



KENSINGTON PRIVATE EQUITY FUND

MANAGEMENT DISCUSSION AND ANALYSIS
AND FINANCIAL STATEMENTS

FOR THE NINE MONTHS ENDED
DECEMBER 31, 2019

February 14, 2020

This management discussion and analysis of the Kensington Private Equity Fund contains financial highlights as well as the financial statements for the nine months ended December 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 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 nine months ended December 31, 2019:

- The Net Asset Value (NAV) of KPEF increased by approximately \$152.8 million, consisting of new subscriptions received from investors, net of distributions paid, together with net unrealized gains.

The NAV per Unit increased by 2.5%, 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, distributions and redemptions of Units). The comparable return for the same period last year was 3.3%.

- KPEF completed several new direct investments.
 - AGNORA Ltd. is the leading oversized architectural glass fabricator in North America
 - Element5 LP is a Canadian based manufacturer of cross-laminated timber products; also, it provides engineering and design services to its customers
 - 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
 - Pela Case (via Open Mind Developments Corporation), a Kelowna, Canada based company that manufactures and retails eco-friendly sustainable phone cases and sunglasses through online stores
 - Clearpoint Health network Inc, is Canada’s largest independent surgical facility network with a presence in four provinces
 - Valent Low-Carbon Technologies Inc is an industrial technology development company focused on emerging renewable fuels and refining process innovations

- Kognitiv Corporation, a Waterloo, Canada based company that building a B2B online travel platform for the hospitality industry that connects supply (hotels) with online distribution channels (such as associations, credit card holders and other affinity groups), while providing access to cognitive analytical services to help hotel owners manage their marketing programs.
- Nuvei (via Novacap TMT V Co-Investment (Nuvei), L.P.), is a global payment solutions provider for card-present and card-not-present transactions
- Beacon Orthopaedics & Sports Medicine (via RCP Fund II Co-Invest-Beacon 2, LP) is a premier orthopedic practice in the U.S. Midwest with a leading reputation for providing comprehensive orthopedic services
- Bold Canine Inc., an Erin, Canada based manufacturer of frozen raw food for dogs and cats
- KPEF made commitments to five new Underlying Funds: Novacap Industries V, L.P., Providence Strategic Growth IV-A LP, Georgian Partners Growth Fund V LP., Revelstoke Capital Partners Fund II LP, and Information Venture Partners Fund III, LP

Overview of the Investment Environment

The Manager continuously evaluates global economic developments as well as conditions specifically applicable to the private equity markets in which it focuses its activities. Within the private equity markets, industries and geographic regions that the Manager believes offer the best opportunities for strong returns are the focus. The lines between venture, growth, and mature companies blur when technology, which is the focus of innovation and growth at the early stage of corporate development, becomes 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 create interesting follow-on investments.

Economic Environment

The Manager does not believe that the full impact of trade disruption from protectionism has yet been seen in global economies. Exacerbating protectionist policies is the disruption that the corona virus is causing. Not only are people quarantined, and unable to travel, but contracted labour and technical teams are unable to cross borders, creating disruptions that are certainly unmeasured yet in economic terms. The American economy continues to grow with signs of weakness in certain large consumer purchases. The traditional auto sector is slowing and while southern housing is steady, its growth rate is small. The U.S. political calendar argues for continued stimulus through this election cycle. We continue to believe that 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. Strong local supply chains and distribution networks are proving to be valuable as globalization becomes expensive. Some capital is slowing because of uncertainty but investments in productivity enhancing technologies are growing. Public markets are reacting positively to any encouraging news about trade agreements and the uncertainty surrounding tariffs is likely to continue for some time.

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 funds being raised in all parts of the world to invest in the acceleration of corporate growth. The buyout segment of the market continues to be strong with signs of more 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 long term 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. With increasingly protective or conservative leanings from both governments and institutions, opportunities arise to finance business activities that would historically have been

funded in traditional lending or public equity channels. The private debt business and the growth capital business are growing in part because their fields of endeavor are being abandoned by the traditional providers of capital. These changes, driven by policy changes, regulatory adjustments and by economic uncertainty create opportunities for private capital.

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. As lenders tighten their credit terms, companies look to alternatives. Businesses that were able to finance their activities in a strong economic growth environment are running into headwinds. Those headwinds are opportunities for experienced investors.

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.

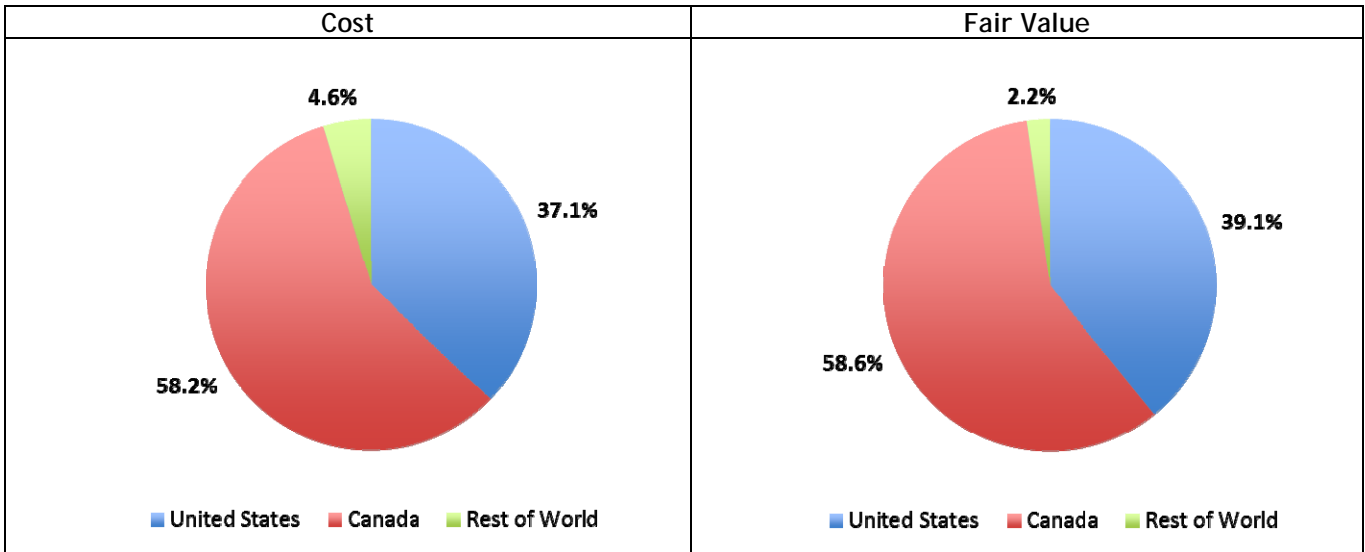
The investment strategy used to construct the portfolio of KPEF relies upon the Manager's proactive sourcing of proprietary deal flow and active management of the portfolio. This investment strategy is also designed to provide investors with access to private equity investments that would otherwise be 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 December 31, 2019, KPEF held investments in 37 primary funds, 10 independent secondary fund portfolios, 37 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.

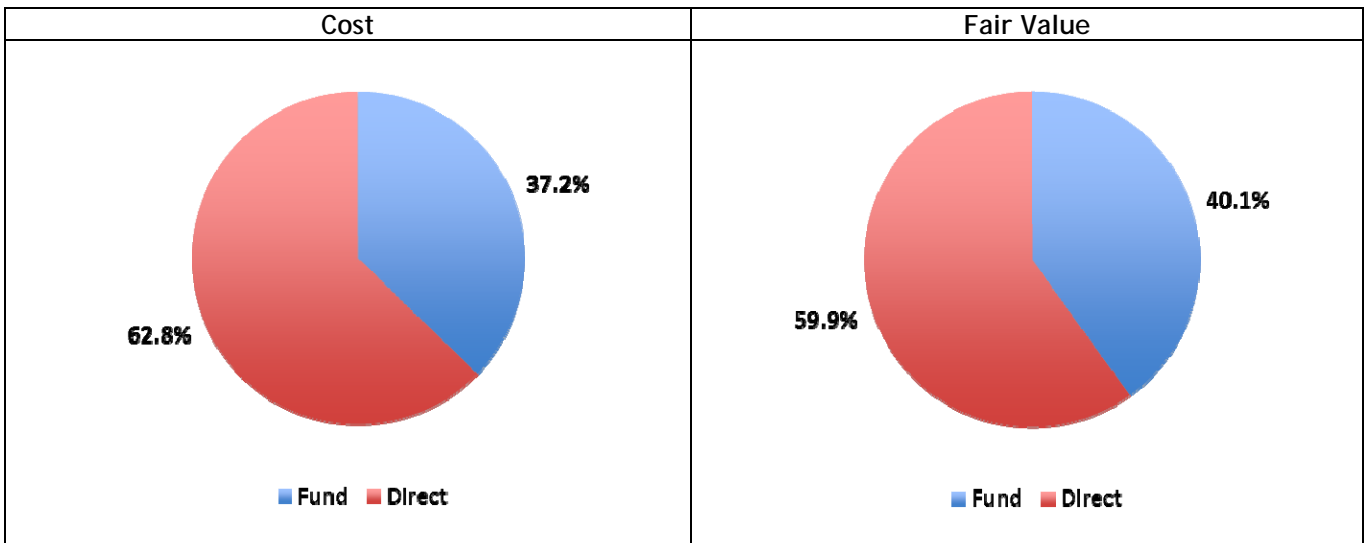
In accordance with the Declaration of Trust governing KPEF, the Manager has the responsibility for establishing target portfolio weighting guidelines by geographic region, investment type and investment sector, with the expectation that the actual weightings will vary over time depending on market conditions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

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

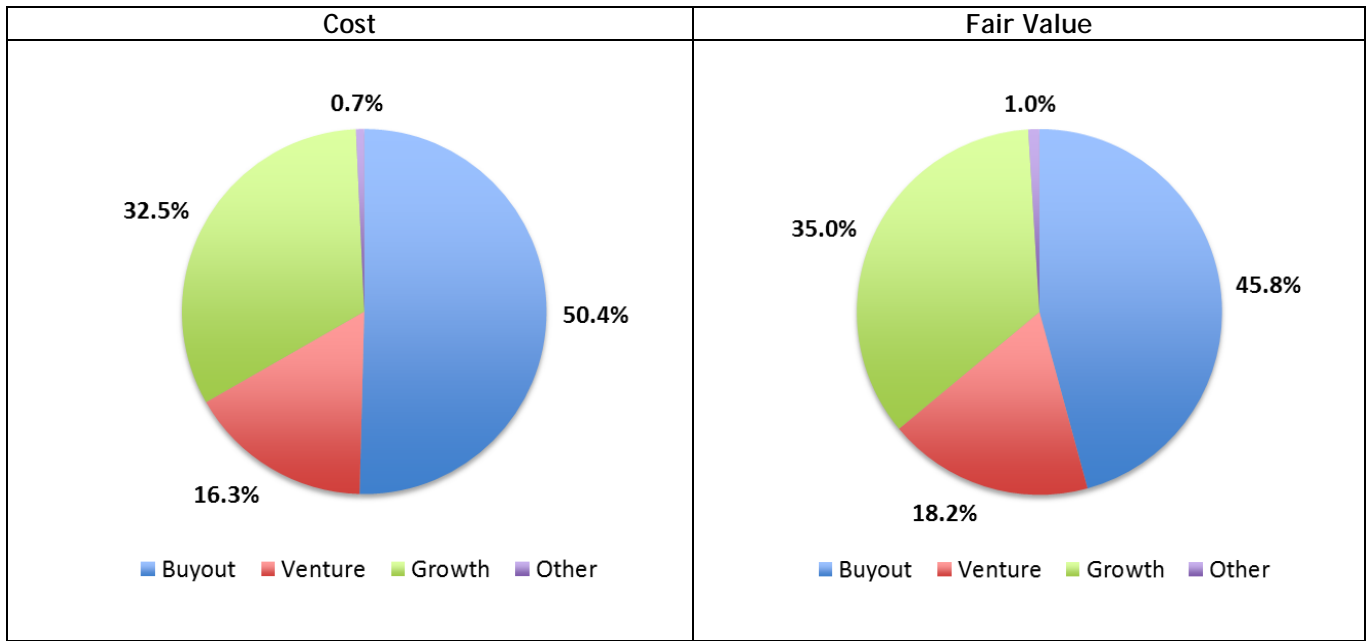
By geographic region:



By investment type:

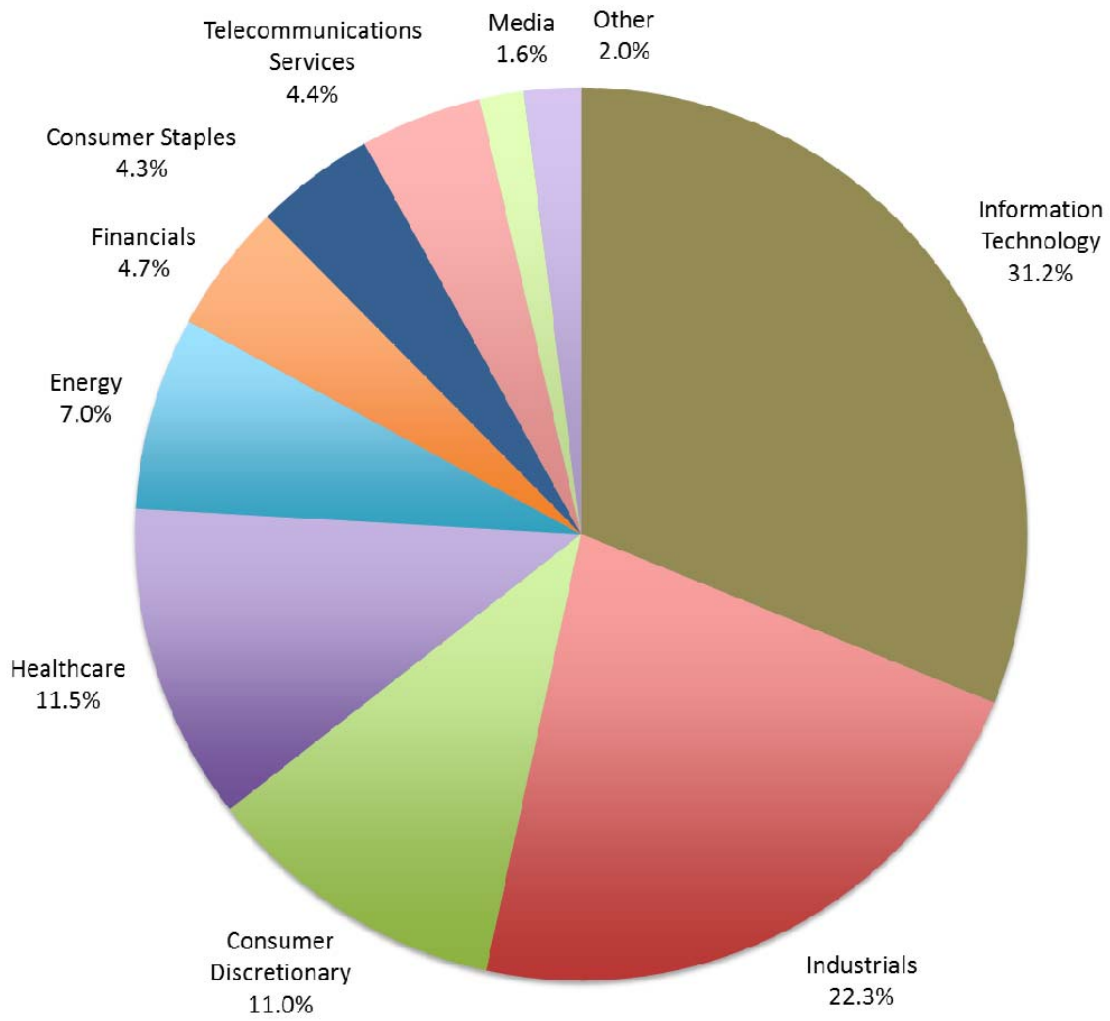


By sector:



In addition to the 37 direct investments in private companies, the KPEF portfolio as of December 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)
December 31, 2019*



KPEF NET ASSET VALUE

Underlying Investments:

As at December 31, 2019, KPEF held Underlying Investments in private equity totaling \$413.5 million representing 82.5% 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 \$162.5 million and distribution of \$16.5 million, the net asset value of Underlying Investments increased by \$6.7 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 December 31, 2019, KPEF held Liquid Investments totalling \$89.7 million, representing a decrease of \$4.4 million from the \$94.1 million of Liquid Investments held at December 31, 2018. At December 31, 2019, Liquid Investments comprised 17.9% 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.

	December 31, 2019			December 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	54,131,790	54,131,790	10.8%	21,459,171	21,459,171	6.7%
Kensington Alternative Strategy Fund*	29,273,575	33,996,072	6.8%	23,773,575	26,946,991	8.4%
GIC Investment	1,500,000	1,562,715	0.3%	45,500,000	45,735,609	14.2%
	84,905,365	89,690,577	17.9%	90,732,746	94,141,771	29.3%

* 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 December 31, 2019					Period Ended December 31, 2018			
	Class A Units	Class F Units	Class E Units	Class G Units	Class U Units	Class A Units	Class F Units	Class E Units	Class G Units
Net Asset Value	3,866,763	1,942,414	77,648,410	398,146,200	19,435,763	4,185,814	1,661,234	68,770,923	247,249,644
Units Outstanding	151,830	70,541	3,476,817	15,950,074	807,018	171,148	63,300	3,164,360	10,329,741
Management expense ratio %	3.87%	3.42%	4.83%	3.81%	4.21%	3.72%	3.27%	5.63%	4.44%
Unrecoverable management expense ratio %	2.90%	2.42%	3.83%	2.76%	2.86%	2.89%	2.40%	4.75%	3.53%

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 December 31, 2019					For the quarter ended September 30, 2019				
	Class A	Class F	Class E	Class G	Class U	Class A	Class F	Class E	Class G	Class U
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Total operating income	47,823	23,791	948,462	4,763,096	275,700	128,774	58,423	2,213,338	10,343,088	(450,188)
Total profit/(loss)	6,607	6,415	119,354	1,565,959	127,803	87,662	42,185	1,079,124	6,195,630	(562,041)
Total profit/(loss) attributable per-unit basis	0.04	0.09	0.03	0.10	0.17	0.53	0.60	0.33	0.46	(0.76)
Total net assets	3,866,763	1,942,414	77,648,410	398,146,200	19,435,763	4,262,690	1,935,999	74,676,755	367,795,743	17,947,959
Distributions declared and paid	-	-	-	-	-	1.00	1.00	1.00	1.00	-

	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	7,502	4,021	3,456	592,571	77,040	31,355	375,753	2,086,997
Total profit 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	49,219	18,074	600,021	2,618,790	573,542	192,418	7,513,042	20,214,549
Total profit 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	-	-	-	-	-	-	-	-

KPEF UNITS ISSUED AND OUTSTANDING

As of December 31, 2019, KPEF had issued five classes of Units, Class A Units, Class F Units, Class E Units, Class G Units and Class U Units. As of December 31, 2019, KPEF had issued (net of redemptions and conversions) 151,830 Class A Units, 70,541 Class F Units, 3,476,817 Class E Units, 15,950,074 Class G Units and 807,018 Class U Units for total net proceeds of \$471.5 million. The five 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), KEN 115 (Class G Units), and KEN 125 (Class U 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 \$29,273,575 in Kensington Alternative Strategy Fund, KPEF has invested \$20,786,819 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 \$25,745,857 to Kensington Venture Fund II, LP, which will be drawn down by the fund over a 12-year period. As of December 31, 2019, the total amount funded by KPEF into Kensington Venture Fund and Kensington Venture Fund II was \$11,552,174 and \$2,574,586 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.