



KENSINGTON PRIVATE EQUITY FUND

**MANAGEMENT DISCUSSION AND ANALYSIS
AND FINANCIAL STATEMENTS**

**FOR THE NINE MONTHS ENDED
DECEMBER 31, 2020.**

February 12, 2021

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, 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” 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 nine months ended December 31, 2020:

- The Net Asset Value (NAV) of KPEF increased by approximately \$224.2 million, consisting of unrealized gains and new subscriptions received from investors, net of distributions paid.
- The IRR per Unit was 17.4% for the nine months ending December, based on the performance of Underlying Investments and considering the impact of other cash flows into and out of KPEF. The comparable return for the same period last year was 2.5%.
- KPEF completed three new direct investments:
 - Brightspark Ventures II, L.P. is a secondary purchase. The partnership’s remaining asset is Hopper Inc., an online travel agent that targets the leisure travel segment through its mobile app.
 - Mint Smartwash Ltd. is a developer and operator of high-volume express car wash tunnels based in Calgary. Its geographical focus is Alberta, Saskatchewan and selected northern-US states.
 - O2 is a Canadian based venture which develops protective masks. These masks are innovative respirators that protect you from harmful particles and makes you feel healthier.
- The Fund made a follow-on investment in Ace Hill Beer Company, a fast-growing Toronto based craft beer company, which is focused on premium easy-drinking products.
- The Fund made four new commitments in Fund of Fund investments, which included InCapital Venture Fund I, LP; Versant Voyageurs II, L.P.; Versant Vantage II, LP and Versant Ventures VIII, LP

Overview of the Investment Environment

At the end of December 2020, the second wave of the pandemic was well under way. Different North American governments were struggling with the balance between locking down society to prevent the spread of the virus, and keeping some level of the economy and schools open to support the populace. Variants of the virus were spreading rapidly and vaccines were beginning to be deployed. Uncertainty about the efficacy of vaccines as variants were discovered kept society on edge. The uncertainty of any form of economic outlook made planning a challenge. Interest rates remained low and government stimulus programs were extended. Public markets, fueled by optimism as vaccines began to take effect and by inexpensive debt continued to be strong, and the IPO market was flourishing. No one has visibility into the depth of the recession that many say will be inevitable. Led by the tech sector, valuations continue to be strong. We continue to see 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. The Kensington Private Equity Fund portfolio is well positioned from a defensive perspective with good exposure to sectors that are recession resistant such as health care and food products. 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. We continue to invest in opportunities that appear to be properly priced given the risk, and where we can develop a plan to support management in building earnings at an above normal rate.

Economic Environment

The Manager believes that the pandemic has had a significant and long-term impact on the economy. With central banks maintaining low interest rates, and governments funding support programs, the hope is that the virus will be under enough control to allow economies to re-open before too much permanent damage has been done to the economy. So far that appears to be working. 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. The problems associated with travel restrictions may be temporary. 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. The IPO market for fast growth companies is highly receptive as seen by the run-up in share prices. 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 as owners divest of non-core businesses, or founders decide to sell. We are seeing a meaningful flow of opportunities in all sectors and have been fortunate in having long-standing relationships that have afforded some well-priced investments that have been made by the Fund. We believe that at some point companies and private investors will become worried enough about the economy that prices may improve for buyers. Until then, we are being careful in pricing our investments for attractive long-term returns.

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 mean 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.

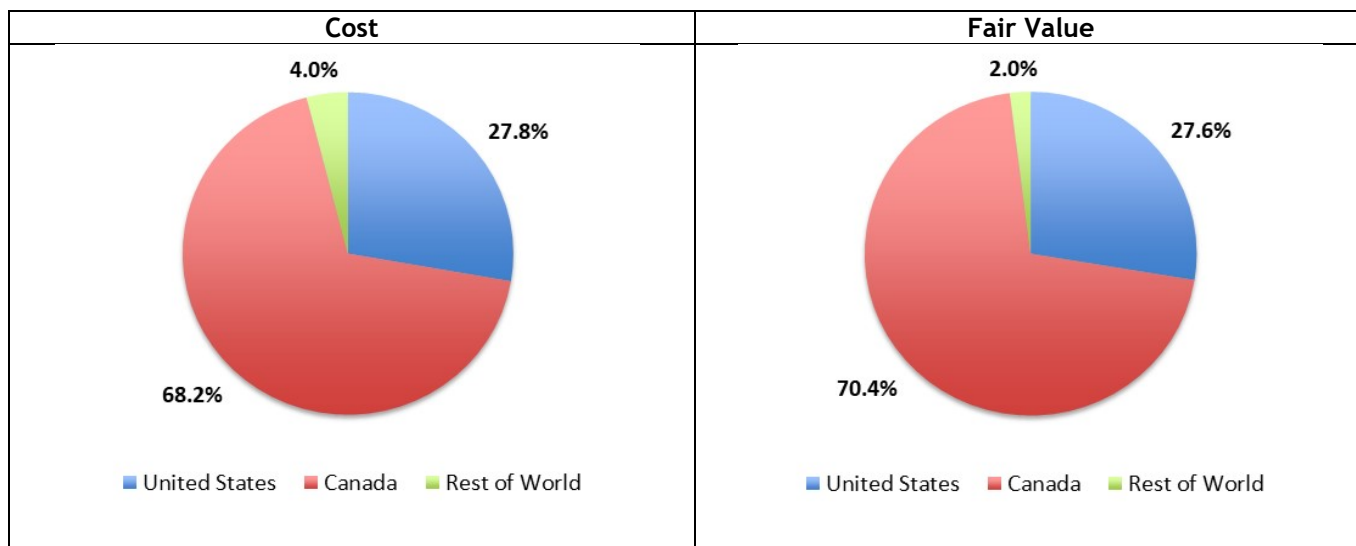
The investment strategy used to construct the portfolio of KPEF relies upon the Manager's proactive sourcing of deal flow and active management of the portfolio. This investment strategy is designed to provide investors with access to private equity investments that would otherwise be unavailable to 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, 2020, KPEF held investments in 45 primary funds, 9 independent secondary fund portfolios, and 46 direct investments. The Manager continues to review private equity investment opportunities on an ongoing basis to achieve KPEF's investment objective.

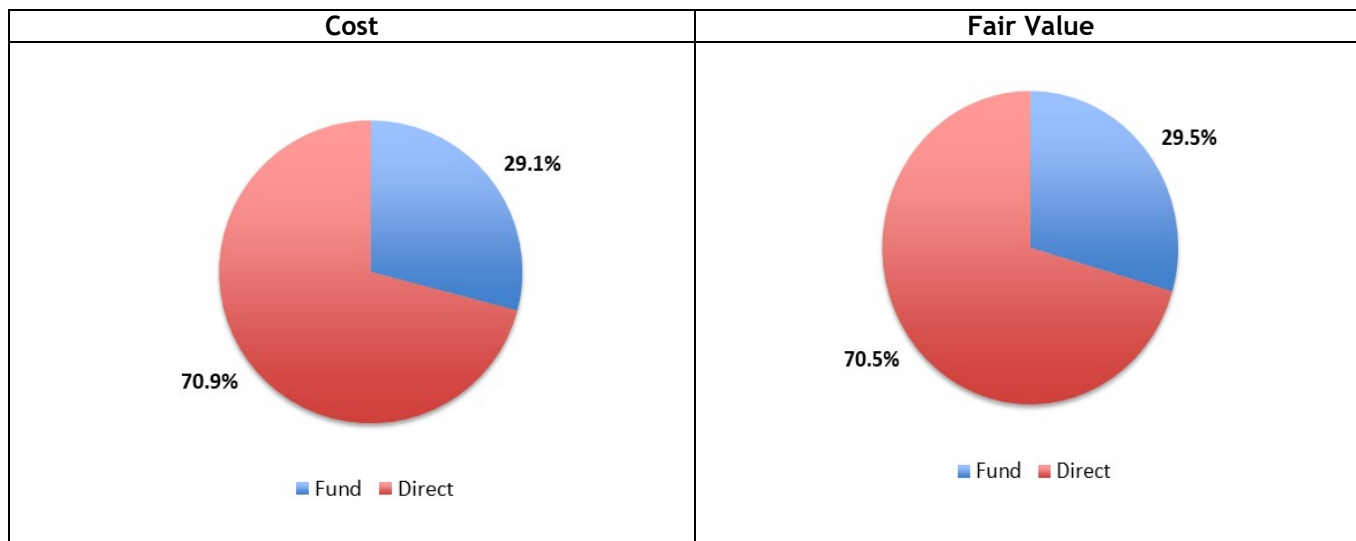
In accordance with the Declaration of Trust governing KPEF, the Manager has the responsibility for establishing target portfolio weighting guidelines by geographic region, investment type and investment sector, with the expectation that the actual weightings will vary over time depending on market conditions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

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

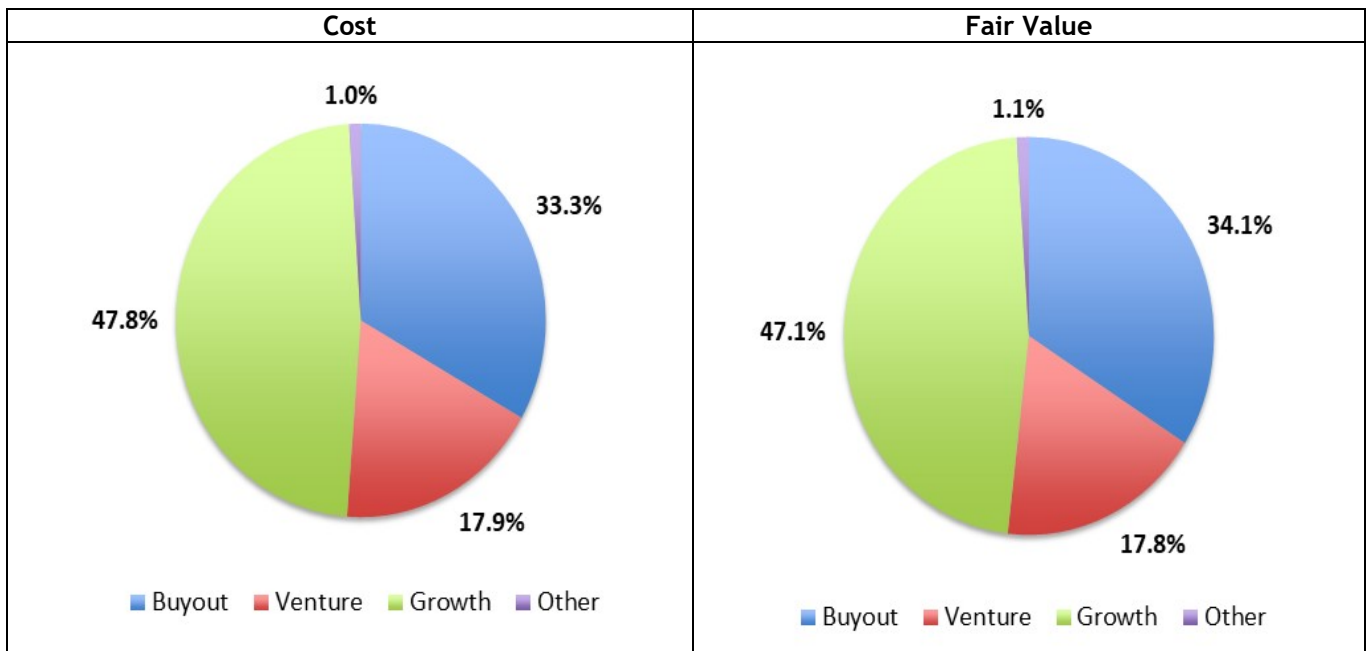
By geographic region:



By investment type:

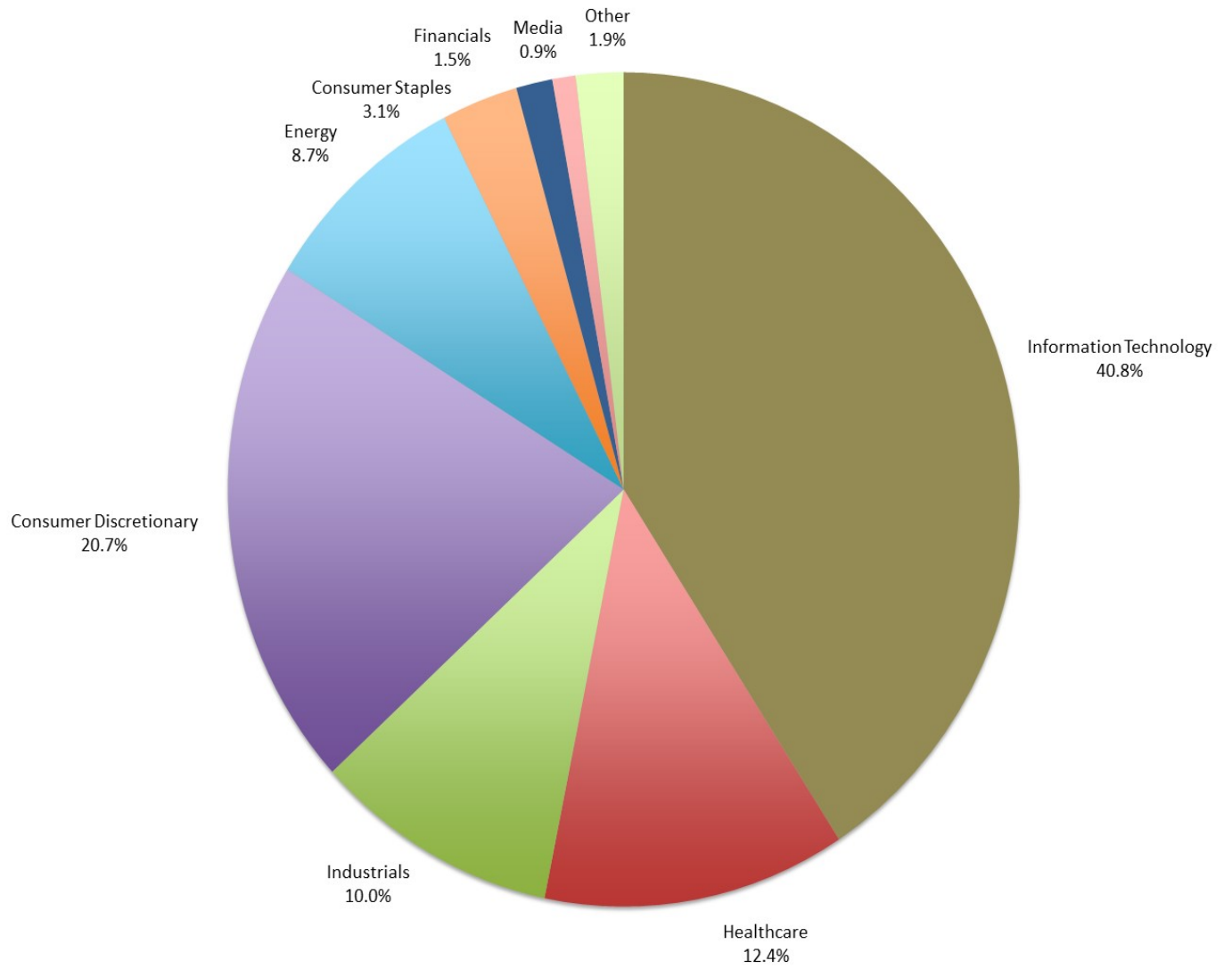


By sector:



In addition to the 46 direct investments in private companies, the KPEF portfolio as of December 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)
December 31, 2020**



KPEF NET ASSET VALUE

Underlying Investments:

As at December 31, 2020, KPEF held Underlying Investments totaling \$638.2 million representing 84.8% 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 \$176.2 million and distribution of \$27.5 million, the net asset value of Underlying Investments increased by \$75.5 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, 2020, KPEF held Liquid Investments totalling \$113.6 million, representing an increase of \$23.9 million from the \$89.7 million of Liquid Investments held at December 31, 2019. At December 31, 2020, Liquid Investments comprised 15.1% 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 are to close.

	December 31, 2020			December 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	81,225,555	81,225,555	10.8%	54,131,790	54,131,790	10.8%
Kensington Alternative Strategy Fund*	25,547,836	30,740,006	4.1%	29,273,575	33,996,072	6.8%
GIC Investment	1,500,000	1,596,434	0.2%	1,500,000	1,562,715	0.3%
	108,273,391	113,561,995	15.1%	84,905,365	89,690,577	17.9%

* 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 December 31, 2020						Period Ended December 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	Class U Units
Net Asset Value	4,259,298	491,372	22,747,067	612,817,740	24,699,137	87,586,066	3,866,763	1,942,414	77,648,410	398,146,200	19,435,763
Units Outstanding	150,549	15,921	932,717	22,090,944	872,728	3,138,946	151,830	70,541	3,476,817	15,950,074	807,018
Management expense ratio %	3.34%	2.85%	3.91%	3.00%	3.01%	2.34%	3.87%	3.42%	4.83%	3.81%	4.21%
Unrecoverable management expense ratio %	2.57%	2.08%	3.15%	2.24%	2.25%	1.59%	2.90%	2.42%	3.83%	2.76%	2.86%

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, 2020						For the quarter ended September 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	214,228	24,463	1,145,083	29,891,802	610,835	4,269,252	316,906	35,887	1,668,240	36,021,164	2,223,357	5,584,029
Total profit/(loss)	176,247	20,655	721,846	25,365,124	405,062	3,899,606	294,455	33,353	1,530,086	33,106,684	2,084,081	5,256,275
Total profit/(loss) attributable per-unit basis	1.16	1.30	0.77	1.24	0.47	1.31	1.92	2.09	1.63	1.88	2.48	1.95
Total net assets	4,259,298	491,372	22,747,067	612,817,740	24,699,137	87,586,066	4,154,795	470,717	21,847,582	473,576,912	23,794,075	73,752,541
Distributions declared and paid	-	-	-	-	-	-	1.27	1.27	1.27	1.27	1.27	1.27

	For the quarter ended June 30, 2020						For the quarter ended March 31, 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	53,539	6,235	282,250	5,707,905	36,504	912,899	181,218	31,081	1,839,956	18,769,425	2,406,280	1,999,285
Total profit/(loss)	10,790	2,453	32,638	2,244,233	(135,506)	483,917	140,705	23,499	1,180,590	14,048,015	2,172,795	1,539,794
Total profit/(loss) attributable per-unit basis	0.07	0.15	0.04	0.14	(0.17)	0.19	0.94	0.69	0.52	0.91	2.74	0.96
Total net assets	3,966,420	444,162	21,010,867	428,149,529	21,169,994	66,626,135	3,955,630	472,651	28,564,709	416,463,144	21,305,500	57,602,991
Distributions declared and paid	-	-	-	-	-	-	-	-	-	-	-	-

	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 profit/(loss)	(28,977)	(10,525)	(539,513)	(1,366,554)	272,779	117,301	4,420,502	16,788,712
Total profit/(loss) 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	-	-	-	-	-	-	-	-

KPEF UNITS ISSUED AND OUTSTANDING

As of December 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 December 31, 2020, KPEF had issued (net of redemptions and conversions) 150,549 Class A Units, 15,921 Class F Units, 932,717 Class E Units, 22,090,944 Class G Units, 872,728 Class U Units and 3,138,946 Class C Units for net proceeds of \$655.5 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 December 31, 2020, the total amount funded by KPEF into Kensington Venture Fund and Kensington Venture Fund II was \$15,383,703 and \$6,436,464, 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.