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

10th May 2022

Dear Investors,

I write to update you on the situation of our portfolio. This letter builds upon news provided in three other investor letters this year…here, here and here. You can refer back to those letters to see how the pressures in our portfolio built up. However they can be summarised as Trump, Covid and Putin. While Cuba valiantly remained current on its payments despite these headwinds, and while it still remains current on the majority of its obligations to us, we are experiencing systemic lateness in discrete parts of our portfolio….see points 1-4 below.

We explained in our letter of last month, that the investment committee of the board decided on January 26th this year to engage the fund's auditors; PwC to advise the board on a prudent level of reserves. In particular, to use the current International Financial Reporting Standard 9 (IFRS 9) to advise us on a reserves model, if necessary, so that our audit at year end on June 30th this year will be in accordance with IFRS.

On April 27th PwC brought their recommendation to the board and it was accepted. Their recommendation actually had three variants. The board chose the most conservative of them. We did this because we strongly favour taking one unpleasant dose of medicine in the belief that we can then get back to making money, albeit from this reduced base. The model resulted in a net markdown in April's NAV of 10.2%[i] from the end March NAV. This was net of a solid monthly performance on the underlying portfolio due to a 55bps gain in our Sherritt bonds on top of our normal accretion in our trade finance portfolio.

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

1. 30.8% of NAV is in letters of credit. These are all being paid on time to our banks in Europe. The only bank whose LCs we hold is Banco Financiero Internacional; Cuba's foreign trade bank. A decision has clearly been made to prioritise prompt payment of these LCs.
2. The other large part of our portfolio is the Cuban corporates 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. We are in dialogue with these companies. They acknowledge their debt to us and have the money to pay. There may need to be some mutually-agreed rescheduling. However, we will be paid something for that forbearance and we believe they will find a way to pay us our principal in due course. This category of delays is now 7.3% of the portfolio. The amount of unmatured instruments in this category is another 27.3% of the portfolio. The reserves model assumes delays on all these instruments and has impaired our NAV for an assumed total loss of interest, at our normal interest levels, for the duration of those assumed delays.
3. Weaker credits showing lateness amount to 4.7% of NAV. We have high retentions for those names. The PwC model assumes that, once such an instrument is clearly in default, only 25 cents on every dollar will be recovered by us. We believe this is conservative and hope to earn back some of this component.

4. Slow payment of transfers that we make from Cuban banks back to our home banks in Europe. This category is under control for now. We only keep sufficient cash in Havana to make new disbursements to exporters who wish to receive their proceeds there. Part of our portfolio has to be collected in Havana so there is a periodic need to make transfers back to Europe. The Cuban banks are not all prompt on such transfers so we manage these transfers actively.

We believe we are provisioning prudently in light of the extraordinary pressures Cuba is under. The model will be run by our administrators every month end and will produce different results depending on our progress. While we are not predicting a swift end to these problems, we are cheered by the following:

The pandemic entirely cancelled tourism to Cuba. We believe tourism will recover strongly this winter. Receipts from those bookings come in well before the tourists arrive.

In past crises, intelligent and patient creditors have been paid their capital back in due course with lost interest as their deepest wound. We are well advised in Cuba. Our local originating broker, Caribbean Tulip Finance has been moving money through the pipework of Cuba's payments system for decades and they continue to give us intelligent service.

Wood & Company has been the engine room for our Cuban payments for the past 6 years. The firm built an intelligent settlements department back when I was running the firm as it adapted to multiple privatisation programs in difficult E European currencies. That creativity combines with positivity and honesty in the operations departments of the Cuban banks, to get money through the system whenever legal and possible.

We have very adequate cash reserves. We cautiously continue to make new investments. The fund will eventually ride out this storm. Looking back, Cuba will then consider that we were useful in helping to finance the country's trade through difficult times.

Your normal contact at Wood & Co can arrange a call with William and I. Please reach out if you'd like to discuss.

Yours sincerely,

Richard Wood
Director

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[i] USD class.