Enterprise-wide Risk Management

This section presents the key building blocks of our risk management framework: a schematic representation of our risk management process based on the COSO model, a summary table that categorizes the main risks related to Sienna Investment Managers activities (including the various factors and mitigation measures), and an illustrative risk mapping.

Risk Management and Internal Control

The Board of Directors is responsible for assessing the risks inherent to Sienna Investment Managers and the effectiveness of the internal control system. With regards to risk management and internal control, the applicable legislative framework consists of the law of July 12, 2013 (application of European Directive 2011/61/EU on Alternative Investment Fund Managers) and the Circular CSSF 18/698 (the so-called “Corporate Governance” circular). Besides, the IFRS 7 standard defines additional requirements for the management of risks related to financial instruments. Since its creation, Sienna Investment Managers has formalized its internal control and risk management system based on the COSO model.

The COSO methodology is based on five areas: the control environment, risk assessment, control activities, information and communication, and supervision and monitoring.

Risk Management Process

As part of its enterprise-wide risk management framework, Sienna Investment Managers considers the implemented Risk Management Process below as a dynamical process that develops itself constantly rather than a static structure.

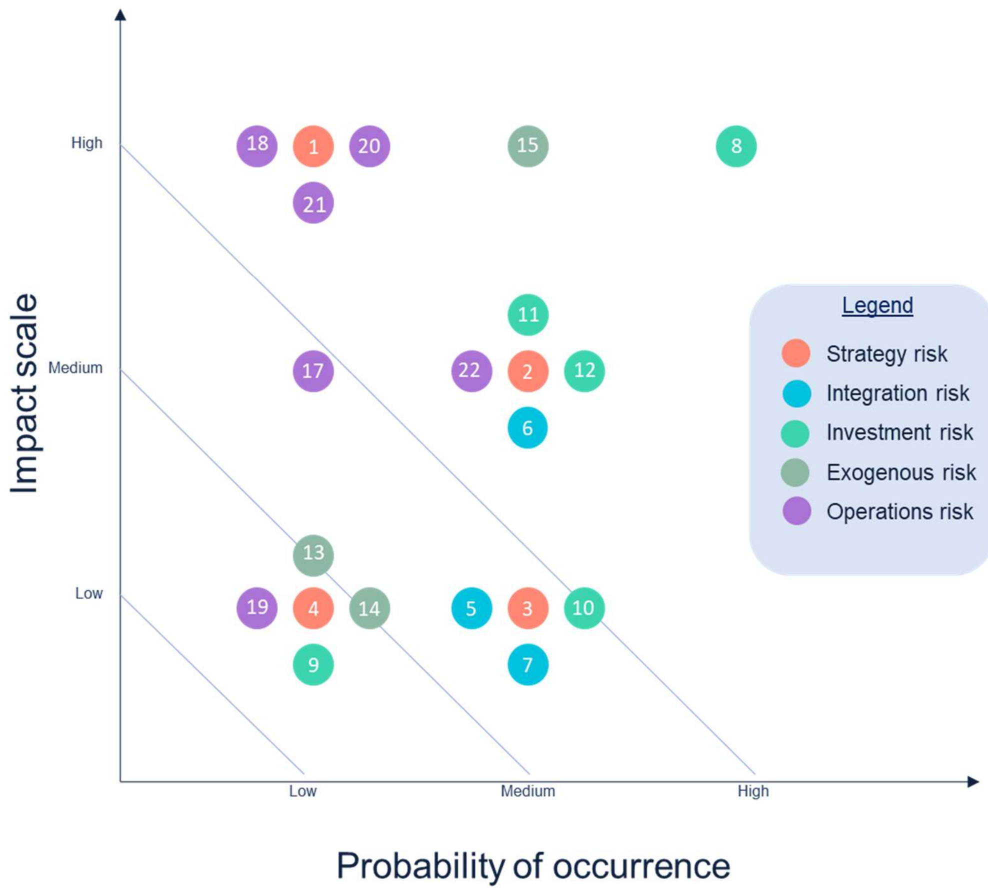
Overview of main risks and mitigation measures

Main risks	Risk factors	Mitigants
Strategy Risks resulting from the definition and continuance of the group's guidelines and strategic developments	• Differing visions or understanding of the assessment of strategic priorities and inherent risks • Misalignment between target and investment philosophy • Validity of the parameters underlying investment thesis • Incomplete/inaccurate information when performing the investment due diligence	• Formal decision-making process involving all governance bodies and the management • Ongoing monitoring of key performance indicators and regular updates of assumptions and forecasts • Periodic review of industry trends
Integration The risk that arises during the integration of an acquisition into the group	• Technical issues when integrating / migrating into a new technological solution • IT connectivity / compatibility due to the integration of a new technological solution • Data confidentiality issues due to inefficient safeguard systems • Legal risk exposure arisen from the signature of an agreement having missing clauses • Issues of access management • Depth of the 360° transaction due diligence	• Definition of an integration plan • Periodic review of the technology functionality and IT infrastructures • Legal advisors supporting during the acquisition process, reviewing the value and impact of contractual clauses • Inventory of new roles and responsibilities • Review of processes and controls in place vs suggested control • People training on new processes and controls
Investment risk Risk exposures coming from your participations into investment projects	• Market risk: evolution of the value of the asset/participation • Credit risk: deterioration of the asset credit rating (e.g. restructuring, past due coupon past due payment, default) • Liquidity risk: difficulty to exit an investment • Valuation risk: difficulty to value the investment/participation • Unforeseen negative market movement • Management risk: delegated investment manager may deliver poor performance	• Geographic and sector diversification of the portfolio with differentiated cyclical exposure • Internal / external credit rating system of investments • Ongoing monitoring of key performance indicators and regular updates of assumptions and forecasts • Portfolio diversification • Independent valuations by externals • Thorough assessment when appointing an external investment manager

Main risks	Risk factors	Mitigants
Exogenous Risks associated with shifts in external factors such as economic, political or legislative change	• Changes in financial markets, notably with regards to the volatility of stock markets, interest rates and foreign exchange rates • Occurrence of environmental issues • Increased complexity of the regulatory and political environment involving, for example, tax reforms or new legal obligations • Changes in macroeconomic variables (growth rates, monetary policy, inflation, commodity prices, etc.) • Increase of political instability and social unrest	• Implementation of a regulatory watch • Systematic monitoring and analysis of macroeconomic trends • Geographic and sector indicators monitoring • Assessment of economic cycles
Operations Risks resulting from inadequacies or failures in internal procedures, staff management or systems in place.	• People risk, such retention and development of employees' skills • Human error risk • Operational risk, such as inadequacy of systems and procedures leading to major issues • Increase of cyber-attack attempts • Inefficiencies of Business Continuity Plan • Delegation risk, business discontinuity of services providers / delegate • Increasing exposure to fraud and litigations, conflicts of interests • Non-compliance with professional practices and ethics standards	• Adoption of a Code of Conduct • Management of staff hiring, identification of key people and training of qualified staff • Monitoring of conflicts of interests, incidents and logging of related events together with financial impact • Formal decision-making process involving all governance bodies and definition of an escalation protocol • Maintenance of a business continuity plan and periodic testing • Implementation of an efficient internal control framework

Sienna Risk Mapping 2021

1. Acquisition risk
2. New product risk
3. Lost opportunity risk
4. Growth risk
5. Technological change risk
6. Legal risk
7. IT inefficiencies risk
8. Market risk
9. Credit / counterparty risk
10. Liquidity risk
11. Valuation risk
12. Management risk
13. Business risk
14. Country risk
15. Tax / Regulatory risk
16. ESG risk (1)
17. People risk
18. Business continuity risk
19. Delegation risk
20. Fraud risk
21. Conduct risk
22. Operational risk



(1) The ESG risk has been isolated and is not subject to an individual assessment in terms of impact scale and probability of occurrence, remaining assessed through other identified risks.