Higher Ground SICAV plc
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Valletta,
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Malta.

8th April 2022

Dear Investors,

I write to update you on the situation of our portfolio. This letter builds upon news provided in two other investor letters written in the past 3 months here and here

We are seeing strains and some late payments as a result of:

1. The tightening of the embargo under Trump…In particular the obstacles to the free inflow of family remittances…but also many other smaller measures.
2. The pandemic…bringing tourism to a halt for two years now.
3. Most recently, the US and EU sanctioning of the Russian banking system . The precise extent of ties with Russian banks are not disclosed, but the EU's freezing of the Russian Central Bank's reserves has had a visible negative effect on the liquidity available to the Cuban banking system.

As in our last letter, we comment here on our portfolio in four categories:

1. The largest category in our portfolio….Letters of credit are all being paid on time to our banks in Europe. A decision has clearly been made to prioritise prompt payment of these LCs.
2. Strong Cuban obligors who have the liquidity to pay their maturities but whose transfers to us are being blocked by shortages of hard currency in the Cuban banking system…our second largest category. This is where we are working hardest to keep up a dialogue and provide easier ways for the companies to pay. They acknowledge their debt to us and have the money to pay. In the end, we believe they will find a way to pay us. This category of delays has grown to now 7.39% of the portfolio. The amount of unmatured instruments in this category is another 24.69% of the portfolio. We have seen no movement in this queue in March.
3. Weaker credits. We have high retentions for those names. The individual amounts and the total of all such credit-driven delays are both fairly small, and we are seeing some inching forward of the backup.
4. Slow payment of transfers that we make from Cuban banks back to our home banks in Europe. This category has surprised on the upside since we last wrote. We now keep very little cash in Havana and have plenty of firepower back in Europe.

We have explained that we are marking reserves against categories 2 and 3 above. At the end December, we created a reserve of 0.27% of NAV. At the end of January, that grew to 0.49% of NAV. March saw the reserve grow to 0.62% and now we have a reserve of 1.06% of NAV. Clearly these reserves have hit our performance this year. We have followed a formulaic reserve policy that the board agreed 5 years ago at the fund's inception. Our board has recently decided to ask our auditors; PwC to review our reserve policy and that work is ongoing. We have asked them to recommend a reserve algorithm which will correctly value the fund units if the future cash flows from our current portfolio turn to be in the middle of the reasonably foreseeable outcomes. In other words, we are not looking to err on the side of pessimism or optimism.

Cuba has significant macro-economic problems which we have aired persistently in these letters. We are in a good position to profit in the long term but we do not expect 2022 to be a year of straight line growth.

Yours sincerely,

Richard Wood
Director