HIGHERGROUND
SICAV PLC

9th September 2022

Dear Investors,

Cuba's macro and micro-economic problems have continued to worsen. There is a critical shortage of FX reserves caused by the three main factors we have explained in our five letters to you so far this year. Those factors are Trump's clampdown on remittances, Covid and its effect on tourism, and Russia's war in Ukraine. As a result of this deterioration, our auditors require us to make a further significant markdown in the carrying value of our assets. More on that later. Let us first look at what is happening on the ground in Cuba.

1. **William's observations from Havana.**

Overview

During the last four months the economic situation in Cuba and our perception of the depth of the challenges have deteriorated.

Highlights include:

1. The fallout from NATO sanctions on Russian banks - Exclusion from SWIFT, freezing of Russia's Euro reserves, and Russia's FX control countermeasures have the effect of denying Cuba access to its reserves held in those banks. Also, it becomes harder for Cuba to use those banks to receive payments from other allies.

These developments have further worsened the shortage of available liquidity in the Cuban banking system, already seriously impacted by tightened US sanctions and the collapse of tourism resulting from the COVID pandemic.

2. The long-standing under-investment in maintenance and repairs to the electrical generation industry has come home to roost in a series of breakdowns which cause significant power outages across the country, with damaging impacts on industrial production as well as discomfort to households. In the provinces, outages of 12 hours per day are reported; in Havana, rolling blackouts of up to 4 hours daily. Restoring adequate production will take several years and major allocation of resources, it now appears.

3. Family remittances and cash payments by tourists have brought liquidity in the form of Euro cash currency to the island. Many creditors, including us, are offered payment in cash currency, but there are few banks in Europe willing to accept cash sent, even through normal secure channels,

from Cuban banks. We continue to work on solutions.

4. The informal exchange market reflects these issues. The official rate was 24 CUP to 1 dollar in January 2021. One year later, in January 2022, the informal rate stood at 70:1. In early July, the informal rate was 110:1. Today, barely 60 days later, the informal rate is 150:1.

Outlook

5. We expect to see a modest recovery in tourism going into 2022/2023 winter high season and further expansion of the spaces permitted to the dynamic private sector. We do not expect to see any significant improvement in the performance of the state-owned sector, in liquidity in the banking system, nor in payments to creditors, until at least 2H 2023.

One bright spot is Latin American political pressure on the USA to end the US blockade of Cuba, where the likely election of Lula in Brazil in October together with Petro's election in Colombia will recreate (as in 2013 and 2014) a Latin America united in its determination to force the USA to ameliorate if not lift its embargo. Such a development would reduce US: Cuba tension and facilitate both much-needed economic reforms and foreign investment.

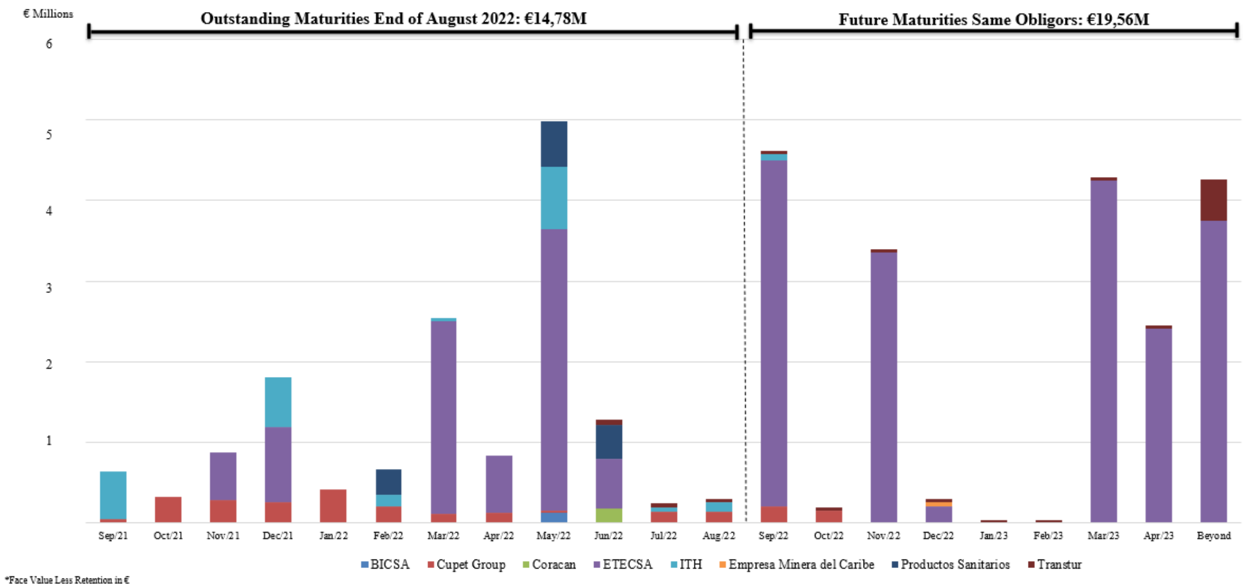
2. Richard's observations on the reserve.

Our financial year ended June 30, so our audit is well underway. Our auditors: PwC note the lack of positive movement in our overdue maturities and all the factors described by William above. You will remember that they first defined a reserve policy in late April which we reported to you here. With continued use of that reserve model, we carried a reserve at end July of EUR9.1 million. The reserve has now been increased as a part of the audit and that new reserve model is being applied to August results. The reserve is now EUR24.7 million. That is 35% of the NAV *before* any reserve but 54% of the NAV we are reporting now *after* the reserve. You can see from our August fact sheet that the underlying performance of the portfolio was positive and in the range we have come to expect… but dwarfed by the negative effect on NAV of this increase in reserves.

PwC's reserve model is complex and dynamic. When we are repaid on an asset, the reserve on that asset goes to zero. When we invest in a new asset, a new reserve is created. The model motivates us to invest in performing credits, (currently Banco Financiero Internacional letters of credit) rather than names that are paying late, and it recognizes the extra protection of higher discount rates and larger retentions. We don't propose to go into all the inputs and assumptions in the reserve here. We can organize a call with PwC for any investors who would like to drill down. The same model will now be applied every month. However, it will not produce the same EUR reserve every month as the portfolio continues to evolve. Money comes in and new investments are made.

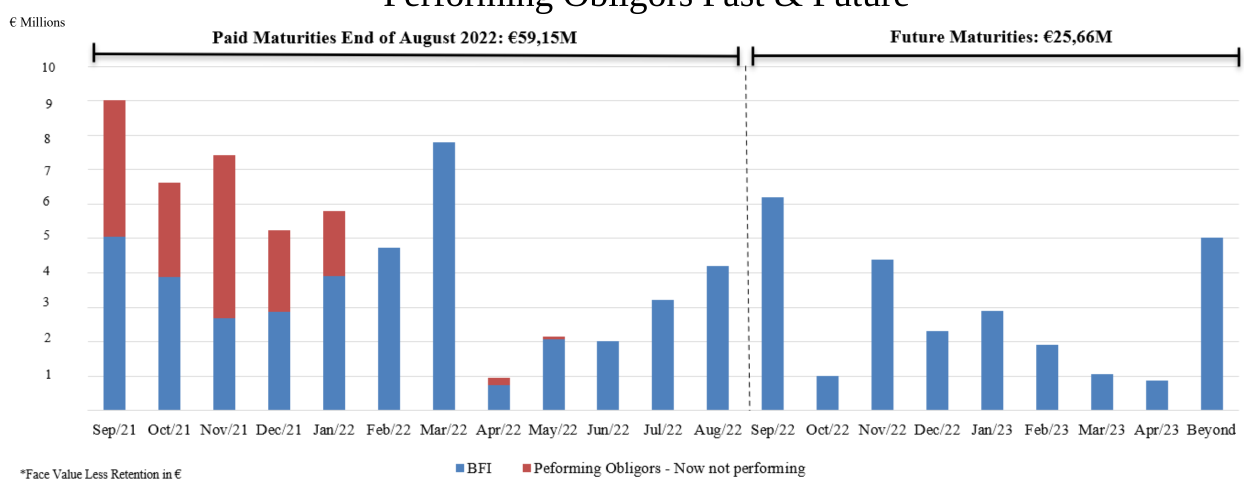
The following graphic has helped us to assess the proportionality of the reserve.

Non-paying Obligors – Past & Future Maturities*



Meanwhile, our liquidity remains strong because BFI letters of credit continue to pay on time. That has resulted in the strong cash position you see on August's fact sheet. It has also enabled us to continue to make new investments at good pricing which we believe will drive future returns.

Performing Obligors Past & Future*



We will work our way through this crisis and will continue to invest in Cuba for many years to come.

Your question for us will be the same as the one we constantly ask ourselves: 'Given that you thought the end April reserve was enough, how do we know whether this much larger reserve is now enough? Or too much?'

The situation has clearly worsened since the reserve was created in late April. So, we do think that some significant increase is warranted. However, this is not our model. Auditors have their rules and, in this case, have applied IFRS 9. In evaluating the exact level, we note that the range of possible future outcomes is very wide. On the positive side we could see a strong rebound in tourism with an accompanying rebound in FX reserves. We could see the positive Latam pressure that William describes above. We could see an end to the war in Ukraine and therefore an eventual return to usefulness of Cuba's longtime friend, Russia.

On the negative side, things can always get worse for the same reasons they have got worse to date... just more of the same. Although it is clear that Cuba will empty every other pocket before defaulting on BFI LCs, there is no hard rule that says that is going to be enough. We believe it will be because BFI remains disciplined in only providing letters of credit for the traditionally-favoured part of the economy – the part whose imports we finance. Weaker parts of the economy and non-essential imports are still being denied BFI LCs.

If Cuba is to retain any ability to bring imports to the table, we have a seat at that table. We will use that seat to get paid on some old instruments as a precondition of financing future imports. We will take markdowns as in any workout. Our obligors are natural monopolies. Neither the phone company nor the oil company will cease to exist. They acknowledge their debts to us, and we are talking. However, it is out of their hands. They no longer have control of their hard currency revenues. Those who do hold that power have often prioritized ideology over economic management.

We remain committed to produce good returns for those who can tolerate this very considerable level of risk.

Yours sincerely,

Richard Wood
Director

William White
Investment Advisor