

## 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:** 114.52p  
**Sep return:** +0.49%  
**Share price:** 109.75p\*

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

## Performance review

Stocks traded higher for the second consecutive month amidst falling energy prices and a second consecutive pause in rate adjustments by the US Federal Reserve. Markets also experienced a rally in bonds which pushed yields lower as US economic data suggested a controlled slowdown. Recent sector rotational moves persisted in September, with energy and basic materials stocks among the laggards and technology and telecom stocks among the leaders. The gains in the portfolio reflect the ability of the Company's managers to take advantage

	Sep %	YTD %	ITD* %	Volatility* %	Sharpe Ratio*^
<b>Dexion Equity Alternative (£)</b>	<b>0.49</b>	<b>2.44</b>	<b>6.32</b>	<b>3.36</b>	<b>0.48</b>
FT All Share (TR) (£)	1.58	9.98	17.77	7.49	1.74
FT Govt All Stocks (TR) (£)	0.44	0.95	5.57	3.11	0.28
HFRF Fund of Funds Index (US\$)	0.04	4.77	6.35	4.26	0.71

\* 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 (3.35%) for USD investments. Averages calculated using daily data from inception date of DEA. Source: Bloomberg (data), Dexion (calculation)

of these rotations. Corporate credit markets remained positive during September. Defaults remain well below historical averages while interest rates rallied supporting growth in issuance. While the current credit market appears very benign, the Company's credit exposures remain well positioned to take advantage of an increase in risk premium.

**Long/short equity generalist: +1.15%.** Returns were consistent and positive for most managers, with the best performing manager returning +5.48%. Managers' long positions in industrials stocks and consumer-oriented stocks were particularly profitable. The sell-off in energy prices helped long exposures to the airlines, automotive, and transportation sectors, and on the short side positions in gold mining and natural gas producers saw gains. Positions in stocks of non US domiciled companies also generated strong positive returns in September. **Long/short equity sector: +0.50%.** The managers in this sector continued to perform well, led this month by the real estate sector manager. **Relative value/multi-strategy: -0.09%.** The gains in convertible arbitrage and merger arbitrage were negated by slight losses in volatility strategies. The long volatility trades profitable in prior months remained flat during September as equity volatility remained at historically low levels. Our managers are well positioned to take advantage of market movement once an event provides a catalyst to return volatility to historical average levels. **Specialist credit: +0.57%.** The managers are well positioned to take advantage of possible changes in the credit markets. The Company's floating rate bank debt should benefit from higher short-term rates, while investments in senior credits and event-driven credit continue to have an attractive risk-adjusted return outlook, given tight credit spreads and the potential for increased long-term interest rates. **Event driven: +0.03%.** The manager was able to take advantage of global mergers and acquisitions activity while effectively managing the risk of credit spreads, which remain at historically tight levels. **K2 Emerging Managers Fund: +0.65%.** Performance was led by long/short managers invested across a broad range of sectors, including technology, energy and real estate.

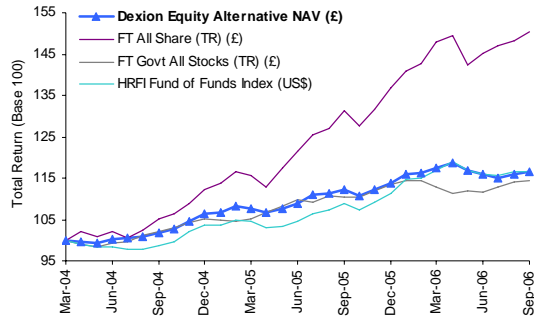
## Outlook

A focus on the fundamentals of specific securities has replaced sentiment-driven macro-economic concerns, resulting in rewards for investors with superior security selection. This development has been assisted by the recent pause in monetary tightening. The sell off in crude oil has continued during September and has improved consumer confidence and reduced inflation fears. We are vigilant of the economic indicators that may suggest movement in the capital markets, and continue to monitor any pick-up in dispersion from the current low levels that would further benefit performance. The Company remains well positioned to take advantage of potential market movements across the range of strategies.

## Key facts

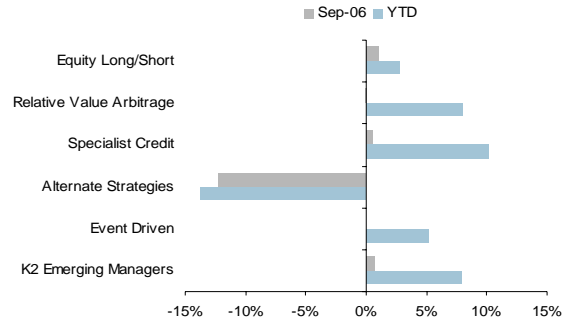
<b>Manager</b>	Dexion Capital (Guernsey) Ltd	<b>Bloomberg</b>	DEA LN
<b>Investment Advisor</b>	K2 Advisors LLC	<b>Reuters</b>	DEA.L
<b>Investment Consultant</b>	Dexion Capital Plc	<b>ISIN</b>	GB0034312321
<b>Inception date</b>	1 April 2004	<b>SEDOL</b>	3431232
<b>Total net assets</b>	£142.7m		

**Comparative Performance**



Source: Bloomberg

**Performance by Strategy**

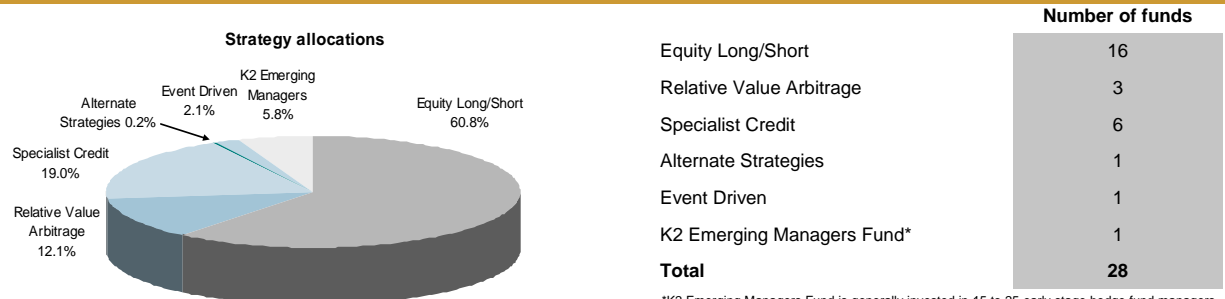


Note: strategy returns are in US\$ and net of underlying manager fees only, and not inclusive of Dexion Equity Alternative's fees and expenses

**Historical NAV performance (%)**

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
<b>2006</b>	1.98	0.26	0.97	0.94	-1.50	-0.81	-0.76	0.89	0.49				<b>2.44</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 October 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.

**Dexion Equity Alternative Ltd, Arnold House, St Julian's Avenue, St Peter Port, Guernsey GY1 3NF**  
**Email: info@dexionequity.com Website: www.dexionequity.com**

This report is issued and has been approved for the purposes of Section 21 Financial Services and Markets Act 2000 ("FSMA") by Dexion Capital plc, which is authorised and regulated by the Financial Services Authority in the United Kingdom. This document relates only to securities of Dexion Equity Alternative Limited ("the Company") which are dealt in on The London Stock Exchange and no other securities. It does not constitute an invitation to underwrite, subscribe or otherwise acquire or dispose of any securities in the Company and should not be construed as advice to any person to engage in any of the foregoing activities. It does not constitute an invitation to effect any transaction with the Company. Whilst certain of the information in this document may refer to the price of the Company's securities or the yield on them, past performance cannot be relied on as a guide to future performance.

The information in this report is based on information which is otherwise publicly available and, whilst Dexion Capital plc uses all reasonable efforts to ensure the information in this report is accurate, and up to date, no representations or warranties are given as to the reliability, accuracy or completeness of the information in this report. Dexion Capital plc does not accept any liability for any loss or damage which may arise directly or indirectly from any use of or reliance on such information save in circumstances where such exclusion or restriction of liability would be expressly prohibited by the rules of the Financial Services Authority or any other applicable laws or regulations in England and Wales. In particular, recipients should note that, since many or all of Dexion Equity Alternative's investments are unquoted, net asset value figures in relation to Dexion Equity Alternative are based wholly or partly on estimates of the values of Dexion Equity Alternative's investments provided by the investment managers or administrators of those underlying investments, which estimates may themselves have been subject to no verification or auditing process or may relate to a valuation at a date before the relevant net asset valuation for Dexion Equity Alternative, or which have otherwise been estimated by Dexion Equity Alternative's Investment Advisor. Other information in this report may be historic and/or may no longer be of relevance.

The information contained in this report, which relates to the net asset value performance of Dexion Equity Alternative may not be indicative of how Dexion Equity Alternative's investments may perform in the future. Moreover the values of such investments may fluctuate considerably and the historic net asset values shown for Dexion Equity Alternative take no account of the costs or practical difficulties of realising some or all of such investments. The value of investments mentioned in this report may go down as well as up and investors may not get back the amount invested. Information on past performance, where given, is not necessarily a guide to future performance. Changes in rates of exchange between currencies may cause the value of investments to decrease or increase. The information in this report is provided solely for information and does not constitute investment advice or personal investment recommendations. Investments mentioned in this report may not be suitable for all recipients and in each case potential investors are advised not to take any investment decision unless they have taken independent advice from an advisor authorised under FSMA.

Your attention is drawn to the Risk Factors set out in the Dexion Equity Alternative prospectus dated 11 March 2005.

This report may not be mailed or distributed or redistributed or otherwise sent into, and does not constitute any offer to sell or the solicitation of any offer to buy securities, in or from the United States, Canada, Japan or Australia or any other territory where the same would require compliance with any regulatory, filing or like requirements or where the same would constitute an offence.

In particular, the information in this report is not for distribution and does not constitute an offer to sell or the solicitation of any offer to buy any securities in the United States of America or for the benefit of United States persons being resident in the United States of America or partnerships or corporations organised under the laws of the United States of America or any state, territory or possession thereof. The shares in Dexion Equity Alternative have not been, and will not be registered under the United States Securities Act 1933.