



KENSINGTON PRIVATE EQUITY FUND

**MANAGEMENT DISCUSSION AND ANALYSIS
AND FINANCIAL STATEMENTS**

**FOR THE SIX MONTHS ENDED
SEPTEMBER 30, 2017**

November 15, 2017

This management discussion and analysis of the Kensington Private Equity Fund contains financial highlights as well as the financial statements for the six months ended September 30, 2017. You may obtain a copy of the financial statements, the annual information form, 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. Additional information relating to the Kensington Private Equity Fund is on SEDAR at www.sedar.com.

KENSINGTON PRIVATE EQUITY FUND
MANAGEMENT DISCUSSION AND ANALYSIS

The Kensington Private Equity Fund (“KPEF”) is an investment trust established under the laws of the Province of Ontario. This Management Discussion and Analysis (“MD&A”) is being published for investors in KPEF in accordance with its governing Declaration of Trust and the regulatory requirements applicable to it as a Corporate Finance Issuer.

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. A well-planned private equity investment should reduce risk for traditional investment portfolios through diversification. The Manager provides investment advisory and portfolio management services to KPEF and is responsible for making all investment decisions.

RECENT DEVELOPMENTS

Performance of the Kensington Private Equity Fund

KPEF 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 funds (“Underlying Funds”). This carefully managed hybrid portfolio strategy led to the following performance highlights during the six months ended September 30, 2017:

- The Net Asset Value (NAV) of KPEF increased by approximately \$41 million. This figure includes performance of Underlying Investments together with new subscriptions received from investors.

The NAV per Unit increased by 1.1%, determined on an internal rate of return basis based on the performance of Underlying Investments and taking into account the impact of other cash flows into and out of KPEF during the period (new subscriptions, conversions, distributions and redemptions of Units). The comparable return for the same period last year was 0.2%.

- KPEF made commitments to two new Underlying Funds: Whitecastle New Urban Fund 4 L.P. and Kensington Direct Venture Fund, L.P.

Overview of the Investment Environment

The Manager continuously 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 investments.

Economic Environment

American protectionism threats and actions continue to threaten global economic performance, and Brexit uncertainty is creating similar risks in the European market. The U.S. stance on the NAFTA negotiations - exemplified by the position on lumber tariffs - runs counter to economic expansion. Some major economies are raising interest rates as well, but at a slow pace. With that backdrop, the economic expansion that has been underway for nearly a decade continues and business confidence is strong. While there has been some softening in certain sectors, others are gaining strength. The Manager is steering the KPEF through this economic environment and is taking advantage of the strong economic environment by selling certain mature investments. Alternative investments, including venture capital and private equity, have provided significant diversification opportunities for portfolios seeking returns that are not tied to the public markets.

Current Private Equity Market Conditions

The Manager has developed a very broad network of business owners and operators throughout the regions in which it has been active for over two decades. As a result, the Manager continues to see a steady flow of investment opportunities in the mid-market buyout, growth equity and venture capital sectors. As a result of the long economic expansion we have enjoyed, prices being asked for mature companies are often too high for the Manager's investment appetite. The Manager is therefore focusing new investments more on growth and venture capital - where technology and innovation plays a significant role in the creation of value. The demographics of business ownership, with baby boomer founders seeking liquidity for retirement, continue to create opportunities for the mid-market buyout sector, and the Manager seeks to invest on reasonable terms where a combination of its contacts across multiple technology sectors, together with its access to capital, can create a step-change in the value of a company. KPEF is in a strong position to pursue these deals with ample liquidity and the Manager's strong network of proprietary business relationships.

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 are becoming a little more risky as a means of exiting an investment because of the volatility and the risk of selling shares over the post-IPO period as escrow conditions fall away.

The Manager continues to work with its network to source attractive opportunities for KPEF. The enthusiasm in the market reinforces the importance of due diligence, discipline and a broad market perspective when investing in the private markets. The Manager has sought to maintain good liquidity in the KPEF portfolio in order to be in a position to capitalize on attractive opportunities.

Summary

KPEF's mature portfolio offers the potential of a steady flow of exits from the sale of portfolio companies. The permanent nature of the KPEF capital allows companies to be held for much longer periods and pay distributions to KPEF while the investment matures and until the ideal buyer is identified. The Manager expects that the frequency of exit transactions and the aggregate value received by KPEF 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.

As mentioned, the structure of KPEF 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 KPEF 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, KPEF 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, indeed it may be that the next economic slowdown is closer than the last downturn. Private equity investors do succeed in a steady economic environment where they have the capability and network for sourcing attractive investments, and the experience and skill set to enhance the value of a company while it is part of the portfolio. With corporate buyers still under pressure to acquire growth, the Manager expects the exit market to remain healthy through the year ahead.

RESULTS OF OPERATIONS

KPEF'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.

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 opportunistically take advantage of market dislocations;
- 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 KPEF; 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 KPEF 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 KPEF.

As at September 30, 2017, KPEF held investments in 29 primary funds, 3 independent secondary fund portfolios, 19 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 KPEF's investment objective.

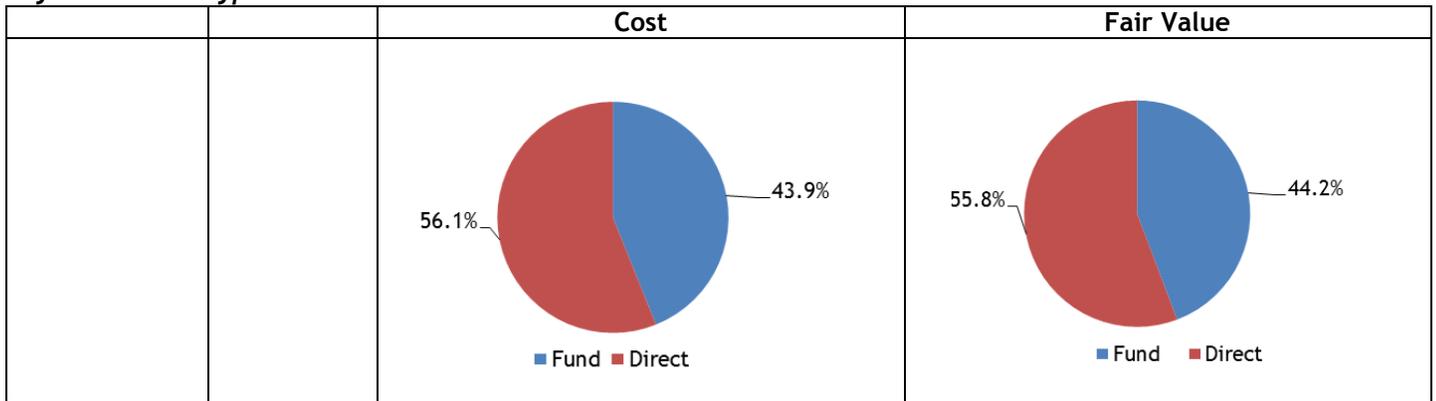
In accordance with the Declaration of Trust governing KPEF, the Manager has the responsibility for establishing target portfolio weighting guidelines by geographic region, investment type and investment sector, with the expectation that the actual weightings will vary over time depending on market conditions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

The target portfolio allocations and actual weightings at September 30, 2017 are set out below:

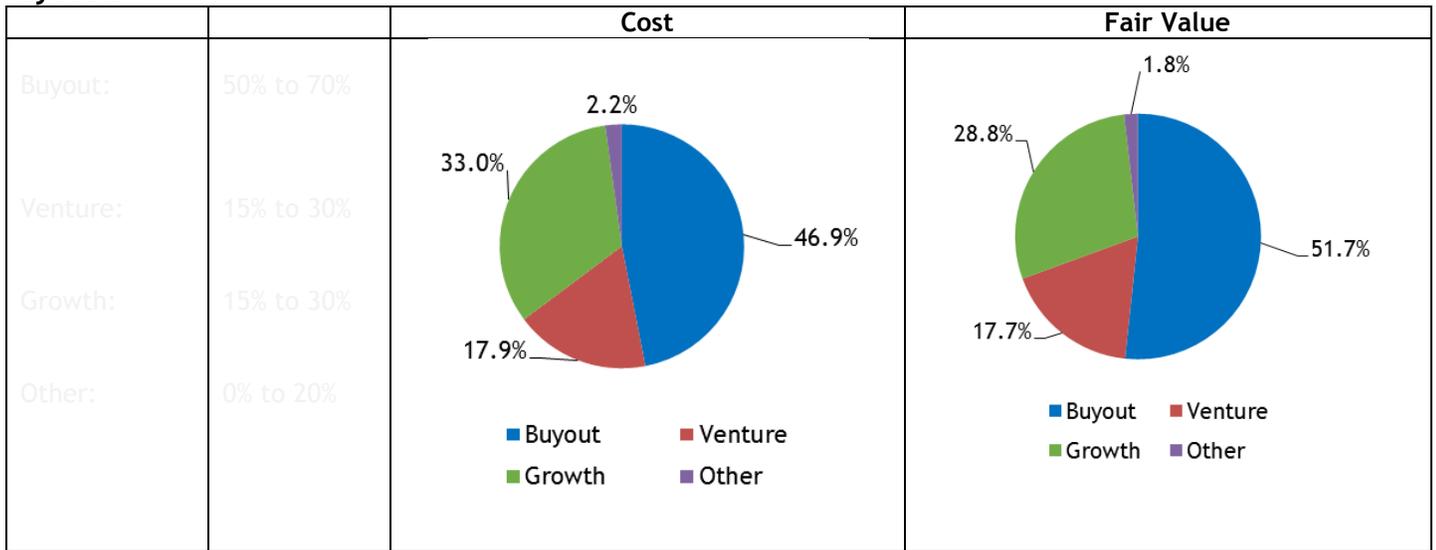
By geographic region:

		Cost	Fair Value
		<p>A pie chart showing the cost allocation of the portfolio. The largest slice is red, representing Canada at 65.8%. The next largest is blue, representing the United States at 31.9%. A very small green slice represents the Rest of the world at 2.3%.</p>	<p>A pie chart showing the fair value allocation of the portfolio. The largest slice is red, representing Canada at 68.3%. The next largest is blue, representing the United States at 30.8%. A very small green slice represents the Rest of the world at 0.9%.</p>
		<ul style="list-style-type: none"> ■ United States ■ Canada ■ Rest of the world 	<ul style="list-style-type: none"> ■ United States ■ Canada ■ Rest of the world

By investment type:

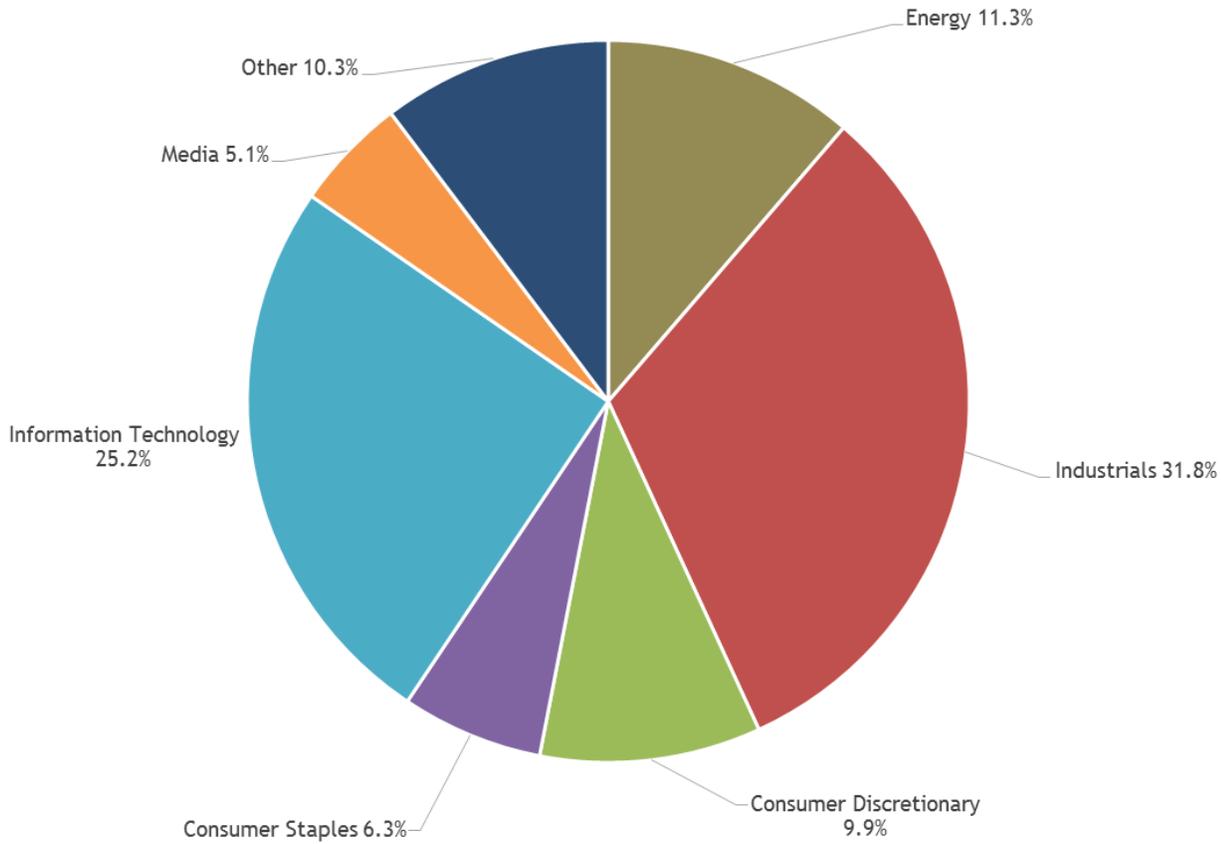


By sector:



In addition to the 19 direct investments in private companies, the KPEF portfolio as of September 30, 2017, 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.

**KPEF Industry Weightings of Private Equity Investments (Fair Value)
September 30, 2017**



KPEF NET ASSET VALUE

Underlying Investments:

As at September 30, 2017, KPEF held Underlying Investments in private equity totaling \$141.5 million representing 73.8% of the NAV. During the period, KPEF realized certain private equity investments, 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 \$39.2 million, the net asset value of Underlying Investments increased by \$1.6 million during the period.

Liquid Investments:

KPEF invests directly in Underlying Funds by committing and advancing capital as such amounts are drawn down by the respective managers of the Underlying Funds. Capital held by KPEF pending investment in private equity investments is invested in a variety of financial products (“Liquid Investments”) such as 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.

As at September 30, 2017, KPEF held Liquid Investments totalling \$50.3 million, representing an increase of \$26.5 million over the \$23.8 million of Liquid Investments held at March 31, 2017. At September 30, 2017, Liquid Investments comprised 26.3% of the NAV. The Manager expects most of that liquidity to be used in the coming months as several investments that have been in due diligence and documentation are closed.

	September 30, 2017			March 31, 2017		
	Cost (CAD)	Estimated Fair Value (CAD)	% of Fund's Net Assets	Cost (CAD)	Estimated Fair Value (CAD)	% of Fund's Net Assets
Cash	33,480,667	33,480,667	17.5%	8,785,529	8,785,529	5.8%
Kensington Hedge Fund I*	13,773,575	15,315,606	8.0%	13,773,575	15,000,608	9.9%
	48,754,242	50,296,273	26.3%	22,559,104	23,786,137	15.7%

* This fund is also managed by the Manager - see "Related Party Transactions".

Management Expense Ratio:

KPEF's Management Expense Ratio (MER) is reported in accordance with applicable accounting standards and securities laws. The 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 KPEF includes expenses incurred by Underlying Funds. Unlike typical mutual fund expenses, the expenses incurred by these Underlying Funds will be recovered by KPEF 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 Manager has also 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.

	For the six months ended September 30, 2017				Year Ended March 31, 2017			
	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	5,162,476	1,420,395	56,162,458	129,046,760	9,150,064	1,468,109	41,584,503	98,729,769
Units Outstanding	219,991	57,233	2,608,839	5,575,036	393,291	59,777	1,939,107	4,303,072
Management expense ratio %	3.51%	3.15%	4.19%	2.93%	4.28%	3.86%	5.78%	4.63%
Unrecoverable management expense ratio %	2.91%	2.45%	3.42%	2.18%	3.43%	2.99%	4.89%	3.72%

Selected Financial Data:

The following table shows selected key financial information about KPEF and is intended to summarize the KPEF financial performance for the six months ended September 30, 2017 as well as the last three years ended March 31, 2017, 2016 and 2015. The information is derived from the KPEF financial statements.

	For the six months ended September 30, 2017				For the year ended March 31, 2017			
	Class A	Class F	Class E	Class G	Class A	Class F	Class E	Class G
	\$	\$	\$	\$	\$	\$	\$	\$
Total operating income	235,894	39,244	1,223,153	3,007,305	1,353,552	209,632	5,626,428	11,972,153
Total profit/(loss)	81,059	16,227	224,810	1,314,800	961,272	158,188	3,685,350	8,881,446
Total profit/(loss) attributable per-unit basis	0.22	0.28	0.10	0.26	2.29	2.72	2.22	2.86
Total net assets	5,162,476	1,420,395	56,162,458	129,046,760	9,150,064	1,468,109	41,584,503	98,729,769
Distributions declared and paid	-	-	-	-	1.95	1.95	1.95	1.95
	For the year ended March 31, 2016				For the year ended March 31, 2015			
	Class A	Class F	Class E	Class G	Class A	Class F	Class E	Class G
	\$	\$	\$	\$	\$	\$	\$	\$
Total operating income	1,382,291	180,211	4,060,734	7,746,672	2,201,287	242,059	4,455,149	9,264,895
Total profit/(loss)	960,938	132,192	2,548,941	5,455,828	1,785,055	203,408	3,307,787	7,222,946
Total profit/(loss) attributable per-unit basis	2.21	2.47	2.00	2.34	3.75	4.25	3.76	3.73
Total net assets	9,812,475	1,328,391	31,891,554	58,305,922	9,775,404	1,167,411	23,280,263	43,511,330
Distributions declared and paid	1.32	1.32	1.32	1.32	3.56	3.56	3.56	3.56

KPEF UNITS ISSUED AND OUTSTANDING

As of September 30, 2017, KPEF had issued four classes of Units, Class A Units, Class F Units, Class E Units and Class G Units. As of September 30, 2017, KPEF had issued (net of redemptions and conversions) 219,991 Class A Units, 57,233 Class F Units, 2,608,839 Class E Units and 5,575,036 Class G Units for total net proceeds of \$176,820,951. 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 KPEF 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.

RELATED PARTY TRANSCATIONS

The KPEF investment portfolio includes investments in three funds managed by the Manager: KPEF has invested \$13,773,575 in Kensington Hedge Fund 1, KPEF has invested \$4,504,946 in Kensington Direct Venture Fund, LP and KPEF has committed \$23,850,000 to Kensington Venture Fund, LP, which will be drawn down by that fund over a 13-year period. As of September 30, 2017, the total amount funded by KPEF into Kensington Venture Fund was \$2,511,714. In each case, these related party investments have been structured to ensure there is no duplication of management fees paid by KPEF to the Manager.

RISK FACTORS

KPEF is subject to a number of risks, including all of the risks described in the KPEF Annual Information Form dated March 31, 2017.

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 KPEF may invest and the risks detailed from time to time in KPEF’s Offering Memorandum, 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 KPEF, 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 KPEF 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.