

£	
NAV	129.89p
RETURN	+1.94%
SHARE PRICE*	124.625p
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

	SEPTEMBER(%)	YTD (%)	ITD* (%)	VOLATILITY* (%)	SHARPE**
DEXION EQUITY ALTERNATIVE £ SHARE NAV	1.94	8.78	8.30	3.28	1.02
HFRI FUND OF FUNDS INDEX (US\$)	2.12	8.09	8.46	4.26	1.06
MSCI WORLD INDEX GROSS (TR) (US\$)	4.79	12.17	15.79	7.97	1.49
JPM GLOBAL GOV'T BOND INDEX (TR) (US\$)	2.21	6.59	3.80	6.02	-0.02

\* Annualised from inception date of DEA £, based on monthly data. ^ Risk free rate is average of 1M GBP LIBOR since April 2004 (4.95%) for DEA £ and average of 1M USD LIBOR since April 2004 (3.92%) for US\$ indices.

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

## MONTHLY COMMENTARY

Market conditions were difficult at the start of September, but there were strong rallies from mid-month onwards as central banks injected liquidity to support credit fundamentals. The half-point rate cut by the Federal Reserve led to a rebound in equity markets in Asia, Europe, and North America, which generally rose between +1.7% and +3.6%. Commodities moved and some indices gained over +10%. Bonds ended September with slightly higher yields, credit spreads tightened and corporate bonds performed well in the latter half of the month. The rate reduction caused the US Dollar to weaken further. In this environment, the Company's portfolio did quite well. There are hints of greater stock dispersion and the portfolio benefited from the recovery in equities, even though a defensive posture was maintained. It was the defensive, less levered positioning of managers that helped protect the fund when the credit and sub-prime markets sold-off earlier in the year. The fund continues to exhibit both less volatility and less beta to the markets than the hedge fund indices.

**Long Short Strategy: +3.00%.** Our long/short allocation outperformed peers. A normalized trading environment led to recovery for many securities. Importantly, our managers did not get whipsawed in the market's gyrations and added to both long and short positions at better levels. **Specialist Credit: +0.78%.** The credit and bank debt indices rebounded, buoyed by the Fed rate cut and the expectation that more cuts were going to take place. Managers posted positive returns despite losses from short positions and credit hedges, which had protected the fund during the summer. Their portfolios remain defensively hedged and managers are cautious as there are still negative factors that will likely ensure that markets remain volatile for the foreseeable future. **Event-Driven: +1.04%.** Spreads on several merger deals narrowed, boosting the returns of event-driven strategies. Our managers remained cautious and defensively positioned and have not increased their leverage. Several deals in the market were expected to close soon and although the pace of LBOs is expected to slow in the near term, managers expect strategic merger and corporate restructuring activity, particularly in Europe. **Relative Value and Multi-Strategy: +1.75%.** Managers with exposure to volatility took advantage of increasing volatility levels during the month. Convertible arbitrage managers also benefited from this higher volatility, improving credit spreads and lower interest rates. Multi-strategy managers benefited from performance in their relative value and convertible arbitrage sub-portfolios. **Alternative Investment Strategies: +0.63%.** Performance for our alternative strategies managers was restrained as gains across nearly all strategies were offset by modest losses from energy trading, specifically due to spreads in oil and natural gas markets. Our insurance managers enjoyed strong returns as the peak risk period passed with no significant North Atlantic hurricane activity. **Emerging Managers: +0.93%.** Performance benefited from the rebound in the credit and equity markets. Gains were seen by credit, arbitrage and equity long/short managers.

**Outlook** The upcoming quarter should be interesting as macroeconomic and security-specific fundamental cross-currents continue. Macro-economic data will be examined for signs that the credit crisis has been contained. Investors may behave erratically as they evaluate the possibility of a global economic slowdown, the impact of a weak US Dollar and the potential for inflation resulting from central bank policy. Expectations suggest that third quarter earnings growth may be flat, compared to double-digit growth seen in the US over the last 5 years. Should the earnings outlook remain weak, any further near-term recovery in equities may be limited. Bond market participants will be watching for further monetary easing. Commodities and the US Dollar should continue their trends as investors perceive central bankers have focused on the restoration of growth first before tackling inflation worries. As a result, the environment for commodity and currency investment themes seem to be linked. We anticipate that the weakening US Dollar and strong commodity cycle is set to continue. Against this backdrop, managers are well positioned to outperform. The position-level transparency that K2 analyses provides a critical edge in manager selection and portfolio construction during times of market turmoil.

## KEY FACTS

### MANAGER

DEXION CAPITAL  
(GUERNSEY) LIMITED

### INVESTMENT ADVISER

K2 ADVISORS LLC

### INVESTMENT CONSULTANT

DEXION CAPITAL PLC

### TOTAL NET ASSETS

£152.63M

### MANAGEMENT FEE

1.50%

### PERFORMANCE FEE

10%  
(TRIGGER 3%)

## CONTACT DETAILS

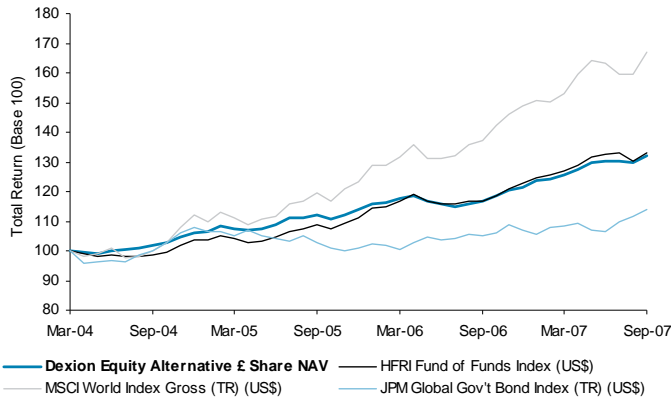
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## SHARE CLASS

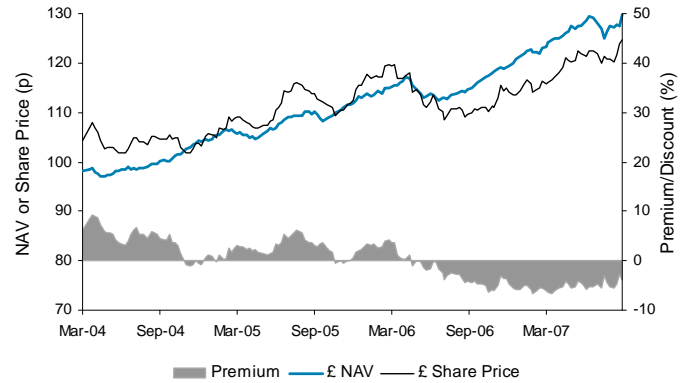
	INCEPTION DATE	BLOOMBERG	REUTERS	ISIN	SEDOL	TOTAL NET ASSETS
£	1 APR 2004	DEA LN	DEA.L	GB0034312321	3431232	£152.63m

NET ASSET VALUE PERFORMANCE



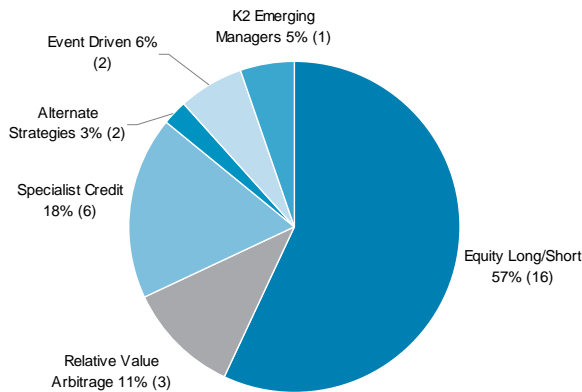
Source: Bloomberg

SHARE PRICE PERFORMANCE



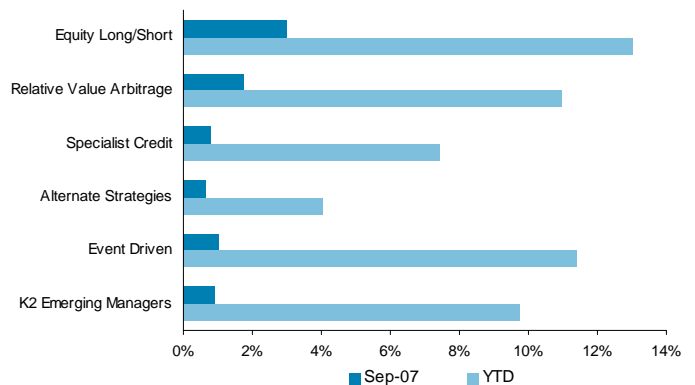
Source: Bloomberg

PORTFOLIO ALLOCATION AS OF 1 OCTOBER 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	1.94				8.78
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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