

Higher Ground SICAV plc
171 Old Bakery Street
Valletta,
VL1 1455
Malta.

28th February 2022

Dear Investors,

War always destroys value. Mindless, unnecessary war makes those losses hard to predict. We were not positioned for this. Personally, I expected some cementing of Russian control in Eastern Ukraine. How wrong I was.

Our worst loss is in [Kernel](#) – our only Ukrainian business. It was 5.3% of our NAV¹ and is down 42% this month. It is the world's largest producer of sunflower oil. It grows sunflowers, corn, wheat and soybeans on 530,000 hectares of rich black Ukrainian soil. The holding company in which we invest is in Luxembourg and it trades on the Warsaw Stock Exchange. February is not a busy time for farming in Ukraine, so I see no reason to be glum about our prospects. Indeed, the shortages and price increases caused throughout Europe by this war, may be a net positive.

Although we have reduced our exposure to Cuban Trade Finance, we still have 14.5% there². It performed as normal...quite well...this month.

The rest of our investments are in Poland, Czech, Romania and Slovenia. They are down on average 10% this month. We can identify three reasons for these large markdowns....some more convincing than others.

1. Regional investment funds are big holders of Russian equities so will be suffering redemption requests from their investors. It will be hard (very hard) to sell their Russian holdings so they are being forced to sell their Central European holdings to raise cash.
2. There will be macro-economic pain in Europe if sanctions against Russia are to bite. That pain will hit growth and our companies will not grow as fast as they would have without a war. However, it is not clear to us why that macro-economic pain should be felt more as you get closer to the East. Indeed, we can see our countries of focus gaining from increased attention, both commercial and military. As a side note, kicking against the EU will become a vote-loser in our focus countries, particularly since Germany's full-throated support of Ukraine. Brand EU is strong and that is bad news for nationalist populism.

¹ End of January

² Forecast for 1/3/22

3. The most terrifying reason why our holdings are so much lower is the possibility that Russia wins convincingly in Ukraine and goes on to invade the Baltic states, dragging NATO into the war. I started this letter saying that we have been wrong about Russia's recklessness. However, we proceed on the assumption that this will not happen.

I therefore believe the majority of the falls we have experienced can be explained by point 1 above. That makes us do broadly nothing. We did open a new position in Kety..a Polish aluminium fabricator as it dropped to levels last Thursday that we couldn't resist.

Cheerful thoughts do not belong in these letters. However, in these dark times, perhaps we should indulge ourselves a little. February has not been as bad a month for us as March 2020, when we lost 18.4%³. From then to this past New Year, NAV per share grew by 79%. So there is a 4th reason for the falls we have seen in February. These markets are just not very liquid and therefore very volatile.

We like the companies we own and we like the prices we own them at.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'RW', with a long horizontal flourish extending to the right.

Richard Wood
Director

³ USD class