

**KENSINGTON PRIVATE EQUITY FUND**

**FINANCIAL STATEMENTS**

March 31, 2015 and 2014

# KENSINGTON PRIVATE EQUITY FUND

## CONTENTS

### Financial Statements

Independent Auditor's Report	1-2
Statements of Net Assets	3
Statements of Operations	4
Statements of Changes in Net Assets	5
Statements of Cash Flow	6
Statement of Investments	7
Notes to Financial Statements	8-16

## **Independent Auditor's Report**

To the unitholders of Kensington Private Equity Fund

We have audited the accompanying financial statements of Kensington Private Equity Fund, which comprise the statements of net assets as at March 31, 2015, March 31, 2014 and April 1, 2013 and the statements of operations, and the statements of cash flows for the years ended March 31, 2015 and March 31, 2014, and a summary of significant accounting policies and other explanatory information.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of financial statements in accordance with Canadian accounting standards for private enterprises, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

## Opinion

In our opinion, the financial statements present fairly, in all material respects, the statements of net assets of Kensington Private Equity Fund as at March 31, 2015, March 31, 2014 and April 1, 2013, and the results of its operations and its cash flows for the years ended March 31, 2015 and March 31, 2014 in accordance with Canadian accounting standards for private enterprises.

*Selwite LLP*

Chartered Professional Accountants, Chartered Accountants  
Licensed Public Accountants  
June 29, 2015

# KENSINGTON PRIVATE EQUITY FUND

## STATEMENTS OF NET ASSETS

As at March 31, 2015 and 2014

	March 31, 2015	March 31, 2014	April 1, 2013
	\$	\$	\$
<b>Assets</b>			
Investments (Notes 4 & 5)	77,756,595	68,369,257	53,149,381
Interest receivable	73,575	94,394	206
Accounts receivable	52,591	26,738	26,997
Prepaid expenses	63,513	72,627	66,767
	<u>77,946,274</u>	<u>68,563,016</u>	<u>53,243,351</u>
<b>Liabilities</b>			
Accrued expenses	211,866	248,775	255,318
	<u>211,866</u>	<u>248,775</u>	<u>255,318</u>
<b>Net assets</b>	<u><b>77,734,408</b></u>	<u><b>68,314,241</b></u>	<u><b>52,988,033</b></u>

NET ASSETS BY CLASS	\$	\$	\$
Class A	9,775,404	10,719,443	12,327,380
Class F	1,167,411	1,030,319	1,095,178
Class E	23,280,263	15,997,886	8,207,169
Class G	43,511,330	40,566,593	31,358,306
	<u>77,734,408</u>	<u>68,314,241</u>	<u>52,988,033</u>

### NUMBER OF UNITS OUTSTANDING (Note 5)

Class A	446,255	496,612	659,975
Class F	51,321	46,495	57,094
Class E	1,112,100	754,884	445,288
Class G	2,006,813	1,878,138	1,686,834
	<u>3,616,489</u>	<u>3,176,129</u>	<u>2,849,191</u>

### NET ASSETS PER UNIT BY CLASS

	\$	\$	\$
Class A	21.91	21.59	18.68
Class F	22.75	22.16	19.18
Class E	20.93	21.19	18.43
Class G	21.68	21.60	18.59

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

# KENSINGTON PRIVATE EQUITY FUND

## STATEMENTS OF OPERATIONS

For the years ended March 31, 2015 and 2014

	2015	2014
	\$	\$
Investment income	664,480	545,670
Expenses (Note 8)		
Management fee	1,341,770	1,071,478
Performance fee	1,018,392	-
Expenses incurred by investee funds	671,664	680,505
Legal fees	151,657	127,397
Other expenses	36,332	77,805
Service fees	256,227	187,830
Board and committee fees	18,987	16,677
Custodian and transfer agent fees	58,496	88,696
Professional Fees	74,578	52,778
Unitholders' communication	15,898	101,822
Interest Expense	194	57,312
Total operating expenses	3,644,195	2,462,300
Net operating loss	(2,979,715)	(1,916,630)
Net realized gain and distribution income on portfolio investments	13,716,576	860,316
Net change in unrealized appreciation (depreciation) on portfolio investments	(357,318)	9,035,162
Realized loss on foreign currency translation	(112,569)	(271,388)
Net change in unrealized appreciation on foreign currency translation	2,252,222	1,620,132
<b>Total increase (decrease) from operations</b>	<b>12,519,196</b>	<b>9,327,592</b>
<b>Increase (decrease) in net assets from operations by Class</b>	<b>\$</b>	<b>\$</b>
Class A	1,785,055	1,388,439
Class F	203,408	134,505
Class E	3,307,787	2,110,005
Class G	7,222,946	5,694,643
	<u>12,519,196</u>	<u>9,327,592</u>
<b>Increase (decrease) in net assets from operations per unit by Class</b>	<b>\$</b>	<b>\$</b>
Class A	3.75	2.58
Class F	4.25	2.63
Class E	3.76	3.08
Class G	3.73	3.15

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

# KENSINGTON PRIVATE EQUITY FUND

## STATEMENTS OF CHANGES IN NET ASSETS

For the years ended March 31, 2015 and 2014

	Class A		Class F		Class E		Class G		Total	
	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014
Net assets, beginning of year	10,719,443	12,327,380	1,030,319	1,095,178	15,997,886	8,207,169	40,566,593	31,358,306	68,314,241	52,988,033
Capital conversions	(1,069,829)	(2,793,121)	-	(199,364)	358,227	2,204,869	711,602	787,616	-	-
Capital contributions	494,490	-	145,639	-	6,983,090	3,481,460	2,217,575	2,755,000	9,840,794	6,236,460
Capital redemptions	(503,952)	(203,255)	(43,413)	-	(94,554)	(5,617)	(295,642)	(28,972)	(937,561)	(237,844)
Distributions	(1,649,803)	-	(168,542)	-	(3,272,173)	-	(6,911,744)	-	(12,002,262)	-
Increase in assets from operations	1,785,055	1,388,439	203,408	134,505	3,307,787	2,110,005	7,222,946	5,694,643	12,519,196	9,327,592
<b>Net assets, end of year</b>	<b>9,775,404</b>	<b>10,719,443</b>	<b>1,167,411</b>	<b>1,030,319</b>	<b>23,280,263</b>	<b>15,997,886</b>	<b>43,511,330</b>	<b>40,566,593</b>	<b>77,734,408</b>	<b>68,314,241</b>

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

# KENSINGTON PRIVATE EQUITY FUND

## Statements of Cash Flow

For the years ended March 31, 2015 and 2014

	2015		2014
	\$		\$
<b>Cash provided by (used in) operating activities</b>			
Total increase (decrease) from operations	\$ 12,519,196	\$	9,327,592
Net change in unrealized (loss) gain on portfolio investments	357,318		(9,035,162)
Net change in unrealized (loss) gain on foreign currency translation	(2,252,222)		(1,620,132)
Net realized gain (loss) on portfolio investments	(13,716,576)		(860,316)
Realized loss on foreign currency translation	112,569		271,388
Net change in non-cash working capital	(32,829)		(106,332)
Net cash provided by (used in) operating activities	(3,012,544)		(2,022,962)
<b>Cash provided by (used in) investing activities</b>			
Proceeds and return of capital from Private equity investments	24,459,334		7,792,722
Purchase of Private Equity investments	(10,976,305)		(10,925,424)
Purchase of short-term investment	(3,100,000)		-
proceeds and return of capital from short-term investments	212,884		(37,031)
Net cash provided by (used in) investing activities	10,595,913		(3,169,733)
<b>Cash provided by (used in) financing activities</b>			
Capital contributions, net of redemption and conversion	8,903,233		5,998,616
Distributions	(12,002,262)		-
Net cash provided by (used in) financing activities	(3,099,029)		5,998,616
Increase (Decrease) in cash and cash equivalent during the year	4,484,340		805,921
Cash and cash equivalent, beginning of year	3,625,602		2,819,681
<b>Cash and cash equivalent, end of year</b>	<b>\$ 8,109,942</b>	<b>\$</b>	<b>3,625,602</b>

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

# KENSINGTON PRIVATE EQUITY FUND

## STATEMENT OF INVESTMENTS

As at March 31, 2015

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	2,166,316		
Kilmer Brownfield Equity Fund, L.P.	CAD 2,000,000	272,706		
Bedford Capital IVC, L.P.	CAD 500,000	162,753		
Georgian Partners Growth Fund I, LP	CAD 3,000,000	2,414,146		
Novacap Industries III, L.P.	CAD 750,000	480,508		
Novacap Technologies III, L.P.	CAD 500,000	287,296		
Oncap III L.P.	CAD 3,000,000	1,286,361		
Whitecastle New Urban Fund 2 L.P.	CAD 3,000,000	1,032,581		
Georgian Partners Growth Fund II, L.P.	CAD 5,000,000	2,299,930		
KERN Energy Partners III, LP	CAD 500,000	383,068		
Kilmer Capital Fund II, L.P.	CAD 1,000,000	334,343		
Vanedge Capital I Limited Partnership	CAD 3,000,000	1,114,276		
Tricor Pacific Capital Partners (Fund V) BC, Limited Partnership	CAD 3,000,000	341,671		
Kensington Venture Fund L.P.	CAD 23,850,000	445,972		
		\$ 13,938,633	22,002,883	
<b>Secondary Fund</b>				
Novacap II, L.P.	CAD 10,000,000	\$ 1,110,424	1,698,197	
<b>Direct Investments</b>				
KMC Holding L.P.	CAD 1,850,917	2,060,674		
D-Wave Systems Inc.	Preferred shares E and G, 1,512,465	2,541,502		
CGL Holding Inc.	Class B shares, 290	2,872,318		
TouchBistro Inc.	Preferred shares, 3,132,365	700,000		
Blue Ant Media Inc.	Common shares 4,511,374	4,639,218		
Vision Critical Communications, Inc.	Class B preferred shares, 266,666	1,000,000		
Protenergy Natural Foods Inc.	Escrow Cash	-		
		\$ 13,813,712	17,522,630	
<b>Total Canadian Investments</b>		\$ 28,862,769	\$ 41,223,710	53.03%
<b>European</b>				
<b>Primary Fund</b>				
HarbourVest International Private Equity Partners V - Direct Fund L.P.	€ 2,000,000	1,685,660		
Nordea Private Equity II - European Middle Market Buyout K/S	€ 2,000,000	2,010,550		
<b>Total European</b>		\$ 3,696,210	\$ 3,416,402	4.39%
<b>U.S. Investments</b>				
<b>Primary Fund</b>				
Trivest Fund IV, L.P.	USD 3,000,000	1,634,448		
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	1,078,107		
Capital Partners Income Fund II, L.P.	USD 3,000,000	872,159		
Trivest Fund V, L.P.	USD 3,000,000	804,757		
		\$ 7,039,645	11,799,578	
<b>Secondary Fund</b>				
WaldenVC II, L.P.	USD 5,000,000	2,844,210		
Trivest Fund IV, L.P.	USD 1,500,000	631,987		
		\$ 3,476,197	2,445,454	
<b>Direct Investments</b>				
THL Equity Fund VI Investors (Ceridian), L.P.	USD 1,000,438	944,740		
Walden Sprout Opportunities Fund - B, L.P.	USD 920,926	957,698		
THL Equity Fund VI Investors (Clear Channel), L.P.	USD 665,352	651,555		
CP Breen, LLC	USD 250,000	275,359		
Blinq Networks Inc.	Class B Shares, 813,934	2,134,566		
		\$ 4,963,918	7,538,224	
<b>Total U.S. Investments</b>		\$ 15,479,760	\$ 21,783,256	28.02%
<b>Total Private Equity Investments</b>		\$ 48,038,739	\$ 66,423,368	85.45%
<b>Cash and Short Term Investments</b>		11,209,942	11,268,753	14.50%
<b>Foreign currency forward contract</b>			64,474	0.08%
<b>TOTAL INVESTMENTS</b>		\$ 59,248,681	\$ 77,756,595	100.0%
Other assets net of accrued liabilities			(22,187)	-0.03%
<b>NET ASSETS</b>			\$ 77,734,408	100.00%

# KENSINGTON PRIVATE EQUITY FUND

## NOTES TO FINANCIAL STATEMENTS

*March 31, 2015*

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### 1. Formation of the Investment Fund

Kensington Global Private Equity Fund (the “Global Fund”) was created in 2007 to provide investors with access to a diversified portfolio of private equity investments, including private equity funds and direct investments in private companies, which are not available in the public market.

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. 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 March 31, 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 March 31, 2015, the Investment Fund had issued (net of redemptions and conversions) 446,255 Class A Units, 51,321 Class F Units, 1,112,100 Class E Units and 2,006,813 Class G Units for total net proceeds of \$72,016,360. 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 8.

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. Adoption of a new accounting framework

As of March 31, 2015, the Fund’s financial statements are prepared in accordance with the Generally Accepted Accounting Standards for Private Enterprises (“ASPE”) adopted by the Canadian Institute of Chartered Accountants (“CICA”). In accordance with Section 1500 of the CICA Handbook, First Time-adoption, (“Section 1500”), the date of transition to the standards is April 1, 2014 and the Fund has prepared and presented an opening statement of net assets at the date of transition to the standards. This opening statement of net assets is the starting point for the Fund’s accounting under the standards. In its opening statement of net assets, under the recommendations of Section 1500, the Fund

- (a) recognized all assets and liabilities whose recognition is required by the standards;
- (b) did not recognize items as assets or liabilities if the standards do not permit such recognition;
- (c) reclassified items that it recognized previously as one type of assets, liability or component of equity, but are recognized as a different type of asset, liability or component of equity under the standards; and
- (d) applied the standards in measuring all recognized assets and liabilities.

In accordance with the requirements of Section 1500, the accounting policies set out in Note 3 have been consistently applied to all years presented and adjustments resulting from the adoption of the standards have been applied retrospectively.

# KENSINGTON PRIVATE EQUITY FUND

## NOTES TO FINANCIAL STATEMENTS

March 31, 2015

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### 2. Adoption of a new accounting framework (continued)

There was no impact on retained earnings, represented by net assets and net increase (decrease) from operations as a result of the adoption of the standards as at April 1, 2014. Pursuant to Section 1500 transitional requirements, the Fund reviewed the exemptions and exceptions and assessed that none of the exemptions were applicable. The exception relating to estimates is applicable; all estimates in the opening statements of net assets are consistent with the estimates made using previous accounting policies.

### 3. 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.

#### *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.

# KENSINGTON PRIVATE EQUITY FUND

## NOTES TO FINANCIAL STATEMENTS

March 31, 2015

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### 3. Significant Accounting Policies (continued)

#### *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.

#### *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.

# KENSINGTON PRIVATE EQUITY FUND

## NOTES TO FINANCIAL STATEMENTS

March 31, 2015

### 3. Significant Accounting Policies (continued)

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 March 31, 2015 and 2014 can be found in Note 5.

### 4. 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.

	March 31, 2015				March 31, 2014			
	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		8,109,942	8,109,942	10.4%		2,902,417	2,902,417	4.2%
Kensington Hedge Fund I		3,100,000	3,158,811	4.1%		-	-	0.0%
Ontario Savings Bond Variable Rate due June 21, 2015	-	-	-	0%	400,000	400,000	403,877	0.6%
Ontario Savings Bond Variable Rate due June 21, 2014	-	-	-	0%	300,000	311,715	319,307	0.5%
		<b>\$ 11,209,942</b>	<b>\$ 11,268,753</b>	<b>14.5%</b>		<b>\$ 3,614,132</b>	<b>\$ 3,625,601</b>	<b>5.3%</b>

### 5. Investments

The following is a summary of the Investment Fund's investments, as at March 31, 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 3.

	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
Cash and Short Term 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>

  

	Assets at fair value as at March 31, 2014			
	Level 1	Level 2	Level 3	Total
Private Equity Investments	-	-	\$64,467,475	\$64,467,475
Cash and Short Term Investments	\$3,625,601	-	-	\$3,625,601
Currency Hedge	\$276,181	-	-	\$276,181
<b>Total</b>	<b>\$3,901,782</b>	<b>-</b>	<b>\$64,467,475</b>	<b>\$68,369,257</b>

# KENSINGTON PRIVATE EQUITY FUND

## NOTES TO FINANCIAL STATEMENTS

*March 31, 2015*

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### 5. Investments (continued)

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

	<b>Private Equity Investments</b>
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>

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, 2014, the reconciliation of investments measured at fair value using unobservable inputs (Level 3) is presented as follows:

	<b>Private Equity Investments</b>
Beginning Balance, April 1, 2013	49,615,526
Purchases	10,925,424
Sales	(7,086,328)
Change in unrealized appreciation (depreciation) included in net income	11,012,853
Ending Balance, March 31, 2014	<u>64,467,475</u>

# KENSINGTON PRIVATE EQUITY FUND

## NOTES TO FINANCIAL STATEMENTS

March 31, 2015

### 6. Units Outstanding

The following units were issued and redeemed for the year ended March 31:

	March 31, 2015				March 31, 2014			
	Class A	Class F	Class E	Class G	Class A	Class F	Class E	Class G
Balance Beginning of Period	496,612	46,495	754,884	1,878,138	659,975	57,094	445,288	1,686,834
Class Switches	(50,793)	-	17,823	33,964	(152,973)	(10,599)	120,116	44,380
Capital Contribution	25,893	6,754	350,168	109,932	-	-	189,775	148,397
Capital Redemption	(25,457)	(1,928)	(10,775)	(15,222)	(10,390)	-	(295)	(1,473)
Balance End of Period	446,255	51,321	1,112,100	2,006,813	496,612	46,495	754,884	1,878,138

### 7. 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.

### 8. 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

March 31, 2015

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### 8. 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 year ended March 31, 2015 the management fees amounted to \$1,187,407 plus 13% HST of \$154,363 (March 31, 2014: \$948,211 plus 13% HST of \$123,267), of which \$nil remains payable at March 31, 2015.

### 9. 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

March 31, 2015

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

As at March 31, 2015 and March 31, 2014, the Investment Fund had direct exposure to the following currencies:

	March 31, 2015		March 31, 2014	
	Currency Exposure (\$)	Percentage of Net Assets (%)	Currency Exposure (\$)	Percentage of Net Assets (%)
U.S. Dollar	21,783,256	28.0%	16,138,399	23.8%
U.S. Dollar forward contracts	-	0.0%	(8,200,000)	-12.1%
Net U.S Dollar exposure	21,783,256	28.0%	7,938,399	11.7%
Euro	3,416,402	4.4%	4,864,681	7.2%

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 March 31, 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 \$251,997 (March 31, 2014: \$128,031). 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 March 31, 2015 or March 31, 2014.

#### *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

March 31, 2015

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

The Manager has determined that based on the financial position of the Investment Fund as at March 31, 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 \$3,321,168 (March 31, 2014: \$3,223,375). 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 March 31, 2015 and March 31, 2014 are as follow:

	March 31, 2015	March 31, 2014
AA	72.0%	55.8%
Not Rated	28.0%	44.2%
<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.