

£	
NAV	127.42p
RETURN	-0.41%
SHARE PRICE*	120.75p
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

	AUGUST(%)	YTD (%)	ITD* (%)	VOLATILITY* (%)	SHARPE**
DEXION EQUITY ALTERNATIVE £ SHARE NAV	-0.41	6.71	7.91	3.24	0.92
HFRI FUND OF FUNDS INDEX (US\$)	-2.01	6.02	8.06	4.21	0.99
MSCI WORLD INDEX GROSS (TR) (US\$)	-0.03	7.05	14.63	7.83	1.37
JPM GLOBAL GOV'T BOND INDEX (TR) (US\$)	1.78	4.28	3.24	6.01	-0.11

* Annualised from inception date of DEA £, based on monthly data. ^ Risk free rate is average of 1M GBP LIBOR since April 2004 (4.92%) for DEA £ and average of 1M USD LIBOR since April 2004 (3.88%) for US\$ indices.

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

MONTHLY COMMENTARY

The first two weeks of August included good and bad news. Investors focused more on the bad news and the potential for slower economic growth. The negative sentiment led to losses in global equities and commodities. By mid-month, the developed equity markets had lost -4 to -7% and the commodity indices lost close to -7%. Safe-haven investments did well with global government bond prices moving higher and the US Dollar Index gaining +1.20%. The second half of August saw a shift in market behaviour. On August 17th, the Federal Reserve announced a 0.50% cut in the discount rate to add liquidity to the financial system in response to concern over sub-prime and real estate related losses within the banking sector. Markets responded quickly; US equities moved up by +4.44% and closed the month with gains. Japanese equities improved by +2.60% and European equities gained nearly +6% between this news and month-end. Asian equities also closed down on the month but higher from intra-month lows. Global bond markets also welcomed the news and continued to appreciate in value to close with gains in August, while the US Dollar index reversed at mid-month, as did commodities.

Long/Short Equity strategies: -0.03%. Most equity long/short managers lost money amidst a technically-driven environment, as stocks suffered from an unwind by quantitative equity strategies. Many factors which underlie quantitative models are similar to each other, as well as to factors that fundamental long/short equity managers look at in choosing stocks to go long and short. With the de-levering of these portfolios, the long positions of fundamental long/short equity managers tended to sell off and the short positions of fundamental long/short equity managers tended to rally amidst short covering. It was not surprising, therefore, that the Company's long/short equity allocation lost money for the month despite the positioning of underlying manager portfolios; it did, however, lose less than the wider universe. Areas of weakness included non-US equity, long commodity-linked equity positions and portfolio, sector and position hedges that failed to kick in or moved against managers. There were gains from underlying short positions in homebuilding stocks and long holdings in the retail/consumer, energy, utilities and technology sectors. Collectively, our managers traded around their positions during the month, exploiting the volatility in the market and managing the downside risk to their portfolios. **Specialist Credit strategies: -2.32%.** Most credit markets closed positive in August, despite the significant volatility. Given the positive performance for the broad indices at month-end, managers' hedges were a negative contributor, in contrast to previous months. Overall, the credit manager universe was hurt by exposure to crowded trades in the distressed and event-driven space, as those names sold off disproportionately compared to broader credit and equity markets. **Event-Driven strategies: -1.09%.** The de-leveraging which occurred in many markets resulted in losses for event-driven funds. European names were hurt more than their American counterparts, possibly due to heavier hedge fund concentration amongst the investor base there. **Relative Value/Multi-strategy strategies: -0.27%.** Convertible arbitrage managers benefited from the higher volatility but were hurt by widening credit spreads; the convertible bond space fell by -2% in August. The portfolio had no meaningful exposure to global macro or quantitative equity market neutral strategies, which saw losses in the wider universe of funds. Instead, exposures to credit and event-driven strategies as well as portfolio hedges were a detractor, with volatility-related exposures helping the portfolio. **Alternate strategies: +0.32%.** Performance was muted as gains in weather, insurance and energy books were offset by losses in currency investments. Our weather manager was up by nearly +5%, and our insurance manager also did well as a result of the low level of hurricane activity. **K2 Emerging Managers: -0.14%.** The equity long/short portion of the portfolio was positive, helped by a net short bias to financials for one manager. Exposure to event-driven equity positions, which sold off disproportionately compared to the broader markets, led to losses.

Outlook We view positively those strategies focusing on capital preservation and hedged investments. The fundamental shifts affecting the various asset classes and regional markets are creating opportunities for portfolio products able to hedge out undesired market and sector risks, while maintaining exposure to individual securities that are positioned to benefit from this new set of market conditions. While it's easy to argue that the return of market volatility is a bad thing, the reality is that it should help the Company earn better long-term rates of return going forward. With many forced sellers, we believe there are appealing opportunities awaiting managers that have the capital to buy assets at significantly reduced prices.

KEY FACTS

MANAGER

DEXION CAPITAL
(GUERNSEY) LIMITED

INVESTMENT ADVISER

K2 ADVISORS LLC

INVESTMENT CONSULTANT

DEXION CAPITAL PLC

TOTAL NET ASSETS

£152.12M

MANAGEMENT FEE

1.50%

PERFORMANCE FEE

10%
(TRIGGER 3%)

CONTACT DETAILS

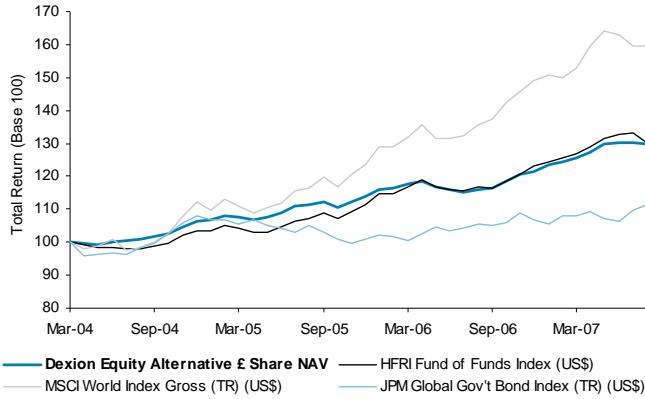
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SHARE CLASS

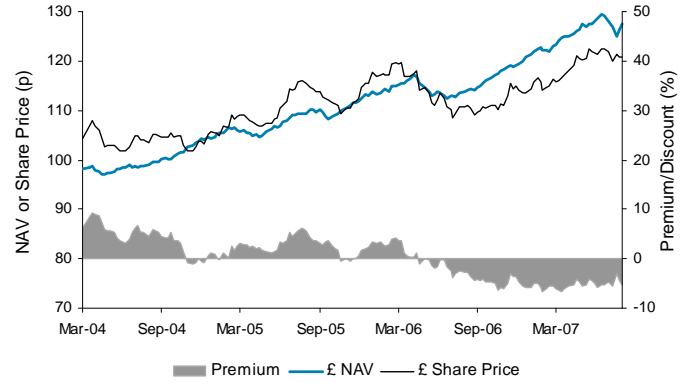
	INCEPTION DATE	BLOOMBERG	REUTERS	ISIN	SEDOL	TOTAL NET ASSETS
£	1 APR 2004	DEA LN	DEA.L	GB0034312321	3431232	£152.12m

NET ASSET VALUE PERFORMANCE



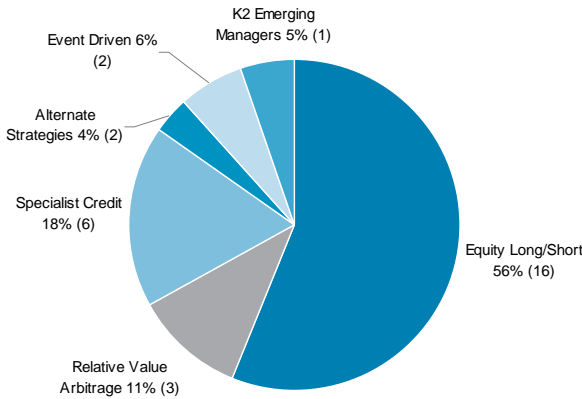
Source: Bloomberg

SHARE PRICE PERFORMANCE



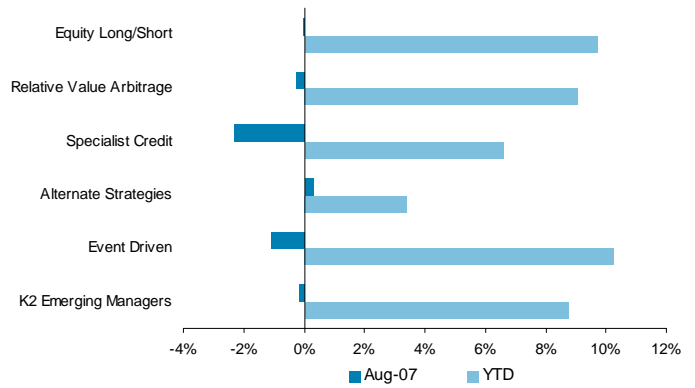
Source: Bloomberg

PORTFOLIO ALLOCATION
AS OF 1 SEPTEMBER 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	0.41	-0.06	-0.41					6.71
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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