



KENSINGTON PRIVATE EQUITY FUND

MANAGEMENT DISCUSSION AND ANALYSIS
AND FINANCIAL STATEMENTS

FOR THE QUARTER ENDED
JUNE 30, 2019

August 15, 2019

This management discussion and analysis of the Kensington Private Equity Fund contains financial highlights as well as the financial statements for the quarter ended June 30, 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 British Columbia. 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 quarter ended June 30, 2019:

- The Net Asset Value (NAV) of KPEF increased by approximately \$53.6 million, consisting of new subscriptions received from investors together with unrealized gains.

The NAV per Unit decreased by 1.4%, determined on an internal rate of return basis based on the performance of Underlying Investments and taking into account the impact of other cash flows into and out of KPEF during the period (new subscriptions, conversions and redemptions of Units). The comparable return for the same period last year was 4.9%.

- KPEF completed four new direct investments.
 - AGNORA Ltd. is the leading oversized architectural glass fabricator in North America.
 - WRC Timber Inc. is a holding company which is purchase and manages Sawmills in North Western Ontario.
 - Clearpath Robotics Inc., a Waterloo company specializing in the design and manufacture of unmanned autonomous vehicle systems and related software.
 - MVP Culture Opportunity Fund, a co-investment vehicle of Marcy Venture Partners in a clothing business.

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 identifies opportunities to bring technology to mature businesses and conversely to introduce mature companies as customers of early stage tech companies. The number of those opportunities is growing and, in some cases, can provide interesting follow-on investments.

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, possibly tipping some countries into recession. 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. Similarly, strong local supply chains and distribution networks are proving to be valuable. Governments may try to create local incentives through fiscal measures and subsidies, which will exacerbate their trading partners' tariff appetite while bringing short term benefits to companies that can benefit. Capital spending is hampered by trade uncertainty and by regional political uncertainty. Reductions in capital spending may help short term cash flows but do not bode well for the longer-term competitiveness of businesses. Countering this sentiment may create a competitive edge in the medium term.

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 become very popular with many funds being raised in all parts of the world to invest in the acceleration of corporate growth. 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. We are committing capital to funds that will invest that capital over the coming decade. The result is a portfolio that reflects over 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.

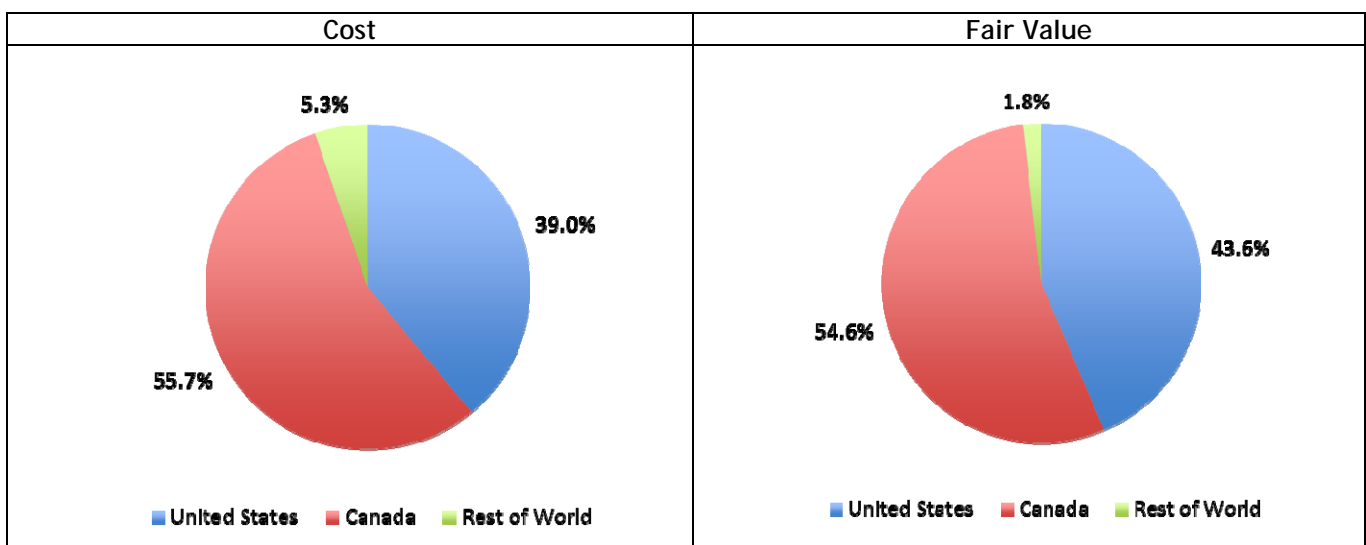
The investment strategy used to construct the portfolio of KPEF relies upon the Manager's proactive sourcing of proprietary deal flow and active management of the portfolio. This investment strategy is also designed to provide investors with access to private equity investments that would otherwise be 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 June 30, 2019, KPEF held investments in 34 primary funds, 11 independent secondary fund portfolios, 27 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.

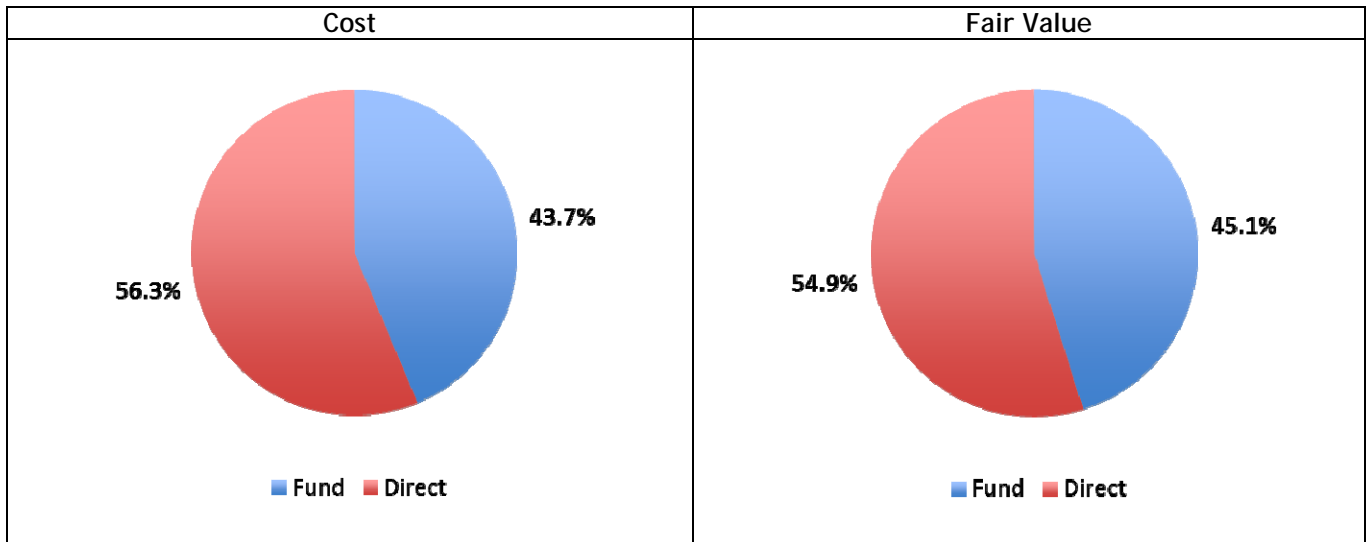
In accordance with the Declaration of Trust governing KPEF, the Manager has the responsibility for establishing target portfolio weighting guidelines by geographic region, investment type and investment sector, with the expectation that the actual weightings will vary over time depending on market conditions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

The portfolio allocations weightings at June 30, 2019 are set out below:

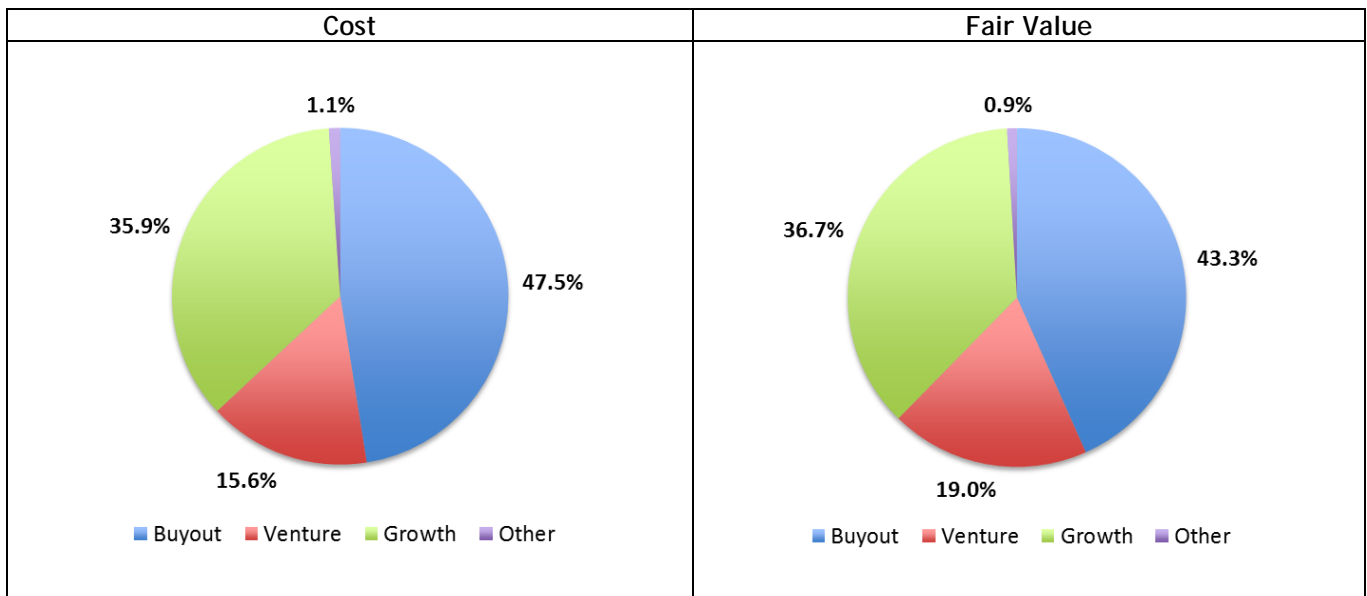
By geographic region:



By investment type:

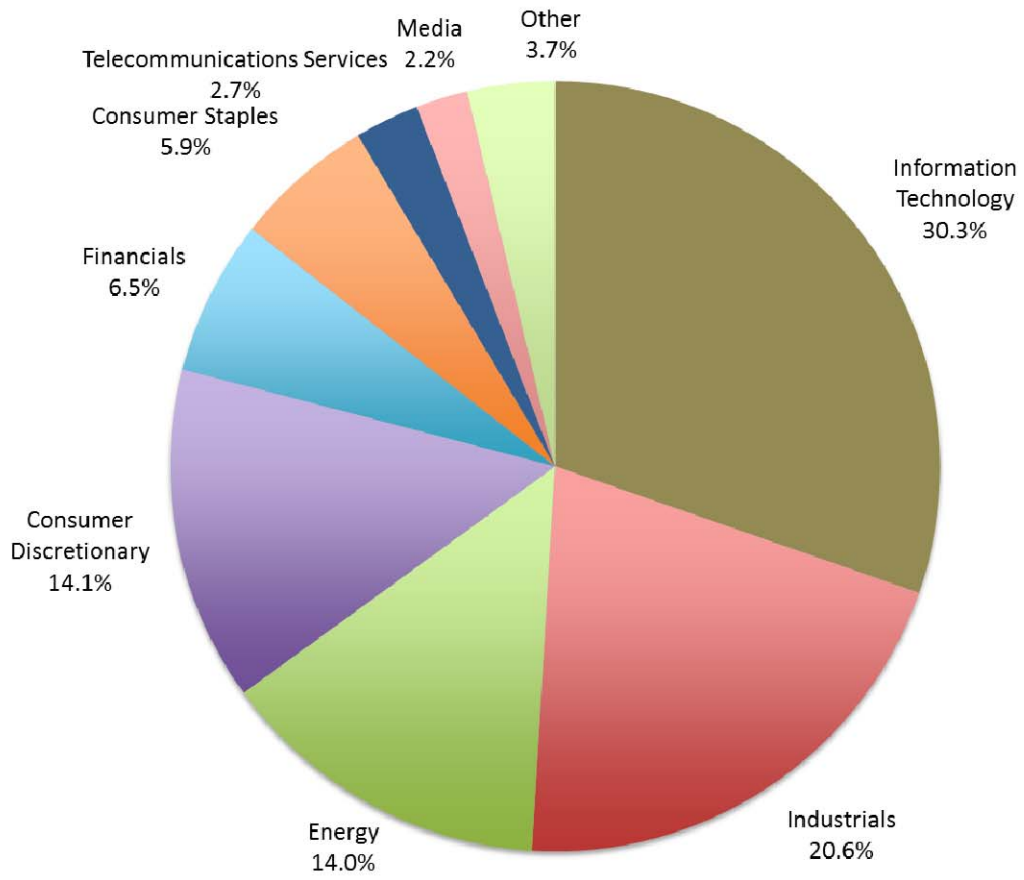


By sector:



In addition to the 27 direct investments in private companies, the KPEF portfolio as of June 30, 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)
June 30, 2019*



KPEF NET ASSET VALUE

Underlying Investments:

As at June 30, 2019, KPEF held Underlying Investments in private equity totaling \$290.1 million representing 72.2% of the NAV. During the period, KPEF realized certain private equity investments, resulting in a shift from unrealized gains reported in prior periods to realized gains in the current period. Excluding the impact of net new subscriptions of \$55.6 million, the net asset value of Underlying Investments decreased by \$1.9 million during the period.

Liquid Investments:

KPEF invests directly in Underlying Funds by committing and advancing capital as such amounts are drawn down by the respective managers of the Underlying Funds. Capital held by KPEF pending investment in private equity investments is invested in a variety of financial products (“Liquid Investments”) such as government securities, money market instruments and investment-grade securities, as well as listed securities of private equity funds and other securities consistent with the overall objectives of liquidity, capital preservation and an appropriate return.

As at June 30, 2019, KPEF held Liquid Investments totalling \$111.7 million, representing an increase of \$59.7 million from the \$52.0 million of Liquid Investments held at June 30, 2018. At June 30, 2019, Liquid Investments comprised 27.8% 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.

	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%
	107,220,911	111,723,488	27.8%	49,494,158	52,048,275	17.8%

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

Management Expense Ratio:

KPEF’s Management Expense Ratio (MER) is reported in accordance with applicable accounting standards and securities laws. The MER is based on total expenses for the stated period and is expressed as an annualized percentage of the net average assets during the period. The reported MER for KPEF includes expenses incurred by Underlying Funds. Unlike typical mutual fund expenses, the expenses incurred by these Underlying Funds will be recovered by KPEF prior to any such Underlying Fund’s managers earning a performance fee. The recoveries of these expenses will be recorded as portfolio gains at the appropriate times and will not be reflected in any adjustment to the MER at those times. The Manager has also calculated the unrecoverable portion of the MER during the relevant periods (“Unrecoverable MER”), as the reported MER less the amounts expected to be recovered from Underlying Funds as described above.

	Period Ended June 30, 2019				Period Ended June 30, 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	4,278,735	1,900,248	73,775,071	321,963,916	4,956,537	1,640,333	66,759,055	218,651,082
Units Outstanding	165,207	68,239	3,211,799	12,669,974	188,795	58,734	2,797,944	8,447,806
Management expense ratio %	3.79%	3.35%	4.08%	3.12%	3.22%	2.78%	3.63%	2.56%
Unrecoverable management expense ratio %	2.72%	2.27%	2.99%	1.97%	2.74%	2.29%	3.14%	2.06%

Selected Financial Data:

The following table shows selected key financial information about KPEF and is intended to summarize the KPEF financial performance for each of the eight most recently completed quarters. The information is derived from the KPEF financial statements.

	For the quarter ended June 30, 2019				For the quarter ended March 31, 2019			
	Class A	Class F	Class E	Class G	Class A	Class F	Class E	Class G
	\$	\$	\$	\$	\$	\$	\$	\$
Total operating income	11,984	5,320	204,934	845,580	311,582	131,168	5,114,774	18,585,421
Total (loss)/profit	(28,977)	(10,525)	(539,513)	(1,366,554)	272,779	117,301	4,420,502	16,788,712
Total (loss)/profit attributable per-unit basis	(0.17)	(0.16)	(0.17)	(0.12)	1.51	1.81	1.38	1.69
Total net assets	4,278,735	1,900,248	73,775,071	321,963,916	4,418,018	1,879,501	72,724,213	269,256,379
Distributions declared and paid	-	-	-	-	-	-	-	-
	For the quarter ended December 31, 2018				For the quarter ended September 30, 2018			
	Class A	Class F	Class E	Class G	Class A	Class F	Class E	Class G
	\$	\$	\$	\$	\$	\$	\$	\$
Total operating income	50,242	18,489	749,536	2,446,702	126,006	46,223	1,893,084	6,146,833
Total profit/(loss)	7,502	4,021	3,456	592,571	77,040	31,355	375,753	2,086,997
Total profit/(loss) attributable per-unit basis	0.04	0.06	0.00	0.06	0.42	0.53	0.14	0.30
Total net assets	4,185,814	1,661,234	68,770,921	247,249,644	4,371,704	1,657,213	67,562,749	223,327,940
Distributions declared and paid	-	-	-	-	2.25	2.25	2.25	2.25
	For the quarter ended June 30, 2018				For the quarter ended March 31, 2018			
	Class A	Class F	Class E	Class G	Class A	Class F	Class E	Class G
	\$	\$	\$	\$	\$	\$	\$	\$
Total operating income	88,632	29,319	1,193,447	3,741,109	617,424	203,896	8,093,765	21,268,883
Total profit/(loss)	49,219	18,074	600,021	2,618,790	573,542	192,418	7,513,042	20,214,549
Total profit/(loss) attributable per-unit basis	0.26	0.31	0.22	0.38	2.86	3.28	2.79	3.18
Total net assets	4,956,537	1,640,333	66,759,055	218,651,081	4,907,318	1,622,259	65,334,038	172,114,383
Distributions declared and paid	-	-	-	-	-	-	-	-
	For the quarter ended December 31, 2017				For the quarter ended September 30, 2017			
	Class A	Class F	Class E	Class G	Class A	Class F	Class E	Class G
	\$	\$	\$	\$	\$	\$	\$	\$
Total operating income	105,119	29,022	1,179,776	2,757,240	(5,661)	(1,650)	(64,575)	(143,796)
Total profit/(loss)	45,403	14,080	237,474	935,118	(81,915)	(13,515)	(629,530)	(1,099,328)
Total profit/(loss) attributable per-unit basis	0.21	0.25	0.09	0.16	(0.22)	(0.24)	(0.27)	(0.21)
Total net assets	5,101,062	1,429,842	57,682,199	139,452,858	5,162,475	1,420,394	56,162,458	129,046,763
Distributions declared and paid	0.72	0.72	0.72	0.72	-	-	-	-

KPEF UNITS ISSUED AND OUTSTANDING

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. As of June 30, 2019, KPEF had issued (net of redemptions and conversions) 165,207 Class A Units, 68,239 Class F Units, 3,211,799 Class E Units and 12,669,974 Class G Units for total net proceeds of \$364.7 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 June 30, 2019, the total amount funded by KPEF into Kensington Venture Fund and Kensington Venture Fund II was \$11,552,174 and nil respectively. 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.