

**SCANDIUM ALTERNATIVE INVESTMENTS, SICAV**

**AUDITED ANNUAL REPORT**

**DECEMBER 31, 2007**

Subscriptions are only valid if made on the basis of the current prospectus accompanied by the latest annual and the latest semi-annual report if published after the annual report

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**MANAGEMENT AND ADMINISTRATION**

REGISTERED OFFICE

Scandium Alternative Investments, SICAV  
5, Place de la Gare  
L-1616 Luxembourg

INVESTMENT MANAGER

Scandium Asset Management A/S  
Toldbodgade 51c, 1st Fl.  
DK-1253 Copenhagen, Denmark

ADMINISTRATION AGENT

Carnegie Fund Management Company S.A.  
5, Place de la Gare  
L-1616 Luxembourg

LEGAL ADVISOR

Bonn Schmitt Steichen  
44, rue de la Vallée  
L-2661 Luxembourg

CUSTODIAN

Nordea Bank S.A.  
672, rue de Neudorf  
L-2220 Findel

INDEPENDENT AUDITOR

Deloitte SA  
560, rue de Neudorf  
L-2220 Luxembourg

**BOARD OF DIRECTORS**

DIRECTORS :

Peter WENDT  
Scandium Asset Management A/S  
Copenhagen

Claes-Johan GEIJER  
Managing Director  
Banque Carnegie Luxembourg S.A.  
Luxembourg

Johan BRONNUM-SCHOU  
Scandium Asset Management A/S  
Copenhagen

Bruno FREREJEAN  
Co-Managing Director  
Banque Carnegie Luxembourg S.A.  
Luxembourg

Vincent GRUSELLE  
Managing Director  
Carnegie Fund Management Company S.A.  
Luxembourg

**INDEPENDENT AUDITOR'S REPORT**

To the Shareholders of  
**Scandium Alternative Investments, SICAV**

Following our appointment by the extraordinary general meeting of the shareholders dated July 27, 2006, we have audited the accompanying financial statements of **Scandium Alternative Investments** and of each of its Sub-Funds, which comprise the statement of net assets and the securities portfolio as at December 31, 2007 and the statement of operations and changes in net assets for the period from July 27, 2006 (date of incorporation) to December 31, 2007, and a summary of significant accounting policies and other explanatory notes to the financial statements.

*Board of Directors of the SICAV's responsibility for the financial statements*

The Board of Directors of the SICAV is responsible for the preparation and fair presentation of these financial statements in accordance with Luxembourg legal and regulatory requirements relating to the preparation of the financial statements. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

*Independent auditor's responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing as adopted by the "Institut des Réviseurs d'Entreprises". Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the independent auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the independent auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors of the SICAV, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**INDEPENDENT AUDITOR'S REPORT**

*Opinion*

In our opinion, the financial statements give a true and fair view of the financial position of **Scandium Alternative Investments** and of each of its sub-funds as of December 31, 2007, and of the results of their operations and changes in their net assets for the period from July 27, 2006 (date of incorporation) to December 31, 2007 in accordance with the Luxembourg legal and regulatory requirements relating to the preparation of the financial statements.

*Other matter*

Supplementary information included in the annual report has been reviewed in the context of our mandate but has not been subject to specific audit procedures carried out in accordance with the standards described above. Consequently, we express no opinion on such information. However, we have no observation to make concerning such information in the context of the financial statements taken as a whole.

Deloitte SA  
Réviseur d'entreprises

Martin Flaunet  
Partner

March 14, 2008  
560 rue de Neudorf  
L-2220 Luxembourg

## INVESTMENT MANAGER'S REPORT

### SCANDIUM ABSOLUTE RETURN FUND

#### PERFORMANCE

The Scandium Absolute Return Fund was launched on October 25, 2006.

#### **Class A Shares :**

During the period since launch, the net asset value per share increased from EUR 100.00 to EUR 102.79, and the return of the sub-fund was 2.79%. The net assets at the end of the period were EUR 32.34 million.

#### **Class I Shares**

During the period since launch, the net asset value per share increased from EUR 100.00 to EUR 103.81, and the return of the sub-fund was 3.81%. The net assets at the end of the period were EUR 14.98 million.

Total net assets for all classes of shares at the end of the period were EUR 47.33 million.

#### INVESTMENT STRATEGY

The objective of the sub-fund is to achieve capital appreciation by investing primarily in a diverse range of Target Funds implementing alternative management strategies with exposure to any or all of the global markets worldwide. The Investment Manager seeks to construct a portfolio of Target Funds that is broadly diversified and has low correlation to stocks & bond markets. The Investment Manager analyzes and monitors the correlation between Target Funds and attempts to assess how these correlations may change in various market scenarios. The Investment Manager seeks to select a variety of Target Funds with exposure to different markets, assets classes and strategies and utilize different investment techniques.

**STATEMENT OF NET ASSETS AS AT DECEMBER 31, 2007**

	COMBINED (EUR)	SCANDIUM ABSOLUTE RETURN FUND (EUR)
<b>ASSETS</b>		
Securities portfolio at market value (Note 2.1)	60,443,186.14	60,443,186.14
<b>OTHER ASSETS</b>		
Brokers receivable	4,243,692.09	4,243,692.09
Unrealised gain on forward foreign exchange contracts (Note 5)	447,849.80	447,849.80
Establishment expenses	34,050.47	34,050.47
Total Other Assets	4,725,592.36	4,725,592.36
Total Assets	65,168,778.50	65,168,778.50
<b>LIABILITIES</b>		
Bank borrowings (Note 8)	(17,540,911.44)	(17,540,911.44)
Management fee payable	(151,078.02)	(151,078.02)
Bank interest payable	(89,278.41)	(89,278.41)
Shares to issue (Note 2.6)	(32,968.37)	(32,968.37)
Custody and administration fee payable	(8,249.83)	(8,249.83)
Taxe d'abonnement payable	(4,460.39)	(4,460.39)
Other payables	(15,281.60)	(15,281.60)
Total Liabilities	(17,842,228.06)	(17,842,228.06)
<b>NET ASSET VALUE</b>	47,326,550.44	47,326,550.44

**NET ASSET VALUE PER SHARE AS AT DECEMBER 31, 2007**

	SCANDIUM ABSOLUTE RETURN FUND (EUR)
Class A - Net asset value	32,342,522.29
Class A - Net asset Value per share	102.79
Class I - Net asset value	14,984,028.15
Class I - Net asset Value per share	103.81

The accompanying notes form an integral part of these financial statements

**STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS  
FOR THE PERIOD FROM JULY 27, 2006 TO DECEMBER 31, 2007**

	COMBINED (EUR)	SCANDIUM ABSOLUTE RETURN FUND * (EUR)
<b>INCOME</b>		
Redemption fees	10,848.01	10,848.01
<b>Total Income</b>	10,848.01	10,848.01
<b>EXPENSES</b>		
Bank interest	(1,067,685.13)	(1,067,685.13)
Management fee (Note 5)	(426,661.42)	(426,661.42)
Performance fee (Note 6)	(281,258.08)	(281,258.08)
Custody and administration	(99,127.97)	(99,127.97)
Professional expenses	(20,143.00)	(20,143.00)
Other expenses	(23,659.47)	(23,659.47)
Amortisation of establishment expenses	(10,374.00)	(10,374.00)
Taxe d'abonnement (Note 4)	(13,896.90)	(13,896.90)
<b>Total Expenses</b>	(1,942,805.97)	(1,942,805.97)
Net loss from investments	(1,931,957.96)	(1,931,957.96)
Net realised profit on securities	444,013.67	444,013.67
Net loss on foreign exchange	(660,393.98)	(660,393.98)
Net realised loss	(2,148,338.27)	(2,148,338.27)
Variation in net unrealised appreciation on investments	495,888.78	495,888.78
Variation in net unrealised profit on forward foreign exchange contracts	447,849.80	447,849.80
Decrease in net assets as a result of operations	(1,204,599.69)	(1,204,599.69)
Subscriptions	53,506,559.91	53,506,559.91
Redemptions	(4,975,409.78)	(4,975,409.78)
Increase in net assets	47,326,550.44	47,326,550.44
<b>NET ASSETS AT THE END OF THE PERIOD</b>	47,326,550.44	47,326,550.44

\* the sub-fund was launched on October 25, 2006

The accompanying notes form an integral part of these financial statements

**STATEMENT OF CHANGES IN NUMBER OF SHARES OUTSTANDING  
FOR THE PERIOD FROM JULY 27, 2006 TO DECEMBER 31, 2007**

	SCANDIUM ABSOLUTE RETURN FUND
<b><u>Class A</u></b>	
Shares outstanding at October 25, 2006	-
Shares issued	336,663.8853
Shares redeemed	-22,002.9462
Shares outstanding at December 31, 2007	314,660.9391
<b><u>Class I</u></b>	
Shares outstanding at October 25, 2006	-
Shares issued	168,876.9104
Shares redeemed	-24,536.4973
Shares outstanding at December 31, 2007	144,340.4131

The accompanying notes form an integral part of these financial statements

**SECURITIES PORTFOLIO AS AT DECEMBER 31, 2007**

<b>NOMINAL</b>	<b>SECURITY DESCRIPTION</b>	<b>MARKET VALUE (EUR)</b>	<b>% OF NET ASSETS</b>
<b>Transferable Securities Admitted To An Official Exchange Listing</b>			
<b>Investment Funds</b>			
	<u>Ireland</u>		
8,457	Argo Fund	1,842,422.27	3.89
30,663	European Catalyst Fund A ("Core")	3,296,304.08	6.97
29,837	Glenrock Global Partners (BVI)	4,616,806.43	9.76
120,795	Greater Europe Fund	1,260,323.19	2.66
		<u>11,015,855.97</u>	<u>23.28</u>
	TOTAL INVESTMENT FUNDS	<u>11,015,855.97</u>	<u>23.28</u>
	TOTAL TRANSFERABLE SECURITIES ADMITTED TO AN OFFICIAL EXCHANGE LISTING	<u>11,015,855.97</u>	<u>23.28</u>

**Other Transferable Securities**

**Investment Funds**

	<u>Bermuda</u>		
38,242	Denholm Hall Russian Arbitrage Fund B	5,635,179.35	11.91
2,568	Lynx (Bermuda) B	3,615,050.42	7.64
540	Lynx (Bermuda) B 0807	567,565.38	1.20
4,500	Universa Power Law Offshore Fund A 1 1207	3,029,523.89	6.40
		<u>12,847,319.04</u>	<u>27.15</u>
	<u>Cayman Islands</u>		
377	Black Mesa Fund A 1	290,026.36	0.61
2,820	Black Mesa Fund A 9	1,932,290.16	4.08
1,980	Black Mesa Fund A 10	1,340,073.55	2.83
2,020	Black Mesa Fund A 12	1,310,039.79	2.77
5,337	DMS Fixed Income Micro RV Fund 01	3,914,290.05	8.27
4,250	Hudson Bay Overseas Fund C 5	2,986,480.77	6.31
500	Hudson Bay Overseas Fund C 6	344,310.87	0.73
1,774	HITE Hedge Offshore Class A 0107	1,483,676.85	3.13
2,070	HITE Hedge Offshore Class A 0507	1,271,404.25	2.69
1,610	HITE Hedge Offshore Class A 0607	968,256.84	2.05
730	HITE Hedge Offshore Class A 0807	435,877.35	0.92
2,219	JLP Credit Opportunity Cayman Fund A 1	1,768,010.41	3.74
1,720	JLP Credit Opportunity Cayman Fund A 5	1,011,611.65	2.14
2,500	Palm Beach Offshore A 1107	1,731,766.17	3.66

**SECURITIES PORTFOLIO AS AT DECEMBER 31, 2007**

<b>NOMINAL</b>	<b>SECURITY DESCRIPTION</b>	<b>MARKET VALUE (EUR)</b>	<b>% OF NET ASSETS</b>
<b>Other Transferable Securities (continued)</b>			
<b>Investment Funds (continued)</b>			
<u>Cayman Islands (continued)</u>			
3,000	Roi Offshore Partners 0307	189,818.48	0.4
12,300	Roi Offshore Partners 0507	761,575.38	1.61
9,300	Roi Offshore Partners 0607	577,408.92	1.22
10,600	Roi Offshore Partners 0807	665,573.00	1.41
1,998	True North Cayman A 0206	1,558,866.56	3.29
1,820	True North Cayman A 0507	1,295,558.85	2.74
1,630	True North Cayman A 0607	1,160,401.46	2.45
1,800	True North Cayman A 0807	1,261,738.51	2.67
8,000	YA Offshore Global Investments L 0407	591,105.81	1.25
10,400	YA Offshore Global Investments L 0507	764,491.91	1.62
13,800	YA Offshore Global Investments L 0607	1,001,685.52	2.12
15,100	YA Offshore Global Investments L 0807	1,071,507.07	2.26
		<u>31,687,846.54</u>	<u>66.97</u>
<u>Ireland</u>			
821	European Catalyst Fund B ("Side Pocket")	64,111.06	0.14
		<u>64,111.06</u>	<u>0.14</u>
<u>Luxembourg</u>			
41,845	Farringdon Alpha One	4,828,053.53	10.20
		<u>4,828,053.53</u>	<u>10.20</u>
	TOTAL INVESTMENT FUNDS	<u>49,427,330.17</u>	<u>104.46</u>
	TOTAL OTHER TRANSFERABLE SECURITIES	<u>49,427,330.17</u>	<u>104.46</u>
	TOTAL SECURITIES PORTFOLIO	<u><u>60,443,186.14</u></u>	<u><u>127.74</u></u>







