

£	
NAV	127.50p
RETURN	+1.89%
SHARE PRICE*	120.25p
Opening NAV per £ share 98.25p	
Note: *Closing mid-price at month end.	

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.

PERFORMANCE DATA

	MAY(%)	YTD (%)	ITD* (%)	VOLATILITY* (%)	SHARPE**
DEXION EQUITY ALTERNATIVE £ SHARE NAV	1.89	6.77	8.58	3.29	1.14
HFRI FUND OF FUNDS INDEX (US\$)	2.14	7.16	9.09	4.10	1.30
MSCI WORLD INDEX GROSS (TR) (US\$)	2.90	10.30	16.97	7.79	1.70
JPM GLOBAL GOV'T BOND INDEX (TR) (US\$)	-2.03	0.10	2.17	5.95	-0.27

* Annualised from inception date of DEA £, based on monthly data. ^ Risk free rate is average of 1M GBP LIBOR since April 2004 (4.83%) for DEA £ and average of 1M USD LIBOR since April 2004 (3.76%) for US\$ indices.

Source: Bloomberg (data), Dexion Capital (calculation)

MONTHLY COMMENTARY

The month of May saw a large variation between the performance of global equity and global bond markets, with the ongoing positive investor liquidity cycle continuing to favour global equity market inflows over bonds. On the positive side, most of the world's equity markets made gains throughout the month as they benefited from the ongoing corporate acquisition activities of cash-rich private equity funds. Conversely, many of the world's major bond indices showed losses in May with yields rising steadily during the month for largely fundamental reasons. The net impact was one of the widest differences between the monthly equity and bond index performances seen in some time. Within the regional equity markets, Europe outperformed Asia and North America, while all three of these primary region's bond markets showed poor returns due to inflation concerns and concerns regarding the quality of real estate collateral within the Anglo economies. Global commodity indices declined slightly in the primary foreign currencies relative to the US Dollar, which showed a slight rise.

Long/short equity generalist strategies: +3.29%. The long books of underlying managers generated the greatest gains and the average gain for this strategy sector performed similarly to the S&P 500 index (+3.49%) with considerably less risk. The strongest performing manager within the portfolio returned +6.85% with gains across a wide range of sectors. Earnings growth was strong and forward-looking guidance mentioned continued positive fundamentals. Within the Latin American region, security gains were seen from holdings including a wireless telecom services provider, a wireless communications equipment operator, and an asset management firm holding investments in real estate. **Long/short equity sector strategies: -0.50%.** The portfolio remains defensively positioned and well hedged. The slight loss was due primarily to short positions in the financial services sector with ties to the North America real estate cycle. The manager maintains conviction that the declining fundamentals in the housing and mortgage finance sectors seen late last year will resurface during the 2nd quarter of 2007. **Relative value/multi-strategy strategies: +1.50%.** For multi-strategy managers, all strategies worked positively except for volatility-related positions which continue to consolidate since the large upward move seen in February. Outside of these volatility-related themes, the positive new issuance and deal flow environment continue to offer investment opportunities in the US, Europe and Asia to the benefit of relative value managers. Latin American exposure has been slowly increasing and has proven profitable as well. **Specialist credit strategies: +2.06%.** K2's credit portfolio performed positively during the month and significantly outperformed the negative performance of global bond benchmarks. All of the managers generated a positive return. The top performing manager with a return of +3.10% is well positioned, with the largest allocation in the portfolio being to senior secured bank debt. **Event driven strategies: +1.84%.** Event driven results remained strong as the continued boom in merger and acquisitions created positive catalysts. The top performing manager had a return of +2.89% with noteworthy gains in European telecommunication and energy themes as well as US industrials and financials exposure. **Alternate strategies: +0.61%.** All managers in this component of the portfolio generated positive returns for the month. The strongest gains were derived from the energy managers with an average return of +2.96%. The **K2 Emerging Managers Fund** was a beneficial component of total portfolio performance with a gain of +1.86%.

Outlook The variance in equity benchmark and bond benchmark index returns seen during May is indicative of the environment we see going forward. Central bank policy makers seem focused on controlling any potential inflation risks, with the result that the four decade downtrend in interest rates may be coming to an end. Furthermore, the relatively cheap cost of corporate borrowing is also near 20 year lows and is showing signs of increasing. Thus, we see limited potential for above average performance in directionally long biased positions in global government and corporate bonds. These interest rate pressures often signify an upcoming period of strong economic and corporate earnings growth, normally a positive influence on the performance of equity related investment strategies. This divergence between the fundamental outlook for equity and bond investments has historically led to strong future returns for "hedged" strategies such as equity long/short, equity market neutral, relative value arbitrage and event-driven. Inflation should favour corporations with responsible levels of debt to increase prices and improve profit margins, while higher interest rates may impede those entities with substantial levels of debt. The net effect is a wider than average dispersion in company-specific equity and bond returns. Historically, hedge fund performance has been strong during similar market environments.

KEY FACTS

MANAGER

DEXION CAPITAL
(GUERNSEY) LIMITED

INVESTMENT ADVISER

K2 ADVISORS LLC

INVESTMENT CONSULTANT

DEXION CAPITAL PLC

TOTAL NET ASSETS

£158.81M

MANAGEMENT FEE

1.50%

PERFORMANCE FEE

10%
(TRIGGER 3%)

CONTACT DETAILS

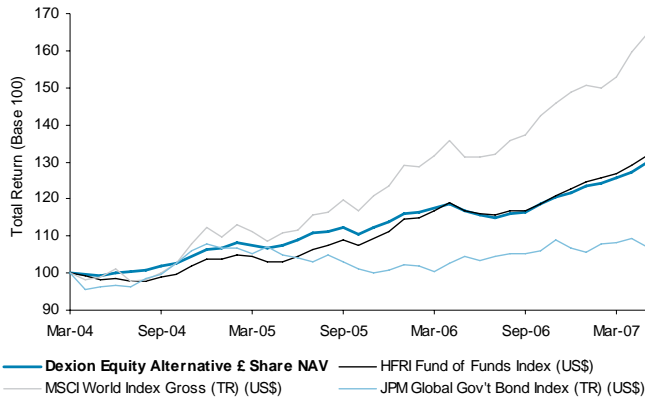
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SHARE CLASS

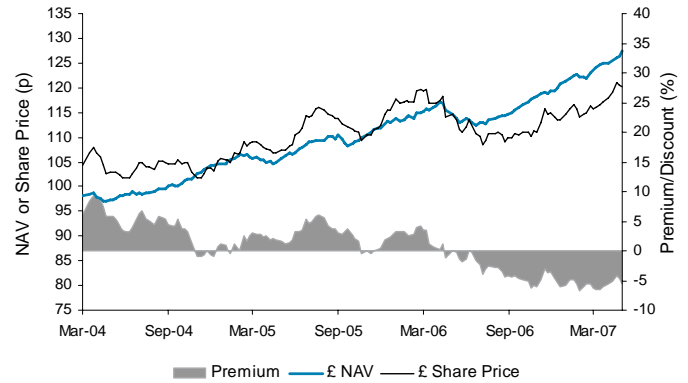
	INCEPTION DATE	BLOOMBERG	REUTERS	ISIN	SEDOL	TOTAL NET ASSETS
£	1 APR 2004	DEA LN	DEA.L	GB0034312321	3431232	£158.81m

NET ASSET VALUE PERFORMANCE



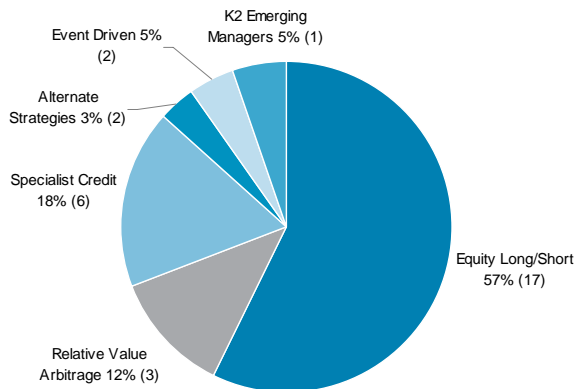
Source: Bloomberg

SHARE PRICE PERFORMANCE



Source: Bloomberg

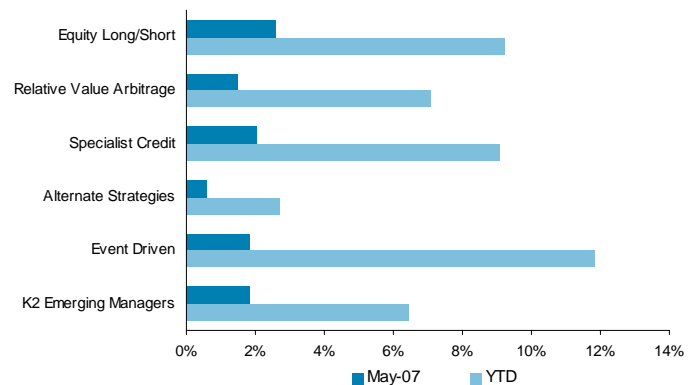
PORTFOLIO ALLOCATION AS OF 1 JUNE 2007



Note: Allocations are net of cash effect. Numbers in brackets indicate number of managers. 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.

Source : K2 Advisors

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.

Source : K2 Advisors

HISTORICAL NAV PERFORMANCE (%)

£	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	YTD
2007	1.73	0.58	1.09	1.32	1.89								6.77
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

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