

£	
NAV	114.28p
RETURN	-1.08%
SHARE PRICE*	92.875p
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 FX hedging policy to protect the Sterling value of its US Dollar denominated investments. For further information please refer to the RNS announcement of 17 November 2008 (No. 26301) entitled 'Currency hedging arrangements'.

## PERFORMANCE DATA

	DECEMBER(%)	YTD (%)	ITD* (%)	VOLATILITY* (%)	SHARPE**
DEXION EQUITY ALTERNATIVE £ SHARE NAV	-1.08	-13.38	3.23	5.85	-0.31
HFRI FUND OF FUNDS INDEX (US\$)	-0.90	-20.69	1.53	6.74	-0.32
MSCI WORLD INDEX GROSS (TR) (US\$)	3.26	-40.33	-0.56	14.80	-0.29
JPM GLOBAL GOV'T BOND INDEX (TR) (US\$)	7.06	12.00	6.14	7.15	0.34

\* Annualised from inception date of DEA £, based on monthly data. ^ Risk free rate is average of 1M GBP LIBOR since April 2004 (5.07%) for DEA £ and average of 1M USD LIBOR since April 2004 (3.71%) for US\$ indices.

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

## MONTHLY COMMENTARY

December concluded a year of volatility, crises, frauds, bankruptcies, bailouts and investor uncertainty. Deflationary themes remained in place as real estate prices continued to decline, raw material demand remained weak and consumer spending was poor. In addition, employment statistics reflected the macro-economic pressures, corporate earnings exhibited no signs of recovery and the number of entities asking for financial aid increased. Given this environment, the US Federal Reserve cut interest rate targets to historically low levels and this helped to stabilise global equities and other risk assets. By the end of the month, many of the primary global equity and government bond markets were slightly higher. Conversely, commodity prices continued their downward trend of the last six months and the trade weighted US Dollar Index declined for the first time in five months. The month saw a wide variation in the range of performance for the various equity sectors and bond rating categories as year-end position squaring and portfolio rebalancing was prominent. Many hedge funds were utilising low levels of leverage and held significant cash positions, and were consequently showing below average risk and net exposure levels.

**Long/Short Equity: -1.01%.** With a more stable investment environment as a backdrop, the performance variations of the underlying hedge funds became less pronounced. The majority of losses derived from managers' short positions, although some managers lost money on their longs as well. While long energy holdings were a particular pocket of weakness, this tended to be more idiosyncratic in nature and involved poor individual stock selection. Another constraining influence on performance was the defensive positioning within underlying portfolios, meaning that some funds were not aggressively positioned enough in order to capture the market rally. **Specialist Credit: -3.66%.** While this strategy was down, the opportunity set for stressed and distressed credit investing continued to improve for fundamental credit pickers looking for cheap valuations. The size of the market opportunity increased dramatically as the number of issuers trading at stressed and distressed levels reached an all-time high. **Event-Driven: -0.93%.** Positive performance in this strategy was derived within merger arbitrage as managers achieved success as a result of several deals closing. These returns were offset by losses from hedges, special situations and credit-linked event-driven exposures in managers' portfolios. **Relative Value Arbitrage: -2.25%.** The strategy was down this month as the previously successful volatility arbitrage holding saw a slight decline as implied volatilities came down in conjunction with the modest equity market rally seen in the last half of the month. **Alternate Strategies: -3.04%.** As announced last month, exposure to this strategy was substantially reduced and the portfolio holds only residual side pocket interests. **K2 Emerging Managers: -1.34%.** The long/short equity allocation saw mixed performance, with the worst performing manager for the year suffering from poor portfolio construction and risk management. Better performance came from conservatively positioned portfolios where managers helped minimise their losses by taking down the gross exposures, shrinking their market exposures and shifting into cash.

**Outlook** Looking forward, any improvement in the clarity of economic and corporate fundamentals would be welcomed by our hedge fund managers. Investors and funds holding large cash positions continue to monitor markets for signs that the worst case economic scenarios may be adequately discounted or priced into security valuations. Some sectors of the global equity markets have corrected substantially and, arguably, may offer opportunities for significant gains at current valuations. In many cases, the projected earnings growth rates have declined to possibly over-depressed levels, based on analysts' anticipation of further negative economic news in 2009. Distressed debt prices relative to company fundamentals and US Treasury securities are also intriguing and current values may well present a catalyst for renewed good hedge fund performance within the specialist credit strategy. The various equity sectors are showing wide differentials in earnings growth outlook and balance sheet conditions, which will allow hedged equity strategies to target returns without taking directional market risks. Finally, the redemption and liquidity pressures seen within the mutual and hedge fund industry since September may be stabilising. Thus, while we believe the economic backdrop will continue to limit the potential for outsized long-only directional market gains, we believe the environment for our hedged portfolios has improved substantially.

## SHARE CLASS

	INCEPTION DATE	BLOOMBERG	REUTERS	ISIN	SEDOL	TOTAL NET ASSETS
£	1 APR 2004	DEA LN	DEA.L	GB0034312321	3431232	£118.53M

## KEY FACTS

### MANAGER

DEXION CAPITAL  
(GUERNSEY) LIMITED

### INVESTMENT ADVISER

K2 ADVISORS LLC

### INVESTMENT CONSULTANT

DEXION CAPITAL PLC

### TOTAL NET ASSETS

£118.53M

### MANAGEMENT FEE

1.50%

### PERFORMANCE FEE

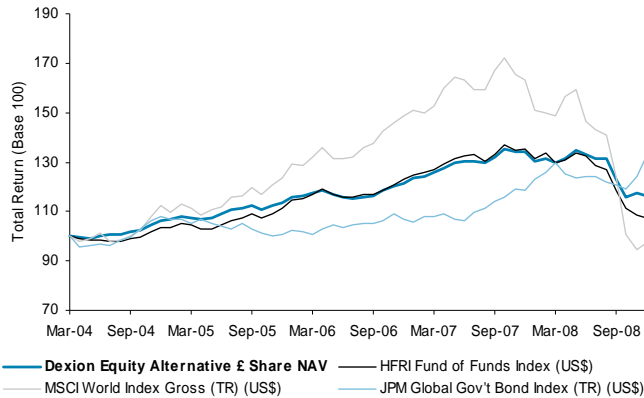
10%  
(TRIGGER 3%)

## CONTACT DETAILS

DEXION EQUITY  
ALTERNATIVE LIMITED  
1 LE TRUCHOT  
ST PETER PORT  
GUERNSEY

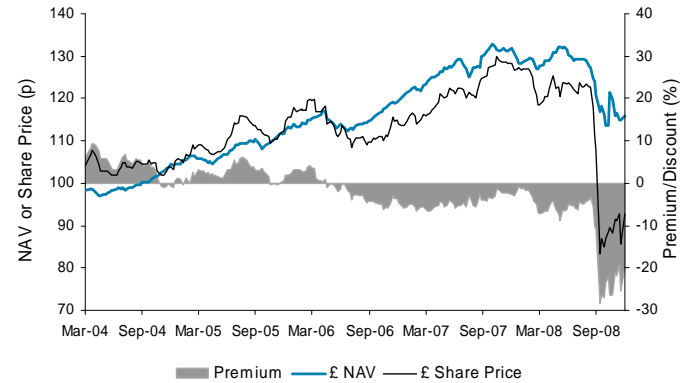
email [clientservices@dexionequity.com](mailto:clientservices@dexionequity.com)  
web [www.dexionequity.com](http://www.dexionequity.com)

NET ASSET VALUE PERFORMANCE



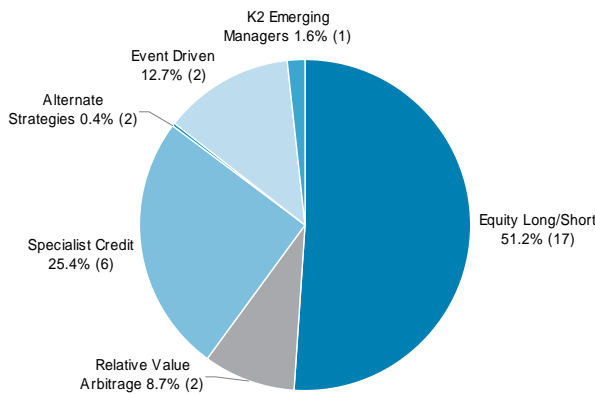
Source: Bloomberg

SHARE PRICE PERFORMANCE



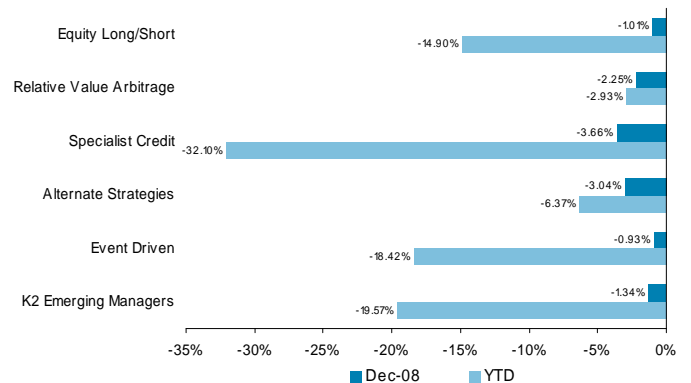
Source: Bloomberg

PORTFOLIO ALLOCATION AS OF 1 JANUARY 2009



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	-6.38	-5.98	1.79	-1.08	-13.38
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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