



KENSINGTON PRIVATE EQUITY FUND

MANAGEMENT DISCUSSION AND ANALYSIS
AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED
MARCH 31, 2020

June 30, 2020

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, 2020. You may obtain a copy of the financial statements and the annual information form 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 year ended March 31, 2020:

- The Net Asset Value (NAV) of KPEF increased by approximately \$180.1 million, consisting of new subscriptions received from investors, net of distributions paid, together with net unrealized gains.

The NAV per Unit increased by 7.0%, 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 9.2%.

- KPEF completed several new direct investments.
 - AGNORA Ltd, a Canadian based leading oversized architectural glass fabricator
 - Element5 LP, a Canadian based manufacturer of cross-laminated timber products; it also provides engineering and design services
 - Clearpath Robotics Inc., a Canadian based company specializing in the design and manufacture of unmanned autonomous vehicle systems and related software
 - MVP Culture Opportunity Fund, a co-investment vehicle with Marcy Venture Partners in a clothing business
 - Pela Case, a Canadian based company that manufactures and retails eco-friendly sustainable phone cases and sunglasses through online stores
 - Clearpoint Health network Inc, a Canada’s largest independent surgical facility network with a presence in multiple provinces
 - Valent Low-Carbon Technologies Inc, a Canadian based industrial technology development company focused on emerging renewable fuels and refining process innovations

- Kognitiv Corporation, a Canadian company which is building a B2B loyalty management platform for the travel and hospitality industry
- Nuvei, a global payment solutions provider for card-present and card-not-present transactions
- Beacon Orthopaedics & Sports Medicine, a premier orthopedic practice in the U.S. Midwest with a leading reputation for providing comprehensive orthopedic services
- Bold Canine Inc., a Canadian based manufacturer of frozen raw food for dogs and cats
- KPEF made commitments to nine new Underlying Funds: Novacap Industries V LP, Novacap Financial Services I LP, McRock Fund II LP, Providence Strategic Growth IV-A LP, Georgian Partners Growth Fund V LP, Revelstoke Capital Partners Fund II LP, Information Venture Partners Fund III LP, Marcy Venture Partners Fund LP, and Trivest Discovery Fund LP.

Overview of the Investment Environment

At the end of March 2020, the majority of the global economies were in some form of lock-down in an effort to limit the health impact of the COVID-19 virus. 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 single most important issue for portfolio companies at the end of March was employee health, followed by the company's liquidity in a situation where no one had visibility on the duration of the lockdown or the depth of the recession that would inevitably happen, according to the pundits at the time. Tech companies seemed at the time to be less impacted by the negative forces of employment reduction and related lowering of consumption. We were beginning to see and continue to see at the time of writing the acceleration of adoption of a variety of technologies. The adoption of advanced technology by mature companies is in some cases leapfrogging forward and those with access and the right resources to make changes are companies that we believe will generate 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 impact of the lock-down policies has been to tremendously benefit B2C companies, logistics companies, food companies and certain wellness companies. The negative impacts on businesses like consumer durables and hospitality services have been remarkably offset in whole or in part by the quick adaptation by management to a new paradigm allowing the company to at least generate cash if not thrive by pivoting to meet the needs of consumers confined by lockdown.

Economic Environment

The Manager believes that the pandemic will have a significant and negative impact on the economy. The Fed has indicated that there is no limit to its willingness to provide liquidity to the market, a sentiment generally reflected in the major global economies. In addition, the Presidential election in November bodes well for the extension of federal stimulus programs for individuals and small businesses. Remarkably, the global protectionist policies continue to flare up and will hamper trade. We are seeing an increasing problem with contracted labour and technical teams unable to cross borders, creating disruptions that are certainly unmeasured yet in economic terms. Immigration delays will have longer term negative impacts. The American economy continues to grow with signs of weakness in certain large consumer purchases. If the stimulus measures continue through the election, then it is possible that the economy will grow, albeit slowly, through year end. 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 and at risk of disruption. 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 but 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 businesses. 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. The deal flow in the venture sector is high quality and, in many cases, realistically priced. 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 Manager is continuously trying to increase the net investor return of the Fund and uses sector and industry allocation as part of its selection of tools to achieve that goal. 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

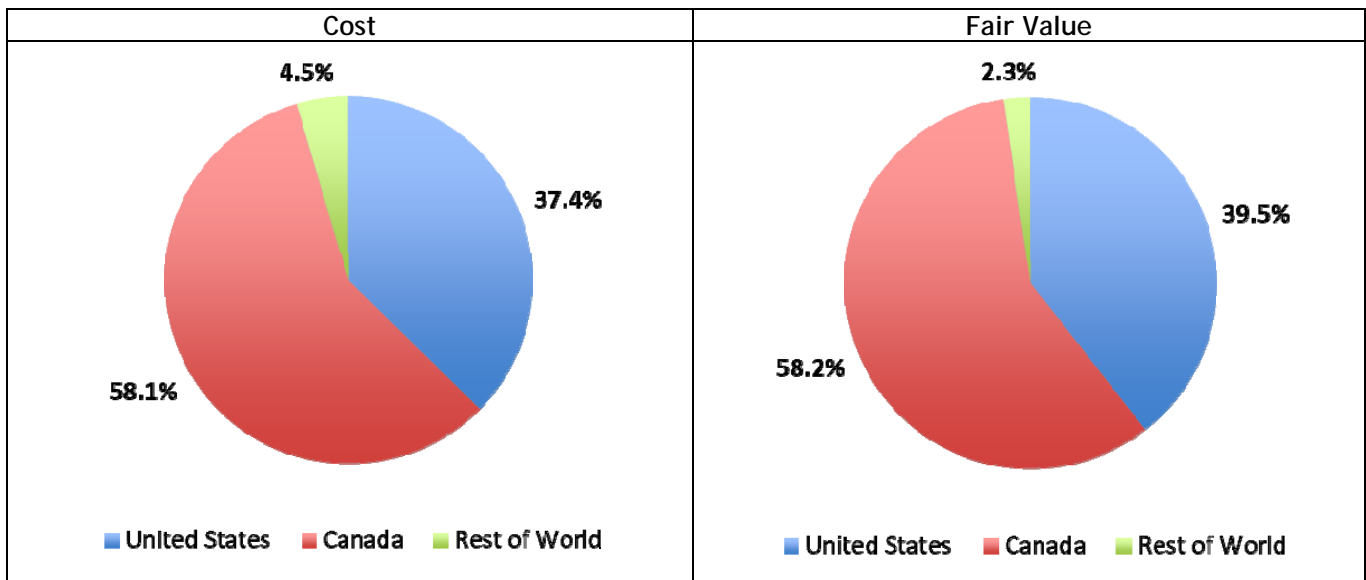
capitalizing on the Manager’s relationships with leading private equity fund managers, and from the scale achieved from combining their resources with other investors in KPEF.

As at March 31, 2020, KPEF held investments in 41 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.

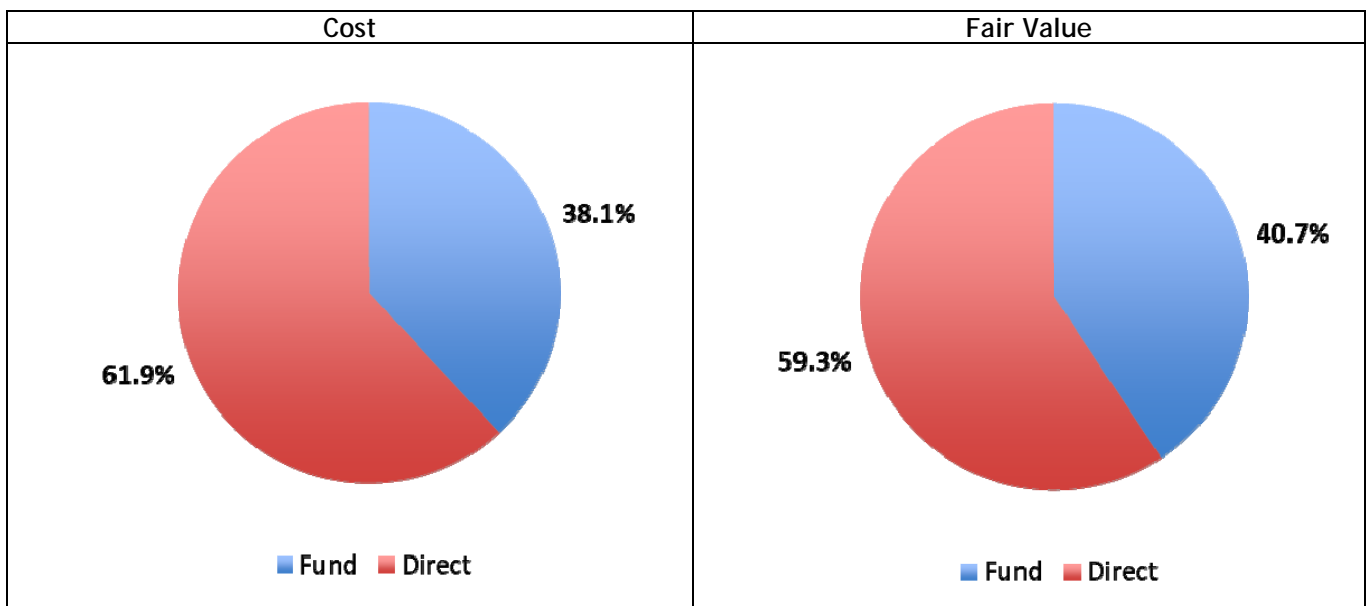
In accordance with the Declaration of Trust governing KPEF, the Manager has the responsibility for establishing target portfolio weighting guidelines by geographic region, investment type and investment sector, with the expectation that the actual weightings will vary over time depending on market conditions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

The portfolio allocations weightings at March 31, 2020 are set out below:

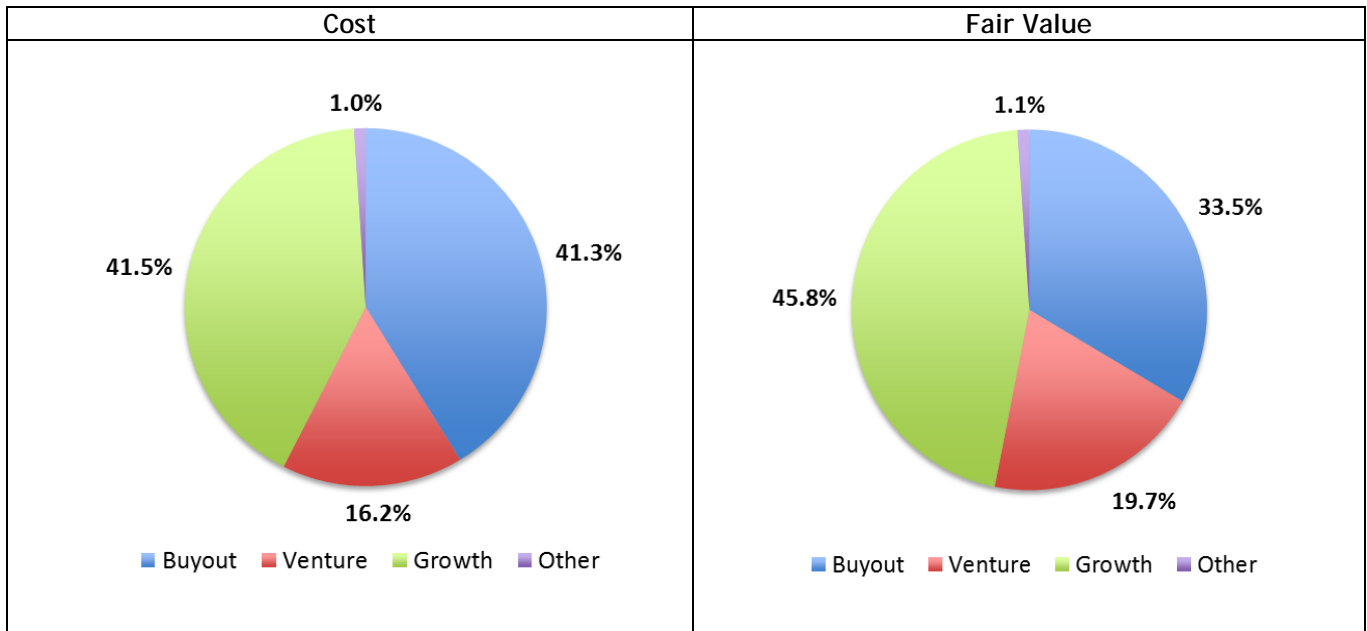
By geographic region:



By investment type:

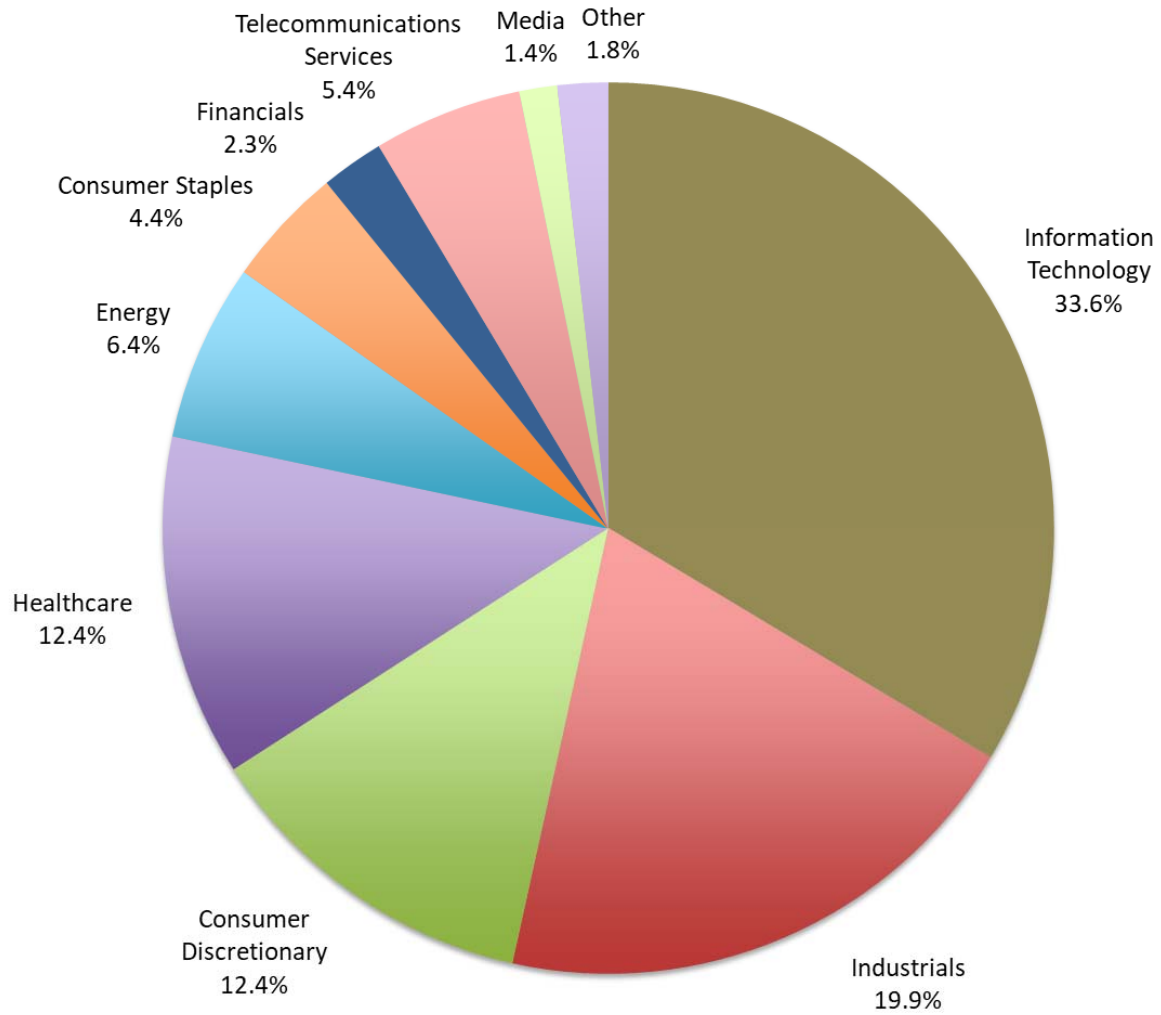


By sector:



In addition to the 37 direct investments in private companies, the KPEF portfolio as of March 31, 2020, 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, 2020*



KPEF NET ASSET VALUE

Underlying Investments:

As at March 31, 2020, KPEF held Underlying Investments in private equity totaling \$439.2 million representing 83.1% 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 of \$213.8 million and distribution of \$59.6 million, the net asset value of Underlying Investments increased by \$25.8 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, 2020, KPEF held Liquid Investments totalling \$90.7 million, representing an increase of \$8.4 million from the \$82.3 million of Liquid Investments held at March 31, 2019. At March 31, 2020, Liquid Investments comprised 17.1% of the NAV. The Manager expects most of that liquidity to be utilized in the coming months as several investments that have been in due diligence and documentation are closed.

	March 31, 2020			March 31, 2019		
	Cost (CAD)	Estimated Fair Value (CAD)	% of Fund's Net Assets	Cost (CAD)	Estimated Fair Value (CAD)	% of Fund's Net Assets
Cash	67,286,578	67,286,578	12.7%	23,870,263	23,870,263	6.9%
Kensington Alternative Strategy Fund*	19,547,836	21,810,107	4.1%	23,773,575	27,542,363	7.9%
GIC Investment	1,500,000	1,573,993	0.3%	30,500,000	30,906,493	8.9%
	88,334,414	90,670,678	17.1%	78,143,838	82,319,119	23.7%

* 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”), is the reported MER less the amounts expected to be recovered from Underlying Funds as described above.

	Year Ended March 31, 2020						Year Ended March 31, 2019			
	Class A Units	Class F Units	Class E Units	Class G Units	Class U Units	Class C Units	Class A Units	Class F Units	Class E Units	Class G Units
Net Asset Value	3,955,630	472,651	28,564,709	416,463,144	21,305,500	57,602,991	4,418,018	1,879,501	72,724,213	269,256,379
Units Outstanding	149,795	16,535	1,240,088	16,110,606	794,213	2,226,454	169,489	67,109	3,142,317	10,535,086
Management expense ratio %	3.96%	3.37%	4.85%	3.93%	3.59%	3.67%	3.73%	3.27%	5.25%	4.05%
Unrecoverable management expense ratio %	2.97%	2.43%	3.91%	2.92%	2.55%	2.05%	2.86%	2.38%	4.35%	3.12%

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, 2020 as well as the last three years ended March 31, 2019, 2018 and 2017. The information is derived from the KPEF financial statements.

	For the year ended March 31, 2020						For the year ended March 31, 2019			
	Class A	Class F	Class E	Class G	Class U	Class C	Class A	Class F	Class E	Class G
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Total operating income	369,799	118,614	5,206,691	34,721,190	2,231,792	1,999,285	576,462	225,198	8,950,842	30,920,064
Total profit/(loss)	205,997	61,574	1,839,555	20,443,049	1,738,558	1,539,794	406,539	170,750	5,399,732	22,087,070
Total profit/(loss) attributable per-unit basis	1.29	1.01	0.60	1.43	2.23	0.96	2.26	2.77	1.81	2.50
Total net assets	3,955,630	472,651	28,564,709	416,463,144	21,305,500	57,602,991	4,418,018	1,879,501	72,724,213	269,256,379
Distributions declared and paid	1.00	1.00	1.00	1.00	-	-	2.25	2.25	2.25	2.25

	For the year ended March 31, 2018				For the year ended March 31, 2017			
	Class A	Class F	Class E	Class G	Class A	Class F	Class E	Class G
	\$	\$	\$	\$	\$	\$	\$	\$
Total operating income	959,479	272,507	10,510,574	27,069,950	1,353,552	209,632	5,626,428	11,972,153
Total profit/(loss)	700,004	222,725	7,975,329	22,464,462	961,272	158,188	3,685,350	8,881,446
Total profit/(loss) attributable per-unit basis	2.40	3.82	3.27	4.08	2.29	2.72	2.22	2.86
Total net assets	4,907,318	1,622,259	65,334,038	172,114,383	9,150,064	1,468,109	41,584,503	98,729,769
Distributions declared and paid	0.72	0.72	0.72	0.72	1.95	1.95	1.95	1.95

KPEF UNITS ISSUED AND OUTSTANDING

As of March 31, 2020, KPEF had issued six classes of Units, Class A Units, Class F Units, Class E Units, Class G Units, Class U Units and Class C Units. As of March 31, 2020, KPEF had issued (net of redemptions and conversions) 149,795 Class A Units, 16,535 Class F Units, 1,240,088 Class E Units, 16,110,606 Class G Units, 794,213 Class U Units and 2,226,454 Class C Units for net proceeds of \$479.8 million.

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), KEN 125 (Class U Units), and KEN 130 (Class C 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 \$19,547,836 in Kensington Alternative Strategy Fund, KPEF has invested \$21,997,597 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 March 31, 2020, 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 26, 2020.

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.