



KENSINGTON PRIVATE EQUITY FUND

**MANAGEMENT DISCUSSION AND ANALYSIS
AND FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED
MARCH 31, 2019**

June 28, 2019

This management discussion and analysis of the Kensington Private Equity Fund contains financial highlights as well as the financial statements for the year ended March 31, 2019. 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 for the year ended March 31, 2019:

- The Net Asset Value (NAV) of KPEF increased by approximately \$104.3 million, consisting of new subscriptions received from investors, net of distribution paid, together with unrealized gains.

The NAV per Unit increased by 9.2%, 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 year (new subscriptions, conversions, distributions and redemptions of Units). The comparable return for the prior year was 14.7%.

- KPEF completed three new direct investments.
 - Kenona Industries Inc. is a high-volume precision machining company servicing the automotive industry.
 - Phoenix Imports Inc. is an importer and distributor of premium dog treats.
 - Vaughn Mills Packaging Inc. is a private label oatmeal formulation and packaging company.
- KPEF made commitments to four new Underlying Funds: Capital Partners Private Equity Income Fund III LLC, Providence Strategic Growth III-A LP, Georgian Partners Growth Fund IV LP, and iNovia Growth Fund, L.P.
- KPEF exchanged units with two funds managed by the Manager: Kensington Fund of Funds II and Kensington International Private Equity Fund I, L.P.
- KPEF made a commitment to one new Fund managed by the Manager: Kensington Venture Fund II, 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 in which it focuses its activities. 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. Increasingly, the lines between venture, growth, and buyout stage companies is blurred as technology becomes the focus of innovation and growth at the early stage of corporate development and it is increasingly critical as the means of maintaining competitive advantage for mature companies. The adoption of advanced technology by mature companies is accelerating and those with access and the right resources to make changes are companies that are generating strong investment returns. Kensington finds the opportunities to bring technology to mature businesses and conversely to introduce mature companies as customers of early stage tech companies are increasing.

Economic Environment

Growth of the economy is currently slowing but it is not shrinking. There continues to be regional disparities in economic activity. Tariffs between China and the U.S. as well as the tariff threat that the U.S. is imposing on all regions affect operating margins and are beginning to impact consumers. The result will slow economic growth. We believe this global trade struggle may continue for some time. The companies that are investing to adopt technologies to lower unit costs are building a base for long term success in the new globally protectionist environment. Governments may try to create local incentives through fiscal measures and subsidies, which will exacerbate their trading partners' tariff appetite. Regional political uncertainty is another factor that is discouraging capital spending.

Current Private Equity Market Conditions

The Manager's investment thesis is to partner with strong management teams to build great companies. The same philosophy applies to funds and to direct investments. The quality of management is the most important factor in both. The Manager has developed the Fund's portfolio to include a balance of venture, growth, and mature funds and companies. The venture capital market is robust with deal sizes growing and funding readily available. Deal flow is very strong. The growth capital market has been reasonably priced, although it has become a popular topic and large growth capital funds have been raised, so we expect pricing to rise. The buyout segment of the market is slowly returning to realistic pricing expectations. We are seeing a meaningful flow of opportunities in defensive sectors such as healthcare and food and are pursuing those with the characteristics that we believe offer healthy returns. In general, many companies and private investors are worried enough about the economy and the political uncertainty that we anticipate prices to improve for buyers.

Summary

The Fund's mature portfolio offers the potential of a continuing flow of distributions from the sale of portfolio companies. Because of our secondary market activities, we have investments dating back to 2002 and we are making primary investments now. The result is a portfolio that reflects nearly two decades of economic conditions and related deal pricing. The Manager expects that the frequency of exit transactions and the aggregate value received by the Fund from these exits will continue but the economic risks are meaningful, and a slowdown is possible. The bright side of a slowdown is the buying opportunities that arise.

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.

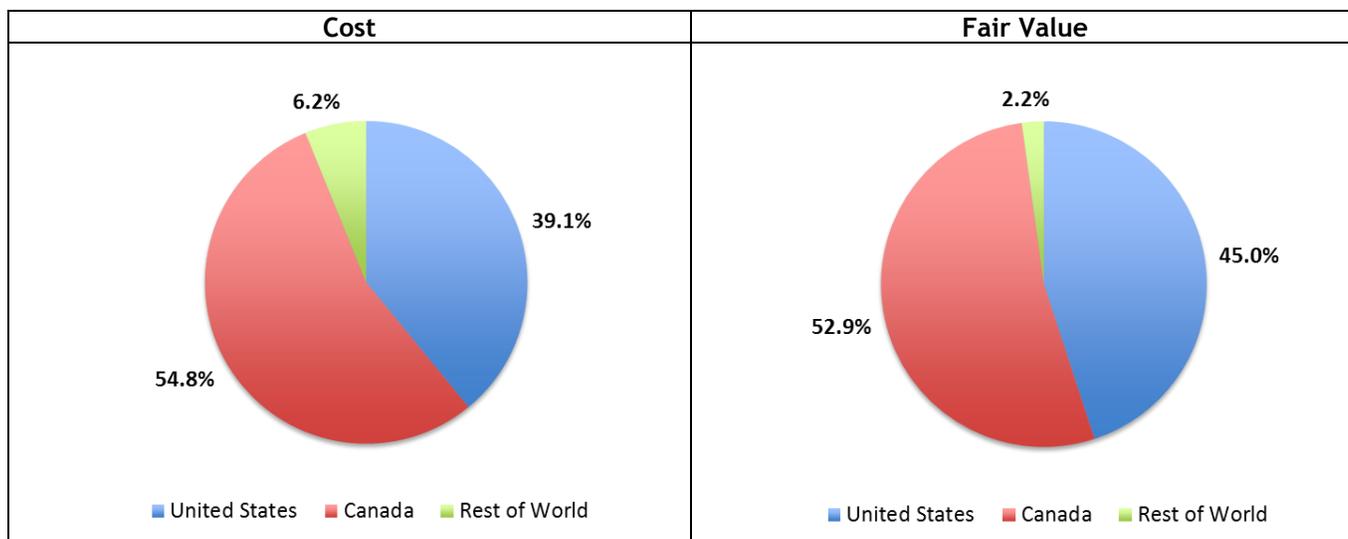
The investment strategy used to construct the portfolio of KPEF relies upon the Manager’s proactive sourcing of proprietary deal flow and active management of the portfolio. This investment strategy is also designed to provide investors with access to private equity investments that would otherwise be 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 March 31, 2019, KPEF held investments in 34 primary funds, 11 independent secondary fund portfolios, 23 direct investments, and 4 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.

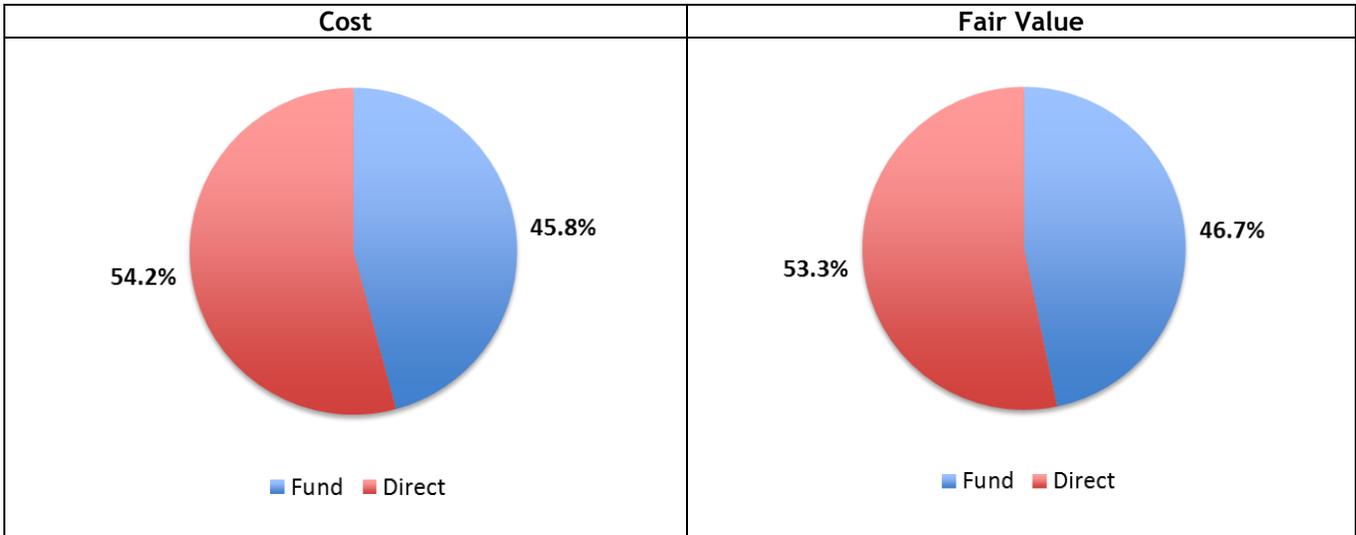
In accordance with the Declaration of Trust governing KPEF, the Manager has the responsibility for establishing target portfolio weighting guidelines by geographic region, investment type and investment sector, with the expectation that the actual weightings will vary over time depending on market conditions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

The portfolio allocations weightings at March 31, 2019 are set out below:

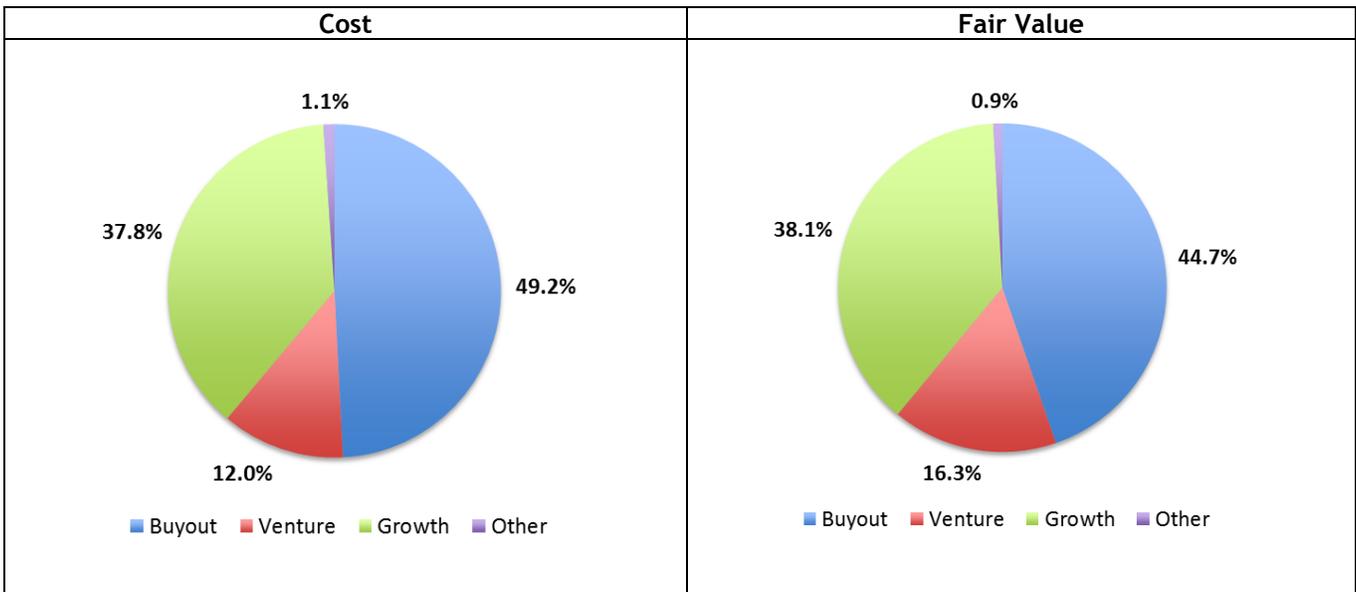
By geographic region:



By investment type:

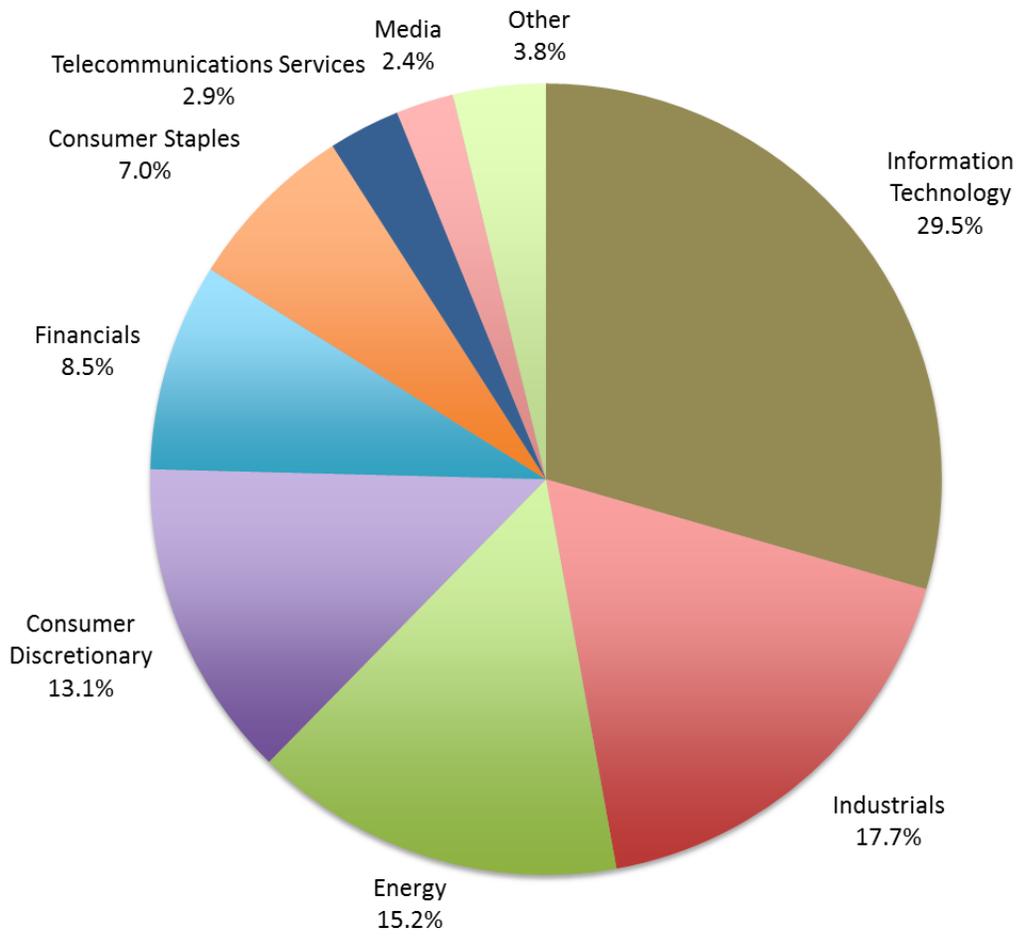


By sector:



In addition to the 23 direct investments in private companies, the KPEF portfolio as of March 31, 2019, 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 fund of funds portfolios. These companies are diversified across multiple industry sectors, as set out in the chart below.

***KPEF Industry Weightings of Private Equity Investments (Fair Value)
March 31, 2019***



KPEF NET ASSET VALUE

Underlying Investments:

As at March 31, 2019, KPEF held Underlying Investments in private equity totaling \$266.3 million representing 76.5% of the NAV. During the year, KPEF realized certain private equity investments, resulting in a shift from unrealized gains reported in prior years to realized gains in the current year. Excluding the impact of net new subscriptions and distributions of \$76.2 million, the net asset value of Underlying Investments increased by \$28.1 million during the year.

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 March 31, 2019, KPEF held Liquid Investments totalling \$82.3 million, representing an increase of \$16.7 million from the \$65.6 million of Liquid Investments held at March 31, 2018. At March 31, 2019, Liquid Investments comprised 23.7% 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.

	March 31, 2019			March 31, 2018		
	Cost (CAD)	Estimated Fair Value (CAD)	% of Fund's Net Assets	Cost (CAD)	Estimated Fair Value (CAD)	% of Fund's Net Assets
Cash	23,870,263	23,870,263	6.9%	33,905,354	33,905,354	13.9%
Kensington Alternative Strategy Fund*	23,773,575	27,542,363	7.9%	13,773,575	16,149,843	6.6%
GIC Investment	30,500,000	30,906,493	8.9%	15,500,000	15,515,150	6.4%
	78,143,838	82,319,119	23.7%	63,178,929	65,570,347	26.9%

* 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 year and is expressed as an annualized percentage of the net average assets during the year. 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 years (“Unrecoverable MER”), as the reported MER less the amounts expected to be recovered from Underlying Funds as described above.

	Year Ended March 31, 2019				Year Ended March 31, 2018			
	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	4,418,018	1,879,501	72,724,213	269,256,379	4,907,318	1,622,259	65,334,038	172,114,383
Units Outstanding	169,489	67,109	3,142,317	10,535,086	188,795	58,734	2,761,372	6,708,915
Management expense ratio %	3.73%	3.27%	5.25%	4.05%	3.77%	3.43%	4.82%	3.61%
Unrecoverable management expense ratio %	2.86%	2.38%	4.35%	3.12%	3.26%	2.89%	4.27%	3.06%

Selected Financial Data:

The following table shows selected key financial information about KPEF and is intended to summarize the KPEF financial performance for the year ended March 31, 2019 as well as the last three years ended March 31, 2018, 2017 and 2016. The information is derived from the KPEF financial statements.

	For the year ended March 31, 2019				For the year ended March 31, 2018			
	Class A	Class F	Class E	Class G	Class A	Class F	Class E	Class G
	\$	\$	\$	\$	\$	\$	\$	\$
Total operating income	576,462	225,198	8,950,842	30,920,064	959,479	272,507	10,510,574	27,069,950
Total profit/(loss)	406,539	170,750	5,399,732	22,087,070	700,004	222,725	7,975,329	22,464,462
Total profit/(loss) attributable per-unit basis	2.26	2.77	1.81	2.50	2.40	3.82	3.27	4.08
Total net assets	4,418,018	1,879,501	72,724,213	269,256,379	4,907,318	1,622,259	65,334,038	172,114,383
Distributions declared and paid	2.25	2.25	2.25	2.25	0.72	0.72	0.72	0.72

	For the year ended March 31, 2017				For the year ended March 31, 2016			
	Class A	Class F	Class E	Class G	Class A	Class F	Class E	Class G
	\$	\$	\$	\$	\$	\$	\$	\$
Total operating income	1,353,552	209,632	5,626,428	11,972,153	1,382,291	180,211	4,060,734	7,746,672
Total profit/(loss)	961,272	158,188	3,685,350	8,881,446	960,938	132,192	2,548,941	5,455,828
Total profit/(loss) attributable per-unit basis	2.29	2.72	2.22	2.86	2.21	2.47	2.00	2.34
Total net assets	9,150,064	1,468,109	41,584,503	98,729,769	9,812,475	1,328,391	31,891,554	58,305,922
Distributions declared and paid	1.95	1.95	1.95	1.95	1.32	1.32	1.32	1.32

KPEF UNITS ISSUED AND OUTSTANDING

As of March 31, 2019, KPEF had issued four classes of Units, Class A Units, Class F Units, Class E Units and Class G Units. As of March 31, 2019, KPEF had issued (net of redemptions and conversions) 169,489 Class A Units, 67,109 Class F Units, 3,142,317 Class E Units and 10,535,086 Class G Units for total net proceeds of \$309.0 million. 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 four funds managed by the Manager: KPEF has invested \$23,773,575 in Kensington Alternative Strategy Fund, KPEF has invested \$7,162,614 in Kensington Direct Venture Fund, KPEF has committed \$23,850,000 to Kensington Venture Fund, LP, which will be drawn down by that fund over a 13-year period, and KPEF has committed \$25,000,000 to Kensington Venture Fund II, LP, which will be drawn down by the fund over a 12-year period. As of March 31, 2019, the total amount funded by KPEF into Kensington Venture Fund and Kensington Venture Fund II was \$7,995,615 and nil respectively. In addition, KPEF exchanged units with Kensington Fund of Funds II and Kensington International Private Equity Fund I at a cost base of \$16,010,798 and \$16,926,082 respectively, and subsequently Kensington Fund of Funds II and Kensington International Private Equity Fund I liquidated the partnerships and distributed the underlying investments to KPEF. As of March 31st, 2019, KPEF directly owns the underlying investments. 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 several risks, including all the risks described in the KPEF Annual Information Form dated June 28, 2019.

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 several 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.