

**KENSINGTON PRIVATE EQUITY FUND**

**FINANCIAL STATEMENTS**

**FOR THE SIX MONTHS ENDED SEPTEMBER 30, 2020**

**(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"

Senior Managing Director

Kensington Capital Advisors Inc.

"Martin Kent"

Managing Director & Chief Financial Officer

Kensington Capital Advisors Inc.

November 13, 2020

# KENSINGTON PRIVATE EQUITY FUND

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# KENSINGTON PRIVATE EQUITY FUND

## STATEMENT OF FINANCIAL POSITION

As at  
(unaudited)

	September 30, 2020	March 31, 2020
	\$	\$
<b>Assets</b>		
Cash	47,615,006	67,286,578
Investments (Notes 3 & 4)	549,162,118	462,568,131
Accounts receivable	2,179,866	657,325
Prepaid expenses	72,780	60,884
	<u>599,029,770</u>	<u>530,572,918</u>
<b>Liabilities</b>		
Accrued expenses	1,433,148	2,208,293
	<u>1,433,148</u>	<u>2,208,293</u>
<b>Net assets attributable to holders of redeemable units</b>	<u>597,596,622</u>	<u>528,364,625</u>

Net assets attributable to holders of redeemable units	\$	\$
Class A	4,154,795	3,955,630
Class F	470,717	472,651
Class E	21,847,582	28,564,709
Class G	473,576,912	416,463,144
Class U	23,794,075	21,305,500
Class C	73,752,541	57,602,991
	<u>597,596,622</u>	<u>528,364,625</u>

### Number of redeemable units issued and outstanding (Note 5)

Class A	153,133	149,795
Class F	15,921	16,535
Class E	932,029	1,240,088
Class G	17,819,272	16,110,606
Class U	854,684	794,213
Class C	2,762,812	2,226,454
	<u>22,537,851</u>	<u>20,537,691</u>

Net assets attributable to holders of redeemable units per unit	\$	\$
Class A	27.13	26.41
Class F	29.57	28.58
Class E	23.44	23.03
Class G	26.58	25.85
Class U	27.84	26.83
Class C	26.69	25.87

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

# KENSINGTON PRIVATE EQUITY FUND

## STATEMENT OF COMPREHENSIVE INCOME

(unaudited)

	For the three months ended September 30, 2020 \$	For the six months ended September 30, 2020 \$	For the three months ended September 30, 2019 \$	For the six months ended September 30, 2019 \$
Investment income	913,612	2,423,182	2,469,040	3,070,810
Net realized gain and distribution income on portfolio investments	9,359,450	12,382,018	6,871,960	10,869,866
Net realized gain on foreign currency translation	4,852	18,936	361,334	838,546
Net change in unrealized appreciation on portfolio investments	36,075,104	41,567,780	3,318,175	918,445
Net change in unrealized depreciation on foreign currency translation	(503,434)	(3,839,720)	(727,075)	(2,336,414)
<b>Total operating income</b>	<b>45,849,584</b>	<b>52,552,196</b>	<b>12,293,434</b>	<b>13,361,253</b>
<b>Expenses (Note 7)</b>				
Management fee (inclusive of HST)	2,370,131	4,574,149	2,012,462	3,603,010
Expenses incurred by investee funds	1,186,796	2,130,222	1,265,322	2,299,891
Performance fee (inclusive of HST)	1,006,075	1,342,336	1,626,135	1,626,135
Service fees	(3,052)	116,283	214,535	403,518
Legal fees	197,815	278,752	16,749	34,168
Professional fees	32,432	132,908	30,510	65,904
Unitholders' communication	764	71,741	47,704	122,214
Custodian and transfer agent fees	39,321	225,291	45,795	89,681
Interest expense	-	-	1,410	1,906
Withholding taxes from investee funds	11,862	11,862	18,587	22,382
HST expenses	(1,316,140)	(1,308,524)	160,344	173,907
Other expenses	18,645	33,716	11,321	21,547
<b>Total operating expenses</b>	<b>3,544,649</b>	<b>7,608,736</b>	<b>5,450,874</b>	<b>8,464,263</b>
<b>Operating profit</b>	<b>42,304,935</b>	<b>44,943,460</b>	<b>6,842,560</b>	<b>4,896,990</b>
<b>Increase in net assets attributable to holders of redeemable units from operations</b>	<b>42,304,935</b>	<b>44,943,460</b>	<b>6,842,560</b>	<b>4,896,990</b>
<b>Increase (decrease) in net assets attributable to holders of redeemable units from operations per class</b>				
Class A	294,455	305,245	87,662	58,685
Class F	33,353	35,806	42,185	31,660
Class E	1,530,087	1,562,725	1,079,124	539,611
Class G	33,106,684	35,350,917	6,195,630	4,829,075
Class U	2,084,081	1,948,575	(562,041)	(562,041)
Class C	5,256,275	5,740,192	-	-
	<b>42,304,935</b>	<b>44,943,460</b>	<b>6,842,560</b>	<b>4,896,990</b>
<b>Increase (decrease) in net assets attributable to holders of redeemable units from operations per unit</b>				
Class A	\$ 1.92	\$ 2.02	\$ 0.53	\$ 0.35
Class F	2.09	2.23	0.60	0.46
Class E	1.63	1.69	0.33	0.17
Class G	1.88	2.08	0.46	0.39
Class U	2.48	2.38	(0.76)	(0.76)
Class C	1.95	2.19	-	-

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 six months ended September 30,

(unaudited)

	Class A		Class F		Class E		Class G		Class U		Class C		Total	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
Beginning net assets attributable to holders of redeemable units, April 1	3,955,630	4,418,018	472,651	1,879,501	28,564,709	72,724,213	416,463,144	269,256,379	21,305,500	-	57,602,991	-	528,364,625	348,278,111
Capital conversions from holders of redeemable units	-	(110,306)	(30,942)	31,272	(7,930,873)	(88,794)	(321,992)	167,828	-	-	8,283,807	-	-	-
Capital contributions from holders of redeemable units	84,159	61,500	12,829	61,805	808,149	4,725,192	43,482,261	106,580,341	1,548,650	18,510,000	5,854,671	-	51,790,719	129,938,838
Capital redemptions to holders of redeemable units	-	-	-	-	-	-	-	-	-	-	(452,811)	-	(452,811)	-
Distributions to holders of redeemable units	(190,239)	(165,207)	(19,627)	(68,239)	(1,157,128)	(3,223,467)	(21,397,418)	(13,037,880)	(1,008,650)	-	(3,276,309)	-	(27,049,371)	(16,494,793)
Increase in net assets attributable to holders of redeemable units	305,245	58,685	35,806	31,660	1,562,725	539,611	35,350,917	4,829,075	1,948,575	(562,041)	5,740,192	-	44,943,460	4,896,990
Ending net assets attributable to holders of redeemable units, September 30	4,154,795	4,262,690	470,717	1,935,999	21,847,582	74,676,755	473,576,912	367,795,743	23,794,075	17,947,959	73,752,541	-	597,596,622	466,619,146

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

# KENSINGTON PRIVATE EQUITY FUND

## STATEMENT OF CASH FLOWS

(unaudited)

	For the six months ended September 30, 2020	For the six months ended September 30, 2019
	\$	\$
<b>Cash used in operating activities</b>		
Increase in net assets attributable to holders of redeemable units from operations	44,943,460	4,896,990
Net change in unrealized appreciation on portfolio investments	(41,567,780)	(10,869,866)
Net change in unrealized depreciation (appreciation) on foreign currency translation	3,839,720	(838,546)
Net realized gain and distribution income on portfolio investments	(12,382,018)	(918,445)
Net realized gain on foreign currency translation	(18,936)	2,336,414
Net change in non-cash investing activities	260,752	(1,238,575)
Net change in non-cash working capital	(2,309,582)	861,089
Proceeds and return of capital from Private Equity investments	30,848,753	20,229,478
Purchase of Private Equity investments	(61,574,478)	(79,882,524)
Purchase of short-term investment	(6,000,000)	(37,000,000)
<b>Net cash used in operating activities</b>	<b>(43,960,109)</b>	<b>(102,423,985)</b>
<b>Cash provided by financing activities</b>		
Capital contributions from holders of redeemable units	51,790,719	129,938,838
Capital redemptions to holders of redeemable units	(452,811)	-
Distributions paid to holders of redeemable units	(27,049,371)	(16,494,793)
<b>Net cash provided by financing activities</b>	<b>24,288,537</b>	<b>113,444,045</b>
(Decrease) increase in cash during the period	(19,671,572)	11,020,060
Cash, beginning of period	67,286,578	23,870,263
<b>Cash, end of period</b>	<b>47,615,006</b>	<b>34,890,323</b>

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

# KENSINGTON PRIVATE EQUITY FUND

## NOTES TO FINANCIAL STATEMENTS

*September 30, 2020 and September 30, 2019*

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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 September 30, 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. The six classes of units are collectively and interchangeably referred to herein as the “Units”. Holders of Units are collectively referred to herein as the “Unitholders”.

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 November 13, 2020.

### 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

*September 30, 2020 and September 30, 2019*

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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.

#### *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

*September 30, 2020 and September 30, 2019*

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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

September 30, 2020 and September 30, 2019

### 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.

	September 30, 2020			September 30, 2019		
	Cost (CAD)	Estimated Fair Value (CAD)	% of Fund's Net Assets	Cost (CAD)	Estimated Fair Value (CAD)	% of Fund's Net Assets
Cash	47,615,006	47,615,006	8.0%	34,890,323	34,890,323	7.5%
Kensington Alternative Strategy Fund	25,547,836	29,948,438	5.0%	28,773,575	33,197,975	7.1%
GIC Investment	1,500,000	1,596,434	0.3%	62,500,000	63,480,482	13.6%
	<u>74,662,842</u>	<u>79,159,878</u>	<u>13.3%</u>	<u>126,163,898</u>	<u>131,568,780</u>	<u>28.2%</u>

# KENSINGTON PRIVATE EQUITY FUND

## NOTES TO FINANCIAL STATEMENTS

September 30, 2020 and September 30, 2019

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### 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 September 30, 2020 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 September 30, 2020				
	Level 1	Level 2	Level 3	Total
Private Equity Investments	-	-	\$468,278,505	\$468,278,505
Public Equity Investments	\$49,338,741	-	-	\$49,338,741
Other Investment	-	\$31,544,872	-	\$31,544,872
<b>Total</b>	<b>\$49,338,741</b>	<b>\$31,544,872</b>	<b>\$468,278,505</b>	<b>\$549,162,118</b>

Assets at fair value as at September 30, 2019				
	Level 1	Level 2	Level 3	Total
Private Equity Investments	-	-	\$336,275,972	\$336,275,972
Other Investment	-	\$96,678,457	-	\$96,678,457
<b>Total</b>	<b>-</b>	<b>\$96,678,457</b>	<b>\$336,275,972</b>	<b>\$432,954,429</b>

During the six months ended September 30, 2020, \$44,815,383 was transferred from Level 3 to Level 1. During the six months ended September 30, 2019, there was no transfer into and out of the three levels.

# KENSINGTON PRIVATE EQUITY FUND

## NOTES TO FINANCIAL STATEMENTS

September 30, 2020 and September 30, 2019

### 4. Investments (continued)

During the six months ended September 30, 2020, the reconciliation of investments measured at fair value using market price (Level 1) and unobservable inputs (Level 3) is presented as follows:

	<u>Equity Investments</u>
Beginning Balance, April 1, 2020	439,184,031
Purchases	61,574,478
Sales	(18,447,797)
Change in unrealized appreciation included in net income	35,306,534
Ending Balance, September 30, 2020	<u>517,617,246</u>

Total unrealized appreciation on investments still held as at September 30, 2020 was \$113,964,882 (September 30, 2019: \$54,433,840)

Description	Fair value at September 30, 2020	Valuation technique	Unobservable inputs	Price range
Equity securities (Direct Investments) \$	301,895,867	Most recent private transactions/EBITDA multiples	Transaction price	\$1-\$1000
Fund Investments \$	166,382,638	Net asset value provided by Investment Manager	-	-
<b>Total</b> \$	<b>468,278,505</b>			

# KENSINGTON PRIVATE EQUITY FUND

## NOTES TO FINANCIAL STATEMENTS

September 30, 2020 and September 30, 2019

### 5. Units Outstanding

The following units were issued and redeemed for the six months ended September 30, 2020 and September 30, 2019:

	September 30, 2020						September 30, 2019				
	Class A	Class F	Class E	Class G	Class U	Class C	Class A	Class F	Class E	Class G	Class U
Balance Beginning of period	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	-
Class Switches	-	(1,081)	(345,075)	(12,943)	-	321,191	(4,282)	1,130	(3,890)	6,656	-
Capital Contribution	3,338	467	37,016	1,721,609	60,471	232,550	2,470	2,301	210,457	4,251,923	750,704
Capital Redemption	-	-	-	-	-	(17,382)	-	-	-	-	-
Balance End of period	153,133	15,921	932,029	17,819,272	854,684	2,762,812	167,677	70,540	3,348,884	14,793,665	750,704

### 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; 1.65% of the NAV of the Class E Units, Class G Units and Class U Units; and 1.00% of the NAV of the Class C 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, Class G Units, Class U Units and Class C Units. The performance fee will be equal to that amount which results in the Manager receiving 10% of the sum of the total amount payable as cash distributions.

# KENSINGTON PRIVATE EQUITY FUND

## NOTES TO FINANCIAL STATEMENTS

*September 30, 2020 and September 30, 2019*

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

The Manager cannot receive a performance fee unless KPEF makes cash distributions to Unitholders. For the Manager to receive the performance fee on the Class E Units, Class G Units, Class U Units and the Class C Units in any year, the NAV per unit of those classes 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, Class G Units, Class U and the Class C Units.

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 six months ended September 30, 2020 the management fees amounted to \$4,144,119 plus HST of \$430,030 (September 30, 2019: \$3,300,827 plus HST of \$302,183), of which \$nil remains payable at September 30, 2020.

### **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 enter foreign currency hedging contracts to minimize the impact of foreign exchange fluctuations on the net asset value of the fund. The Fund does not make any speculative currency investments in the foreign exchange market.

# KENSINGTON PRIVATE EQUITY FUND

## NOTES TO FINANCIAL STATEMENTS

September 30, 2020 and September 30, 2019

### 8. Risk Management (continued)

As at September 30, 2020 and September 30, 2019, KPEF had direct exposure to the following currencies:

	September 30, 2020		September 30, 2019	
	Currency Exposure (\$)	Percentage of Net Assets (%)	Currency Exposure (\$)	Percentage of Net Assets (%)
U.S. Dollar	240,232,153	40.2%	102,417,763	21.9%
Euro	5,008,862	0.8%	5,147,870	1.1%

The Manager has determined that based on the financial position of KPEF as at September 30, 2020, 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 September 30, 2020.

#### *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 September 30, 2020, 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 \$20,200,000. 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

*September 30, 2020 and September 30, 2019*

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### 8. Risk Management (continued)

The credit ratings provided by Dominion Bond Rating Service of KPEF's Liquid Investments as at September 30, 2020 and September 30, 2019 are as follow:

	<u>September 30, 2020</u>	<u>September 30, 2019</u>
AA	62.2%	74.8%
Not Rated	37.8%	25.2%
Total	<u>100.0%</u>	<u>100.0%</u>

#### *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.