

**KENSINGTON PRIVATE EQUITY FUND**

**FINANCIAL STATEMENTS**

March 31, 2016 and 2015

# KENSINGTON PRIVATE EQUITY FUND

## MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying financial statements of the Kensington Private Equity Fund (the "Fund") and all the information in this report are the responsibility of the management of Kensington Capital Advisors Inc. (the "Manager"), and have been approved by the Manager.

The financial statements have been prepared by management in accordance with International Financial Reporting Standards (IFRS) and include certain amounts that are based on estimates and judgments. Management has ensured that the other financial information presented in this report is consistent with the financial statements. The significant accounting policies which management believes are appropriate for the Fund are described in Note 2 of the financial statements.

The Manager is also responsible for maintaining a system of internal controls designed to provide reasonable assurance that assets are safeguarded and that accounting systems provide timely, accurate and reliable financial information.

The Manager meets periodically with the external auditors to discuss internal controls, the financial reporting process, various auditing and financial reporting issues, and to review this report and the financial statements.



Richard Nathan  
Managing Director,  
Kensington Capital Advisors Inc.



Suganya Tharmalingam  
Managing Director & Chief Financial Officer  
Kensington Capital Advisors Inc.

June 30, 2016

# KENSINGTON PRIVATE EQUITY FUND

## TABLE OF CONTENTS

### Financial Statements

Independent Auditor's Report	1-2
Statements of Financial Position	3
Statements of Comprehensive Income	4
Statements of Changes in Net Assets Attributable to Holders of Redeemable Units	5
Statements of Cash Flows	6
Schedule of Investments	7
Notes to Financial Statements	8-20

## Independent Auditor's Report

To the Unitholders of the Kensington Private Equity Fund

We have audited the accompanying financial statements of the Kensington Private Equity Fund, which comprise the statements of financial position as at March 31, 2016, March 31, 2015 and April 1, 2014, and the statements of comprehensive income, statements of changes in net assets attributable to holders of redeemable units and statements of cash flows for the years ended March 31, 2016 and March 31, 2015, 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 these financial statements in accordance with International Financial Reporting Standards, 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 financial position of the Kensington Private Equity Fund as at March 31, 2016, March 31, 2015 and April 1, 2014, and its financial performance and its cash flows for the years ended March 31, 2016 and March 31, 2015 in accordance with International Financial Reporting Standards.

*Deloitte LLP*

Chartered Professional Accountants  
Licensed Public Accountants  
June 30, 2016

# KENSINGTON PRIVATE EQUITY FUND

## STATEMENTS OF FINANCIAL POSITION

As at March 31, 2016, March 31, 2015 and April 1, 2014

	March 31, 2016	March 31, 2015	April 1, 2014
	\$	\$	\$
<b>Assets</b>			
Cash	12,270,221	8,109,942	3,625,602
Investments (Notes 3 & 4)	89,330,163	69,646,653	64,743,655
Interest receivable	-	73,575	94,394
Accounts receivable	122,320	52,591	26,738
Prepaid expenses	39,662	63,513	72,627
	<b>101,762,366</b>	<b>77,946,274</b>	<b>68,563,016</b>
<b>Liabilities</b>			
Accrued expenses	424,024	211,866	248,775
	<b>424,024</b>	<b>211,866</b>	<b>248,775</b>
<b>Net assets attributable to holders of redeemable units</b>	<b>101,338,342</b>	<b>77,734,408</b>	<b>68,314,241</b>

Net assets attributable to holders of redeemable units	\$	\$	\$
Class A	9,812,475	9,775,404	10,719,443
Class F	1,328,391	1,167,411	1,030,319
Class E	31,891,554	23,280,263	15,997,886
Class G	58,305,922	43,511,330	40,566,593
	<b>101,338,342</b>	<b>77,734,408</b>	<b>68,314,241</b>

### Number of redeemable units issued and outstanding (Note 5)

Class A	430,212	446,255	496,612
Class F	55,658	51,321	46,495
Class E	1,486,370	1,112,100	754,884
Class G	2,584,013	2,006,813	1,878,138
	<b>4,556,253</b>	<b>3,616,489</b>	<b>3,176,129</b>

### Net assets attributable to holders of redeemable units per unit

	\$	\$	\$
Class A	22.81	21.91	21.59
Class F	23.87	22.75	22.16
Class E	21.46	20.93	21.19
Class G	22.56	21.68	21.60

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

# KENSINGTON PRIVATE EQUITY FUND

## STATEMENTS OF COMPREHENSIVE INCOME

For the years ended March 31, 2016 and March 31, 2015

	2016	2015
	\$	\$
Investment income	1,046,712	664,480
Net realized gain and distribution income on portfolio investments	4,997,710	13,716,576
Net realized gain (loss) on foreign currency translation	326,361	(112,569)
Net change in unrealized appreciation (depreciation) on portfolio investments	6,449,374	(357,318)
Net change in unrealized appreciation on foreign currency translation	549,755	2,252,222
<b>Total operating income</b>	<b>13,369,912</b>	<b>16,163,391</b>
Expenses (Note 7)		
Management fee	1,671,796	1,341,770
Expenses incurred by investee funds	792,707	671,664
Performance fee	681,409	1,018,392
Service fees	358,975	256,227
Legal fees	245,239	151,657
Professional Fees	162,479	74,578
Withholding taxes incurred by investee funds	146,671	17,649
Unitholders' communication	126,299	15,898
Custodian and transfer agent fees	54,085	58,496
Other expenses	23,073	18,683
Interest Expense	16,713	194
Board and committee fees	(7,433)	18,987
<b>Total operating expenses</b>	<b>4,272,013</b>	<b>3,644,195</b>
<b>Operating profit</b>	<b>9,097,899</b>	<b>12,519,196</b>
<b>Increase in net assets attributable to holders of redeemable units from operations</b>	<b>9,097,899</b>	<b>12,519,196</b>
Increase in net assets attributable to holders of redeemable units from operations per class		
Class A	960,938	1,785,055
Class F	132,192	203,408
Class E	2,548,941	3,307,787
Class G	5,455,828	7,222,946
	<b>9,097,899</b>	<b>12,519,196</b>
Increase in net assets attributable to holders of redeemable units from operations per unit	\$	\$
Class A	2.21	3.75
Class F	2.47	4.25
Class E	2.00	3.76
Class G	2.34	3.73

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

## KENSINGTON PRIVATE EQUITY FUND

### STATEMENTS OF CHANGES IN NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS

For the years ended March 31, 2016 and March 31, 2015

	Class A		Class F		Class E		Class G		Total	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
Net assets attributable to holders of redeemable units, 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 from holders of redeemable units	(421,607)	(1,069,829)	41,291	-	(390,902)	358,227	771,218	711,602	-	-
Capital contributions from holders of redeemable units	176,525	494,490	57,566	145,639	8,139,223	6,983,090	11,875,079	2,217,575	20,248,393	9,840,794
Capital redemptions to holders of redeemable units	(114,813)	(503,952)	-	(43,413)	-	(94,554)	(134,935)	(295,642)	(249,749)	(937,561)
Distributions to holders of redeemable units	(563,971)	(1,649,803)	(70,069)	(168,542)	(1,685,971)	(3,272,173)	(3,172,598)	(6,911,744)	(5,492,609)	(12,002,262)
Increase in net assets attributable to holders of redeemable units	960,938	1,785,055	132,192	203,408	2,548,941	3,307,787	5,455,828	7,222,946	9,097,899	12,519,196
<b>Net assets attributable to holders of redeemable units, March 31</b>	<b>9,812,475</b>	<b>9,775,404</b>	<b>1,328,391</b>	<b>1,167,411</b>	<b>31,891,554</b>	<b>23,280,263</b>	<b>58,305,922</b>	<b>43,511,330</b>	<b>101,338,342</b>	<b>77,734,408</b>

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

# KENSINGTON PRIVATE EQUITY FUND

## STATEMENTS OF CASH FLOWS

For the years ended March 31, 2016 and March 31, 2015

	2016	2015
	\$	\$
<b>Cash provided by (used in) operating activities</b>		
Increase in net assets attributable to holders of redeemable units from operations	\$ 9,097,899	\$ 12,519,196
Net change in unrealized (loss) gain on portfolio investments	(6,449,374)	357,318
Net change in unrealized (loss) gain on foreign currency translation	(549,755)	(2,252,222)
Net realized gain (loss) on portfolio investments	(4,997,710)	(13,716,576)
Realized gain (loss) on foreign currency translation	(326,361)	112,569
Net change in non-cash investing activities	(82,145)	-
Net change in non-cash working capital	239,855	(32,829)
Proceeds and return of capital from Private Equity investments	8,762,627	24,459,334
Purchase of Private Equity investments	(13,528,645)	(10,976,305)
Purchase of short-term investment	(2,573,575)	(3,100,000)
Proceeds and return of capital from short-term investments	61,428	212,884
<b>Net cash (used in) provided by operating activities</b>	<b>(10,345,756)</b>	<b>7,583,369</b>
<b>Cash provided by (used in) financing activities</b>		
Capital contributions from holders of redeemable units	20,248,393	9,840,794
Capital redemptions to holders of redeemable units	(249,749)	(937,561)
Distributions paid to holders of redeemable units	(5,492,609)	(12,002,262)
<b>Net cash provided by (used in) financing activities</b>	<b>14,506,035</b>	<b>(3,099,029)</b>
Increase in cash and cash equivalent during the year	4,160,279	4,484,340
Cash and cash equivalent, beginning of year	8,109,942	3,625,602
<b>Cash and cash equivalent, end of year</b>	<b>\$ 12,270,221</b>	<b>\$ 8,109,942</b>

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

# KENSINGTON PRIVATE EQUITY FUND

## SCHEDULE OF INVESTMENTS

As at March 31, 2016

Description	Committed Amount / Shares/Units (Native currency)	Cost (CAD)	Estimated Fair Value (CAD)	
<b>Private Equity Investments (Note 4)</b>				
<b>Primary Fund</b>				
Azimuth Energy Partners III L.P.	CAD 500,000	368,638		
Bedford Capital IVC, L.P.	CAD 500,000	97,521		
Georgian Partners Growth Fund I, LP	CAD 3,000,000	1,658,571		
Georgian Partners Growth Fund II, L.P.	CAD 5,000,000	3,049,831		
Kensington Venture Fund L.P.	CAD 23,850,000	445,972		
Kilmer Brownfield Equity Fund, L.P.	CAD 2,000,000	150,399		
Kilmer Capital Fund II, L.P.	CAD 1,000,000	259,519		
Novacap Industries III, L.P.	CAD 750,000	393,587		
Novacap Industries IV, L.P.	CAD 5,000,000	751,440		
Novacap Technologies III, L.P.	CAD 500,000	173,650		
Oncap III L.P.	CAD 3,000,000	1,930,051		
Parallel49 Equity (Fund V) BC, L.P.	CAD 3,000,000	1,002,701		
TriWest Capital Partners III, L.P.	CAD 2,500,000	916,707		
TriWest Capital Partners IV, L.P.	CAD 3,000,000	2,380,491		
TriWest Capital Partners V, L.P.	CAD 7,000,000	745,175		
Vanedge Capital I Limited Partnership	CAD 3,000,000	1,061,737		
Whitecastle New Urban Fund 2 L.P.	CAD 3,000,000	800,782		
Whitecastle New Urban Fund 3 L.P.	CAD 4,000,000	73,127		
		\$ 16,259,897	31,679,585	
<b>Secondary Fund</b>				
Novacap II, L.P.	CAD 10,000,000	\$ 1,030,981	1,576,151	
<b>Direct Investments</b>				
Blue Ant Media Inc.	Common shares 4,511,374	4,639,218		
CGL Holding Inc.	Class B shares, 290	2,872,318		
Chrysalis Acquisition Fund I L.P.	CAD 500,000	500,000		
D-Wave Systems Inc.	Preferred shares E and G, 1,928,522	2,540,872		
Horseshoe Power L.P.	Class A LP Units 1,170,000 & Common shares G 1,170,000	1,170,012		
KMC Holding L.P.	CAD 1,850,917	2,086,908		
TouchBistro Inc.	Preferred shares, 3,132,482	706,137		
Prodmax Holdings Ltd.	Convertible debentures & Common shares 100,000	5,000,000		
Vision Critical Communications, Inc.	Class B preferred shares, 266,666	999,998		
		\$ 20,515,461	26,191,403	
<b>Total Canadian Investments</b>		\$ 37,806,340	\$ 59,447,139	58.66%
<b>European</b>				
<b>Primary Fund</b>				
HarbourVest International Private Equity Partners V - Direct Fund L.P.	€ 2,000,000	1,223,253		
Nordea Private Equity II - European Middle Market Buyout K/S	€ 2,000,000	1,783,460		
<b>Total European</b>		\$ 3,006,713	\$ 2,227,229	2.20%
<b>U.S. Investments</b>				
<b>Primary Fund</b>				
Capital Partners Income Fund II, L.P.	USD 3,000,000	1,768,363		
Thomas H. Lee Equity Fund VI, L.P.	USD 1,200,000	567,733		
Trivest Fund IV, L.P.	USD 3,000,000	1,453,367		
Trivest Fund V, L.P.	USD 3,000,000	1,189,604		
Walden Venture Capital VII, L.P.	USD 2,500,000	2,339,382		
Walden Venture Capital VIII, SBIC, L.P.	USD 5,000,000	1,676,382		
		\$ 8,994,831	13,350,743	
<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	2,021,650	
<b>Direct Investments</b>				
Blinq Networks Inc.	Class B Shares, 813,934	2,307,431		
CP Breen, LLC	USD 416,667	513,010		
THL Equity Fund VI Investors (Ceridian), L.P.	USD 442,716	399,215		
THL Equity Fund VI Investors (Clear Channel), L.P.	USD 665,352	651,555		
Walden Sprout Opportunities Fund - B, L.P.	USD 1,011,926	1,077,727		
		\$ 4,948,938	6,537,023	
<b>Total U.S. Investments</b>		\$ 17,329,426	\$ 21,909,415	21.62%
<b>Total Private Equity Investments</b>		\$ 58,142,479	\$ 83,583,785	82.48%
<b>Cash and Other Investments</b>		17,943,796	18,016,599	17.78%
<b>TOTAL INVESTMENTS</b>		\$ 76,086,275	\$ 101,600,384	100.26%
Other assets net of accrued liabilities			(262,042)	-0.26%
<b>NET ASSETS</b>			\$ 101,338,342	100.00%

# KENSINGTON PRIVATE EQUITY FUND

## NOTES TO FINANCIAL STATEMENTS

*March 31, 2016 and 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, 2016, 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, 2016, the Investment Fund had issued (net of redemptions and conversions) 430,212 Class A Units, 55,658 Class F Units, 1,486,370 Class E Units and 2,584,013 Class G Units for total net proceeds of \$92,015,004. 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.

The financial statements were authorized for issuance by the Manager on June 30, 2016.

### 2. Significant Accounting Policies

#### *First time adoption of IFRS*

The Investment Fund adopted International Financial Reporting Standards (IFRS) effective April 1, 2015 as a result of change in status from non-reporting issuer to reporting issuer. The date of transition to IFRS was April 1, 2014.

The Investment Fund's accounting policies presented below have been applied in preparing the Financial Statements for the year ended March 31, 2016, the comparative information and the opening Balance Sheet at the date of transition.

The Investment Fund has applied IFRS 1, First-time Adoption of International Financial Reporting Standards (IFRS 1), in preparing these first IFRS Financial Statements. IFRS 1 sets out the procedures that the Investment Fund must follow when it adopts IFRS for the first time as the basis for preparing its Financial Statements.

There is no impact on net assets and net income from operations as a result of adopting IFRS. However, a Statement of Cash Flows is required which was not a requirement under previous Generally Accepted Accounting Principles (Canadian GAAP).

# KENSINGTON PRIVATE EQUITY FUND

## NOTES TO FINANCIAL STATEMENTS

*March 31, 2016 and March 31, 2015*

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### 2. Significant Accounting Policies (continued)

#### *Basis of Presentation*

These financial statements have been prepared in compliance with International Financial Reporting Standards ("IFRS") as published by the International Accounting Standards Board ("IASB").

The financial statements have been prepared on the historical cost basis except for financial instruments at fair value through profit and loss ("FVTPL") which are measured at fair value.

The Investment Fund qualifies as an investment entity as it meets the following definition of an investment entity as outlined in IFRS 10, *Consolidated Financial Statements*:

- Obtains funds from one or more investors for the purpose of providing those investor(s) with investment management services.
- Commits to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both.
- Measures and evaluates the performance of substantially all of its investments on a fair value basis.

No significant judgements or assumptions were made in determining that the Investment Fund meets the definition of an investment entity as defined in IFRS 10.

#### *Use of Estimates*

Financial statements prepared in accordance with IFRS 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.

#### *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. The fair value of forward currency is determined by reference to quoted bid prices.

# KENSINGTON PRIVATE EQUITY FUND

## NOTES TO FINANCIAL STATEMENTS

*March 31, 2016 and March 31, 2015*

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### 2. Significant Accounting Policies (continued)

#### Direct Investments

Fair value is the price that would be received to sell an asset or paid to transfer the liability in an orderly transaction between participants at the measurement date. 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. In the case of investments held through a limited partnership fund, fair value is generally determined based on relevant information reported by the general partner using similar accepted industry valuation methods.

#### *Valuation of Short-term and Other 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.

#### *Cash*

Cash is comprised of cash on hand and demand deposits with financial institutions. They are recorded at cost and represent fair value.

#### *Classification*

The Investment Fund classifies its financial assets and liabilities into the categories below in accordance with IAS 39, *Financial Instruments: Recognition and Measurement*.

#### *Financial assets classified at fair value through profit and loss*

Financial assets are either classified at fair value through profit and loss or at amortized cost. The classification depends on (a) the business model for managing the financial assets and (b) the cash flow characteristics of the financial assets. All financial assets through profit or loss are classified at fair value on the basis that they are part of a portfolio of financial assets which are managed and whose performance is evaluated on a fair value basis in accordance with investment strategies and risk management of the Investment Fund. Financial assets classified at fair value through profit or loss include investments other than interest receivable, accounts receivable and prepaid expenses, which are carried at amortized cost.

#### *Financial liabilities classified at fair value through profit and loss*

Financial liabilities are either classified at fair value through profit or loss or at amortized cost. The classification depends on (a) whether the financial liability meets the definition of held for trading or (b) upon initial recognition the financial liability is designated as at fair value through profit or loss. Accrued expenses are carried at amortized cost.

#### *Functional and presentation currency*

The Investment Fund's functional and presentation currency is the Canadian dollar, which is the currency of the primary economic environment in which it operates. The Investment Fund's performance is evaluated and its liquidity is managed in Canadian dollars. Therefore, the Canadian dollar is considered as the currency that most faithfully represents the economic effects of the underlying transactions, events and conditions.

# KENSINGTON PRIVATE EQUITY FUND

## NOTES TO FINANCIAL STATEMENTS

*March 31, 2016 and March 31, 2015*

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### 2. Significant Accounting Policies (continued)

#### *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*

Income from investments includes realized gains and losses from investments, changed in unrealized gains and losses on investments, dividend income and interest 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. Realized gain and loss is recorded when paid or realized by the Investment Fund.

#### *Classification of Redeemable Units Issued by the Investment Fund*

Under IFRS, IAS 32 requires that redeemable units of an entity which include a contractual obligation for the issuer to repurchase or redeem them for cash or another financial asset be classified as financial liability when they meet the criteria set up in IAS 32. The Investment Fund's redeemable units do not meet the criteria in IAS 32 for classification for equity as they involve multiple contractual obligations on the part of the Investment Fund and therefore, have been classified as financial liabilities.

#### *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 Attributable to Holders of Redeemable Units from Operations per Unit*

Increase/Decrease in net assets attributable to holders of redeemable units from operations per unit in the statement of comprehensive income represents the net increase/decrease in net assets attributable to holders of redeemable units by class from operations for the period divided by the average number of units outstanding during the period.

#### *Capital Disclosures*

International Accounting Standards (IAS) Section 1 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 5 and the Statement of changes in net assets, and the Investment Fund does not have any externally imposed capital requirements.

# KENSINGTON PRIVATE EQUITY FUND

## NOTES TO FINANCIAL STATEMENTS

March 31, 2016 and March 31, 2015

### 2. Significant Accounting Policies (continued)

#### *New Standards and Interpretations not yet adopted*

The final version of IFRS 9, Financial Instruments, was issued by the IASB in July 2014 and will replace IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 introduces a model for classification and measurement, a single, forward-looking 'expected loss' impairment model and a substantially reformed approach to hedge accounting. The new single, principle based approach for determining the classification of financial assets is driven by cash flow characteristics and the business model in which an asset is held. The new model also results in a single impairment model being applied to all financial instruments, which will require more timely recognition of expected credit losses. It also includes changes in respect of own credit risk in measuring liabilities elected to be measured at fair value, so that gains caused by the deterioration of an entity's own credit risk on such liabilities are no longer recognized in profit and loss. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, however is available for early adoption. The Investment Fund is in the process of assessing the impact of IFRS 9 and has not yet determined when it will adopt the new standard.

### 3. Cash, Short Term and Other 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, 2016				March 31, 2015				April 1, 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	Par Value (CAD)	Cost (CAD)	Estimated Fair Value (CAD)	% of Fund's Net Assets
Cash		12,270,221	12,270,221	12.1%		8,109,942	8,109,942	10.4%		2,902,417	2,902,417	4.2%
Kensington Hedge Fund I		5,673,575	5,746,378	5.7%		3,100,000	3,158,811	4.1%		-	-	0.0%
Ontario Savings Bond Variable Rate due June 21, 2015	-	-	-	-	-	-	-	-	400,000	400,000	403,878	0.6%
Ontario Savings Bond Variable Rate due June 21, 2014	-	-	-	-	-	-	-	-	300,000	311,715	319,307	0.5%
		\$ 17,943,796	\$ 18,016,599	17.8%		\$ 11,209,942	\$ 11,268,753	14.5%		\$ 3,614,132	\$ 3,625,602	5.3%

### 4. Investments

#### *Fair Value Measurements*

The Investment Fund follows IFRS 13 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.

# KENSINGTON PRIVATE EQUITY FUND

## NOTES TO FINANCIAL STATEMENTS

*March 31, 2016 and March 31, 2015*

### 4. Investments (continued)

The following is a summary of the Investment Fund's investments, as at March 31, 2016, March 31, 2015 and April 1, 2014 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, 2016				
	Level 1	Level 2	Level 3	Total
Private Equity Investments	-	-	\$83,583,785	\$83,583,785
Other Investment	-	\$5,746,378	-	\$5,746,378
<b>Total</b>	<b>-</b>	<b>\$5,746,378</b>	<b>\$83,583,785</b>	<b>\$89,330,163</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
Other Investment	-	\$3,158,811	-	\$3,158,811
Currency Hedge	\$64,474	-	-	\$64,474
<b>Total</b>	<b>\$64,474</b>	<b>\$3,158,811</b>	<b>\$66,423,368</b>	<b>\$69,646,653</b>

Assets at fair value as at April 1, 2014				
	Level 1	Level 2	Level 3	Total
Private Equity Investments	-	-	\$64,467,475	\$64,467,475
Other Investment	-	-	-	-
Currency Hedge	\$276,181	-	-	\$276,181
<b>Total</b>	<b>\$276,181</b>	<b>-</b>	<b>\$64,467,475</b>	<b>\$64,743,656</b>

During the years ended March 31, 2016 and March 31, 2015, there were no transfers into and out of the three levels.

# KENSINGTON PRIVATE EQUITY FUND

## NOTES TO FINANCIAL STATEMENTS

*March 31, 2016 and March 31, 2015*

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### 4. Investments (continued)

During the year ended March 31, 2016, 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	13,528,645
Sales	(3,438,555)
Change in unrealized appreciation (depreciation) included in net income	7,070,327
Ending Balance, March 31, 2016	<u>83,583,785</u>

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>

Total unrealized appreciation on investments still held as at March 31, 2016 was \$25,441,306 (March 31, 2015: \$18,384,629)

# KENSINGTON PRIVATE EQUITY FUND

## NOTES TO FINANCIAL STATEMENTS

March 31, 2016 and March 31, 2015

### 4. Investments (continued)

Description	Fair value at Mar 31, 2016	Fair value at Mar 31, 2015	Valuation technique	Unobservable inputs	Price range
Equity securities (Direct Investments)	\$ 32,728,425	\$ 25,060,854	Most recent private transactions	Transaction price	\$2-\$400
Fund Investments	\$ 50,855,360	\$ 41,362,514	Net asset value provided by Investment Manager	-	-
<b>Total</b>	<b>\$ 83,583,785</b>	<b>\$ 66,423,368</b>			

Significant increases (decreases) in any of the above unobservable inputs would result in a significantly higher or lower fair value measurement.

### 5. Units Outstanding

The following units were issued and redeemed for the year ended March 31, 2016 and March 31, 2015:

	March 31, 2016				March 31, 2015				April 1, 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
Balance Beginning of Period	446,255	51,321	1,112,100	2,006,813	496,612	46,495	754,884	1,878,138	659,975	57,094	445,288	1,686,834
Class Switches	(19,004)	1,761	(18,827)	35,354	(50,793)	-	17,823	33,964	(152,973)	(10,599)	120,116	44,380
Capital Contribution	8,245	2,576	393,097	548,137	25,893	6,754	350,168	109,932	-	-	189,775	148,397
Capital Redemption	(5,284)	-	-	(6,291)	(25,457)	(1,928)	(10,775)	(15,222)	(10,390)	-	(295)	(1,473)
Balance End of Period	430,212	55,658	1,486,370	2,584,013	446,255	51,321	1,112,100	2,006,813	496,612	46,495	754,884	1,878,138

### 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.

# KENSINGTON PRIVATE EQUITY FUND

## NOTES TO FINANCIAL STATEMENTS

*March 31, 2016 and March 31, 2015*

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### 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.

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.

# KENSINGTON PRIVATE EQUITY FUND

## NOTES TO FINANCIAL STATEMENTS

*March 31, 2016 and March 31, 2015*

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

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, 2016 the management fees amounted to \$1,479,465 plus 13% HST of \$192,330 (March 31, 2015: \$1,187,407 plus 13% HST of \$154,363; April 1, 2014: \$948,211 plus 13% HST of \$123,267), of which \$nil remains payable at March 31, 2016.

### 8. 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.

As at March 31, 2016, March 31, 2015 and April 1, 2014, the Investment Fund had direct exposure to the following currencies:

	March 31, 2016		March 31, 2015		April 1, 2014	
	Currency Exposure (\$)	Percentage of Net Assets (%)	Currency Exposure (\$)	Percentage of Net Assets (%)	Currency Exposure (\$)	Percentage of Net Assets (%)
U.S. Dollar	21,909,415	21.6%	21,783,256	28.0%	16,138,399	23.8%
U.S. Dollar forward contracts	-	0.0%	-	0.0%	(8,200,000)	-12.1%
Net U.S Dollar exposure	21,909,415	21.6%	21,783,256	28.0%	7,938,399	11.7%
Euro	2,227,229	2.2%	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.

# KENSINGTON PRIVATE EQUITY FUND

## NOTES TO FINANCIAL STATEMENTS

*March 31, 2016 and March 31, 2015*

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### 8. Risk Management (continued)

The Manager has determined that based on the financial position of the Investment Fund as at March 31, 2016, 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 \$241,366 (March 31, 2015: \$251,997; April 1, 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, 2016, March 31, 2015 or April 1, 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.

The Manager has determined that based on the financial position of the Investment Fund as at March 31, 2016, 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 \$4,179,189 (March 31, 2015: \$3,321,168 ; April 1,2014: \$ 3,223,375). In practice, the actual trading result may differ from this sensitivity analysis and the difference could be material.

# KENSINGTON PRIVATE EQUITY FUND

## NOTES TO FINANCIAL STATEMENTS

March 31, 2016 and March 31, 2015

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### 8. Risk Management (continued)

#### *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, 2016, March 31, 2015 and April 1, 2014 are as follow:

	March 31, 2016	March 31, 2015	April 1, 2014
AA	68.1%	72.0%	55.8%
Not Rated	31.9%	28.0%	44.2%
Total	100.0%	100.0%	100.0%

#### *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.

### 9. Transition to IFRS

The effect of the Investment Fund's transition to IFRS is summarized in this note as follows:

#### *Transitional elections*

The only voluntary exemption adopted by the Investment Fund upon transition was the ability to designate a financial asset or financial liability at fair value through profit and loss upon transition to IFRS. All financial assets and financial liabilities designated at fair value through profit and loss upon transition were previously carried at fair value under the Generally Accepted Accounting Standards for Private Enterprises ("ASPE") adopted by the Canadian Institute of Chartered Accountants. Other exemptions available under IFRS 1, *First-time Adoption of International Financial Reporting Standards* ("IFRS 1"), which are not discussed here, are either not material or not relevant to the Investment Fund.

#### *Classification of redeemable units of the Investment Fund*

Under ASPE, the Investment Fund accounted for its redeemable units as equity. Under IFRS, IAS 32, *Financial Instruments Presentation* ("IAS 32") required that units or shares of an entity which include a contractual obligation for the issuer to repurchase or redeem them for cash or another financial asset be classified as financial liability. The Investment Fund's units do not meet the criteria in IAS 32 for classification as equity and therefore, have been reclassified as financial liabilities on transition to IFRS.

# KENSINGTON PRIVATE EQUITY FUND

## NOTES TO FINANCIAL STATEMENTS

*March 31, 2016 and March 31, 2015*

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### 9. Transition to IFRS (continued)

#### *Reconciliation of equity and comprehensive income as previously reported under ASPE to IFRS*

There is no difference between the fair value measurement of the Investment Fund's investments as previously measured in accordance with ASPE, and as currently measured in accordance with IFRS 13, *Fair Value Measurement*. As such, there is no difference between the net assets or comprehensive income of the Investment Fund as previously reported under ASPE and as currently reported under IFRS.