

## 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:** 116.61p

**Oct return:** +1.83%

**Share price:** 111.00p\*

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

## Performance review

The stock market rally continued through October amidst robust third quarter earnings and a further decline in crude oil and gasoline prices. The advance was broadly based across sectors. Equity market volatility decreased to lows for the year towards the end of the month. Despite the uncertainties of geopolitical unrest, transitions in global monetary policy and the election in the US, investor complacency, coupled with a growing risk appetite for equities, remains in place. Corporate credit markets also continued to perform well during October reflecting strong investor sentiment. Corporate defaults remained well below historical averages during the month, while the new issue calendar remained robust.

	Oct %	YTD %	ITD* %	Volatility* %	Sharpe Ratio* <sup>^</sup>
<b>Dexion Equity Alternative (£)</b>	<b>1.83</b>	<b>4.31</b>	<b>6.86</b>	<b>3.41</b>	<b>0.63</b>
FT All Share (TR) (£)	3.03	13.31	18.51	7.44	1.86
FT Govt All Stocks (TR) (£)	0.82	1.78	5.72	3.07	0.33
HFRI Fund of Funds Index (US\$)	1.70	6.57	6.85	4.25	0.81

\* Annualised from inception date of DEA, based on monthly data. <sup>^</sup> Risk free rate is average of 1M GBP LIBOR (4.71%) for GBP investments, average of 1M USD LIBOR (3.42%) for USD investments. Averages calculated using daily data from inception date of DEA. Source: Bloomberg (data), Dexion (calculation)

**Long/short equity generalist: +2.96%.** Eleven of the thirteen managers were positive for the month. The best performing manager posted a return of +7.96% and held long, concentrated bets in select airline stocks which rallied as oil prices pulled back. While that manager did pare back its airline exposure modestly on strength, it remains long in the sector. Long positions in automotive and transportation sectors also continued to benefit from lower energy prices. Exposure to financial services and consumer/retail holdings also generated gains. A continued theme is that managers' positions in stocks of non-US domiciled companies continue to add to the diversification and absolute return of the fund. **Long/short equity sector: +1.97%.** All of the managers posted a positive return, including a return of +3.09% for the real estate manager which benefited from its long positions in selected office REITs in supply-constrained geographic markets which continue to see strong demand. **Relative value/multi-strategy: +1.11%.** A significant share of the gains for multi-strategy managers was earned in event driven strategies. The low levels of volatility and new issuance resulted in a challenging market for convertible arbitrage managers. Many convertible bond investors sold positions during the month to lock in gains earned during the year. **Specialist credit: +2.10%.** The credit strategy managers delivered consistent performance ranging from +0.81% and +2.91%. The portfolio performed very well during the month, outpacing the high yield market. Managers took advantage of various event driven situations while remaining well-positioned for potential rate and credit spread movements. **Event driven: +3.06%.** The manager was able to take advantage of the high volume of global mergers and acquisitions activity, driven both by financial buyers and by strategic buyers, while effectively managing the risk of credit spreads which remain at historically tight levels. **K2 Emerging Managers Fund: +1.21%.** Performance was led by long/short generalist and long/short sector managers that outperformed with security selection across a broad range of sectors, including industrials and real estate.

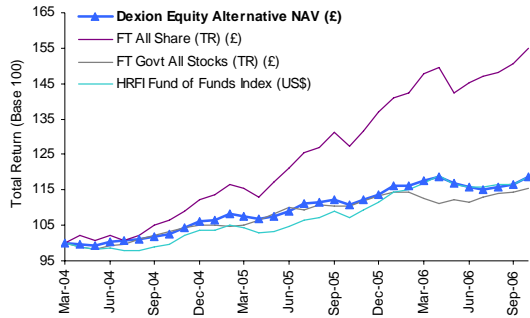
## Outlook

The positive fundamentals which led to the recent equity market recovery from the lows of the summer remain in place. However, many market indicators, including credit spreads, yield curve slope and volatility, are near twelve year extremes. We remain vigilant for any reversions in these quantities towards long-term average levels and the affect this would have on the markets – in fact, investors have already experienced a “correction” in commodity prices in early November. Price change dispersion in the US and global markets is near historical lows and may be due for improvement, due to the recently observed increase in the number of market opportunities. This would be beneficial for hedge fund returns.

## Key facts

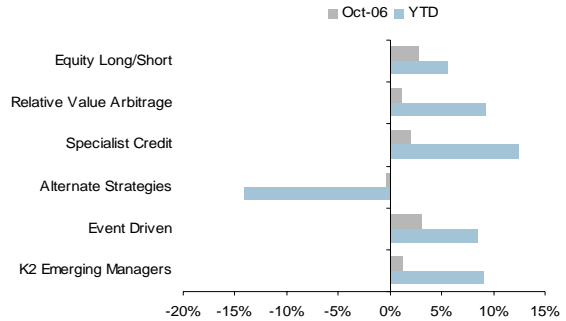
<b>Manager</b>	Dexion Capital (Guernsey) Ltd	<b>Bloomberg</b>	DEA LN
<b>Investment Advisor</b>	K2 Advisors LLC	<b>Reuters</b>	DEA.L
<b>Investment Consultant</b>	Dexion Capital Plc	<b>ISIN</b>	GB0034312321
<b>Inception date</b>	1 April 2004	<b>SEDOL</b>	3431232
<b>Total net assets</b>	£145.2m		

Net asset value performance



Source: Bloomberg

Performance by strategy

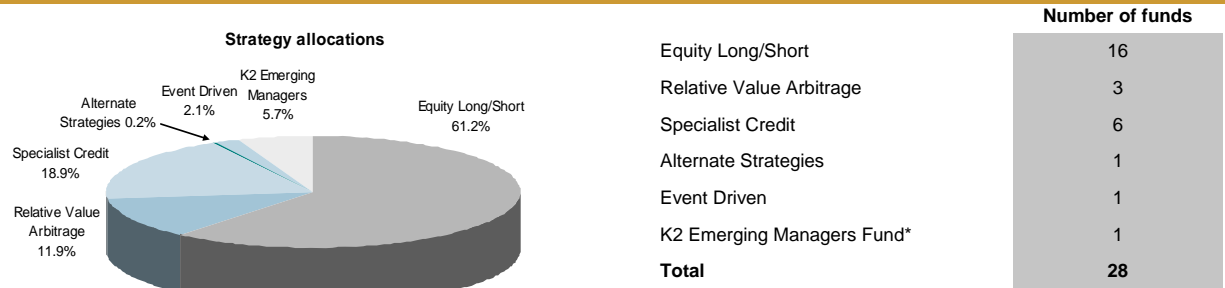


Note: strategy returns are in US\$ and net of underlying manager fees only, and not inclusive of Dexion Equity Alternative's fees and expenses

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	0.49	1.83			4.31
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 November 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

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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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