

INVESTMENT TEAM



Eamonn McConnell
Portfolio Manager

Rees Barnett
Portfolio Associate

OBJECTIVE

Kensington Hedge Fund 1 (KHF1) seeks to provide capital appreciation with reduced volatility through investment in the Canadian Hedge Fund Universe.

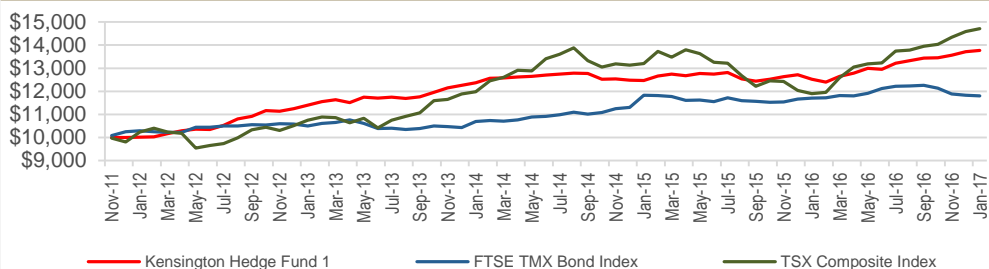
STRATEGY

Kensington identifies emerging managers in the Canadian Hedge Fund Universe set to outperform their peers. By diversifying across multiple fund styles and identifying key managers Kensington seeks to provide superior risk adjusted returns with low correlation to the equity market.

GENERAL INFORMATION

Inception Date:	November 1, 2011
Fund Assets:	\$41 million
Firm Assets:	\$1.2 billion
Minimum Investment:	\$10,000 (Accredited Investors)
RRSP/RRIF RESP/TFSA Eligibility:	Yes
Sold By:	Offering Memorandum
Closing:	Month end via FUNDServ; Subscription Agreement required upon closing
High Water Mark:	Permanent (No Reset)
Liquidity:	Monthly Redemptions Subject to 5% Redemption Fee in first 5 months 31 days advance notice required before redemption date Payment provided 25 business days after redemption date
Administrator:	SS&C Technologies Inc.
Auditor:	KPMG
Prime Brokers:	CIBC, BMO, Scotiabank, R.J. O'Brien

Growth of a \$10,000 Investment



	2011*	2012	2013	2014	2015	2016	2017(YTD)
KHF1	0.09%	12.33%	9.06%	1.83%	1.84%	7.88%	0.42% ^E
TSX Composite TRI	-1.91%	7.19%	12.99%	10.55%	-8.32%	21.09%	0.85%
FTSE TMX CDN Bond**	0.43%	3.26%	-1.47%	8.45%	3.14%	1.36%	-0.17%

Net Monthly Returns (as of January 31, 2017)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2017	0.42% ^E											
2016	-1.55%	-0.90%	1.96%	1.12%	1.60%	-0.33%	2.05%	0.82%	0.80%	0.10%	0.91%	1.16%
2015	-0.16%	1.61%	0.63%	-0.53%	0.80%	-0.24%	0.50%	-2.19%	-0.73%	0.68%	0.90%	0.61%
2014	0.88%	1.54%	0.15%	0.36%	0.21%	0.42%	0.34%	0.37%	-0.21%	-1.90%	0.13%	-0.44%
2013	1.45%	1.33%	0.70%	-1.04%	1.96%	-0.31%	0.32%	-0.45%	0.62%	1.61%	1.60%	0.96%
2012	0.08%	0.19%	1.39%	1.15%	0.69%	-0.18%	1.84%	2.54%	1.08%	2.26%	-0.26%	0.95%
2011											0.06%	0.03%

Net Returns (as of January 31, 2017)

	1 mth	3 mth	6 mth	1 yr	3 yr ¹	5 yr ¹	Since Inception ¹
KHF1	0.42% ^E	2.45%	4.22%	10.04%	4.83%	6.58%	6.29%
TSX Comp	0.85%	4.77%	6.99%	23.56%	7.08%	7.51%	7.62%
FTSE TMX**	-0.17%	-2.75%	-3.39%	0.85%	3.34%	2.77%	3.21%

Risk Statistics (as of January 31, 2017)

	Standard Deviation ¹	Sharpe Ratio	Correlation to TSX
KHF1	3.35%	1.65	0.51
TSX Comp	8.25%	0.92	1.00
FTSE TMX**	3.65%	0.88	-0.02

Fund inception date (11/01/2011) to current month end

Class	Pricing	Fund Code	Management Fee	Performance Fee	Trailer Fee
A	Trailer	KEN 920	2.40%	20%	40 bps
E	Trailer	KEN 926	2.80%	20%	100 bps
F	Fee Based	KEN 922	1.80%	20%	Advisor Determined

Capture Ratio

	TSX	KHF1
Upside Capture		40.45%
Downside Capture		3.03%

Commentary

MARKET OVERVIEW

January saw the inauguration of the 45th President of the United States of America, and as Mr. Trump began his presidency he quickly initiated executive orders implementing a variety of his campaign promises which received “mixed reviews”. Although the American population had mixed reviews of political policy, the American equity markets seemed unconcerned with the news as the NASDAQ finished up a massive +4.31%, the S&P500 Index up +1.79% and the Canadian market followed suit with the S&P/TSX Composite TR Index also moving up +0.85%. In Asia we saw Japan moving down slightly as the Nikkei moved -0.38% and China moved in the opposite direction as the Hang Seng index moved up +6.18% and the Shanghai Composite +2.36%. In Europe we saw a slight downward movement with the Eurostoxx moving down -1.79% but this was coming off the prior period movement which saw the index move up +7.09%.

Volatility in 2017 continued to move down as the VIX finished January at 12 shifting from a year end level of 14. In the credit market while some were expecting an unwind to the “Trump Bump” 10 year treasury rates ended up settling close to 2016 year end numbers at +2.45%. Gold saw positive movement as it edged up slightly over the \$1200 mark to \$1211USD from its end of year number of \$1153USD, while oil moved slightly down in 2017 to \$52.81 USD/Barrel (WTI). Surprisingly against a depreciating oil price the Canadian Dollar appreciated against the American Dollar finishing at 1.3030CAD/USD.

FUND OVERVIEW

January was a mixed month for the managers underlying the Kensington Hedge Fund 1 (“KHF1”) as five managers posted slightly negative returns allowing the fund to only return a modest estimated return of +0.42%. The fund continues to operate in the targeted return range set out by the investment team with a one year return number of +10.04%. Although the fund looks to target a consistent return of 6%-8%, management continues to push for stronger returns over the long term investment horizon.

The portfolio team is also pleased to announce a new investment in Pivot Financial. Pivot Financial is an accomplished alternative lending platform which has been in operation since June of 2015. Started by a group of investment professionals who have been in the space for over 20 years, Pivot Financial has a strong profile in the alternative lending space. The KHF1 portfolio team had performed extensive due diligence and was pleased to complete the investment in the first month of 2017. With a large wealth of experience in the alternative lending space Pivot Financial provides KHF1 with another strong source of uncorrelated returns.

The KHF1 portfolio team continues to research managers and adjust allocations in an attempt to increase year over year returns while achieving an asymmetrical return profile. Although the recent equity market movements (especially the Canadian equity market) have achieved higher than anticipated returns it is our belief that a balanced approach to long term capital appreciation provides a safer (less risky) route to alpha generation. As markets continue to be reactive and valuations continue to stretch past historical resistance levels, the investment team attempts to position the portfolio to achieve superior risk adjusted returns that protect our investors capital and position them favorably for the future.



Eamonn McConnell, CAIA
Portfolio Manager

MANAGER ROSTER

- **Algonquin Capital**
Toronto – Credit & Rate Arbitrage
- **Ewing Morris & Co.**
Toronto – North American Equity L/S
American Equities
- **Forge First Asset Management**
Toronto – Multi-Strategy
- **HGC Investment Management**
Toronto – Merger Arbitrage
- **JM Fund Management**
Toronto – North American Equity L/S
- **Lawrence Park Capital**
Toronto – Credit Value Trading/
Market Arbitrage
- **Lightwater Partners**
Toronto – North American Equity L/S
- **Lumen Asset Management**
Toronto – North American Equity L/S
- **NewGen Asset Management**
Toronto – North American Equity L/S
- **Orchard Global Asset Management**
Toronto – Credit Arbitrage
- **Pivot Financial**
Toronto – Alternative Lending
- **Productivity Media**
Toronto – Alternative Lending
- **Radin Capital Partners**
Toronto – Global Equity L/S

DISCLAIMER

E = Estimate (Based on expected return generated from preliminary NAV estimates)

¹Annualized

*2011 numbers represent performance from the fund’s inception date (11/01/2011) to 12/31/2011

**FTSE TMX Canadian Bond Index performance is being represented by the iShares Canadian Bond ETF (XBB)

This document does not represent an offering of securities. The securities described herein are only available to Accredited Investors in Canada by private placement in accordance with applicable securities laws. The information disclosed in this summary is incomplete, and is qualified in its entirety by the Offering Memorandum for the Kensington Hedge Fund 1 dated January 2, 2014.

Notes:

Past performance is not indicative of future performance. This sheet is intended to report historical performance and certain risk statistics.

Market index used on this sheet are used as proxies for the Canadian equity and fixed income markets and are only intended to illustrate general market trends.

Kensington Hedge Fund 1 is a product of Kensington Capital Advisors Inc.