

£	
NAV	128.94p
RETURN	-0.09%
SHARE PRICE*	123.50p
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	-0.09	-2.27	6.35	3.98	0.31
HFRI FUND OF FUNDS INDEX (US\$)	-1.39	-6.36	5.54	5.13	0.34
MSCI WORLD INDEX GROSS (TR) (US\$)	-1.36	-13.61	8.09	10.15	0.42
JPM GLOBAL GOV'T BOND INDEX (TR) (US\$)	-1.73	3.07	4.63	6.40	0.13

\* Annualised from inception date of DEA £, based on monthly data. ^ Risk free rate is average of 1M GBP LIBOR since April 2004 (5.11%) for DEA £ and average of 1M USD LIBOR since April 2004 (3.81%) for US\$ indices.

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

## MONTHLY COMMENTARY

In August global equities closed slightly higher after witnessing dramatic intra-month price changes. By the end of the month, the S&P 500 index had risen by +1.22% to gain back the losses seen in July. International equity markets moved in tandem with the US as the MSCI World index rose +1.16% in local currency terms. Equity sector performance continued to see wide divergences as many of the prevalent sector themes evident in the first half of 2008 saw short-term reversals during the previous two months. Bond prices globally were broadly supported by lowering expectations regarding inflation and US Treasury securities rose steadily during August, with 10 year government bond yields falling just 0.14% to close the month at 3.81%. The trade-weighted US Dollar index witnessed a steady rise throughout the month of August to close with a strong gain of +5.67%, the best monthly performance since October 1992, with European currencies suffering the bulk of investor selling in favour of the US Dollar. Finally, the Goldman Sachs Commodity Index declined steadily throughout the month of August to close lower for the second month in a row. The loss in August was -7.10% and the index is now down over -19% in the last two months.

**Long/Short Equity: +0.49%.** Gains were generated by managers' long positions with key sources of profits including industrials, technology and media/telecom holdings, with investors shifting out of commodity-sensitive stocks and into consumer stocks following the recent decline in energy prices. **Specialist Credit: -0.88%.** Slight losses came as credit indices showed mixed results. There remains an expectation for increased defaults in corporate and consumer credit and caution towards taking any substantial directional positions. Managers remain hedged and under-levered and continue to amass available cash and financing in order to take advantage of future mispriced securities. **Event Driven: -1.63%.** Losses were driven by a variety of factors including equity market volatility, commodity related exposures in managers' event books, and continued liquidations. On the positive side, managers benefited from several M&A deals. However, given its sensitivity to the equity markets the outlook for the strategy remains subdued with the expectation of continued volatility. **Relative Value Arbitrage: -0.89%.** Trading gains were not enough to offset the losses from an overall decline in implied volatilities. Convertible arbitrage experienced a continuation of the dislocations seen in the previous two months, with the convert market down significantly in response to continued hedge fund liquidations. **Alternate Strategies: -0.25%.** Negative contributors to the portfolio were weather and energy/commodities; however, the returns across these strategies were mixed. Overall exposure in energy/commodities remains relatively low, given the very volatile moves in commodities over the recent time period. The emissions strategy was able to benefit from strong upward movements in benchmark certificates, and while the life insurance portion was only marginally positive due to some mark downs related to mortality risks, natural catastrophes had a very positive contribution. In addition, the royalty strategy performed well by hedging their relatively high income streams. **K2 Emerging Managers: -0.55%.** On an industry basis we estimate the biggest contributors were commercial services, aerospace and retail. Poor performers were forest products, oil, gas and coal. We continue to be underweight in this area as there is still a lot of uncertainty in the financial sector. The cash position has helped the fund's performance this year, providing the liquidity to invest opportunistically in volatile markets as assets reach compelling valuations due to forced selling caused by de-leveraging.

**Outlook** Whilst the recent market news and volatility has been extraordinary, the recent price dislocations do offer good buying and selling opportunities for hedged strategies. Market events have reduced the competition for hedged opportunities as weaker over-levered funds and investment bank proprietary trading operations have closed down. For those remaining, valuations are extremely attractive and managers are finding good quality opportunities, including those in specialist credit and distressed investing, which are improving rapidly as the current market dislocation presents attractive buying opportunities. The last few weeks have seen significant changes in the global securities markets. Regulators are doing everything they can to restore confidence, and the long term impact of such involvement is uncertain. However, the Company's portfolio remains conservatively positioned and managers continue to be excited about future opportunities.

## KEY FACTS

### MANAGER

DEXION CAPITAL  
(GUERNSEY) LIMITED

### INVESTMENT ADVISER

K2 ADVISORS LLC

### INVESTMENT CONSULTANT

DEXION CAPITAL PLC

### TOTAL NET ASSETS

£138.84M

### MANAGEMENT FEE

1.50%

### PERFORMANCE FEE

10%  
(TRIGGER 3%)

## CONTACT DETAILS

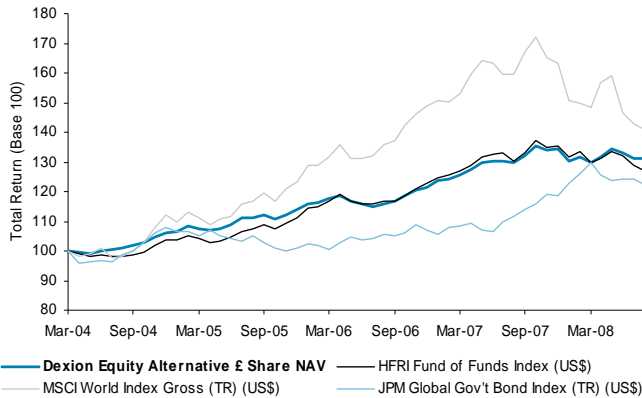
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web [www.dexionequity.com](http://www.dexionequity.com)

## SHARE CLASS

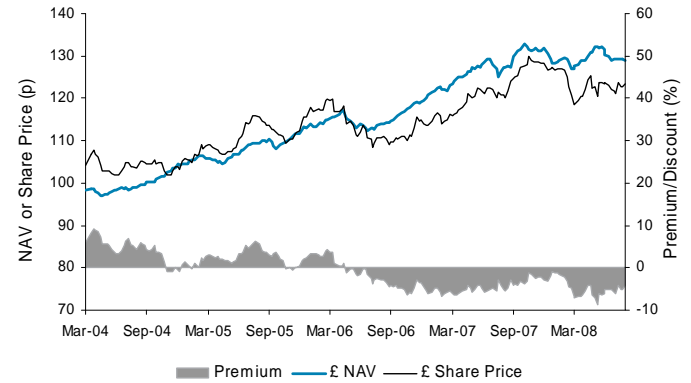
	INCEPTION DATE	BLOOMBERG	REUTERS	ISIN	SEDOL	TOTAL NET ASSETS
£	1 APR 2004	DEA LN	DEA.L	GB0034312321	3431232	£138.84M

NET ASSET VALUE PERFORMANCE



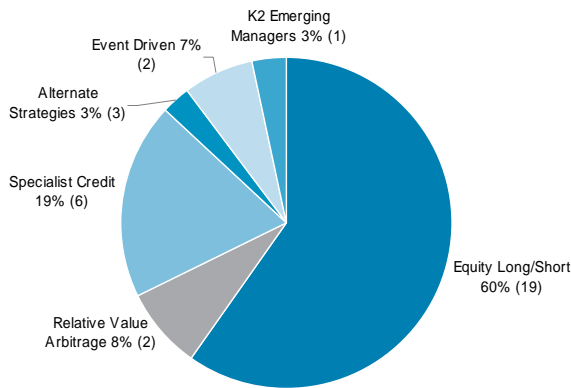
Source: Bloomberg

SHARE PRICE PERFORMANCE



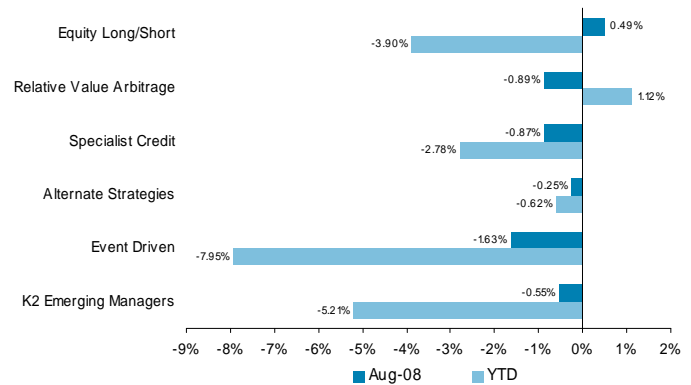
Source: Bloomberg

PORTFOLIO ALLOCATION AS OF 1 SEPTEMBER 2008



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
2008	-3.05	0.96	-1.26	1.27	2.34	-0.97	-1.39	-0.09					-2.27
2007	1.73	0.58	1.09	1.32	1.89	0.41	-0.06	-0.41	1.94	2.22	-0.90	0.27	10.48
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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