

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: 113.96p

Aug return: +0.89%

Share price: 110.63p*

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

Performance review

Stocks recovered in August after investors became more optimistic as crude oil and gasoline prices fell and there were favourable reports on the U.S. economy and inflation. Trading volumes were light given the end of the summer holidays. Stock leadership changed in August as investors chose to favour growth stocks over value stocks and small cap stocks over large cap stocks. In addition, technology stocks, which have had a particularly difficult year, led the market in August. Credit markets enjoyed another positive month with the Merrill Lynch High Yield Index gaining +1.62% for the month, however, the gains came mainly from the rally in U.S. Treasuries as high yield spreads widened 3 bps. The high yield market remains remarkably benign and as a result high yield credit spreads continue to remain tight by historical standards. The combination of so much market liquidity and the prospect of low corporate default rates have kept prices high. The environment continues to be favourable for corporate action. Corporations have ample cash on their balance sheets and there is significant private equity money providing liquidity. The result is continued corporate activity in the form of spin-offs and mergers.

	Aug %	YTD %	ITD* %	Volatility* %	Sharpe Ratio* [^]
Dexion Equity Alternative (£)	0.89	1.94	6.33	3.42	0.48
FT All Share (TR) (£)	0.71	8.27	17.67	7.63	1.70
FT Govt All Stocks (TR) (£)	1.00	0.50	5.58	3.17	0.28
HFR1 Fund of Funds Index (US\$)	0.80	4.77	6.58	4.32	0.76

* 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 (3.28%) for USD investments. Averages calculated using daily data from inception date of DEA. Source: Bloomberg (data), Dexion (calculation)

Long/short equity generalist: +2.17%. All the managers were positive for the month. The best performing manager returned +6.79%. Returns were consistent, with more than half the managers posting returns of over +2.00%. A number of the managers in the portfolio have shifted their positioning to benefit from the unwinding of the commodity bubble both in their longs as well as their shorts. A number of our managers believe their industrial companies will benefit from lower commodity prices. Managers attribute some of the success they are seeing recently to the market more fully understanding the fundamentals of the specific companies they own. Simply, they are seeing some dispersion between their longs and shorts versus the indices. **Long/short equity sector: +1.37%.** The manager believes that financial stocks remain underweight at most institutions and he believes this will change now that the Fed tightening appears over. **Relative value/multi-strategy: +0.20%.** The managers in the strategy were essentially flat as a decline in volatility made returns more difficult to achieve. **Specialist credit: +0.59%.** Despite the benign current corporate credit market, the managers' exposures remain defensively positioned in line with our cautious outlook. Because of the portfolio's low degree of interest rate sensitivity combined with its more senior secured floating rate securities, the portfolio lagged the Merrill Lynch index for the month. **Event driven: +1.81%.** This manager had a good month as M&A volumes remained solid both in the U.S. and in international markets. **K2 Emerging Managers Fund: +0.39%.** Performance was led by two managers invested in technology and the industrial sector.

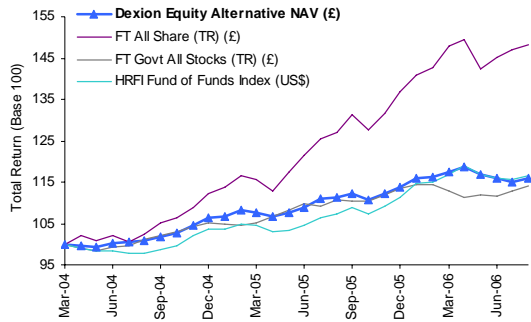
Outlook

We believe many of the Company's long/short managers are well positioned to benefit from the unwinding of the commodity bubble. In addition we remain confident that, in an environment where fundamentals matter, we will see greater price dispersion among stocks and that in such an environment the Company's managers will prosper. In other strategies we believe the portfolio is well positioned to benefit from continued corporate activity and that in specialist credit we have selected managers able to generate returns independent of credit markets' direction.

Key facts

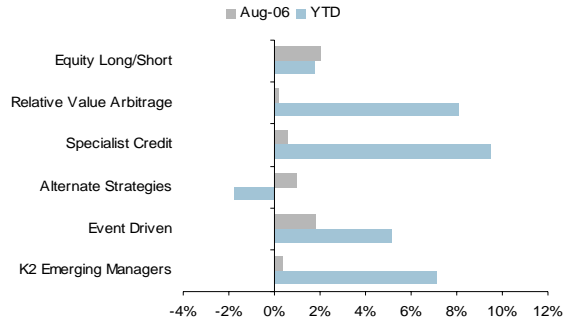
Manager	Dexion Capital (Guernsey) Ltd	Bloomberg	DEA LN
Investment Advisor	K2 Advisors LLC	Reuters	DEA.L
Investment Consultant	Dexion Capital Plc	ISIN	GB0034312321
Inception date	1 April 2004	SEDOL	3431232
Total net assets	£142.0m		

Comparative Performance



Source: Bloomberg

Performance by Strategy

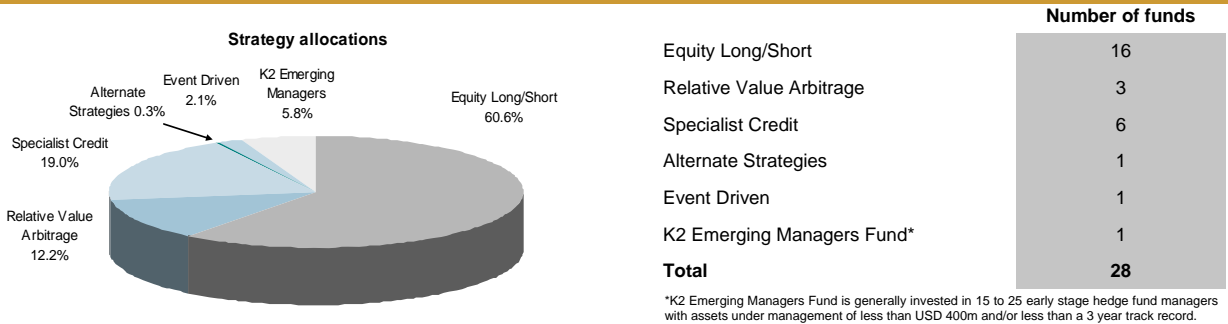


Note: strategy returns are in US\$ and net of underlying manager fees only, and not inclusive of Dexion Equity Alternative's fees and expenses

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	0.89					1.94
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 September 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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