“All the world’s a stage, and all the men and women merely players.”

- As You Like It – William Shakespeare

- **PERFORMANCE** – Serenity Alternatives Fund I returned +4.11% in December net of fees and expenses, bringing year to date returns to **+19.6%**. The FTSE NAREIT All Equity REITs Index returned +2.45% for the month and returned -5.1% in 2020.
- **2020 IN REVIEW: A PLAY IN THREE ACTS**
    - **Q1:** Opportunities are scarce as the economic cycle draws to a close. Serenity Alts is focused on preserving client capital in the face of a possible recession (we are hedged). Then the virus hits. The REIT market ends Q1 down -23.5% with Serenity down only -3.7%. This is what hedge funds do best.
    - **Q2/Q3:** The Coronavirus pandemic ravages the world’s economies, creating a new set of winners and losers in the stock market and in REITs. Serenity Alts treads cautiously.
    - **Q4:** As the pandemic hits a new phase, a light at the end of the tunnel begins to glimmer. Serenity swoops in to invest opportunistically while many competitors wait on the sidelines. Fund 1 returns +20.6% net of fees in November and December.
- **THE ROAD AHEAD:** 2020 has ended and the dawn of a new economic cycle lies just over the horizon. The path will not always be smooth, but REIT buying opportunities abound for the vigilant and decisive.

Dear Friends and Partners,

Imperious 2020, dead and turned to clay, might stop a hole to keep the wind away.

What…a…year.

A global pandemic, an economic recession, a contentious election, and the inevitable onset of cabin fever as we await the administration of a vaccine developed at warp speed. Shakespeare would struggle to write such a compelling narrative.

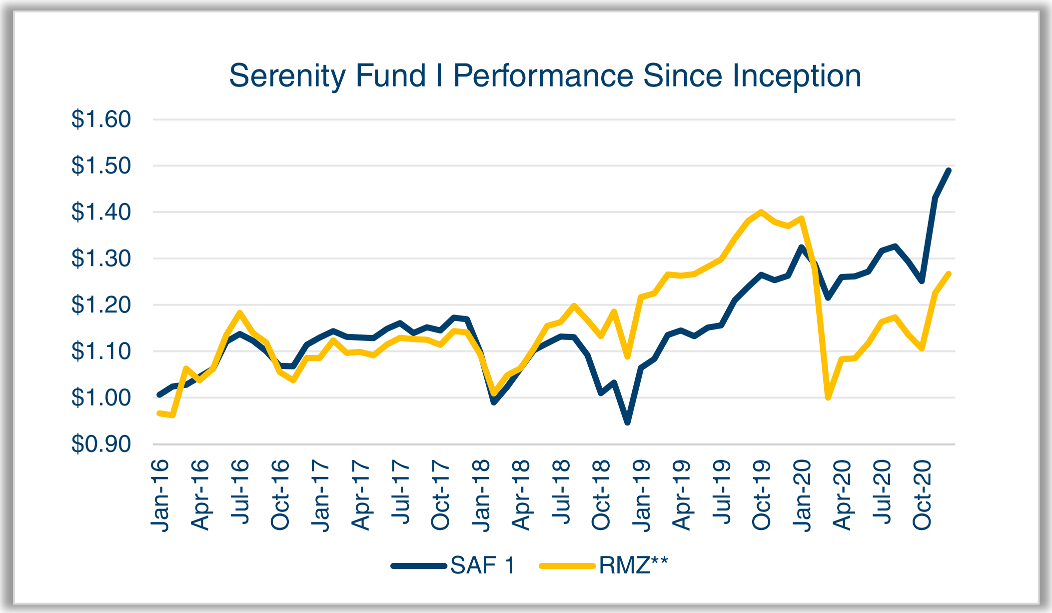
And yet in the seeds of tragedy there have sprouted some green shoots. The economic cycle has been re-set, creating a set of opportunities for investors not seen since the dark days of 2008-2009. Serenity Alternative Investments Fund I had its best year yet from a relative performance standpoint, beating the REIT benchmark by over 24%. The Chicago Bears even made the playoffs after losing 6-straight games. All is not lost!

Like all things, 2020 did not last forever. Its time has come to an end. We now have the opportunity to move forward, cautious, yet optimistic into a brighter looking 2021. Last year our fund successfully protected, and then grew our client’s capital, setting us apart from Wall Street’s best REIT managers and validating our multi-faceted process along the way. Below we explore some of the components of our strategy that led to an excellent year in a challenging environment and explore the path forward as we embrace the advent of a new economic cycle.

Performance: +4.11% in December, +19.6% YTD

The funds outperformance continued in December as we closed the year up **+19.6%** net of fees and expenses. This followed our 2019 performance of **+33.4%**, bringing total returns in the fund over the last 2 years to **+57.4%** (+25.4% on an annualized basis). Over the same time period, REITs, as represented by the FTSE NAREIT All Equity REITs index (FNER), returned +22.1% (+10.5% on an annualized basis and -5.1% in 2020), with higher volatility than the fund. That's +15% better performance on an annualized basis, lower volatility (15% vs 19.6%), and thus a far superior Sharpe ratio of +1.69 for our fund versus +0.35 for the REIT benchmark.

Since inception, the fund has now produced annualized returns of +8.3% net of fees, +1.6% better than the FNER at +6.7% with on average 75% net exposure. Again, this lends the fund its superior Sharpe ratio of +0.61 since inception versus the benchmark at +0.42. The funds' outperformance is even more pronounced relative to the MSCI US REIT index (RMZ), which has returned +4.8% on an annualized basis since the funds inception, with a Sharpe ratio of +0.28.



The end of 2020 marks the five-year anniversary of the fund, a major milestone from a performance track-record perspective. We can now say confidently that our process has produced superior nominal and risk adjusted returns net of fees over the last 5 years versus multiple REIT benchmarks, with our most significant outperformance occurring over the last 2 years. That's five years of cumulative success capped with accelerating returns and the most positive outlook for REITs we have had since 2010 (more on that later). The future looks bright here at Serenity Alternatives.

Now for the ultimate and ever-present potential investor question…how sustainable is this success?

If there were ever a year to examine in order to divine the sustainability of a REIT or hedge fund strategy…2020 would be it. How did our fund deliver our best relative returns in one of the most challenging years ever? Below we take a chronological look at the fund's performance in 2020 and examine how our *process* was able to preserve and grow client capital amidst a tidal wave of uncertainty.

Q1 2020: THE (ABRUPT) END OF THE ECONOMIC CYLCE

"Businesses Say Trade Deal Is a Good First Step but Want Tariffs to End"

"US Stocks End Week at Record Levels"

"Senators Sworn In as Trump Impeachment Trial Begins"

"New Virus Found by Chinese Scientists Investigating Pneumonia Outbreak"

Remember January of 2020? It seems like an eon ago doesn't it? The quotes above are Wall Street Journal headlines taken from various dates in the first month of last year. The market's focus? Certainly not Coronavirus (it seemingly did not even have a name yet). Impeachment, the China trade deal, and record highs in the stock market were front and center at this time twelve months ago. But what was on the mind of our portfolio management team?

"Crazy start to this year. Mostly good for us with the exception of CONE, as economic data continues to deteriorate, and people are VERY slowly starting to realize it, and now with the coronavirus outbreak are realizing something very QUICKLY. This could very well be the grain of sand that starts the slide as people realize that the economy was already in a very fragile state when all this started to happen. We are positioned pretty well, long the bond proxy net lease names, long warehouse, some data center, and very little high cyclicality."

The quote above is from the macro journal of yours truly and taken from Jan 27th of 2020. Please pardon the grammar as it's written as a sort of stream of consciousness, attempting to solidify my present mindset and learn from it later on. What it reveals (and is supported by newsletter commentary from the time) is that slowing economic data was front and center in our minds 12 months ago, which led us to avoid cyclical sectors in the portfolio.

This leads to a point I've attempted to make repeatedly in my writing in the past…***the state of the economy and direction of macro-economic data are much more important to the stock market than individual events***. That sentence gets the bold, italic, underline trifecta this month as it has never been more relevant than it was in 2020. We did not predict the coronavirus, but we knew the economy was slowing before it ever arrived and were therefore positioned correctly when the economy shut down in March and April.

Property Sector	Weight	Q1 2020 Performance
Apartments	7.7%	-24.7%
Data Centers	7.7%	12.2%
Diversified	-26.8%	-34.9%
Free Standing Retail	19.2%	-28.1%
Health Care	-4.8%	-35.7%
Warehouse	26.9%	-10.4%
Infrastructure	3.8%	-0.3%
Lodging	-25.0%	-52.3%
Hotel C-Corp	0.0%	-45.2%
Man. Homes	7.7%	-17.2%
Mortgage	0.0%	-43.6%
Office	-4.5%	-25.0%
RE Services	0.0%	-40.0%
Regional Malls	-16.7%	-55.7%
Self Storage	0.0%	-7.9%
Single Family Rental	3.8%	-21.4%
Shopping Centers	-4.8%	-49.0%
Specialty	3.8%	-30.2%
Timber	-4.2%	-39.3%

Our CORE quantitative model was sending similar signals. To the right are the sector weights and Q1 performance of the model's top and bottom quintiles as of December 31st, 2019 (assuming an equal weighted market neutral portfolio long the top quintile and short the bottom quintile). The largest model under-weights? Lodging, Malls, and Diversified REITs. The largest under-performers in Q1 2020, Lodging, Malls, and Shopping Centers.

Both our CORE model and macro-outlook pointed to a defensively positioned portfolio early last year, which we heeded in the fund. While the REIT index closed the first quarter down -23.5%, Serenity Alternative Investments Fund I returned -3.7%, **insulating our clients from the majority of the large Q1 draw-down in the REIT market**.

The combined power of different aspects of our process was on full display in 2020, at no time more importantly than in the first quarter. Significant drawdowns are the main destroyer of long-term returns and avoiding them is one of our primary goals at the firm. After the most chaotic quarter in over a decade in the capital markets last year, we were well ahead of the market and our clients were resting easy. It was a good start to an otherwise brutal year.

Q2/Q3 2020: DIGGING THROUGH THE RUBBLE

As the year progressed, huge amounts of fiscal and monetary stimulus combined to arrest the fall in equity markets and stabilize the US economy in spite of an unprecedented change in the lifestyle of most US citizens. It's important to remember that for a few months of last year uncertainty in all aspects of the economy was higher than it had been since the great recession of 2008-2009. Hope for economic re-opening appeared in May and faded in June. The return to offices was pushed back until Labor Day, and then pushed out indefinitely. Vaccine news appeared and then faded, and by August and September it became clear that the Coronavirus was not leaving our lives any time soon.

Through most of this period we remained cautious in the fund, keeping our net exposure relatively low, and only deploying capital into REITs with high credit quality tenants or pandemic resistant businesses. Data Center, Cell Tower, and Warehouse REITs were some of the only winners in REIT land during the first nine months of 2020 and made up the majority of our long book over this time period. As work from home and e-commerce related businesses saw demand resume and then even increase in some circumstances, these names were the first REITs to snap pack in the second quarter, and many have traded to prices on par or higher than pre-pandemic.

While the market was sorting out new winners and losers in a newly immobile world, our clamped down risk parameters kept volatility in the fund extremely low as our portfolio management team monitored REIT cash flows, bided our time and actively managed risk. While a higher risk appetite may have benefitted the fund early on in Q2, we were under no obligation to add risk into an environment that we saw as extremely uncertain. This gave us the benefit of entering the fourth quarter of 2020 with a large amount of data, and more importantly a large pile of dry powder.

Q4 2020: THE DARKEST NIGHT…AND THEN, A LIGHT…

The fourth quarter of 2020 began with bad news which steadily got worse. Fears of a second wave of COVID cases were realized as schools attempted to resume and other activities moved indoors as the weather cooled. The fund and the REIT market both suffered negative return months in September and October as pessimism steadily built regarding the ability of the US economy to return to normal.

It is already hard to remember how much negativity had crept into the market by early November of 2020. Many REITs had retreated to levels not seen since the carnage of March/April, despite massive Fed intervention and a healthy appetite from private market buyers. Investors simply did not believe there was a path back to normalcy for the hardest hit REIT sectors (Hotels, Malls, Offices), and many of these companies traded to 50-60% discounts to their consensus NAV's (Net Asset Values, which represent the price a REIT could theoretically sell itself for in the private market).

Now let's step back for a second and remind our readers of a few facts regarding REIT portfolios.

1) REITs by and large own the highest quality commercial real estate portfolios in the country. Trophy quality, institutional, Class A assets in the best markets. If you want exposure to "Core" real estate, the REITs have it in spades.
2) The value of these portfolios does not change rapidly. Even 6-months into the pandemic, mostly empty Hotel and Office properties were trading at values 5-10% below their pre-pandemic levels. Meanwhile, REITs with similar or higher quality properties were trading at 50-60% discounts to their 2019 values.

3) REIT balance sheets carry lower leverage and more optionality than private real estate funds. REITs almost never go bankrupt and have a 30-year track record of producing returns greater than +10% per year.

The moral of the story here is that 50-60% discounts to NAV rarely make sense. This type of discount is an indication that something at the company or property type is truly broken. Either that or investors are pricing in a future economic scenario that is extremely bearish.

At this point in the fund's history, after months of analysis, we were having difficulty uncovering such a bearish scenario. Office companies by and large had few expirations in their portfolios and plenty of liquidity. Hotel companies continued to make progress cutting costs and shoring up their balance sheets. Even most Retail REITs were seeing rent collections steadily improve along with same store metrics. While demand was suppressed due to the ongoing pandemic, many high-quality portfolios were well equipped to weather the storm, and trading at fire-sale prices. If there was any chance the economy returned to normal over the next 2-5 years, these stocks were steals.

The pessimism eventually got so bad that we started pounding the table on cheap REITs. The excerpt below is from our investor letter that went out in early November.

"*Essentially, nobody knows when REIT cash flows are going to start moving higher fast enough to sustain a multi-year rally. This will eventually happen, however, and the REIT market will move before it is readily apparent in the data. For this reason, we believe having some cyclical exposure in the portfolio is prudent. Every day we get closer to solving the global health crisis brings us closer to a sustained rally in beaten down "risky" REITs.*"

Then on November 9th Pfizer and BioNTech announced the results of their phase 3 COVID vaccine study. Office REITs, Hotel REITs, Mall REITs and Retail REITs all skyrocketed on the news, returning over 20% in the course of a month. With a moderate amount of exposure to these property types, Serenity Alts Fund I returned +15.81% in November, while the majority of our peers under-performed the benchmark, which was up +9.28%.

We carried this success into years end, closing 2020 at +19.6% net of fees and expenses, while the REIT index returned -5.1%. That's 24.6% of outperformance in a 12-month time window, and the best year for the fund on a relative basis in our now 5-year history.

And in the end, it was no singular component of our process that propelled us to success. It was multiple tools being used simultaneously that led us into non-consensus positions that paid off handsomely. Our macro-outlook lent us caution to start the year, while our CORE quant model kept us in defensive sectors and had us shorting cyclicals into the carnage of February and March. Through the summer our risk management framework kept us from taking undue risks and plowing into cyclicals too early. Our best idea from a fundamental research perspective (IIPR) was one of the best performing REITs in the universe in 2020, up **+151%**. And finally, fundamental research, macro research, and a dusted off Deep Value quant model combined to position the fund for a huge move higher into years end.

You can have a very successful career on Wall Street being a one trick pony. For lasting success and scalability, however, a multi-factor investment process is necessary. With everything working in sync, the well-oiled machine that is Serenity Alternative Investments Fund I returned almost 20% in 2020 while our benchmark did not get back to break even. Imagine what we can do if REITs repeat the past and return 15-25% per year over the next 5 years…!

THE ROAD AHEAD IN 2021: THE DAWN OF A NEW ECONOMIC CYCLE…

It may seem difficult to be bullish as we start out a new year in 2021. The pandemic is still raging, vaccines have seen a slow beginning to their roll-out, and civil unrest continues to bubble up. We are not out of the woods, and there will be setbacks on the path to normalcy.

But we are moving in the right direction. Consumers have saved and recovered most of their purchasing power. Congress has approved more stimulus dollars with a high likelihood of even more to come. Vaccinations are accelerating every day, and positive COVID cases in many of the hardest hit states are down meaningfully from their highs. REIT balance sheets are strong, interest rates are low, and distressed assets are set to come to market. Once the economy starts to finally unlock (sustainably this time), REIT cash flows will begin moving higher at a rapid clip.

Our view is that the time has come to invest using a longer-term time horizon. A more normal economy means much higher prices for Hotel REITs, Office REITs, and yes, even the Retail REITs. While that may sound crazy, pessimists will be fighting a stream of ever improving economic data over the next six months as the nation goes on the offensive against the coronavirus pandemic. We are no longer at the tail end of an extremely long economic expansion. We are now in the pre-game or early innings of an economic recovery. The playbook for the next five years should not be the same as it has been over the previous five, and at Serenity we are positioned for this new regime.

To buy cyclicals, or to not buy cyclicals, that is the question.

Martin D Kollmorgen, CFA

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2020	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
Gross Returns	5.48%	(2.97%)	(5.70%)	3.75%	0.17%	1.01%	3.97%	0.94%	(2.67%)	(3.10%)	17.28%	4.60%	23.0%
Net Returns (1% &10%)	4.86%	(2.77%)	(5.58%)	3.67%	0.08%	0.85%	3.50%	0.77%	(2.49%)	(3.18%)	15.81%	4.11%	19.6%
Net Exposure	65%	55%	15%	2%	-17%	1%	27%	67%	59%	92%	98%	105%	47%
REIT Index	1.16%	(7.93%)	(21.62%)	8.25%	0.19%	3.02%	3.82%	0.14%	(2.67%)	(3.36%)	9.28%	2.45%	(5.1%)

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2020	4.86%	(2.77%)	(5.58%)	3.67%	0.08%	0.85%	3.50%	0.77%	(2.49%)	(3.18%)	15.81%	4.11%	19.6%
2019	12.42%	1.81%	4.81%	0.82%	(1.05%)	1.61%	0.46%	4.66%	2.34%	2.12%	(0.88%)	0.73%	33.4%
2018	(6.05%)	(9.90%)	3.42%	3.94%	3.60%	1.39%	1.25%	(0.09%)	(3.44%)	(7.50%)	2.26%	(8.35%)	(19.1%)
2017	(6.05%)	1.11%	(1.06%)	(0.20%)	(0.15%)	1.70%	0.96%	(1.84%)	1.06%	(0.64%)	2.24%	(0.34%)	4.2%
2016	0.61%	1.61%	0.30%	1.50%	1.50%	5.20%	1.33%	(1.24%)	(2.04%)	(2.96%)	(0.08%)	4.28%	10.1%

**All charts generated using data from Bloomberg LP, S&P Global, and Serenity Alternative Investments have access to capital except according to the terms of withdrawal specified within the confidential offering memorandum and other related documents. The fees and expenses that will be charged by the Fund and/or its Manager may be higher than the fees and expenses of other investment alternatives and may offset profits.

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