



KENSINGTON PRIVATE EQUITY FUND

MANAGEMENT REPORT ON FUND PERFORMANCE  
AND FINANCIAL STATEMENTS

FOR THE PERIOD ENDED  
SEPTEMBER 30, 2015

November 27, 2015

*This interim management report of the performance of the Kensington Private Equity Fund (the "Investment Fund") contains financial highlights as well as the Investment Fund's interim financial statements for the period ended September 30, 2015. You may obtain a copy of the interim financial statements, the Investment Fund's proxy voting policies and procedures, proxy voting disclosure record or portfolio disclosure at your request, and at no cost, by calling 416-362-9000 or toll-free at 1-855-362-9329, by writing to us at 95 St. Clair Avenue West, Suite 905, Toronto, Ontario, M4V 1N6, or by visiting our website at [www.kcpl.ca](http://www.kcpl.ca).*

## KENSINGTON PRIVATE EQUITY FUND

### MANAGEMENT REPORT ON FUND PERFORMANCE

Kensington Private Equity Fund (“Investment Fund”) is an investment trust established under the laws of the Province of Ontario. The Investment Fund is the successor to Kensington Global Private Equity Fund (“Global Fund”), which was established in a public offering of units in April 2007. On September 17, 2014 Global Fund transferred substantially all of its assets and transitioned into the Investment Fund. Accordingly, the historical results and other characteristics of Global Fund are presented in this report as part of the historical results of the Investment Fund.

This Management Report on Financial Performance (“MRFP”) is being published for investors in the Investment Fund in accordance with the requirements of its governing Declaration of Trust. In connection with the transition from Global Fund to the Investment Fund, the Investment Fund agreed to continue to substantially comply with disclosure requirements that were previously applicable to Global Fund as a reporting issuer, including through the publication of this MRFP.

Kensington Capital Advisors Inc. (the “Manager” and “Trustee”) believes that investing in private equity will continue to offer the potential for attractive long-term returns that have historically outperformed public equity market returns, and also reduces risk for traditional investment portfolios through diversification. The Manager provides investment advisory and portfolio management services to the Investment Fund and is responsible for making all investment decisions.

#### RECENT DEVELOPMENTS

##### *Performance of the Investment Fund*

The Investment Fund was created to provide investors with exposure to a diversified portfolio of private equity investments (“Underlying Investments”), including private equity funds and direct investments in private companies. By creating a hybrid private equity portfolio, the Manager believes investors will benefit from the potential for stronger returns from direct investments and the prudent risk management and diversification from investments in primary funds and funds of funds (“Underlying Funds”). This carefully managed hybrid portfolio strategy led to the following performance highlights during the six-month period from April 1, 2015 to September 30, 2015:

- The Net Asset Value (NAV) of the Investment Fund increased by approximately \$4.5 million, representing a return to investors of approximately 11.8%. This calculation is determined on an internal rate of return (XIRR) basis based on the performance of Underlying Investments and without taking into account the impact of other cash flows into and out of the Investment Fund during the period (new subscriptions, conversions, distributions and redemptions of Units).
- The Investment Fund continued to achieve realized portfolio gains on Underlying Investments, including through realizing gains from the sale of investments held by underlying funds.
- The Investment Fund completed one new direct investment in new portfolio company Prodomax Holdings Ltd.; one new investment in search fund Chrysalis Acquisition Fund L.P.; and commitments to three new funds offered by managers with whom the Investment Fund has had successful investments in prior funds: TriWest Capital Partners V, L.P., Whitecastle New Urban Fund 3 L.P. and Novacap Industries IV, L.P.

Subsequent to September 30, 2015, the Investment Fund distributed \$5.5 million to Unitholders, representing \$1.32 per Unit. The strong performance of the Investment Fund during the period is reflected in an increase in the NAV of the Investment Fund of 11.0%. As the value of the Investment Fund grows and gains are realized, the Manager constantly evaluates how much of these net realized gains are returned as distributions to investors and how much is re-invested into new opportunities.

## *Overview of the Investment Environment*

In pursuing the investment strategy of the Investment Fund, the Manager evaluates broad economic developments as well as conditions specifically applicable to the private equity markets. Within the private equity markets, the Manager targets subsectors and geographic regions that it believes offer the best opportunities for strong returns as well as receptive markets for the sale of mature portfolio companies.

### *Economic Environment*

Investors continue to face significant uncertainty as geopolitical tensions in the Middle East and the growing threat of terrorism have led to military responses from major western countries, including Canada. The continued weakness in oil prices has significantly affected those sectors of the economy that depend on the oil and gas industry, particularly in Western Canada. Investors in Canada currently face additional uncertainty following the recent change in Government, although this uncertainty is expected to be only temporary as new policies are unveiled. North American stock markets have become increasingly volatile with Canadian markets trending lower, while fixed income investments continue to deliver historically low returns. Alternative investments, including private equity, have provided significant diversification opportunities for portfolios seeking additional long-term gains. Looking ahead, the Manager expects continued slow growth in the Canadian economy with somewhat stronger growth in the U.S., but subject to greater risks arising from the geopolitical risks described above.

### *Current Private Equity Market Conditions*

In reviewing private equity markets, the Manager believes the strongest current investment opportunities reside in the mid-market buyout, growth equity and venture capital sectors in Canada and the United States. Historically, low interest rates and an economy that continues to slowly grow combine to create a positive environment for new buyout opportunities, while the constant expansion of mobile communication, content and commerce has created a dynamic venture capital cycle with the opportunity for significant gains. These areas have been the focus of the Investment Fund during the period, and are expected to continue to be targeted in the year ahead.

The market remains open to sales of mature companies from private equity portfolios, as high quality businesses continue to be acquired by strategic and financial buyers at attractive prices. Public markets have also become more receptive to initial public offerings (IPOs) during the past year, particularly in the United States, and several portfolio companies of the Investment Fund have completed IPOs. Market volatility however makes IPO planning and execution difficult. In the longer term, the Manager expects a significant majority of exits from private equity portfolios will continue to be in the form of acquisitions by strategic corporate buyers.

The growth and reasonably stable economy, along with the distributions provided to private equity investors from sales of investments, have encouraged many private equity investors to expand their investments in private equity. The Canadian private equity market accordingly continues to grow and enjoys a stable credit environment. Despite its relatively attractive investment environment, the Manager believes that Canada continues to be overlooked by global private equity investors and is underserved relative to other jurisdictions. As a result, the Manager continues to favour Canadian private equity opportunities in the portfolio strategy of the Investment Fund, as the flow of high quality investment opportunities from Canada remains very strong.

During the past year, multiples for private equity buyouts have softened somewhat but credit availability has strengthened. In this environment, the Manager is taking a disciplined approach to new buyout investments and has declined to participate in transactions for high quality companies that appear to be overpriced. The Manager remains confident that it can continue to source attractive opportunities for the Investment Fund in the current market and believes that this pricing trend reinforces the importance of due diligence, discipline and a broad market perspective when investing in the private equity markets.

As noted above, the Manager is working to capitalize on the current dynamic venture capital and growth equity markets, which has historically represented approximately 30% to 40% of the portfolio of the Investment Fund. Based on the strength of opportunities available in these sectors, their overall allocation currently lies above the normal target range for the Investment Fund. One of the reasons for this excess is the increase in value of Underlying Investments, some of which have grown into much larger, more mature companies while they have been held by the Investment Fund but remain part of the venture capital and growth equity sector. The

Manager expects this excess allocation to be temporary, with reversion to the Investment Fund's historical range in the year ahead as investments are sold.

### *Summary*

The Investment Fund's portfolio has matured to the stage where the Manager now expects to see a steady flow of exits from the sale of portfolio companies. The Manager believes that the Investment Fund has "hit its stride" and expects that the frequency of exit transactions and the aggregate value received by the Investment Fund from these exits will continue at a similar pace to its recent experience, as long as portfolio companies continue to perform and market conditions remain favourable.

The unique structure of the Investment Fund provides for the reinvestment of capital from the sale of investments (unlike other private equity funds that typically return all capital to their investors) and the addition of new commitments from investors on an ongoing basis. This structure allows the Investment Fund to continue to make new investments, year after year, as the Manager continuously renews the portfolio. As a result, the Manager believes now that the portfolio has reached this stage of maturity, the Investment Fund is well positioned to continue to generate value for investors in the future.

The Manager does not expect to see dramatic economic improvements in the near term. Private equity investors can succeed in the current slow growth economy with interest rates remaining at historic lows where they have the capability and network for sourcing attractive investments. With corporate buyers still under pressure to acquire growth in a weak economy, the Manager expects the exit market to remain healthy through the year ahead.

### **OVERVIEW OF THE INVESTMENT FUND**

The Investment Fund is an investment trust established under the laws of the Province of Ontario.

As of September 30, 2015, the Investment Fund had issued four classes of Units, Class A Units, Class F Units, Class E Units and Class G Units. As of September 30, 2015, the Investment Fund had issued (net of redemptions and conversions) 427,250 Class A Units, 53,083 Class F Units, 1,252,864 Class E Units and 2,400,607 Class G Units for total net proceeds of \$83,213,308. The four classes of units are collectively and interchangeably referred to herein as the "Units". Holders of Units are collectively referred to herein as the "Unitholders". The Class E Units and Class G Units are currently available for subscription.

Units of the Investment Fund are listed on FundSERV, under the symbol KEN 100 (Class A Units), KEN 105 (Class E Units), KEN 110 (Class F Units), and KEN 115 (Class G Units). Current NAV information is provided directly to investment accounts through Fundata.

All amounts stated throughout this report are in Canadian dollars unless otherwise noted.

### **INVESTMENT OBJECTIVE AND STRATEGIES**

The Investment Fund's investment objective is to maximize long-term total returns for Unitholders through distributions of net income and net realized capital gains from Underlying Investments, while managing risk through prudent diversification.

In order to achieve the investment objective, the Investment Fund invests in a portfolio of private equity investments including Underlying Funds and direct investments in private companies. The Underlying Funds of the Investment Fund targets are managed by experienced private equity fund managers that have strong track records and whose own financial interests are closely aligned with those of their investors. The Investment Fund's direct investments in private companies are primarily but not exclusively co-investments with other private equity fund managers. The Investment Fund seeks to provide investors with diversification by establishing a portfolio of private equity fund investments, including private equity funds focused on a variety of targeted sectors, as well as direct investments in companies that are at various stages of their business life cycle.

In accordance with the Declaration of Trust governing the Investment Fund, the Manager has the responsibility for establishing target portfolio weighting guidelines by geographic region, investment type and investment sector, with the expectation that the actual weightings will vary over time depending on market conditions and available opportunities, among other factors.

The target portfolio allocations and actual weightings at September 30, 2015 are set out below:

**By geographic region:**

		Cost	Fair Value
Canada:	33% to 66%	<p>40.1% 5.3% 54.1% 0.5%</p> <p>■ United States ■ Europe ■ Canada ■ Rest of the world</p>	<p>40.2% 3.7% 55.9% 0.2%</p> <p>■ United States ■ Europe ■ Canada ■ Rest of the world</p>
United States:	33% to 66%		
Europe/Rest of World:	0% to 10%		

**By investment type:**

		Cost	Fair Value
Primary & Secondary Funds:	50% to 75%	<p>56.7% 43.3%</p> <p>■ Fund ■ Direct</p>	<p>60.7% 39.3%</p> <p>■ Fund ■ Direct</p>
Direct Investments:	25% to 50%		

**By sector:**

		Cost	Fair Value
Buyout:	50% to 70%	<p>53.1% 44.8% 2.1%</p> <p>■ Buyout ■ Venture/Growth ■ Other</p>	<p>50.7% 47.7% 1.6%</p> <p>■ Buyout ■ Venture/Growth ■ Other</p>
Venture Capital & Growth:	30% to 40%		
Other:	0% to 20%		

## *Investment Structure*

The Investment Fund invests directly in Underlying Funds by committing and advancing capital as such amounts are drawn down by the respective managers of the Underlying Funds. The Investment Fund also invests capital directly in portfolio companies, both through co-investing alongside other private equity funds and through direct investments syndicated with other investors. In some cases, Underlying Investments are acquired on a secondary basis from other previous investors.

Capital held by the Investment Fund pending investment in private equity investments is invested in a variety of financial products (“Short Term Investments”) such as cash and cash equivalents, government securities, money market instruments and investment-grade securities, as well as listed securities of private equity funds and other securities consistent with the overall objectives of liquidity, capital preservation and an appropriate return.

## *Risk*

The Investment Fund is subject to a number of risks, including all of the risks described in the Offering Memorandum of the Investment Fund and in its most recent Annual Information Form dated June 30, 2015. In addition, the increased volatility in the capital markets and foreign exchange markets have affected financial investments including the Investment Fund.

## *Valuation*

The private equity investments made by the Investment Fund, including investments that are made through Underlying Funds, are investments for which no published market exists. The process of valuing investments for which no published market exists is based on inherent uncertainties and the resulting values may differ from values that would have been used had a ready market existed for the investments and may differ from the prices at which the investments may be sold.

Recent changes to accounting requirements, including pronouncements under Accounting Standards for Private Entities (“ASPE”), and evolving industry standards have moved the private equity industry to adopt “fair value” reporting, which means that private equity managers now re-value their portfolios on a regular basis. Today, many private equity fund managers value their portfolios on a quarterly basis, with portfolio valuations reviewed annually by their auditors.

The Manager makes good faith determinations as to the fair value of the investments and reports the NAV of the Investment Fund twice each month, and on a semi-annual basis in connection with the preparation of the Investment Fund’s financial statements. For investments in Underlying Funds (including direct co-investments in companies held in Underlying Funds), the Manager generally bases the valuation of the Investment Fund on fair value determinations made by the managers of the Underlying Funds. These managers typically provide a report of their own portfolio valuations to the Investment Fund on a quarterly basis (except where material transactions are completed between quarterly periods). Details of the valuation policy employed by the Manager in calculating the NAV are published on Kensington’s website at [www.kcpl.ca](http://www.kcpl.ca).

## **RESULTS OF OPERATIONS**

### *Current Portfolio of Underlying Investments*

The Manager maintains a portfolio of diversified private equity investments, consisting of:

- investments in private equity funds to provide the diversification required to manage risk, combined with significant allocations to direct investments in companies to enhance returns;
- secondary investments to accelerate and diversify the timing of capital flows and returns over primary fund investments;
- investments in the buyout sector, growth equity, venture capital and other sectors, in order to provide investors with access to different segments of the private equity market through a single investment in the Investment Fund; and

- private equity investments located primarily in Canada and the U.S., allocated in a manner consistent with the Manager's expertise and its views on the most compelling investment regions and opportunities.

The investment strategy used to construct the portfolio of the Investment Fund relies upon the Manager's proactive sourcing of proprietary deal flow and active management of the portfolio. This investment strategy is also designed to provide investors with access to private equity investments that would otherwise be unavailable to them, by capitalizing on the Manager's relationships with leading private equity fund managers, and from the scale achieved from combining their resources with other investors in the Investment Fund.

As at September 30, 2015, the Investment Fund held investments in 24 primary funds, 3 independent secondary fund portfolios, 13 direct investments, and 2 funds of funds. The Manager continues to review private equity investment opportunities on an ongoing basis in order to best achieve the Investment Fund's investment objective.

## SUMMARY OF INVESTMENT PORTFOLIO

The private equity investments held by the Investment Fund at September 30, 2015 are set out below:

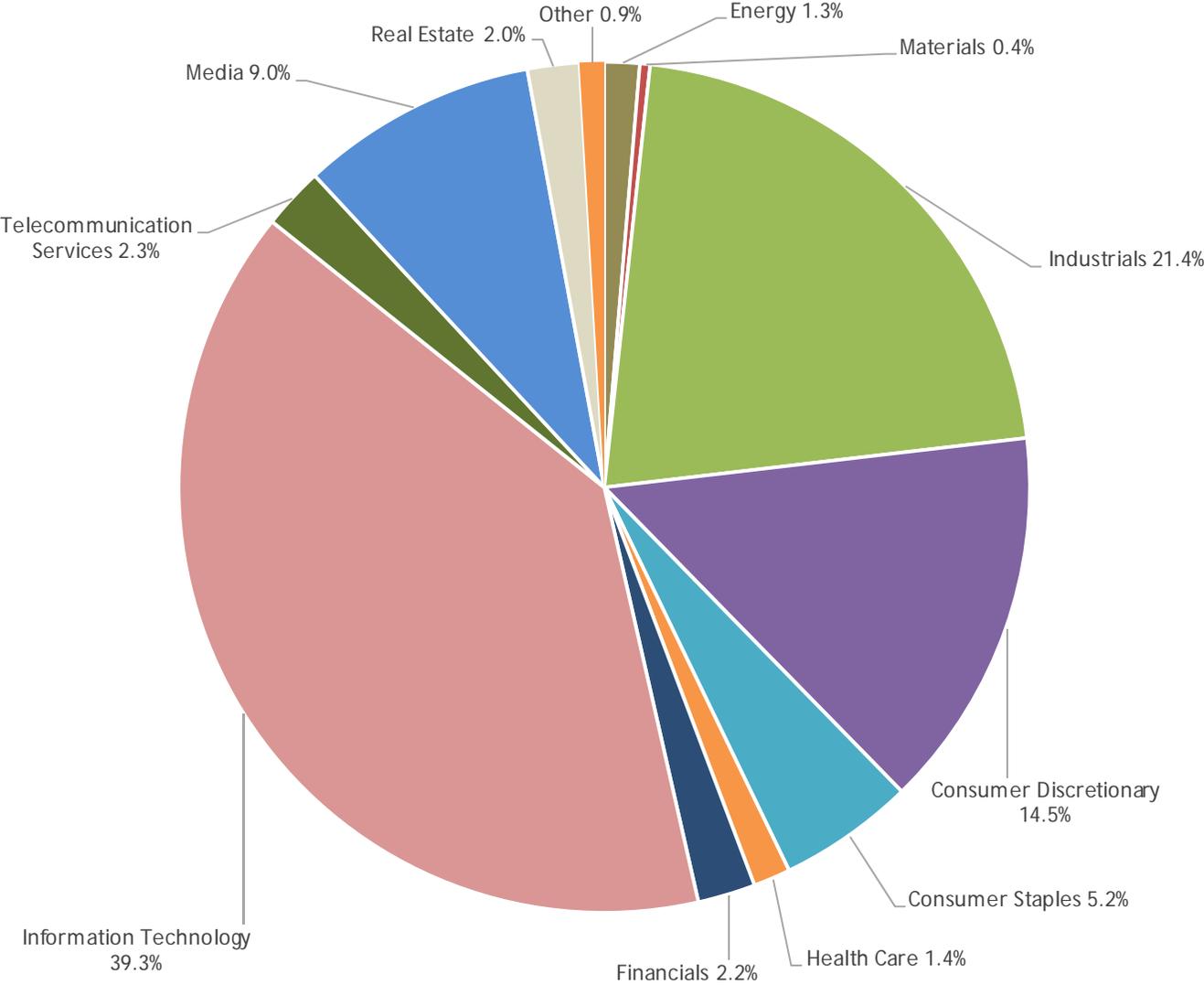
<b>Primary Funds</b>	<b>Geographic Region</b>	<b>Sector</b>	<b>Commitment Date</b>
Novacap Industries III, L.P.	Quebec	Buyout	May-07
HarbourVest International Private Equity Partners V - Direct Fund	Europe	Buyout	Jun-07
TriWest Capital Partners III L.P.	Western Canada	Buyout	Jun-07
Novacap Technologies III, L.P.	Central Canada	Venture/Growth	Jun-07
Kilmer Capital Fund II, L.P.	Central Canada	Buyout	Jul-07
Thomas H. Lee Equity Fund VI, L.P.	U.S.	Buyout	Nov-07
Kilmer Brownfield Equity Fund, L.P.	Central Canada	Other	Dec-07
Trivest Fund IV, L.P.	U.S.	Buyout	Aug-08
Walden Venture Capital VII, L.P.	U.S.	Venture/Growth	Sep-08
KERN Energy Partners III L.P.	Alberta	Buyout	Oct-08
Bedford Capital IVC, L.P.	Ontario	Buyout	Dec-08
Georgian Partners Growth Fund I, L.P.	North America	Venture/Growth	Jul-10
Vanedge Capital I L.P.	North America	Venture/Growth	Feb-11
Oncap III L.P.	North America	Buyout	Aug-11
TriWest Capital Partners IV L.P.	Western Canada	Buyout	Dec-11
Whitecastle New Urban Fund 2 L.P.	Canada	Other	Mar-12
Trivest Fund V, L.P.	U.S.	Buyout	Aug-12
Walden Venture Capital VIII, SBIC, L.P.	U.S.	Venture/Growth	Aug-13
Georgian Partners Growth Fund II, L.P.	North America	Venture/Growth	Dec-13
Tricor Pacific Capital Partners (Fund V) BC, Limited Partnership	Canada	Buyout	Dec-13
Capital Partners Income Fund II, L.P.	U.S.	Buyout	Feb-14
TriWest Capital Partners V, L.P.	Western Canada	Buyout	Sep-15
Novacap Industries IV, L.P.	Quebec	Buyout	Aug-15
Whitecastle New Urban Fund 3 L.P.	Canada	Other	May-15
<b>Secondary Funds</b>	<b>Geographic Region</b>	<b>Sector</b>	<b>Commitment Date</b>
Novacap II, L.P.	Quebec	Buyout	Jul-07
Walden VC II, L.P.	U.S.	Venture/Growth	Sep-08
Trivest Fund IV, L.P.	U.S.	Buyout	Dec-09
<b>Direct Investments</b>	<b>Geographic Region</b>	<b>Sector</b>	<b>Commitment Date</b>
Ceridian Corporation	U.S.	Buyout	Nov-07
KMC Mining Corporation	Alberta	Buyout	Mar-08
Clear Channel Communications, Inc.	U.S.	Buyout	Aug-08
D-Wave Systems Inc.	British Columbia	Venture/Growth	Dec-10
Blue Ant Media Inc.	Ontario	Venture/Growth	Dec-11
Walden Sprout Opportunities Fund - B, L.P.	U.S.	Venture/Growth	Apr-12
CGL Manufacturing Inc.	Canada	Buyout	Jun-13
TouchBistro Inc.	Canada	Venture/Growth	Mar-14
Breen Color Concentrates, Inc.	U.S.	Buyout	Apr-14
Vision Critical Communications, Inc.	Canada	Venture/Growth	Jul-14
Bling Networks Inc.	U.S.	Venture/Growth	Jul-14
Prodomax Holdings Ltd.	Canada	Buyout	Jun-15
Chrysalis Acquisition Fund I L.P.	Western Canada	Buyout	May-15
<b>Funds of Funds</b>	<b>Geographic Region</b>	<b>Sector</b>	<b>Commitment Date</b>
Kensington Venture Fund L.P.	Canada	Venture/Growth	Nov-14
Nordea Private Equity II - European Middle Market Buyout K/S	Europe	Buyout	May-07

(See financial statements for additional details)

The Investment Fund also holds Cash and Short-term Investments as capital available to fund new private equity investments as they arise (see "Net Asset Value of the Investment Fund - Cash and Short-term Investments").

In addition to the 13 direct investments in private companies, the portfolio of the Investment Fund as of September 30, 2015, includes Underlying Investments in indirect investments in private companies through primary and secondary fund portfolios, and much smaller indirect investments in many additional private companies through the international fund-of-funds portfolio. These companies are diversified across multiple industry sectors, as set out in the chart below.

**INDUSTRY WEIGHTINGS OF PRIVATE EQUITY INVESTMENTS (FAIR VALUE)  
SEPTEMBER 30, 2015**



## NET ASSET VALUE OF THE INVESTMENT FUND

### *Underlying Investments:*

As at September 30, 2015, the Investment Fund held Underlying Investments in private equity totaling \$76.6 million representing 82.0% of the NAV. During the period, certain private equity investments were realized by the Investment Fund, resulting in a shift from unrealized gains reported in prior periods to realized gains in the current period. Excluding the impact of net new subscriptions of \$11.2 million, the net asset value of Underlying Investments grew by \$4.5 million during the period.

### *Liquid and Short-term Investments:*

As at September 30, 2015, the Investment Fund held Cash and Short-term Investments totalling \$16.8 million, representing an increase of \$5.5 million over the \$11.3 million of Cash and Short-term Investments held at March 31, 2015. At September 30, 2015, Cash and Short-term Investments comprised 18.0% of the NAV.

	September 30, 2015				March 31, 2015			
	Par Value (CAD)	Cost (CAD)	Estimated Fair Value (CAD)	% of Fund's Net Assets	Par Value (CAD)	Cost (CAD)	Estimated Fair Value (CAD)	% of Fund's Net Assets
Cash and short term investments		11,048,839	11,048,839	11.8%		8,109,942	8,109,942	10.4%
Kensington Hedge Fund I		5,673,575	5,774,966	6.2%		3,100,000	3,158,811	4.1%
		<b>\$ 16,722,414</b>	<b>\$ 16,823,805</b>	<b>18.0%</b>		<b>\$ 11,209,942</b>	<b>\$ 11,268,753</b>	<b>14.5%</b>

### *Foreign Exchange:*

During the six months period ended September 30, 2015, the Investment Fund recognized total foreign currency gain of \$1.7 million including unrealized foreign exchange gain of \$1.6 million.

The value of securities denominated in a currency other than Canadian dollars will be affected by changes in the value of the Canadian dollar in relation to the value of the currency in which such securities are denominated. When the Investment Fund makes commitments to Underlying Investments which are denominated in currencies other than Canadian dollars, the Investment Fund may acquire Short Investments in those same currencies to ensure its ability to fully fund those commitments over time.

### *Fees and Expenses:*

During the six months period ended September 30, 2015, a total of \$658,722 (plus 13% HST of \$85,640) was paid as management fees by the Investment Fund. Additional expenses of \$1.0 million were incurred in the management of the Investment Fund and paid or accrued to third parties during the period.

The Investment Fund pays all ordinary expenses incurred in connection with its operation and administration, and is responsible for commissions and other costs of securities transactions and any extraordinary expenses which may be incurred by it from time to time. The Investment Fund is also responsible for investment expenses incurred by the Manager relating to investment operations, due diligence and research, including any costs related to investment transactions which are not completed.

The Manager was paid a management fee during the period ended September 30, 2015, equal to an annual rate of 1.95% of the NAV of the Class A Units and Class F Units as reported at the end of each quarter and an annual rate of 1.65% of the NAV of the Class E Units and Class G Units (excluding the service fee payable to registered dealers or investment advisors based on their client ownership of Class A Units and Class E Units as described below).

The Manager is eligible to earn a performance fee ("Performance Fee"). In order for the Manager to become eligible to earn the Performance Fee, the Investment Fund must pay out cash distributions to Unitholders from net income or from net realized gains in the investment portfolio, and must also maintain a stipulated NAV per Unit. The Manager cannot earn a Performance Fee unless the Investment Fund earns and distributes profits to Unitholders.

*Fees and Expenses (continued):*

Each registered dealer whose clients hold Class A Units is paid a service fee equal to 0.40% of the NAV, calculated and paid quarterly on those Class A Units held at the end of the relevant quarter by clients of the registered dealer. Each registered dealer whose clients hold Class E Units is paid a service fee equal to 1.00% of the NAV, calculated and paid quarterly on those Class E Units held at the end of the relevant quarter by clients of the registered dealer. No service fee is payable on the Class F Units or the Class G Units.

The Investment Fund is also subject to fees and expenses of the Underlying Funds, including management fees and carried interest payments (or other performance fees) payable to managers of Underlying Funds. These fees and expenses form part of the invested capital in such Underlying Funds for the purpose of determining their performance, and generally will be recovered by the Investment Fund prior to the payment of performance fees or a carried interest to the manager of such Underlying Funds. These expenses amounted to \$0.4 million during the period, and have been included in the amount of \$1.0 million of additional expenses paid to third parties as described above.

From time to time to encourage a large holding of Units, the Manager may, in its sole discretion, reduce the management fee otherwise payable to it and allocate the benefit of such reduced fee to the Unitholder. In such case, the Investment Fund will distribute to the Unitholder an amount equal to the reduction of the management fee. The amount of the management fee reduction is negotiable between the Manager and the Unitholder and will be based, among other factors, on the size of the holdings by the Unitholder in the Investment Fund. Such management fee distributions will be made quarterly by the Investment Fund to the relevant Unitholder, out of the fee payable to the Manager. There is no guarantee that a large holder of Units will receive an effective reduction in management fees and if the Manager determines to reduce its management fee in respect of one Unitholder, it will not be bound to do so in respect of other Unitholders or subsequent Unitholders.

**Net Assets of the Investment Fund per Unit:**

The following tables show selected key financial information about the Investment Fund and are intended to summarize the Investment Fund's financial performance for the six-month period ended September 30, 2015 as well as the last five years ended March 31, 2015, 2014, 2013, 2012, and 2011. The information is derived from the Investment Fund's financial statements.

	For the period ended September 30, 2015				For the year ended March 31, 2015				For the year ended March 31, 2014			
	Class A	Class F	Class E	Class G	Class A	Class F	Class E	Class G	Class A	Class F	Class E	Class G
	Units	Units	Units	Units	Units	Units	Units	Units	Units	Units	Units	Units
Net Assets Per Unit, Beginning of period	\$ 21.91	\$ 22.75	\$ 20.93	\$ 21.68	\$ 21.59	\$ 22.16	\$ 21.19	\$ 21.60	\$ 18.68	\$ 19.18	\$ 18.43	\$ 18.59
(Decrease) increase from operations:												
Operating Income	0.14	0.14	0.13	0.14	0.20	0.21	0.20	0.20	0.18	0.19	0.16	0.17
Total expenses	(0.48)	(0.45)	(0.54)	(0.43)	(0.87)	(0.81)	(1.31)	(1.06)	(0.92)	(0.87)	(0.86)	(0.70)
Realized investment gains/(losses) for the period	0.93	0.97	0.89	0.93	4.13	4.26	4.06	4.12	0.29	0.36	0.26	0.27
Realized foreign exchange (losses)/gains for the period	0.03	0.03	0.03	0.03	(0.03)	(0.04)	(0.03)	(0.03)	(0.09)	(0.09)	(0.08)	(0.09)
Unrealized investment (losses)/gains for the period	0.10	0.11	0.13	0.16	(0.28)	(0.06)	0.09	(0.16)	2.77	2.72	2.83	2.87
Unrealized foreign exchange gains/(losses) for the period	0.37	0.40	0.38	0.43	0.60	0.69	0.75	0.66	0.56	0.58	0.48	0.51
Dilution Adjustment on conversions and new unit issuance	-	-	(0.04)	(0.10)	0.13	(0.10)	(0.47)	(0.09)	0.11	0.08	(0.04)	(0.02)
Total increase/(decrease) from operations including dilution adjustment on conversions and new unit issuance	1.09	1.20	0.98	1.16	3.88	4.15	3.29	3.64	2.91	2.97	2.76	3.01
Distribution	-	-	-	-	(3.56)	(3.56)	(3.56)	(3.56)	-	-	-	-
Net Assets Per Unit, End of period	\$ 23.00	\$ 23.95	\$ 21.91	\$ 22.84	\$ 21.91	\$ 22.75	\$ 20.93	\$ 21.68	\$ 21.59	\$ 22.16	\$ 21.19	\$ 21.60

	For the year ended March 31, 2013				For the year ended March 31, 2012		For the year ended March 31, 2011	
	Class A	Class F	Class E	Class G	Class A	Class F	Class A	Class F
	Units	Units	Units	Units	Units	Units	Units	Units
Net Assets Per Unit, Beginning of year	\$ 22.64	\$ 23.08	\$ 23.33	\$ 23.33	\$ 21.17	\$ 21.45	\$ 18.55	\$ 18.72
(Decrease) increase from operations:								
Operating Income		0.25	0.23	0.16	0.21	0.13	0.12	0.18
Total expenses		(1.14)	(0.95)	(1.19)	(1.27)	(1.04)	(0.90)	(0.81)
Realized investment gains/(losses) for the year		3.20	2.92	1.98	2.64	0.50	0.57	2.06
Realized foreign exchange (losses)/gains for the year		(0.02)	(0.01)	(0.01)	(0.01)	(0.06)	(0.05)	(0.05)
Unrealized investment (losses)/gains for the year		(2.62)	(2.48)	(1.85)	(2.26)	2.47	2.32	1.38
Unrealized foreign exchange gains/(losses) for the year		0.05	0.06	0.03	0.06	0.19	0.16	(0.17)
Dilution Adjustment on conversions and new unit issuance		0.02	0.03	(0.33)	(0.41)	(0.04)	0.09	0.01
Total increase/(decrease) from operations including dilution adjustment on conversions and new unit issuance		(0.27)	(0.21)	(1.21)	(1.05)	2.15	2.31	2.61
Distribution		(3.69)	(3.69)	(3.69)	(3.69)	(0.68)	(0.68)	-
Net Assets Per Unit, End of year	\$ 18.68	\$ 19.18	\$ 18.43	\$ 18.59	\$ 22.64	\$ 23.08	\$ 21.17	\$ 21.45

Note: Class F units were created on February 1, 2008, Class E and G units were created April 9, 2012.

## Ratios and Supplemental Data

	Period Ended September 30, 2015				Year Ended March 31, 2015			
	Class A Units	Class F Units	Class E Units	Class G Units	Class A Units	Class F Units	Class E Units	Class G Units
Net Asset Value	\$ 9,828,584	\$ 1,271,389	\$ 27,448,490	\$ 54,836,422	\$ 9,775,404	\$ 1,167,411	\$ 23,280,263	\$ 43,511,330
Units Outstanding	427,250	53,083	1,252,864	2,400,607	446,255	51,321	1,112,100	2,006,813
Management expense ratio % (1)	2.16%	1.92%	2.52%	1.93%	4.04%	3.59%	6.19%	4.90%
Portfolio turnover rate % (3)	10.46%	10.46%	10.46%	10.46%	22.50%	22.50%	22.50%	22.50%
Trading expense ratio % (4)	0.02%	0.02%	0.02%	0.02%	0.00%	0.00%	0.00%	0.00%

	Year Ended March 31, 2014				Year Ended March 31, 2013				Year Ended March 31, 2012		Year Ended March 31, 2011	
	Class A Units	Class F Units	Class E Units	Class G Units	Class A Units	Class F Units	Class E Units	Class G Units	Class A Units	Class F Units	Class A Units	Class F Units
Net Asset Value	\$ 10,719,443	\$ 1,030,319	\$ 15,997,886	\$ 40,566,593	\$ 12,327,380	\$ 1,095,178	\$ 8,207,169	\$ 31,358,306	\$ 25,020,089	\$ 33,066,129	\$ 24,103,220	\$ 29,317,309
Units Outstanding	496,612	46,495	754,884	1,878,138	659,975	57,094	445,288	1,686,834	1,105,352	1,432,618	1,138,551	1,366,607
Management expense ratio % (1)	4.47%	4.03%	5.02%	3.81%	4.39%	4.04%	7.80%	6.01%	4.51%	4.11%	4.21%	3.80%
Portfolio turnover rate % (3)	16.14%	16.14%	16.14%	16.14%	23.12%	23.12%	23.12%	23.12%	11.59%	11.59%	22.06%	22.06%
Trading expense ratio % (4)	0.09%	0.09%	0.11%	0.10%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.04%	0.04%

- 1) Management expense ratio (MER) is based on total expenses for the stated period and is expressed as an annualized percentage of the net average assets during the period. The reported MER for the Investment Fund includes expenses incurred by Underlying Funds. Unlike typical mutual fund expenses, the expenses incurred by these Underlying Funds will be recovered by the Investment Fund prior to any such Underlying Fund's managers earning a performance fee. The recoveries of these expenses will be recorded as portfolio gains at the appropriate times, and will not be reflected in any adjustment to the MER at those times. The Investment Fund's MER is reported in accordance with applicable accounting standards and securities laws.

The Manager has calculated the unrecoverable portion of the MER during the relevant periods ("Unrecoverable MER"), as the reported MER less the amounts expected to be recovered from Underlying Funds as described above. The chart below shows the Unrecoverable MER for the periods indicated.

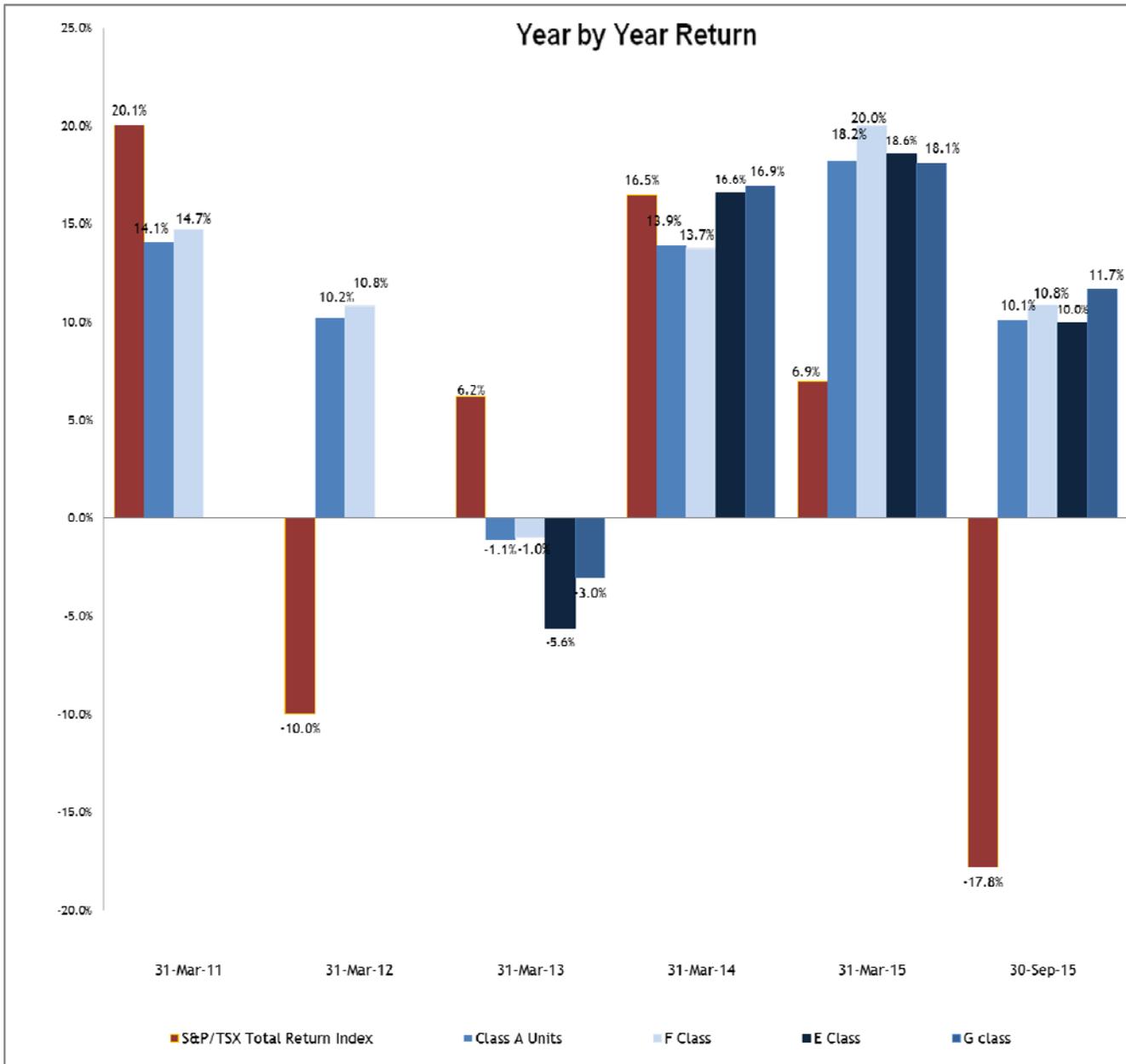
	Unrecoverable MER	Unrecoverable MER
	30-Sep-15	31-Mar-15
Class A	1.65%	3.12%
Class F	1.41%	2.65%
Class E	2.00%	5.23%
Class G	1.40%	3.97%

- (2) The September 2015 MER has been calculated using 100% of the expenses incurred during the six-month period based on the weighted average of Units of each class outstanding during the period beginning April 1, 2015. The March 2015 MER has been calculated using 100% of the expenses incurred during the fiscal year based on the weighted average of Units of each class outstanding during the 365-day period beginning April 1, 2014.
- (3) The Investment Fund's portfolio turnover rate indicates how often the private equity investments contained in the portfolio of the Investment Fund are bought and sold. A portfolio turnover rate of 100% is equivalent to the Investment Fund buying and selling all of the private equity investments once in the course of the year. The higher a fund's portfolio turnover rate, the greater the transaction costs.
- (4) Trading expense ratio represents total transaction costs, including interest paid on committing capital to a fund subsequent to its initial close, expressed as an annualized percentage of the daily average net assets during the period.

## PAST PERFORMANCE

### Year-by-Year Returns:

The following bar charts show the performance of each class of Units of the Investment Fund for the period ended September 30, 2015 and the last five fiscal years ended March 31. The charts shows in percentage terms how an investment made on April 1 (or inception) would have increased or decreased by the end of the relevant period (and includes the impact of all cash flows into and out of the Investment Fund). The past performance of the Investment Fund is not necessarily an indication of how it will perform in the future.



\*\* Class E Units and Class G Units were outstanding from April 9, 2012. Rates of returns are affected by varying times of issuance.

## FORWARD LOOKING STATEMENTS

This document may contain forward-looking statements relating to anticipated future events, results, circumstances, performance or expectations that are not historical facts but instead represent the Manager's expectations regarding future events. By their nature, forward-looking statements must be based on assumptions and are subject to inherent risks and uncertainties. There is significant risk that predictions and other forward-looking statements will not prove to be accurate. Readers of this document are cautioned not to place undue reliance on forward-looking statements as a number of factors could cause actual future results, conditions, actions or events to differ materially from the targets, expectations, estimates or intentions expressed in the forward-looking statements. Actual results may differ materially from the Manager's expectations as projected in such forward-looking statements for a variety of reasons, including but not limited to market and general economic conditions, interest rates, foreign exchange rates, regulatory and statutory developments, the effects of competition in the geographic and business areas in which the Investment Fund may invest and the risks detailed from time to time in the Investment Fund's prospectus, Annual Information Form and other investor documentation. The foregoing list of factors is not exhaustive and when relying on forward-looking statements to make decisions with respect to investing in the Investment Fund, investors and others should carefully consider these factors, as well as other uncertainties and potential events, and the inherent uncertainty of forward-looking statements. Due to the potential impact of these factors, neither the Investment Fund nor the Manager undertakes, and specifically disclaims, any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, unless required by applicable law.

**KENSINGTON PRIVATE EQUITY FUND**

**FINANCIAL STATEMENTS**

For the period ended

September 30, 2015

# KENSINGTON PRIVATE EQUITY FUND

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# KENSINGTON PRIVATE EQUITY FUND

## STATEMENTS OF NET ASSETS

(Unaudited)

	September 30, 2015	March 31, 2015
	\$	\$
<b>Assets</b>		
Investments (Notes 3 & 4)	93,457,634	77,756,595
Interest receivable	-	73,575
Accounts receivable	102,728	52,591
Prepaid expenses	81,880	63,513
	<u>93,642,242</u>	<u>77,946,274</u>
<b>Liabilities</b>		
Accrued expenses	257,357	211,866
	<u>257,357</u>	<u>211,866</u>
<b>Net assets</b>	<u>93,384,885</u>	<u>77,734,408</u>

NET ASSETS BY CLASS	\$	\$
Class A	9,828,584	9,775,404
Class F	1,271,389	1,167,411
Class E	27,448,490	23,280,263
Class G	54,836,422	43,511,330
	<u>93,384,885</u>	<u>77,734,408</u>

### NUMBER OF UNITS OUTSTANDING (Note 5)

Class A	427,250	446,255
Class F	53,083	51,321
Class E	1,252,864	1,112,100
Class G	2,400,607	2,006,813
	<u>4,133,804</u>	<u>3,616,489</u>

NET ASSETS PER UNIT BY CLASS	\$	\$
Class A	23.00	21.91
Class F	23.95	22.75
Class E	21.91	20.93
Class G	22.84	21.68

The accompanying notes are an integral part of these Financial Statements.

# KENSINGTON PRIVATE EQUITY FUND

## STATEMENTS OF OPERATIONS

For the six-month period ended September 30

(Unaudited)

	2015	2014
	\$	\$
Investment income	526,926	353,234
Expenses (Note 7)		
Management fee	744,412	633,234
Performance fee	132,391	-
Expenses incurred by investee funds	436,572	296,248
Legal fees	81,536	20,575
Other expenses	(118,499)	12,769
Service fees	165,039	109,438
Board and committee fees	(14,357)	11,487
Custodian and transfer agent fees	26,508	29,869
Professional Fees	102,115	19,648
Unitholders' communication	74,301	11,998
Interest Expense	16,713	119
Withholding taxes incurred by investee funds	141,652	448
Total operating expenses	1,788,383	1,145,833
Net operating loss	(1,261,457)	(792,599)
Net realized gain (loss) on portfolio investments	3,509,541	3,879,635
Net realized gain (loss) on foreign currency translation	107,916	(17,298)
Net change in unrealized appreciation (depreciation) on portfolio investments	546,924	(950,330)
Net change in unrealized appreciation (depreciation) on foreign currency translation	1,550,605	(84,491)
Total increase from operations	4,453,529	2,034,917
Increase in net assets from operations by Class	\$	\$
Class A	474,787	211,886
Class F	62,687	45,256
Class E	1,191,636	520,915
Class G	2,724,419	1,256,860
	<u>4,453,529</u>	<u>2,034,917</u>
Increase in net assets from operations per unit by Class	\$	\$
Class A	1.09	1.01
Class F	1.20	0.97
Class E	0.98	0.51
Class G	1.16	0.54

The accompanying notes are an integral part of these Financial Statements.

# KENSINGTON PRIVATE EQUITY FUND

## STATEMENTS OF CHANGES IN NET ASSETS

For the six-month period ended September 30

(Unaudited)

	Class A		Class F		Class E		Class G		Total	
	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014
Net assets, April 1	9,775,404	10,719,443	1,167,411	1,030,319	23,280,263	15,997,886	43,511,330	40,566,593	77,734,408	68,314,241
Capital conversions	(421,607)	(96,680)	41,291	-	(205,107)	251,282	585,423	371,516	-	526,118
Capital contributions	-	-	-	-	3,181,698	1,161,692	8,015,250	200,000	11,196,948	1,361,692
Capital redemptions	-	-	-	-	-	-	-	-	-	-
Distributions	-	-	-	-	-	-	-	-	-	-
Increase in assets from operations	474,787	211,886	62,687	45,256	1,191,636	520,915	2,724,419	1,256,860	4,453,529	2,034,917
<b>Net assets, September 30</b>	<b>9,828,584</b>	<b>10,834,649</b>	<b>1,271,389</b>	<b>1,075,575</b>	<b>27,448,490</b>	<b>17,931,775</b>	<b>54,836,422</b>	<b>42,394,969</b>	<b>93,384,885</b>	<b>72,236,968</b>

The accompanying notes are an integral part of these Financial Statements.

# KENSINGTON PRIVATE EQUITY FUND

## Statements of Cash Flow

For the six-month period ended September 30

(Unaudited)

	2015	2014
	\$	\$
<b>Cash provided by (used in) operating activities</b>		
Total increase (decrease) from operations	4,453,529	2,034,917
Net change in unrealized (loss) gain on portfolio investments	(546,924)	950,330
Net change in unrealized (loss) gain on foreign currency translation	(1,550,605)	84,491
Net realized gain (loss) on portfolio investments	(3,509,541)	(3,879,635)
Net realized gain (loss) on foreign currency translation	(107,916)	17,298
Net change in non-cash investing activities	7,608	212,367
Net change in non-cash working capital	50,562	(20,452)
<b>Net cash (used in) operating activities</b>	<b>(1,203,287)</b>	<b>(600,684)</b>
<b>Cash provided by (used in) investing activities</b>		
Proceeds and return of capital from portfolio investments	5,447,580	9,703,350
Purchase of portfolio investments	(9,928,769)	(8,370,151)
Purchase of short-term investment	(2,573,575)	-
<b>Net cash provided by (used in) investing activities</b>	<b>(7,054,764)</b>	<b>1,333,199</b>
<b>Cash provided by (used in) financing activities</b>		
Capital contributions, net of redemption and conversion	11,196,948	1,887,811
<b>Net cash provided by financing activities</b>	<b>11,196,948</b>	<b>1,887,811</b>
Increase in cash and cash equivalent during the period	2,938,897	2,620,326
Cash and cash equivalent, beginning of period	8,109,942	3,625,601
<b>Cash and cash equivalent, end of period</b>	<b>11,048,839</b>	<b>6,245,927</b>

The accompanying notes are an integral part of these Financial Statements.

# KENSINGTON PRIVATE EQUITY FUND

## STATEMENT OF INVESTMENTS

As at September 30, 2015  
(Unaudited)

Description	Committed Amount / Shares/Units (Native currency)	Cost (CAD)	Estimated Fair Value (CAD)	
<b>Private Equity Investments (Note 4)</b>				
<b>Primary Fund</b>				
TriWest Capital Partners III, L.P.	CAD 2,500,000	916,706		
TriWest Capital Partners IV, L.P.	CAD 3,000,000	2,328,000		
TriWest Capital Partners V, L.P.	CAD 7,000,000	431,518		
Kilmer Brownfield Equity Fund, L.P.	CAD 2,000,000	150,399		
Bedford Capital IV, L.P.	CAD 500,000	162,753		
Georgian Partners Growth Fund I, LP	CAD 3,000,000	2,258,572		
Novacap Industries III, L.P.	CAD 750,000	384,752		
Novacap Industries IV, L.P.	CAD 5,000,000	863,918		
Novacap Technologies III, L.P.	CAD 500,000	265,832		
Oncap III L.P.	CAD 3,000,000	1,930,051		
Whitecastle New Urban Fund 2 L.P.	CAD 3,000,000	905,168		
Whitecastle New Urban Fund 3 L.P.	CAD 4,000,000	68,763		
Georgian Partners Growth Fund II, L.P.	CAD 5,000,000	2,280,286		
KERN Energy Partners III, LP	CAD 500,000	368,638		
Kilmer Capital Fund II, L.P.	CAD 1,000,000	259,519		
Vanedge Capital I Limited Partnership	CAD 3,000,000	1,061,737		
Tricor Pacific Capital Partners (Fund V) BC, Limited Partnership	CAD 3,000,000	913,253		
Kensington Venture Fund L.P.	CAD 23,850,000	445,972		
<b>Total primary funds</b>		\$ 15,995,837	26,871,563	
<b>Secondary Fund</b>				
Novacap II, L.P.	CAD 10,000,000	\$ 1,030,981		
<b>Direct Investments</b>				
KMC Holding L.P.	CAD 1,850,917	2,060,126		
D-Wave Systems Inc.	Preferred shares E and G, 1,512,465	2,544,611		
CGL Holding Inc.	Class B shares, 290	2,872,318		
TouchBistro Inc.	Preferred shares, 3,132,365	706,137		
Blue Ant Media Inc.	Common shares 4,511,374	4,639,218		
Vision Critical Communications, Inc.	Class B preferred shares, 266,666	999,998		
Prodmax Holdings Ltd.	Common shares 99,999	5,000,000		
Chrysalis Acquisition Fund I L.P.	CAD 500,000	500,000		
<b>Total Secondary and Direct Investments</b>		\$ 19,322,408	23,656,190	
<b>Total Canadian Investments</b>		\$ 36,349,226	\$ 50,527,753	54.11%
<b>European</b>				
<b>Primary Fund</b>				
HarbourVest International Private Equity Partners V - Direct Fund L.P.	€ 2,000,000	1,490,093		
Nordea Private Equity II - European Middle Market Buyout K/S	€ 2,000,000	1,830,004		
<b>Total European</b>		\$ 3,320,097	\$ 3,084,856	3.30%
<b>U.S. Investments</b>				
<b>Primary Fund</b>				
Trivest Fund IV, L.P.	USD 3,000,000	1,453,367		
Thomas H. Lee Equity Fund VI, L.P.	USD 1,200,000	570,067		
Walden Venture Capital VII, L.P.	USD 2,500,000	2,080,107		
Walden Venture Capital VIII, SBIC, L.P.	USD 5,000,000	1,676,382		
Capital Partners Income Fund II, L.P.	USD 3,000,000	1,291,492		
Trivest Fund V, L.P.	USD 3,000,000	1,039,317		
		\$ 8,110,732	12,867,055	
<b>Secondary Fund</b>				
WaldenVC II, L.P.	USD 5,000,000	2,844,210		
Trivest Fund IV, L.P.	USD 1,500,000	541,447		
		\$ 3,385,657	2,298,806	
<b>Direct Investments</b>				
THL Equity Fund VI Investors (Ceridian), L.P.	USD 1,000,438	673,254		
Walden Sprout Opportunities Fund - B, L.P.	USD 920,926	1,077,727		
THL Equity Fund VI Investors (Clear Channel), L.P.	USD 665,352	651,555		
CP Breen, LLC	USD 250,000	275,359		
Bling Networks Inc.	Class B Shares, 813,934	2,307,431		
		\$ 4,985,326	7,790,030	
<b>Total U.S. Investments</b>		\$ 16,481,715	\$ 22,955,891	24.58%
<b>Total Private Equity Investments</b>		\$ 56,151,038	\$ 76,568,500	81.99%
<b>Cash and Short Term Investments</b>		16,722,413	16,823,805	18.02%
<b>Foreign currency forward contract</b>			65,329	0.07%
<b>TOTAL INVESTMENTS</b>		\$ 72,873,451	\$ 93,457,634	100.1%
<b>Other assets net of accrued liabilities</b>			(72,749)	-0.08%
<b>NET ASSETS</b>			\$ 93,384,885	100.00%

# KENSINGTON PRIVATE EQUITY FUND

## NOTES TO FINANCIAL STATEMENTS

*September 30, 2015*

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### 1. Formation of the Investment Fund

Kensington Private Equity Fund (“Investment Fund”) is an investment trust established under the laws of the Province of Ontario and is governed by the Declaration of Trust dated September 17, 2014. The Investment Fund is the successor to Kensington Global Private Equity Fund (“Global Fund”), which was established in a public offering of units in April 2007. On September 17, 2014, the Global Fund transferred its net assets to the Investment Fund and the termination of Global Fund occurred on September 17, 2014. The Investment Fund was set up to complete this transaction and did not have any other assets and liabilities prior to the transfer. Accordingly, the historical results and other characteristics of Global Fund are presented in this report as a continuity of interest of the Global Fund.

As of September 30, 2015, the Investment Fund had issued four classes of Units, Class A Units, Class F Units, Class E Units and Class G Units. As of September 30, 2015, the Investment Fund had issued (net of redemptions and conversions) 427,250 Class A Units, 53,083 Class F Units, 1,252,864 Class E Units and 2,400,607 Class G Units for total net proceeds of \$83,213,308. The four classes of units are collectively and interchangeably referred to herein as the “Units”. Holders of Units are collectively referred to herein as the “Unitholders”. The Class E Units and Class G Units are currently available for subscription.

Kensington Capital Advisors Inc. is the Manager and Trustee of the Investment Fund. The Manager is entitled to a management fee based on the net asset value (“NAV”) of the Investment Fund. The Manager is also eligible to earn a performance fee (“Performance Fee”). See Note 7.

Income is allocated to the Unitholders on a pro rata basis. There is no termination date for the Investment Fund.

The Investment Fund’s registered office is at 95 St. Clair Avenue West, Toronto, Ontario, Canada.

### 2. Significant Accounting Policies

#### *Basis of Presentation*

These financial statements have been prepared by the Manager in accordance with the Chartered Professional Accountants of Canada (“CPA Canada”) Handbook - Accounting Standards for Private Entities (ASPE). The significant accounting principles are as follows:

#### *Use of Estimates*

Financial statements prepared in accordance with ASPE require management to make estimates and assumptions that affect the reported amounts of assets and liabilities as at the date of the financial statements and the income and expenses during the reporting period. Significant estimates and judgments are required principally in determining the reported estimated fair values of Portfolio Investments since these determinations include estimates of expected future cash flows, rates of return and the anticipated impact of future events. Actual results could differ from those estimates.

# KENSINGTON PRIVATE EQUITY FUND

## NOTES TO FINANCIAL STATEMENTS

*September 30, 2015*

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### 2. Significant Accounting Policies (continued)

#### *Portfolio Investments - Cost of Investments*

The cost of private equity investments includes all amounts paid to fund the subscription or acquisition of the investment to date. Investments in private equity funds are funded over time in response to capital calls from the private equity fund managers and cannot exceed the total committed amount.

#### *Valuation of Investments:*

##### *Portfolio Investments*

Investments are carried at their estimated fair value. Fair values are determined and reported by the underlying private equity fund managers. The investments held by the underlying private equity fund managers, are defined as underlying investments. These portfolio investments fair values are based on the fair value of the underlying investments held by each of the funds. Fair value is defined and evaluated independently by each fund. The Manager may adjust these values if, in its view, the values do not reflect the price which would be paid in an open and unrestricted market between informed and prudent parties, acting at arm's length and under no compulsion to act.

##### *Direct Investments*

Direct investments in public securities are recorded at fair value, established by the closing bid price for a security on the recognized exchange on which it principally trades. Direct investments in securities where no quoted market values are available are held at fair value as determined by the Manager. A number of valuation methodologies are considered in arriving at fair value, including comparable company transactions, earnings multiples, the price of a recent investment, net assets, discounted cash flows, industry valuation benchmarks and available market prices. The most appropriate methodology, on an investment by investment basis, is chosen to determine fair value. Any sale, size, control, liquidity or other discounts or premiums on the investment are considered by the Manager in its determination of fair value.

##### *Valuation of Short-term Investments*

Liquid investments consist of cash, government treasury bills, money market instruments and investment grade securities. Fair value is determined using cost, which, together with accrued interest income, approximates fair value due to the short-term nature of these securities.

##### *Transaction Costs*

Transaction costs are incremental costs that are directly attributable to the acquisition or disposal of portfolio investments, including the costs associated with portfolio transactions that are unsuccessful. They are expensed as incurred and included in the statement of operations.

##### *Investment Income*

Interest income is recorded on an accrual basis. Dividend income is recorded when declared and payable to the Investment Fund. The difference between fair value and cost of investments is recorded as unrealized appreciation (depreciation) of portfolio investments.

# KENSINGTON PRIVATE EQUITY FUND

## NOTES TO FINANCIAL STATEMENTS

*September 30, 2015*

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### 2. Significant Accounting Policies (continued)

#### *Foreign Currency Translation*

Assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the prevailing rate of exchange on each valuation date. Purchases and sales of portfolio investments are translated at the rate of exchange prevailing on the respective date of such transaction. The related exchange gain or loss is recognized in net earnings.

#### *Increase/Decrease in Net Assets from Operations per Unit*

Increase/Decrease in net assets from operations per unit in the statement of operations represents the net increase/decrease in net assets from operations for the year divided by the average number of units outstanding during the period.

#### *Capital Disclosures*

CPA Handbook ("CICA Handbook") ASPE Section 1535 specifies the disclosure of: (i) an entity's objectives, policies and processes for managing capital; (ii) quantitative data and qualitative information about what the entity regards as capital; (iii) whether the entity is subject to any externally imposed capital requirements; and (iv) if it has not complied with any such capital requirements, the consequences of such non-compliance. The Investment Fund's objectives, policies and processes are described in Note 1, information on the Investment Fund's Unitholders' equity is described in Note 6 and the Statement of changes in net assets, and the Investment Fund does not have any externally imposed capital requirements.

#### *Fair Value Measurements*

The Investment Fund follows CICA Handbook ASPE Section 3862 which requires the Investment Fund to classify fair value measurements using a three-level fair value hierarchy framework (the "Framework") that reflects the relative reliability of the inputs used in making the measurements (Level 1, Level 2 and Level 3 inputs as defined in the standard). The inputs and methodology used for valuing securities may not be an indication of the risks associated with investing in those securities.

The Framework used is summarized as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices in Level 1 that are observable for the assets or liabilities, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3: inputs for the assets or liabilities that are not based on an observable market data.

A summary of the Investment Fund's investments carried at fair value classified under the Framework as of September 30, 2015 and March 31, 2015 can be found in Note 4.

# KENSINGTON PRIVATE EQUITY FUND

## NOTES TO FINANCIAL STATEMENTS

September 30, 2015

### 3. Cash and Short Term Investments

Capital held by the Investment Fund pending investment in private equity investments is invested in short-term investments, consisting of a variety of financial products such as cash, government treasury bills, money market instruments and investment grade securities, as well as private equity funds (which are redeemable on a monthly basis) and other securities consistent with the overall objectives of liquidity, capital preservation and an appropriate return.

	September 30, 2015				March 31, 2015			
	Par Value (CAD)	Cost (CAD)	Estimated Fair Value (CAD)	% of Fund's Net Assets	Par Value (CAD)	Cost (CAD)	Estimated Fair Value (CAD)	% of Fund's Net Assets
Cash and short term investments		11,048,839	11,048,839	11.8%		8,109,942	8,109,942	10.4%
Kensington Hedge Fund I		5,673,575	5,774,966	6.2%		3,100,000	3,158,811	4.1%
		<b>\$ 16,722,414</b>	<b>\$ 16,823,805</b>	<b>18.0%</b>		<b>\$ 11,209,942</b>	<b>\$ 11,268,753</b>	<b>14.5%</b>

### 4. Investments

The following is a summary of the Investment Fund's investments, as at September 30, 2015, classified using a three-level fair value hierarchy Framework, based on the relative reliability of the inputs used to estimate their fair value, as described in Note 2.

#### Assets at fair value as at September 30, 2015

	Level 1	Level 2	Level 3	Total
Private Equity Investments	-	-	\$76,568,500	\$76,568,500
Liquid Investments	\$11,048,839	\$5,774,966	-	\$16,823,805
Currency Hedge	\$65,329	-	-	\$65,329
<b>Total</b>	<b>\$11,114,168</b>	<b>\$5,774,966</b>	<b>\$76,568,500</b>	<b>\$93,457,634</b>

#### Assets at fair value as at March 31, 2015

	Level 1	Level 2	Level 3	Total
Private Equity Investments	-	-	\$66,423,368	\$66,423,368
Liquid Investments	\$8,109,942	\$3,158,811	-	\$11,268,753
Currency Hedge	\$64,474	-	-	\$64,474
<b>Total</b>	<b>\$8,174,416</b>	<b>\$3,158,811</b>	<b>\$66,423,368</b>	<b>\$77,756,595</b>

# KENSINGTON PRIVATE EQUITY FUND

## NOTES TO FINANCIAL STATEMENTS

*September 30, 2015*

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### 4. Investments (continued)

During the period ended September 30, 2015, the reconciliation of investments measured at fair value using unobservable inputs (Level 3) is presented as follows:

	Private Equity Investments
Beginning Balance, April 1, 2015	66,423,368
Purchases	9,928,769
Sales	(1,830,123)
Change in unrealized appreciation (depreciation) included in net income	2,046,486
Ending Balance, September 30, 2015	<u>76,568,500</u>

The use of reasonable possible alternative assumptions for valuing Level 3 financial instruments would not significantly affect the fair value of those instruments.

During the year ended March 31, 2015, the reconciliation of investments measured at fair value using unobservable inputs (Level 3) is presented as follows:

	Private Equity Investments
Beginning Balance, April 1, 2014	64,467,475
Purchases	10,976,305
Sales	(10,709,080)
Change in unrealized appreciation (depreciation) included in net income	1,688,668
Ending Balance, March 31, 2015	<u>66,423,368</u>

# KENSINGTON PRIVATE EQUITY FUND

## NOTES TO FINANCIAL STATEMENTS

September 30, 2015

### 5. Units Outstanding

The following units were issued and redeemed for the period ended September 30:

	September 30, 2015				March 31, 2015			
	Class A	Class F	Class E	Class G	Class A	Class F	Class E	Class G
Balance Beginning of Period	446,255	51,321	1,112,100	2,006,813	496,612	46,495	754,884	1,878,138
Class Switches	(19,005)	1,761	(9,723)	26,685	(50,793)	-	17,823	33,964
Capital Contribution	-	-	150,487	367,109	25,893	6,754	350,168	109,932
Capital Redemption	-	-	-	-	(25,457)	(1,928)	(10,775)	(15,222)
Balance End of Period	427,250	53,083	1,252,864	2,400,607	446,255	51,321	1,112,100	2,006,813

### 6. Income Taxes

The Investment Fund is subject to income tax in Canada on the amount of its income for the year, including net realized taxable capital gains, less the amount that it claims in respect of the amount of such income paid or payable to Unitholders in the year. The Investment Fund generally intends to claim the full amount available for deduction in each year and, therefore, expects that it will generally not be liable for Canadian income tax.

As a result of its investments, the Investment Fund may derive income (including gains) from investments in countries other than Canada and, as a result, may be liable to pay income or profits tax to such countries. The financial statements reflect only the amount of non-recoverable income tax paid or payable by the Investment Fund.

### 7. Management Fees, Performance Fees and Other Expenses

The Investment Fund pays all ordinary expenses incurred in connection with its operation and administration, and is responsible for commissions and other costs of securities transactions and any extraordinary expenses which may be incurred by it from time to time. The Investment Fund is also responsible for investment expenses incurred by the Manager and advisory board relating to investment operations, due diligence and research, including any costs related to investment transactions which are not completed.

The Manager is paid a management fee equal to an annual rate of 1.95% of the NAV of the Class A Units and Class F Units and 1.65% of the NAV of the Class E Units and Class G Units as reported at the end of each quarter.

The Manager is eligible to earn a performance fee on the Class A Units and the Class F Units of 10% of the amounts available to be paid once the performance hurdle has been achieved. The following two criteria must be met in order to satisfy the performance hurdle: (i) the NAV per unit must be equal to the fully paid NAV per unit; and (ii) Unitholders must have received, or must receive in such year, on a cumulative non-compounding basis since the beginning of 2010, cash distributions per unit of net income and net realized capital gains (and excluding any amounts distributed to investors on the Units as a return of capital) equal to not less than 10% of the fully paid NAV per unit for each year. The Performance Fee, if earned, is payable to the Manager in units over a five-year vesting period. The Manager cannot earn a Performance Fee unless the Investment Fund earns and distributes profits to Unitholders.

# KENSINGTON PRIVATE EQUITY FUND

## NOTES TO FINANCIAL STATEMENTS

*September 30, 2015*

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### 7. Management Fees, Performance Fees and Other Expenses (continued)

The Manager is eligible to earn a performance fee based on net income and net realized capital gains earned by the Investment Fund which are distributed to holders of Class E Units and Class G Units in that year. The performance fee will be equal to that amount which results in the Manager receiving 10% of the sum of the total amount paid as cash distributions plus the total amount paid as the performance fee in respect of the Class E Units and the Class G Units. The Manager cannot earn a performance fee unless the Investment Fund makes cash distributions to Unitholders in the year. In order for the Manager to earn the performance fee on the Class E Units and the Class G Units in any year, the NAV per unit of the Class E Units and the NAV per unit of the Class G Units must be at least equal to the fully paid NAV per unit at the time a cash distribution is declared. The fully paid NAV per Unit will be reduced by any amounts distributed to investors as a return of capital.

Each registered dealer whose clients hold Class A Units is paid a service fee equal to 0.40% of the NAV, calculated and paid quarterly on those Class A Units held at the end of the relevant quarter by clients of the registered dealer. Each registered dealer whose clients hold Class E Units is paid a service fee equal to 1.00% of the NAV, calculated and paid quarterly on those Class E Units held at the end of the relevant quarter by clients of the registered dealer. No service fee is payable on the Class F Units or the Class G Units.

The Investment Fund is also subject to fees and expenses of the underlying private equity investments, including management fees payable to managers of private equity funds and carried interest payments or other performance fees. These fees and expenses form part of the invested capital in such underlying private equity investments for the purpose of determining their performance, and generally will be recovered by the Investment Fund and other investors prior to the payment of Performance Fees or a carried interest to the manager of the underlying private equity investment.

From time to time to encourage a large holding of Units, the Manager may, in its sole discretion, reduce the management fee otherwise payable to it and allocate the benefit of such reduced fee to the Unitholder. In such case, the Fund will distribute to the Unitholder an amount equal to the reduction of the management fee. The amount of the management fee reduction is negotiable between the Manager and the Unitholder and will be based, among other factors, on the size of the holdings by the Unitholder in the Fund. Such management fee distributions will be made quarterly by the Fund to the relevant Unitholder, in an amount equal to the portion of the fee otherwise payable to the Manager. If the Manager determines to reduce its entitlement to its management fee in respect of one Unitholder, it will not be bound to do so in respect of other Unitholders or subsequent Unitholders. For the period ended September 30, 2015 the management fees amounted to \$658,772 plus 13% HST of \$85,640 (March 31, 2015: \$1,187,407 plus 13% HST of \$154,363), of which \$nil remains payable at September 30, 2015.

### 8. Financial Instruments and Risk Management

The Investment Fund's financial instruments consist of portfolio investments, interest receivable and accrued expenses. As a result, the Investment Fund is exposed to various types of risks that are associated with its investment strategies, its financial instruments and the markets in which it invests. The most important risks include market risk (which includes currency risk, interest rate risk and other price risk), credit risk and liquidity risk.

#### *Currency Risk*

The value of securities denominated in a currency other than Canadian dollars will be affected by changes in the value of the Canadian dollar in relation to the value of the currency in which such securities are denominated. When the Investment Fund makes commitments to underlying investments in private equity which are denominated in currencies other than Canadian dollars, the Investment Fund may acquire liquid investments in those same currencies to ensure its ability to fully fund those commitments over time. The Investment Fund does not make any speculative currency investments in the foreign exchange market.

# KENSINGTON PRIVATE EQUITY FUND

## NOTES TO FINANCIAL STATEMENTS

September 30, 2015

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### 8. Financial Instruments and Risk Management (continued)

As at September 30, 2015 and March 31, 2015, the Investment Fund had direct exposure to the following currencies:

	September 30, 2015		March 31, 2015	
	Currency Exposure (\$)	Percentage of Net Assets (%)	Currency Exposure (\$)	Percentage of Net Assets (%)
U.S. Dollar	22,955,891	24.6%	21,783,256	28.0%
Euro	3,084,856	3.3%	3,416,402	4.4%

The U.S. Dollar forward contracts are used as a foreign currency hedge, to offset the currency risk exposure and market fluctuations.

The Manager has determined that based on the financial position of the Investment Fund as at September 30, 2015, if the Canadian dollar had strengthened or weakened by one percent in relation to all currencies, with all other variables held constant, net assets would have decreased or increased, respectively, by approximately \$260,407 (March 31, 2015: \$251,997 ). In practice, the actual trading result may differ from this sensitivity analysis and the difference could be material.

#### *Interest Rate Risk*

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or fair values of financial instruments. The Investment Fund's direct investments in debt securities were only in those with a term to maturity of less than one year. The Investment Fund has minimal direct sensitivity to interest rates, since such securities are usually held to maturity and are short-term in nature. The Investment Fund may borrow an amount up to 25% of its total assets and thereby become exposed to interest rate risk. There were no borrowings as at September 30, 2015 or March 31, 2015.

#### *Other Price Risk*

The Investment Fund's portfolio investments, including those held through underlying funds and those held directly are susceptible to fluctuations in value caused by both industry and market conditions and the performance of the individual companies within the Private Equity investment portfolio.

The Investment Fund invests over a broad industry and geographic range. This allows the Investment Fund to gain the benefits of opportunities in many different areas and the diversification reduces the risk of loss in any one industry or region. By employing a process of in depth due diligence in selecting the underlying fund managers, and using similar standards for direct investments and secondary fund investments, the Manager attempts to significantly reduce the risk of poor performance.

In addition, the diversification strategy of investing in several different underlying funds, who in turn, invest in several different individual companies, minimizes the impact on the Investment Fund of any loss that may be realized in any one company.

# KENSINGTON PRIVATE EQUITY FUND

## NOTES TO FINANCIAL STATEMENTS

*September 30, 2015*

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### 8. Financial Instruments and Risk Management (continued)

The Manager has determined that based on the financial position of the Investment Fund as at September 30, 2015, if the value of the Investment Fund's private equity investments increased or decreased by five percent, with all other variables held constant, net assets would have increased or decreased, respectively, by approximately \$3,828,425 (March 31, 2015: \$3,321,168 ). In practice, the actual trading result may differ from this sensitivity analysis and the difference could be material.

#### *Credit Risk*

Credit risk is the risk that the counterparty to a financial instrument will fail to discharge an obligation or commitment that it entered into with the Investment Fund. The Investment Fund limits credit loss by placing its cash and cash equivalents with high quality government and financial institutions. The Statement of Portfolio Investments details the credit parties to which the Investment Fund is exposed with the respective amounts as well as the total exposure of the Investment Fund. The credit ratings provided by Dominion Bond Rating Service of the Investment Fund's Liquid Investments as at September 30, 2015 and March 31, 2015 are as follow:

	September 30, 2015	March 31, 2015
AA	65.7%	72.0%
Not Rated	34.3%	28.0%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>

#### *Liquidity Risk*

Liquidity risk is the risk that an entity will encounter difficulty in raising funds to meet cash flow commitments associated with financial instruments. The purpose of liquidity management is to ensure that there is sufficient cash to meet all financial commitments and obligations as they fall due. To manage short-term cash flow requirements, the Investment Fund maintains all of its assets which are not invested in private equity investments in liquid investments which are readily convertible into cash. Unitholders may redeem Units on an annual redemption date. The Investment Fund has reserved sufficient liquid investments to fund its obligations for Units tendered for redemption.