

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: 112.95p

Jul return: -0.76%

Share price: 110.25p*

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

Performance review

In July, long/short equity managers continued to face a challenging and volatile market environment with investors positioning themselves for the US Federal Reserve meeting on August 8th and the reporting of second quarter earnings. International and US equity market indices remained volatile and experienced significant declines intra-month before recovering to finish the month only slightly down. Stock movements continue to be highly correlated as they reacted to macroeconomic factors rather than company specific fundamentals. For example, a leading US publishing company declined -13% during July

following a competitor's announcement of lower than expected earnings despite continued strong fundamentals. Our manager invested in that stock maintained its position - the stock subsequently rebounded to a level above the initial price. Credit markets posted a steady positive performance in July. While credit spreads widened very modestly overall for the high yield market, US Treasuries rallied, more than offsetting the impact of the wider spreads. Performance was generally consistent across ratings and credit quality classes though distressed posted the strongest performance. Defaulted credits remain quite low by historical standards at around 2%. The Company's **long/short generalist equity managers** account for 52% of the portfolio and generated a return of -1.62%. The high correlation among stocks has limited investment opportunities for long/short managers seeking a high price variance between the fundamentally strongest and weakest investments. Our managers maintain strong conviction regarding the long term value in their portfolios and the fundamentals of the securities that they hold. As the dispersion between the strongest and weakest companies increases, our managers are well positioned to profit. The Company's **long/short sector equity managers** account for 9% of the portfolio and generated a return of -0.51%. The real estate and financial services sector managers posted slight losses following strong positive returns in prior months. The consumer sector manager generated positive performance of +0.36%. Although the consumer sector declined during the period, the manager outperformed by earning positive returns from both long and short positions. The Company's **relative value/multi-strategy** managers account for 12% of the portfolio and generated a return of +0.44%. The strategy provided support and balance to the portfolio by taking advantage of the equity volatility. The long volatility trades generated gains for the third consecutive month. Also, the convertible market benefited from higher equity volatility, stable credit, firm bond markets and the decline in equity markets resulting in investment opportunities for managers. The Company's **specialist credit managers** account for 18% of the portfolio and generated a return of +0.09%. The portfolio continues to be well positioned to generate a positive return. 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 have a more attractive risk-adjusted return outlook given tight credit spreads and the potential for increased long-term interest rates. The Company's investment in the **K2 Emerging Managers Fund** accounts for 6% of the portfolio and generated a return of +0.14%. Performance was led by investments in technology and a specialist credit manager focused on direct lending.

	Jul %	YTD %	ITD* %	Volatility*%	Sharpe Ratio*^
Dexion Equity Alternative (£)	-0.76	1.04	6.16	3.48	0.42
FT All Share (TR) (£)	1.32	7.51	18.00	7.75	1.72
FT Govt All Stocks (TR) (£)	1.27	-0.49	5.33	3.20	0.20
HFRI Fund of Funds Index (US\$)	-0.23	3.94	6.46	4.39	0.74

* 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 (3.20%) for USD investments. Averages calculated using daily data from inception date of DEA. Source: Bloomberg (data), Dexion (calculation)

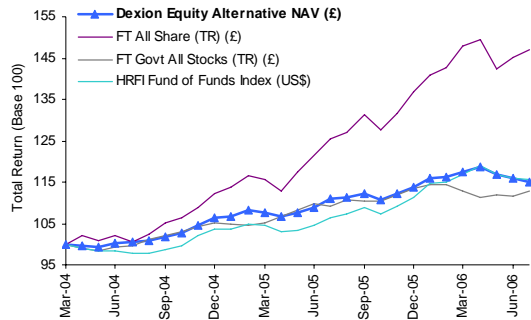
Outlook

The outlook for the various macroeconomic factors monitored by K2 indicates an improvement in the environment for hedge fund strategies going forward. As we experience continued equity volatility, we also anticipate a reversion to higher levels of equity return dispersion. We expect our managers to generate strong returns when stocks trade based on company specific fundamentals rather than macroeconomic concerns. The portfolio remains balanced, diversified and positioned to take advantage of opportunities in both equity and credit markets. Furthermore, K2 continues to carry out detailed monitoring of managers and maintains strong conviction in the managers in the portfolio.

Key facts

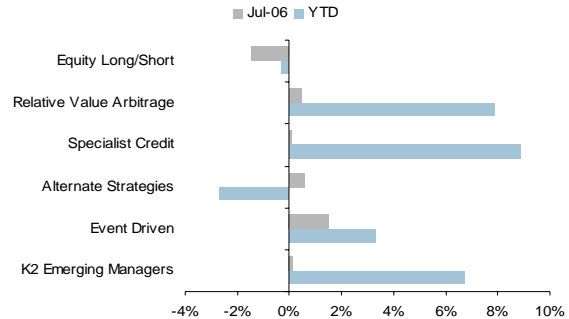
Manager	Dexion Capital (Guernsey) Ltd	Bloomberg	DEA LN
Investment Advisor	K2 Advisors LLC	Reuters	DEA.L
Investment Consultant	Dexion Capital Plc	ISIN	GB0034312321
Inception date	1 April 2004	SEDOL	3431232
Total net assets	£140.7m		

Comparative Performance



Source: Bloomberg

Performance by Strategy

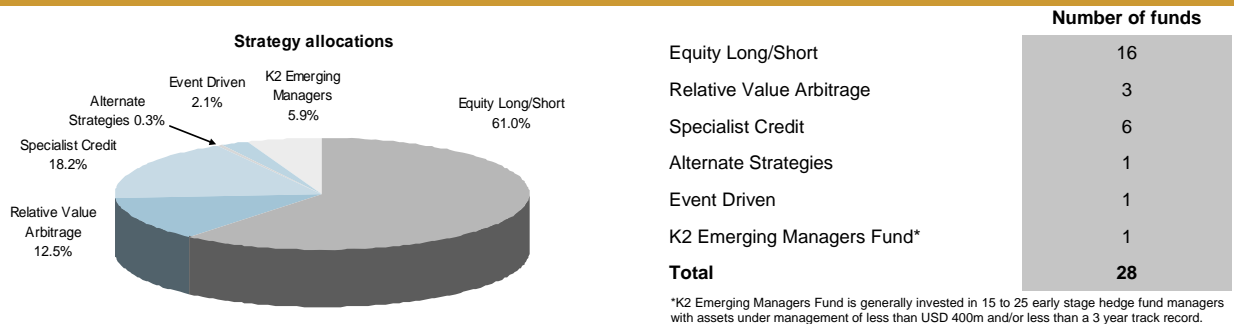


Note: strategy returns are net of underlying manager fees only, and not inclusive of Dexion Equity Alternative's fees and expenses

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	-0.81	-0.76						1.04
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 August 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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