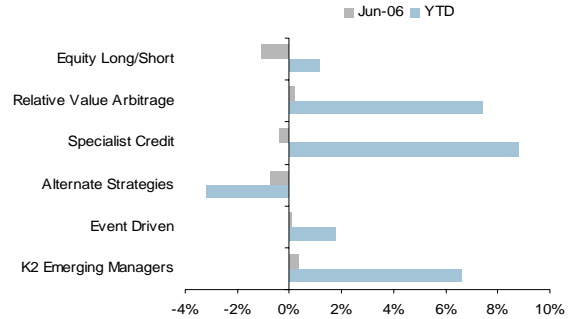
<b>Manager</b>	Dexion Capital (Guernsey) Ltd	<b>Bloomberg</b>	DEA LN
<b>Investment Advisor</b>	K2 Advisors LLC	<b>Reuters</b>	DEA.L
<b>Investment Consultant</b>	Dexion Capital Plc	<b>ISIN</b>	GB0034312321
<b>Inception date</b>	1 April 2004	<b>SEDOL</b>	3431232
<b>Total net assets</b>	£141.8m		

**Comparative Performance**



Source: Bloomberg

**Performance by Strategy**

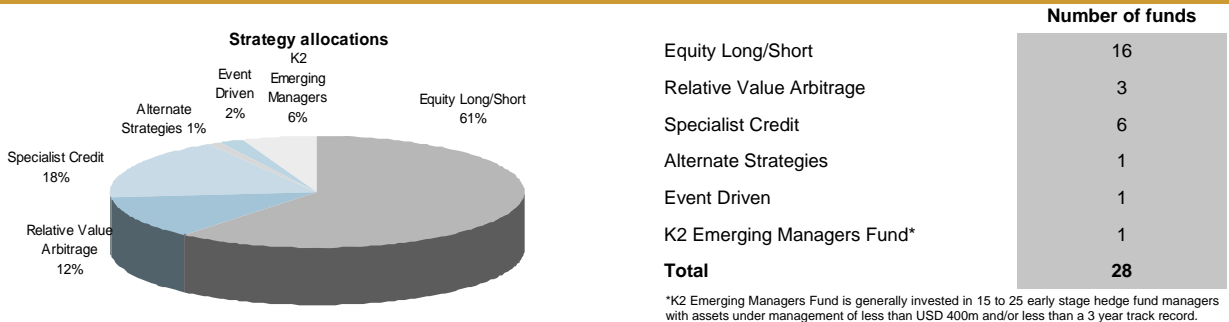


Note: strategy returns are net of underlying manager fees only, and not inclusive of Dexion Equity Alternative's fees and expenses

**Historical NAV performance (%)**

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
<b>2006</b>	1.98	0.26	0.97	0.94	-1.50	-0.81							<b>1.82</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 July 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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