

**KENSINGTON PRIVATE EQUITY FUND**

**FINANCIAL STATEMENTS**

**FOR THE QUARTER ENDED JUNE 30, 2019**

**(unaudited)**

# 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.

"Thomas Kennedy"  
Managing Director  
Kensington Capital Advisors Inc.

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

August 15, 2019

# KENSINGTON PRIVATE EQUITY FUND

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# KENSINGTON PRIVATE EQUITY FUND

## STATEMENT OF FINANCIAL POSITION

As at  
(unaudited)

	June 30, 2019	March 31, 2019
	\$	\$
<b>Assets</b>		
Cash	20,947,336	23,870,263
Investments (Notes 3 & 4)	380,896,743	324,772,363
Accounts receivable	536,912	306,490
Prepaid expenses	41,446	72,977
	<u>402,422,437</u>	<u>349,022,093</u>
<b>Liabilities</b>		
Accrued expenses	504,467	743,982
	<u>504,467</u>	<u>743,982</u>
<b>Net assets attributable to holders of redeemable units</b>	<u>401,917,970</u>	<u>348,278,111</u>
<b>Net assets attributable to holders of redeemable units</b>		
	\$	\$
Class A	4,278,735	4,418,018
Class F	1,900,248	1,879,501
Class E	73,775,071	72,724,213
Class G	321,963,916	269,256,379
	<u>401,917,970</u>	<u>348,278,111</u>
<b>Number of redeemable units issued and outstanding (Note 5)</b>		
Class A	165,207	169,489
Class F	68,239	67,109
Class E	3,211,799	3,142,317
Class G	12,669,974	10,535,086
	<u>16,115,219</u>	<u>13,914,001</u>
<b>Net assets attributable to holders of redeemable units per unit</b>		
	\$	\$
Class A	25.90	26.07
Class F	27.85	28.01
Class E	22.97	23.14
Class G	25.41	25.56

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

# KENSINGTON PRIVATE EQUITY FUND

## STATEMENT OF COMPREHENSIVE (LOSS)/INCOME

For the quarter ended June 30,

(unaudited)

	2019	2018
	\$	\$
Investment income	601,769	843,279
Net realized gain and distribution income on portfolio investments	3,997,906	4,508,981
Net realized gain (loss) on foreign currency translation	477,212	(468,818)
Net change in unrealized depreciation on portfolio investments	(2,399,729)	(2,226,813)
Net change in unrealized (depreciation) appreciation on foreign currency translation	(1,609,338)	2,395,878
<b>Total operating income</b>	<b>1,067,820</b>	<b>5,052,507</b>
<b>Expenses (Note 7)</b>		
Management fee	1,590,548	1,100,497
Expenses incurred by investee funds	1,034,569	308,253
Service fees	188,983	186,956
Legal fees	17,419	12,615
Professional Fees	35,394	83,537
Unitholders' communication	74,510	35,048
Custodian and transfer agent fees	43,886	25,292
Interest Expense	496	32
Withholding taxes from investee funds	3,794	6,605
Other expenses	23,791	7,568
<b>Total operating expenses</b>	<b>3,013,390</b>	<b>1,766,403</b>
<b>Operating (loss) profit</b>	<b>(1,945,570)</b>	<b>3,286,104</b>
<b>(Decrease) increase in net assets attributable to holders of redeemable units from operations</b>	<b>(1,945,570)</b>	<b>3,286,104</b>
<b>(Decrease) increase in net assets attributable to holders of redeemable units from operations per class</b>		
Class A	(28,977)	49,219
Class F	(10,525)	18,074
Class E	(539,513)	600,021
Class G	(1,366,555)	2,618,790
	<b>(1,945,570)</b>	<b>3,286,104</b>
<b>(Decrease) increase in net assets attributable to holders of redeemable units from operations per unit</b>	<b>\$</b>	<b>\$</b>
Class A	(0.17)	0.26
Class F	(0.16)	0.31
Class E	(0.17)	0.22
Class G	(0.12)	0.38

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

## KENSINGTON PRIVATE EQUITY FUND

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

For the quarter ended June 30,

(unaudited)

	Class A		Class F		Class E		Class G		Total	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Beginning net assets attributable to holders of redeemable units, April 1	4,418,018	4,907,318	1,879,501	1,622,259	72,724,213	65,334,038	269,256,379	172,114,383	348,278,111	243,977,998
Capital conversions from holders of redeemable units	(110,306)	-	31,272	-	(87,407)	(156,941)	166,441	156,941	-	-
Capital contributions from holders of redeemable units	-	-	-	-	1,677,778	981,937	53,907,651	43,760,968	55,585,429	44,742,905
Capital redemptions to holders of redeemable units	-	-	-	-	-	-	-	-	-	-
Distributions to holders of redeemable units	-	-	-	-	-	-	-	-	-	-
(Decrease)/Increase in net assets attributable to holders of redeemable units	(28,977)	49,219	(10,525)	18,074	(539,513)	600,021	(1,366,555)	2,618,790	(1,945,570)	3,286,104
<b>Ending net assets attributable to holders of redeemable units, June 30</b>	<b>4,278,735</b>	<b>4,956,537</b>	<b>1,900,248</b>	<b>1,640,333</b>	<b>73,775,071</b>	<b>66,759,055</b>	<b>321,963,916</b>	<b>218,651,082</b>	<b>401,917,970</b>	<b>292,007,007</b>

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

# KENSINGTON PRIVATE EQUITY FUND

## STATEMENT OF CASH FLOWS

For the quarter ended June 30,

(unaudited)

	2019	2018
	\$	\$
<b>Cash used in operating activities</b>		
(Decrease) increase in net assets attributable to holders of redeemable units from operations	\$ (1,945,570)	\$ 3,286,104
Net change in unrealized depreciation on portfolio investments	2,399,729	2,226,813
Net change in unrealized depreciation (appreciation) on foreign currency translation	1,609,338	(2,395,878)
Net realized gain and distribution income on portfolio investments	(3,997,906)	(4,508,981)
Net realized (gain) loss on foreign currency translation	(477,212)	468,818
Net change in non-cash investing activities	(53,352)	283,251
Net change in non-cash working capital	(438,406)	(507,022)
Proceeds and return of capital from Private Equity investments	9,770,647	10,368,548
Purchase of Private Equity investments	(33,375,624)	(67,649,329)
Purchase of short-term investment	(32,000,000)	(5,000,000)
Net cash used in operating activities	(58,508,356)	(63,427,676)
<b>Cash provided by financing activities</b>		
Capital contributions from holders of redeemable units	55,585,429	44,742,905
Net cash provided by financing activities	55,585,429	44,742,905
Decrease in cash during the period	(2,922,927)	(18,684,771)
Cash, beginning of period	23,870,263	33,905,354
Cash, end of period	\$ 20,947,336	\$ 15,220,583

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

# KENSINGTON PRIVATE EQUITY FUND

## NOTES TO FINANCIAL STATEMENTS

*June 30, 2019 and June 30, 2018*

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### 1. Formation of Kensington Private Equity Fund

Kensington Private Equity Fund (“KPEF”) is an investment trust established under the laws of the Province of British Columbia. KPEF is the successor to Kensington Global Private Equity Fund (“Global Fund”), which was established in a public offering of units in April 2007. On September 17, 2014, Global Fund transferred substantially all of its assets and transitioned into KPEF. Accordingly, the historical results and other characteristics of Global Fund are presented in these financial statements as part of the historical results of KPEF. Effective April 1, 2016, KPEF’s regulatory status changed from being an “Investment Fund” to a “Corporate Finance Issuer”.

As of June 30, 2019, KPEF had issued four classes of Units, Class A Units, Class F Units, Class E Units and Class G Units. 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 KPEF. The Manager is entitled to a management fee based on the net asset value (“NAV”) of KPEF. 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 KPEF.

KPEF’s registered office is at 95 St. Clair Avenue West, Suite 905, Toronto, Ontario, Canada.

The financial statements were authorized for issuance by the Manager on August 15, 2019.

### 2. Significant Accounting Policies

#### *Basis of Presentation*

These financial statements have been prepared in compliance with International Financial Reporting Standards (“IFRS”).

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.

KPEF 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 KPEF meets the definition of an investment entity as defined in IFRS 10.



# KENSINGTON PRIVATE EQUITY FUND

## NOTES TO FINANCIAL STATEMENTS

*June 30, 2019 and June 30, 2018*

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### 2. Significant Accounting Policies (continued)

#### *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 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.

##### *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.

##### *Short-term and Other Investments (Liquid 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.

# KENSINGTON PRIVATE EQUITY FUND

## NOTES TO FINANCIAL STATEMENTS

*June 30, 2019 and June 30, 2018*

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### 2. Significant Accounting Policies (continued)

#### *Classification*

KPEF classifies its financial assets and liabilities into the categories below in accordance with IFRS 9, *Financial Instruments*.

#### *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 KPEF. Financial assets classified at fair value through profit or loss include investments. Interest receivable and accounts receivable are carried at amortized cost, which approximates fair value given their short-term nature.

#### *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.

IFRS 9 replaced the incurred loss model in International Accounting Standards ("IAS") 39 with the expected credit loss model ("ECL"), as the new impairment model for financial assets carried at amortized cost. The Fund's financial assets measured at amortized cost consist of receivables with no financing component and which have maturities of less than 12 months, as such, it has chosen to apply the simplified ECL approach, whereby any loss allowance is recognized based on the lifetime ECLs. Given the short-term nature of the receivables and high credit quality, this amendment has not had a material impact on the financial statements and these receivables are not considered impaired.

#### *Functional and presentation currency*

KPEF's functional and presentation currency is the Canadian dollar, which is the currency of the primary economic environment in which it operates. KPEF'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.

#### *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, changes 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 KPEF. 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 KPEF.

# KENSINGTON PRIVATE EQUITY FUND

## NOTES TO FINANCIAL STATEMENTS

June 30, 2019 and June 30, 2018

### 2. Significant Accounting Policies (continued)

#### *Classification of Redeemable Units Issued by KPEF*

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. KPEF'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 KPEF 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*

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. KPEF's objectives, policies and processes are described in Note 1. Information on KPEF's Unitholders' equity is described in Note 5 and the Statement of changes in net assets. KPEF does not have any externally imposed capital requirements.

### 3. Cash, Short Term and Other Investments (Liquid Investments)

Capital held by KPEF 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 hedge funds (which are redeemable on a monthly basis) and other securities consistent with the overall objectives of liquidity, capital preservation and an appropriate return.

	June 30, 2019			June 30, 2018		
	Cost (CAD)	Estimated Fair Value (CAD)	% of Fund's Net Assets	Cost (CAD)	Estimated Fair Value (CAD)	% of Fund's Net Assets
Cash	20,947,336	20,947,336	5.2%	15,220,583	15,220,583	5.2%
Kensington Alternative Strategy Fund	23,773,575	27,813,848	6.9%	18,773,575	21,290,372	7.3%
GIC Investment	62,500,000	62,962,304	15.7%	15,500,000	15,537,319	5.3%
	<u>107,220,911</u>	<u>111,723,488</u>	<u>27.8%</u>	<u>49,494,158</u>	<u>52,048,275</u>	<u>17.8%</u>

# KENSINGTON PRIVATE EQUITY FUND

## NOTES TO FINANCIAL STATEMENTS

June 30, 2019 and June 30, 2018

### 4. Investments

#### *Fair Value Measurements*

KPEF follows IFRS 13 which requires KPEF 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.

The following is a summary of KPEF's investments, as at June 30, 2019 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 June 30, 2019				
	Level 1	Level 2	Level 3	Total
Private Equity Investments	-	-	\$290,120,591	\$290,120,591
Other Investment	-	\$90,776,152	-	\$90,776,152
<b>Total</b>	-	<b>\$90,776,152</b>	<b>\$290,120,591</b>	<b>\$380,896,743</b>

During the quarter ended June 30, 2019, there were no transfers into and out of the three levels.

During the quarter ended June 30, 2019, the reconciliation of investments measured at fair value using unobservable inputs (Level 3) is presented as follows:

	Private Equity Investments
Beginning Balance, April 1, 2019	266,323,507
Purchases	33,375,624
Sales	(5,295,530)
Change in unrealized depreciation included in net income	(4,283,010)
Ending Balance, June 30, 2019	290,120,591

# KENSINGTON PRIVATE EQUITY FUND

## NOTES TO FINANCIAL STATEMENTS

June 30, 2019 and June 30, 2018

### 4. Investments (continued)

Total unrealized appreciation on investments still held as at June 30, 2019 was \$51,559,815.

Description	Fair value at June 30, 2019	Valuation technique	Unobservable inputs	Price range
Direct Investments	\$ 158,989,471	Most recent private transactions/EBITDA multiples	Transaction price	\$1-\$1000
Fund Investments	\$ 131,131,120	Net asset value provided by Investment Manager	-	-
<b>Total</b>	<b>\$ 290,120,591</b>			

### 5. Units Outstanding

The following units were issued and redeemed for the quarter ended June 30, 2019 and June 30, 2018:

	June 30, 2019				June 30, 2018			
	Class A	Class F	Class E	Class G	Class A	Class F	Class E	Class G
Balance Beginning of Period	169,489	67,109	3,142,317	10,535,086	188,795	58,734	2,761,372	6,708,915
Class Switches	(4,282)	1,130	(3,828)	6,600	-	-	(6,757)	6,232
Capital Contribution	-	-	73,310	2,128,288	-	-	43,329	1,732,659
Capital Redemption	-	-	-	-	-	-	-	-
<b>Balance End of Period</b>	<b>165,207</b>	<b>68,239</b>	<b>3,211,799</b>	<b>12,669,974</b>	<b>188,795</b>	<b>58,734</b>	<b>2,797,944</b>	<b>8,447,806</b>

# KENSINGTON PRIVATE EQUITY FUND

## NOTES TO FINANCIAL STATEMENTS

*June 30, 2019 and June 30, 2018*

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### 6. Income Taxes

KPEF 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. KPEF 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, KPEF 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 KPEF.

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

KPEF 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. KPEF 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 KPEF 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 KPEF 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 KPEF makes cash distributions to Unitholders in the year. 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.

# KENSINGTON PRIVATE EQUITY FUND

## NOTES TO FINANCIAL STATEMENTS

*June 30, 2019 and June 30, 2018*

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

KPEF 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 KPEF 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 quarter ended June 30, 2019 the management fees amounted to \$1,457,881 plus HST of \$132,667 (June 30, 2018: \$973,891 plus HST of \$126,606), of which \$nil remains payable at June 30, 2019.

### 8. Risk Management

KPEF's financial instruments consist of portfolio investments, interest receivable and accrued expenses. As a result, KPEF 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 KPEF makes commitments to underlying investments in private equity which are denominated in currencies other than Canadian dollars, KPEF may acquire liquid investments in those same currencies to ensure its ability to fully fund those commitments over time. KPEF does not make any speculative currency investments in the foreign exchange market.

# KENSINGTON PRIVATE EQUITY FUND

## NOTES TO FINANCIAL STATEMENTS

*June 30, 2019 and June 30, 2018*

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### 8. Risk Management (continued)

As at June 30, 2019 and June 30, 2018, KPEF had direct exposure to the following currencies:

	June 30, 2019		June 30, 2018	
	Currency Exposure (\$)	Percentage of Net Assets (%)	Currency Exposure (\$)	Percentage of Net Assets (%)
U.S. Dollar	103,234,592	25.7%	60,256,358	20.6%
Euro	5,220,786	1.3%	957,164	0.3%

The Manager has determined that based on the financial position of KPEF as at June 30, 2019, 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 \$1,100,000. 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. KPEF's direct investments in debt securities were only in those with a term to maturity of less than one year. KPEF has minimal direct sensitivity to interest rates, since such securities are usually held to maturity and are short-term in nature. KPEF 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 June 30, 2019.

#### *Other Price Risk*

KPEF'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.

KPEF invests over a broad industry and geographic range. This allows KPEF 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 KPEF of any loss that may be realized in any one company.

The Manager has determined that based on the financial position of KPEF as at June 30, 2019, if the value of KPEF'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 \$14,500,000. 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 KPEF. KPEF limits credit loss by placing its cash and cash equivalents with high quality government and financial institutions.



# KENSINGTON PRIVATE EQUITY FUND

## NOTES TO FINANCIAL STATEMENTS

*June 30, 2019 and June 30, 2018*

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### 8. Risk Management (continued)

The credit ratings provided by Dominion Bond Rating Service of KPEF's Liquid Investments as at June 30, 2019 and June 30, 2018 are as follow:

	<u>June 30, 2019</u>	<u>June 30, 2018</u>
AA	75.1%	59.1%
Not Rated	24.9%	40.9%
Total	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, KPEF maintains all 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. KPEF has reserved sufficient liquid investments to fund its obligations for Units tendered for redemption.