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

9th June 2022

Dear Investors,

This letter is both a comment on our May results and more importantly, observations from William's and my meetings in Havana last week. The development of Cuba's payments stresses are logged in our letters of January, February, April and May.

In brief, BFI (bank) letters of credit, (36.3% of NAV) continue to perform on time. ETECSA, the phone monopoly, (36.2% of NAV) continues to have its payments to us held up in the banking system despite the company's relative financial health. The Cupet group and the Fintur group…each about 5% of NAV both have their own problems making payments not linked to banking system problems. We continue in dialogue with all obligors who are late to us. They all acknowledge their debts. All would like to make more purchases from the same exporters from whom we discounted the instruments we have. Meanwhile, those exporters and we are only prepared to resume a flow of goods once payments are made for the past.

Not a monolith

Despite universal pressure, all our obligors are different. Some are performing well on payments for priority imports and less well on others. Some can pay us in Havana but not so easily in Europe, which gives us other puzzles to solve. Others need to pay us over a longer timeframe. We are open to realistic discussions. What is common in a socialist system is that nobody in the enterprises has any upside from not paying us. On the contrary, it makes their lives more difficult so they want to pay. We and our payments partners; CTF, Havana and Wood & Co Prague are working creatively with the Cuban banking system to find legal ways for those repayments to be made. In the first 5 years of our fund, we saw universal payments discipline. We do not expect that in future. Hard work and knowledge of the market will show through in eventual performance although the level of that eventual performance remains uncertain.

Accounting will cause some ups and downs.

As you know, the markdowns we took in April and now in May were the result of a board decision to ask PwC to advise us on what reserves would fairly value the fund given these delays. That resulted in a reserve of 13.9% of NAV in April and 15.1% in May. The fund has not shown all those losses because of positive upward movement in our Sherritt Bonds, (Cuban Nickel) and natural accretion to par of our trade finance portfolio during the same months. Tying reserves to a mechanical model will produce some months where NAV performs differently to what the directors and advisors would have come up with as a valuation. We said in our January letter that you should not expect any straight lines this year. That will be true both because of the volatility in Cuba's FX reserves, but also because of some thresholds and weightings in our reserve model. Although the effects of the latter will not be significant…up to 3% up or down in some months. Our May increase in reserves falls into this category of a model output unconnected to a change on the ground.

As you see from the factsheet, we have very adequate cash reserves. We cautiously continue to make new investments and we believe they will be good investments.

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

Yours sincerely,

Richard Wood
Director