



**KENSINGTON PRIVATE EQUITY FUND**

**MANAGEMENT DISCUSSION AND ANALYSIS  
AND FINANCIAL STATEMENTS**

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

**NOVEMBER 13, 2020**

*This management discussion and analysis of the Kensington Private Equity Fund contains financial highlights as well as the financial statements for the six months ended September 30, 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](http://www.kcpl.ca). Additional information relating to the Kensington Private Equity Fund is on SEDAR at [www.sedar.com](http://www.sedar.com).*

**KENSINGTON PRIVATE EQUITY FUND**  
**MANAGEMENT DISCUSSION AND ANALYSIS**

The Kensington Private Equity Fund (“KPEF” or the “Fund”) 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 six months ended September 30, 2020:

- The Net Asset Value (NAV) of KPEF increased by approximately \$69.2 million, consisting of unrealized gains and new subscriptions received from investors, net of distributions paid.
- The IRR per Unit was 17.0% for the six months ending September, based on the performance of Underlying Investments and considering the impact of other cash flows into and out of KPEF during the period including a 5% distribution. The comparable return for the same period last year was 2.9%.
- KPEF completed two new direct investments:
  - LifeSpeak Inc. is a digital platform providing content on a wide variety of health and wellness topics, presented by a network of reputable experts.
  - GridPoint, Inc. provides a subscription-based energy infrastructure platform for smart buildings, specifically for multi-site commercial and industrial clients
- The fund exited its investment in Mobile Klinik, the fastest growing Canadian smartphone and tablet repair retailer.
- The fund sold its last tranche of Ceridian Inc shares, a global human capital management software company. The company launched an IPO in 2018.
- Nuvei Corp, an electronic payment processing company launched an IPO in September 2020. The IPO was TSX’s largest tech IPO and the Fund reported an unrealized gain of \$31 million on the event. The Fund’s Nuvei shares are escrowed and will be sold on an orderly basis over the next two years.

### ***Overview of the Investment Environment***

At the end of September 2020, the second wave of the pandemic was beginning. Uncertainty about the ability to re-open the economy prevails. Bond yields remain low and stock markets have been volatile but are discounting growth. Government stimulus programs will end and what the impact will be remains as a question mark over the global economy. Within the private equity markets, industries and geographic regions that the Manager believes offer the best opportunities for strong returns are the focus. No one has visibility into the

depth of the recession that many say will be inevitable. Led by the tech sector, valuations are strong and rising now that many companies are feeling more confident about the future. But that confidence is tentative. We are seeing a healthy flow of M&A activity and of growth opportunities. 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. Those trends are growing and we have been able to take advantage of the market to increase our exposure in certain key industries. 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 continues to believe 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. We are seeing problems 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. We continue to believe that companies that are investing to adopt technologies are building a base for long term success. Strong local supply chains and distribution networks are proving to be valuable as globalization becomes expensive and at risk of disruption.

### ***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 IPO market has been healthy for tech companies. 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 Fund owns some very interesting growth opportunities. The buyout segment of the market continues to be strong as owners divest of non-core businesses, or founders decide to sell. 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. 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 continually make primary investments. We are committing capital to funds that will invest over the coming decade. The result is a portfolio that reflects 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 run 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 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 venture, growth, and buyout 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, and venture capital 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.

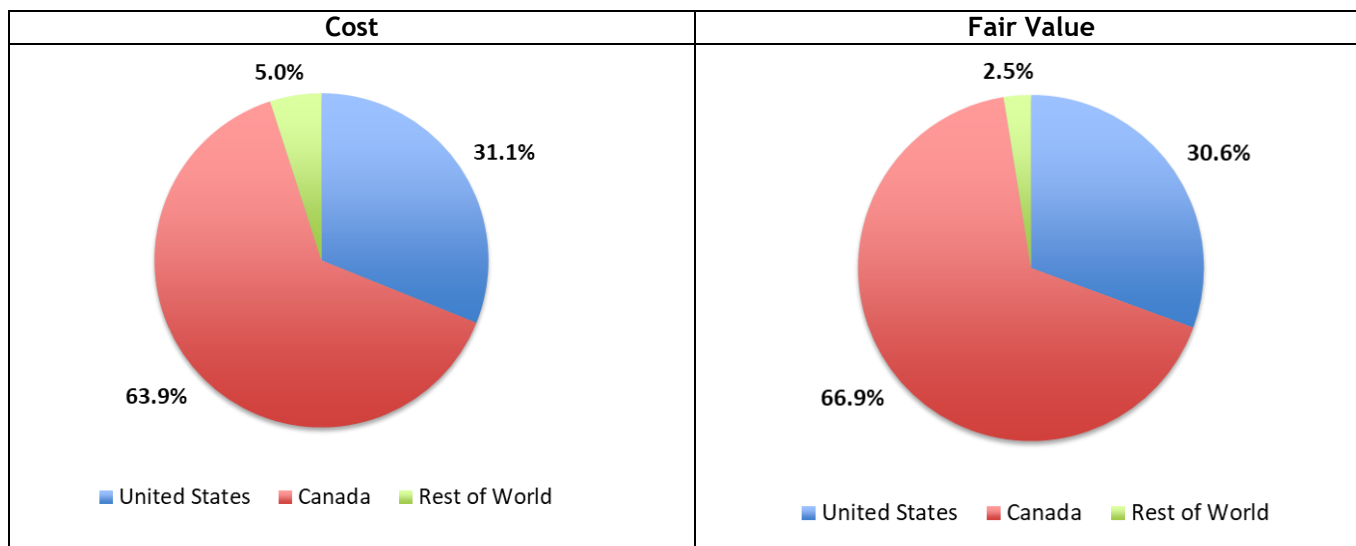
The investment strategy used to construct the portfolio of KPEF relies upon the Manager's proactive sourcing of deal flow and active management of the portfolio. This investment strategy is also designed to provide investors with access to private equity investments that would otherwise be unavailable 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 September 30, 2020, KPEF held investments in 41 primary funds, 10 independent secondary fund portfolios, and 41 direct investments. The Manager continues to review private equity investment opportunities on an ongoing basis to best achieve KPEF's investment objective.

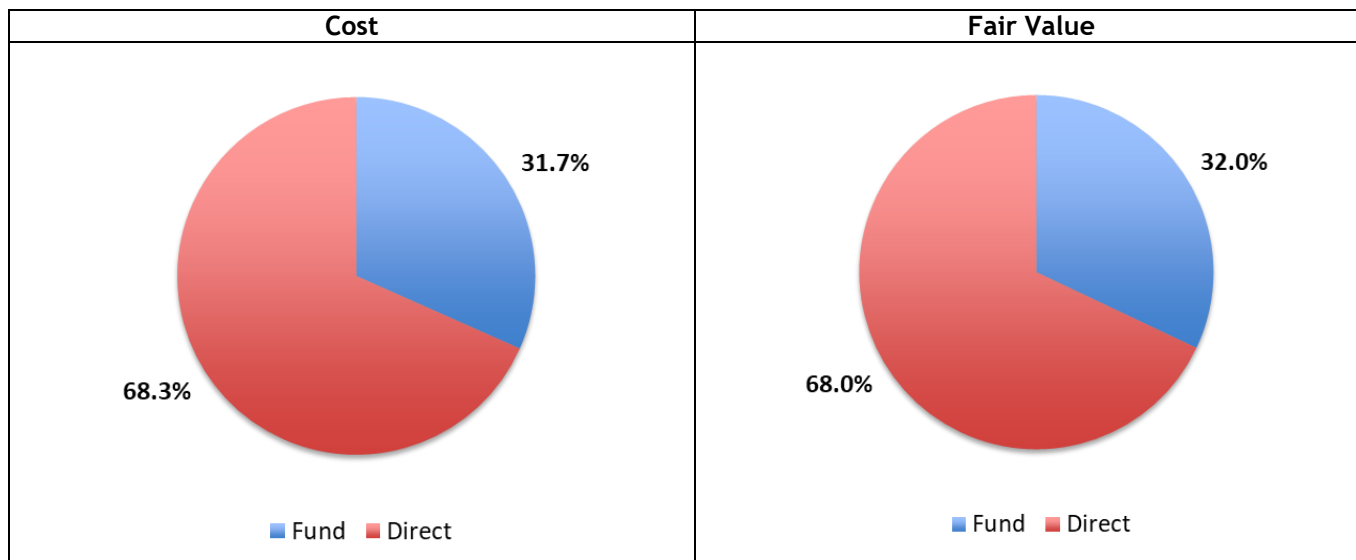
In accordance with the Declaration of Trust governing KPEF, the Manager has the responsibility for establishing target portfolio weighting guidelines by geographic region, investment type and investment sector, with the expectation that the actual weightings will vary over time depending on market conditions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

The portfolio allocations weightings at September 30, 2020 are set out below:

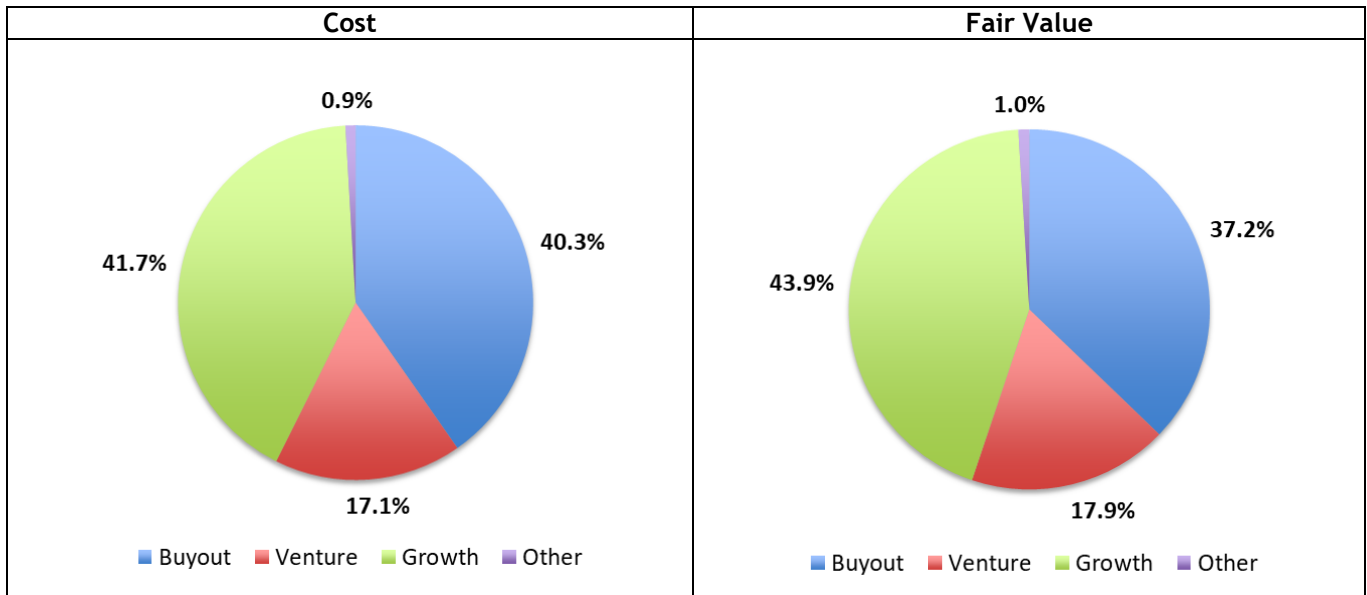
**By geographic region:**



**By investment type:**

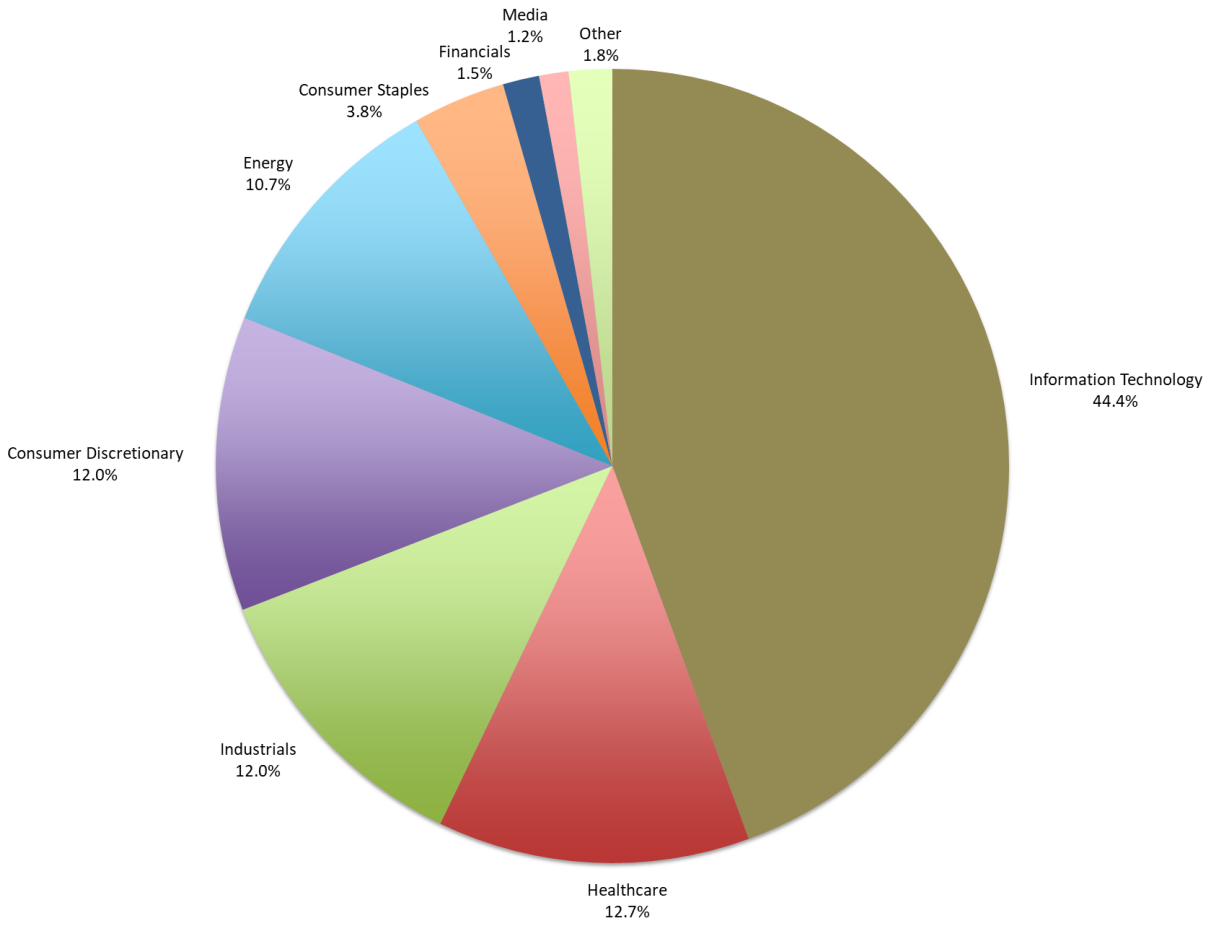


**By sector:**



In addition to the 41 direct investments in private companies, the KPEF portfolio as of September 30, 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)  
September 30, 2020**



## KPEF NET ASSET VALUE

### *Underlying Investments:*

As at September 30, 2020, KPEF held Underlying Investments in private equity totaling \$517.6 million representing 86.6% of the NAV. During the period, KPEF realized certain private equity investments, resulting in a shift from unrealized gains reported in prior year to realized gains in the current period. Excluding the impact of net new subscriptions of \$51.8 million and distribution of \$27.5 million, the net asset value of Underlying Investments increased by \$44.9 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 September 30, 2020, KPEF held Liquid Investments totalling \$79.2 million, representing a decrease of \$52.4 million from the \$131.6 million of Liquid Investments held at September 30, 2019. At September 30, 2020, Liquid Investments comprised 13.3% 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.

	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%
	<b>74,662,842</b>	<b>79,159,878</b>	<b>13.3%</b>	<b>126,163,898</b>	<b>131,568,780</b>	<b>28.2%</b>

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

	Period Ended September 30, 2020						Period Ended September 30, 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	Class U Units
Net Asset Value	4,154,795	470,717	21,847,582	473,576,912	23,794,075	73,752,541	4,262,690	1,935,999	74,676,755	367,795,743	17,947,959
Units Outstanding	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
Management expense ratio %	3.23%	2.71%	3.63%	2.87%	2.81%	2.19%	3.80%	3.35%	5.11%	4.08%	3.77%
Unrecoverable management expense ratio %	2.40%	1.88%	2.80%	2.05%	1.99%	1.36%	2.88%	2.42%	4.17%	3.11%	2.81%



## 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 September 30, 2020						For the quarter ended June 30, 2020					
	Class A	Class F	Class E	Class G	Class U	Class C	Class A	Class F	Class E	Class G	Class U	Class C
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Total operating income	316,906	35,887	1,668,240	36,021,164	2,223,357	5,584,029	53,539	6,235	282,250	5,707,905	36,504	912,899
Total profit/(loss)	294,455	33,353	1,530,086	33,106,684	2,084,081	5,256,275	10,790	2,453	32,638	2,244,233	(135,506)	483,917
Total profit/(loss) attributable per-unit basis	1.92	2.09	1.63	1.88	2.48	1.95	0.07	0.15	0.04	0.14	(0.17)	0.19
Total net assets	4,154,795	470,717	21,847,582	473,576,912	23,794,075	73,752,541	3,966,420	444,162	21,010,867	428,149,529	21,169,994	66,626,135
Distributions declared and paid	1.27	1.27	1.27	1.27	1.27	1.27	-	-	-	-	-	-

	For the quarter ended March 31, 2020					For the quarter ended December 31, 2019					
	Class A	Class F	Class E	Class G	Class U	Class A	Class F	Class E	Class G	Class U	
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	
Total operating income	181,218	31,081	1,839,956	18,769,425	2,406,280	1,999,285	47,823	23,791	948,462	4,763,096	275,700
Total profit/(loss)	140,705	23,499	1,180,590	14,048,015	2,172,795	1,539,794	6,607	6,415	119,354	1,565,959	127,803
Total profit/(loss) attributable per-unit basis	0.94	0.69	0.52	0.91	2.74	0.96	0.04	0.09	0.03	0.10	0.17
Total net assets	3,955,630	472,651	28,564,709	416,463,144	21,305,500	57,602,991	3,866,763	1,942,414	77,648,410	398,146,200	19,435,763
Distributions declared and paid	-	-	-	-	-	-	-	-	-	-	-

	For the quarter ended September 30, 2019					For the quarter ended June 30, 2019			
	Class A	Class F	Class E	Class G	Class U	Class A	Class F	Class E	Class G
	\$	\$	\$	\$	\$	\$	\$	\$	\$
Total operating income	128,774	58,423	2,213,338	10,343,088	(450,188)	11,984	5,320	204,934	845,580
Total profit/(loss)	87,662	42,185	1,079,124	6,195,630	(562,041)	(28,977)	(10,525)	(539,513)	(1,366,554)
Total profit/(loss) attributable per-unit basis	0.53	0.60	0.33	0.46	(0.76)	(0.17)	(0.16)	(0.17)	(0.12)
Total net assets	4,262,690	1,935,999	74,676,755	367,795,743	17,947,959	4,278,735	1,900,248	73,775,071	321,963,916
Distributions declared and paid	1.00	1.00	1.00	1.00	-	-	-	-	-

	For the quarter ended March 31, 2019				For the quarter ended December 31, 2018			
	Class A	Class F	Class E	Class G	Class A	Class F	Class E	Class G
	\$	\$	\$	\$	\$	\$	\$	\$
Total operating income	311,582	131,168	5,114,774	18,585,421	50,242	18,489	749,536	2,446,702
Total (loss)/profit	272,779	117,301	4,420,502	16,788,712	7,502	4,021	3,456	592,571
Total (loss)/profit attributable per-unit basis	1.51	1.81	1.38	1.69	0.04	0.06	0.00	0.06
Total net assets	4,418,018	1,879,501	72,724,213	269,256,379	4,185,814	1,661,234	68,770,921	247,249,644
Distributions declared and paid	-	-	-	-	-	-	-	-

## KPEF UNITS ISSUED AND OUTSTANDING

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. As of September 30, 2020, KPEF had issued (net of redemptions and conversions) 152,133 Class A Units, 15,921 Class F Units, 932,029 Class E Units, 17,819,272 Class G Units, 854,684 Class U Units and 2,762,812 Class C Units for net proceeds of \$531.1 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 \$25,547,836 in Kensington Alternative Strategy Fund, KPEF has invested \$45,240,511 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 September 30, 2020, the total amount funded by KPEF into Kensington Venture Fund and Kensington Venture Fund II was \$15,383,703 and \$2,260,981 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.