

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: 119.41p
Return: +0.90%
Share price: 115.00p*

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

Performance review

Momentum generated by high levels of liquidity, positive corporate earnings, benign credit markets and steady interest rates carried markets through to the end of December. Although dispersion remains at historically low levels, we have seen noticeable sector rotational moves that have provided investment opportunities for hedge funds. Corporate credit markets ended the year on a strong note driven by the same factors which were in place for much of the year, strong balance sheets, low defaults and high levels of investor liquidity. The low volatility allocation performed very well during the month, outperforming the overall credit market by taking advantage of selected event driven situations and positive security selection.

| | Dec % | YTD % | ITD* % | Volatility* % | Sharpe Ratio*^ |
|--------------------------------------|-------------|-------------|-------------|---------------|----------------|
| Dexion Equity Alternative (£) | 0.90 | 6.82 | 7.35 | 3.35 | 0.78 |
| FT All Share (TR) (£) | 3.33 | 16.75 | 18.58 | 7.37 | 1.88 |
| FT Govt All Stocks (TR) (£) | -1.16 | 0.69 | 4.96 | 3.13 | 0.07 |
| HFRI Fund of Funds Index (US\$) | 1.78 | 10.43 | 7.80 | 4.25 | 1.01 |

* Annualised from inception date of DEA £, based on monthly data. ^ Risk free rate is average of 1M GBP LIBOR since April 2004 (4.74%) for DEA £ and £ indices and average of 1M USD LIBOR since April 2004 (3.53%) for HFRI Fund of Funds Index. Source: Bloomberg (data), Dexion Capital (calculation)

Long/short equity generalist: +1.05%. Underlying long positions were the primary driver of returns with one manager experiencing particular strength from auto parts stocks and concentrated bets on select airline stocks. International equities spanning multiple industries and geographies also contributed positively to performance with another manager, balanced across Asian and European investments, up +2.51%. **Long/short equity sector: +1.58%.** The consumer focused manager led this sector with a return of +2.57%, while those with exposure to real estate benefited from both long and short positions in selected securities and REITs. The financial services focused manager also performed well, taking advantage of a positive environment for banks while reducing selected long exposures. **Relative value/multi-strategy: +1.27%.** Gains were generated by superior security selection, taking advantage of new convertible issuance and credit spread tightening. Multi-strategy managers also performed well, reflecting positive environments for their core strategies including equity event driven and credit situations. **Specialist credit: +1.77%.** The fund's specialist credit portfolio continued to outperform a strong high yield market by capitalizing on various event driven and distressed situations. Every manager posted positive returns with the top performing manager generating a return of +2.52%, primarily from selected distressed situations gains in the energy sector. **Event driven: +1.61%.** The event driven manager continued to benefit from an increasing pipeline of M&A activity in the US and Europe. Exposure to European event driven investments was reduced and the manager remains cautious with respect to the region, which had generated significant gains during the year. **K2 Emerging Managers Fund: +0.96%.** Performance was strong in both the long/short and low volatility strategies in the fund. The geographic reach of the fund allowed managers to seek the best investment opportunities globally, resulting in diversification and positive returns.

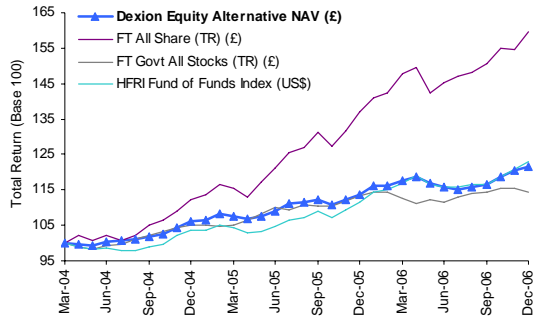
Outlook

Looking forward to 2007, there is evidence supporting a possible shift in some of the recent consensus investment themes which may lead to an environment with more opportunities for the hedge fund sector. Potential changes in central bank interest rate policy, shifts in the corporate earnings growth outlook, and the possibility that investor sentiment becomes more risk averse are all catalysts that may create investment opportunities for managers. This wide range of potential catalysts may increase sector and security-specific dispersion, leading to the reduced likelihood of directional market moves and a positive outlook for equity long/short, equity market neutral and low volatility hedge fund strategies.

Key facts

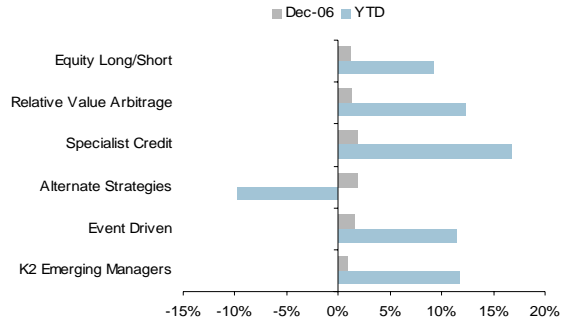
| | | | |
|------------------------------|-------------------------------|------------------|--------------|
| Manager | Dexion Capital (Guernsey) Ltd | Bloomberg | DEA LN |
| Investment Advisor | K2 Advisors LLC | Reuters | DEA.L |
| Investment Consultant | Dexion Capital Plc | ISIN | GB0034312321 |
| Inception date | 1 April 2004 | SEDOL | 3431232 |
| Total net assets | £148.7m | | |

Net asset value performance



Source: Bloomberg

Performance by strategy

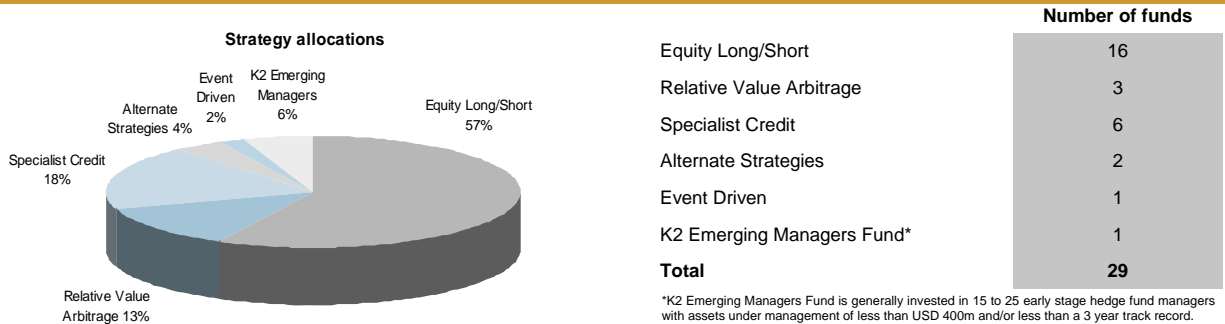


Note: strategy returns are in US\$ and net of underlying manager fees only, and not inclusive of Dexion Equity Alternative's fees and expenses

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 | 1.49 | 0.90 | 6.82 |
| 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 January 2007



*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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