

Sienna AM Luxembourg S.A.
(formerly “Sienna Capital Management S.A.”)

Sustainability Risk Policy

Name of the policy		Sustainability Risk Policy		
Internal Reference	Release Date and Approval Date	Description	Owner of the Policy	Approved by
1.0	01/03/2023	Implementation of the policy	Sienna Capital Management S.A. Conducting Officer	Sienna Capital Management S.A. Board of Directors



Table of Contents

1. Introduction	3
2. Identification of Sustainability Risks	3
3. Monitoring and Reporting (Governance).....	6
4. Adverse Sustainability Impacts	7

1. Introduction

The Regulation (EU) 2019/2088 on sustainability-related disclosures in the financial services sector (referred to as “SFDR”) came into force from 10 March 2021 to provide more transparency to investors on the integration of sustainability risks and sustainability factors (meaning environmental, societal and governance factors or “ESG”) and on the consideration of adverse sustainability impacts in the investment processes.

Rationale and Scope of Application

This Sustainability Risk Policy (hereafter “Policy”) aims at providing a comprehensive overview of the sustainability risk integration approach of Sienna Capital Management S.A. (hereafter “Sienna”), a Luxembourg-based alternative investment fund manager (hereafter “AIFM”), as per Article 3 of the SFDR. It complements Sienna’s core risk management principles and processes, processes to ensure all material sustainability risks are managed appropriately.

Authorization and Updates

The Risk Management Conducting Officer (hereafter “RMCO”) is the owner of this Policy and is responsible for maintaining and updating on a regular basis this Policy. The RMCO will consider input from other parties within Sienna in the review of this Policy.

This Policy may be amended from time to time, and changes will apply as of the date of approval by the Board of Directors.

2. Definition of Sustainability Risks

As defined in Article 2(22) of the SFDR, sustainability risk means an environmental, social or governance event or condition that, if it occurs, could cause an actual or a potential material negative impact on the value of the investment.

Such risks include environmental risks such as potential physical risks resulting from climate change for example the tail risk of significant damage due to increasing erratic and potentially catastrophic weather phenomena such as droughts, wildfires, flooding and heavy precipitations, heat/cold waves, landslides or storms.

Social events (e.g. inequality, inclusiveness, labour relations, investment in human capital, accident prevention, changing customer behaviour, etc.) or governance shortcomings (e.g. recurrent significant breach of international agreements, bribery issues, products quality and safety, selling practices, etc.) may also translate into sustainability risks that could negatively impact the value of the AIFs.

The table below provides a more detailed overview on the potential events resulting from such risk exposures:

Sustainability Risk Drivers		
Environmental Risk	Risk linked to exposure to counterparty or assets that may be	<ul style="list-style-type: none"> • Flooding • Fire

	affected by or negatively impact environmental factors. These can be physical risks or transition risks.	<ul style="list-style-type: none"> • Droughts • Technological changes • etc
Social Risk	Risk linked to exposure to counterparty or assets that may be affected by or negatively impact social factors.	<ul style="list-style-type: none"> • Inequality • Lack of inclusiveness • Poor labour relations • Human Rights issues • etc
Governance Risk	Risk linked to exposure to counterparty or assets that may be affected by or negatively impact governance factors.	<ul style="list-style-type: none"> • Executive pay • Board independence • Corruption and bribery • Tax avoidance • etc

Sustainability risks can be either considered as a risk on its own or have an impact on other risks such as market, valuation, liquidity, counterparty or operational risks. Sienna is expected to identify relevant ESG risks for its portfolio of investments and subsequently determine which of them are material in the short, medium and long term with regard to its investment strategies.

3. Sustainability Risk Governance

Portfolio Management / Investment Teams

The Investment Team is responsible for the identification and assessment of sustainability risks and factors within the investment decision process.

Board of Directors

The Board of Directors (the “BoD” or “Board”) assures an overall responsibility over the Company and is embodied by three members.

The main responsibilities of the Board of Directors in connection with this Policy are:

- approving the general risk management framework, which integrates the consideration of sustainability risks, for the AIFM and its managed AIFs,
- periodically reviewing the effectiveness and adequacy of the AIFM’s sustainability risk policy and internal control system, and
- approving remedial actions, as appropriate.

Executive Committee

The main responsibilities of the Executive Committee in connection with this Policy are:

- implementing the internal control system, and
- examining the rules, procedures and techniques used to implement this Policy.

Collectively, the members of the Executive Committee and BoD are equipped with sufficient knowledge to ensure that sound and well-informed decision are taken.

Risk Management function

The AIFM's risk management function is responsible for overseeing all risk activities of the AIFM and its managed AIFs. Within this role, the risk management function shall ensure the integration of sustainability risks within the risk management framework and activities.

This includes:

- Reviewing the key governing documents (e.g. Investment Process, Sustainability Risk Policy, ESG due diligence and ESG questionnaire, etc.) crystalizing the processes adopted for the integration of sustainability within the investment decision-making process, to ensure these are adequate and complete.
- Ensuring the appropriateness of Sustainability skills / competencies within the AIF's team, the effectiveness of the implemented systems, the suitability of the resources / substance at the delegate level, etc.
- Reviewing all investment proposals which document sustainability risk considerations and mitigation techniques.
- Implementing and monitoring sustainability risks limits / thresholds to measure, manage and control all relevant, significant, and material sustainability risks for managed AIFs
- Putting in place the risk measurement arrangements, processes and techniques that are necessary to ensure that the sustainability risks of the relevant managed AIF's positions and their contribution to the overall risk profile are measured based on data available in accordance with the risk management process.
- Ensuring compliance with the internal sustainability risk limits set, by monitoring on a continuous basis the respect of such limits and by implementing escalation as well as remedial measures in case limits will be breached.

The Risk Management Function members are individually suitable including that they have sufficient knowledge, skills and experience with regard to sustainability factors and related risks in their management function.

Remuneration Policy

Sienna's remuneration policy is consistent with, and promotes, sound and effective risk management and does not encourage risk taking which exceeds the risk profiles of the investment portfolio. For more details, please visit Sienna's Remuneration Policy.

4. Management of Sustainability Risks

Sustainability risks are an integral part of Sienna's risk management, from their integration into the investment decision-making process to the risk monitoring and reporting process. Such risks are identified and assessed at the level of each investment, taking into consideration the type of investments that may be made in accordance with the AIF's investment policy and objectives.

So far, Sienna's portfolio includes financial products classified as Article 6 and Article 8 under SFDR. The process for identification, assessment, monitoring and reporting on sustainability risks applies to all types of products (Article 6 and Article 8), with specific additional considerations given to Article 8 products based on the environmental and/or social characteristics promoted. A distinction between the process applicable to all products and the specific additional considerations for Article 8 products was provided in the sections below.

4.1 Identification and Assessment of Sustainability Risks

4.1.1 Investment's screening & selection

As part of the investment selection process, the Investment Team conducts an ESG due diligence and fills out an ESG questionnaire in order to identify potential sustainability risks that could have a material effect on the potential investment (e.g. on the return of investment and broader on the reputation).

Once the preliminary analysis on sustainability factors is completed, the Investment Team uses a proprietary tool to identify and to evaluate sustainability factors and related risks. If the proprietary scoring and criteria are met, the investment can be selected and proposed to the Investment Committee ("IC").

The IC or the Management Board then reviews the analysis performed over sustainability aspect of the investment and provides its validation of the eligibility criteria are met.

The Risk Profile of the fund is then revised to incorporate the sustainability risks identified and assessed as part of the investment selection process described above. The Investment Team must ensure that the level of sustainability risks of the fund is still within the limits set.

4.1.2 Integration of sustainability risks analysis within the risk management

Based on the above analysis, the risk management function conducts subsequent controls to ensure that the outcomes of the sustainability risks analysis are integrated as part of the holistic risk analysis at fund's level. In case of new investments, Sienna's risk management team determines:

- Whether and how sustainability risks may impact the risk profile of the existing fund.
- Whether the level of sustainability risks is within the risk appetite of the AIF.

Any alert or breach will be escalated by the permanent risk management function to the Investment Team for clarification / resolution.

4.2 Monitoring and Reporting on Sustainability Risks

Sienna has implemented risk measurement arrangements, processes, and techniques to ensure that all risks which have been identified as being material to its AIFs are accurately measured, assessed, managed, and monitored. Sustainability risks are integrated within the ongoing risk monitoring of Sienna's managed AIFs, to the extent that they represent potential or actual material risks to the fund's investments.

The risk management function collects and reviews information related to sustainability factors that impacts sustainability risks limits/thresholds in the same way as any other risks monitored as part of its regular monitoring activities. Any deviations from the AIFM's tolerated risk appetite are reported to both the applicable AIF's BoD as well as the BoD of the AIFM. As needed, the risk management function also requires mitigating actions to reduce the level of risks to an acceptable level.

On a periodic basis, and ad hoc if required, a reporting on sustainability risks is performed by the permanent risk management function to the Executive Committee and the BoD. In this case, we understand "periodic basis" as on a quarterly basis.

4.3 Specific considerations for products classified as Article 8 under SFDR

Depending on the categorisation of the Fund under the Article 6, 8 or 9 of SFDR, the person responsible for the risk management function will ensure that each AIF complies with the requirements of its respective Article.

As of February 2023, the AIFM manages one AIF classified as Article 8 as per the SFDR:

- Sienna Venture Capital SICAV

All other AIFs managed by Sienna are classified as Article 6. Sienna does not manage Article 9 funds, yet.

The investment strategy below is applicable for Sienna's Article 8 product.

4.3.1 Integration of specific sustainability criteria at investment decision

Sienna's Investment Team deepens its screening on potential investments' sustainability-related information to ensure these align with the investment strategy and ESG characteristics promoted within its Article 8 product.

Sienna Venture Capital SICAV applies the following investment strategy:

- **Exclusion policy and negative screening:** The Compartment will apply a negative screening strategy against an exclusion list during the selection of prospective investments, encompassing several economic sectors with widely known negative impacts on the environment or society, and violations to globally recognized principles.

More specifically, the Compartment will exclude the following investments:

- Investments in companies directly exposed to controversial weapons
- Investments in companies directly exposed to adult entertainment
- Investments in companies directly exposed to tobacco
- Investments in companies directly exposed to fossil fuel (coal, petrol and non-conventional gas).
- Investments in companies with severe violations to the UN Global Compact principles, UN Guiding Principles on Business and Human Rights or OECD Guidelines for Multinational Enterprises.
- Investments in companies with severe violations or which lacks basic expectations regarding Employees Relations, Management Structure, Tax Compliance and Remuneration.
- Investments in jurisdictions which are currently sanctioned by the EU.

The above negative screening ensures that the good governance criteria required by the SFDR are met.

- **ESG Scoring & engagement:** the outcomes of the ESG questionnaire filled-out by the Investment Team feed an overall ESG scoring for the investment. Only investee companies with an ESG Scoring equal to or exceeding the minimum threshold set for the fund are eligible for investment.

However, due to the start-up nature of the investment, their magnitude and relative advancement might hinder the initial definition and structuring of the enterprise's ESG strategy. Hence, the

Investment Team might still accept investments with an ESG scoring below the set threshold if these are presenting opportunities to improve their ESG performance. For such investments, the fund will pursue the objective of raising the ESG performance of the investee company to a satisfactory level.

- **Principal Adverse Indicators on sustainability factors (“PAIs”)**: specific PAIs are selected from the list provided in Annex I of the SFDR Regulatory Technical Standard (“RTS”) and measured as part of the investment screening. Each PAI indicator produces a numerically ranged or percentage output for a given investment and the Investment Manager considers that the investment causes adverse impact if the investment is performing below the bottom decile relative to the industry sector of the issuer or in some case, relative to the Fund portfolio average.

Such criteria contribute to reducing even further the fund’s exposure to sustainability risks.

4.2.2 Monitoring & Reporting on Article 8 specific criteria

The Investment Team is responsible for collecting and assessing sustainability-related information to ensure that the sustainability criteria of the Article 8 fund remain aligned with the fund’s investment strategy and thresholds.

The ongoing risk monitoring activities performed independently by the risk management function over Sienna’s managed AIFs include reviewing whether the specific criteria set within the Article 8’s investment strategy and ESG characteristics promoted are still met.

More specifically:

- **Controversies**: A regular review over of investee companies’ controversies will be conducted to ensure that it still meets the exclusion policy and negative screening criteria listed above.
- **Sustainability indicators**: A regular review of the investee companies’ sustainability indicators used to measure the attainment of E/S characteristics will be performed to ensure they do not fall below the established minimum thresholds. The risk management function will require the AIF to engage directly with the investee company if the performance falls below the minimum threshold.
- **PAIs indicators**: The relevant PAIs selected as part of the strategy of the AIF are measured and monitored on a regular basis to ensure they remained within the bottom decile relative to the industry sector of the issuer or relative to the Fund portfolio average (as the case might be).

The risk management function also conducts a holistic review of the AIF’s sustainability risk profile based on the above monitoring activities, to ensure that the established sustainability risks limits/thresholds remain within the risk appetite. As needed, the risk management function also requires mitigation actions to reduce the level of risks to an acceptable level.

The monitoring activities over Article 8’s specific ESG criteria are included within the periodic (and ad hoc) reporting on sustainability risks performed by the permanent risk management function to the Executive Committee and the BoD.