



KENSINGTON PRIVATE
EQUITY FUND

Management Discussion and Analysis

FOR THE YEAR ENDED MARCH 31, 2021

JUNE 29, 2021

2021

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.

KPEF OVERVIEW

KPEF was created to provide investors with exposure to a diversified portfolio of private equity investments (“Underlying Investments”), including private equity and venture capital 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”). KPEF is a leading open-ended private equity fund in Canada and invests primarily in North American focused late-stage venture as well as growth equity and traditional mid-market buyouts.

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FUND PERFORMANCE AND INVESTMENT ACTIVITIES

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. What separates alternatives from traditional investments is that they can deliver solid performance during challenging environments because they are less vulnerable to large swings in the stock and bond markets caused by short-term investor sentiments. More fundamentally than traditional investments, alternatives reflect the underlying longer-term values of their assets. They are sensitive to the broader economy, but without the short-term noise generated by continuous trading. This was clearly displayed in KPEF's performance for the year ended March 31, 2021 as the Net Asset Value (NAV) of KPEF increased by approximately \$416 million, consisting of unrealized gains and new subscriptions received from investors, net of distributions paid. The IRR per Unit was 31.8% for the year ended March 31, 2021, 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 7.0%.

The fund further strengthened its portfolio with the addition of several new direct investments during the year:

- **Anthem Partners:** A privately owned operator of cemeteries and funeral homes. This is the Fund's first investment in the "end of life" services sector through its partnership with Triangle Capital Corporation ("Triangle"). The initial platform consists of a portfolio of 6 funeral homes and 2 crematoria located in the Central Valley of California. Anthem intends to grow by acquisition.
- **Borrowell:** A credit education company that offers credit scores, education, and weekly credit monitoring. KPEF invested in Borrowell's acquisition of Refresh Financial – a Kelowna-based fintech company that specializes in providing underserved Canadians with affordable access to credit.
- **Velos Capital:** An independent asset management platform specializing in private mortgage lending strategies. Through shared resources and infrastructure, Velos provides commercial and residential mortgages in Ontario and offers investors the opportunity to invest in those mortgage portfolios.
- **Brightspark Ventures II, LP:** Through a secondary purchase, KPEF acquired units of Brightspark Ventures II, LP. The partnership's remaining asset is Hopper Inc., an online travel agent that targets the leisure travel segment through its mobile app.

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FUND PERFORMANCE AND INVESTMENT ACTIVITIES (CONTINUED)

- Mint Smartwash: 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. Mint's conveyORIZED express tunnel car wash utilizes state-of-the-art technology to deliver superior value relative to other car wash models (i.e., significantly faster wash times, usage of less harmful chemicals, superior water reclamation processes, etc.). There are a number of new sites to be developed over the coming two years.
- LifeSpeak Inc: A digital wellness platform that provides employees and their family members with remote access to North America's leading experts in mental and physical health, financial health, family relationships, professional skills development, among other topics. Over the past few years, LifeSpeak has become an effective, yet affordable solution for corporate and institutional clients.
- GridPoint, Inc: A leading subscription-based energy efficiency technology platform that provides real time, data driven visibility, analysis and control functionalities to commercial & industrial buildings across North America.

Other portfolio activities include:

- Ace Beverage Group: The Fund made a follow-on investment in Ace Hill Beverage, which produces craft beers, radlers and vodka sodas. The company continues to focus on premium easy drinking products with marketing targeted at millennials through a minimalist brand strategy celebrating food, music, fashion and culture.
- During the year the Fund made several new commitments in Fund of Fund investments, which included Future Ventures II LP, Incapital Venture Fund I LP, Lumira Ventures IV LP, Marcy Ventures Partners Fund II LP, Novacap TMT VI LP, Ten Coves Capital III LP, Tribe Capital Fund II LP, Versant Voyageurs II LP, Versant Vantage II LP, and Versant Ventures VIII LP
- The fund exited its investment in Mobile Klinik, a chain of professional smartphone repair stores specializing in professional 'while you wait' repair and care of smartphones and tablets.
- 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.

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Overview of the Investment Environment

As the first quarter of 2021 drew to a close, the pace of vaccinations globally was rising with developed economies leading the way. Along with the increasing levels of vaccinations came the loosening of restrictions, allowing many businesses to ramp up. This gave rise to increasing confidence, and with that came increasing prices across the board. Deal flow was strong throughout the quarter, making the year ending March 31 one that began with tremendous uncertainty and ended with growing confidence. There continues to be health challenges everywhere, and the long term impact of the pandemic may well be measured in an increase in the cost of doing business. It has certainly affected supply chains, and all forms of retail activity. Along with the negative impact has come real innovations that have created investment opportunities. While uncertainty about the efficacy of vaccines with respect to variants keeps society on edge, the enthusiasm about returning to normal is palpable. The SPAC market is cooling but there is still a lot of capital in those companies and in private funds, available for investment. That means there are a lot of investments being offered, most of which are overpriced for the quality and risk involved. The challenge for the Manager is finding those opportunities that are well priced relative to the return expectations. The adoption of advanced technology by mature companies is going to be an important differentiator in our view, and we are finding ways to fund that kind of growth. 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. We look for 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 continues to believe that the pandemic has had a significant and long-term impact on the economy. Central banks continue to maintain low interest rates, and governments are in the early stages of funding long term support programs. As previously mentioned the cost of doing business has increased in many ways. The US economy is very strong, and the major economies globally are thriving. The US stimulus package is unprecedented and already its impact is being seen. Travel is re-opening and the hospitality industry is gearing up. Immigration delays continue to hamper growth, and labour shortages are an issue. 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. Offsetting the apparent optimism and economic growth in the major economies is the continuing terrible toll of the pandemic in less developed parts of the world. The impact of the pandemic has yet to play out and it is the view of the Manager that a conservative investment approach is well justified.

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Current Private Equity Market Conditions

Select private market strategies may be well positioned to capitalize post-COVID changes in consumer and business behaviours. Furthermore, consumers are rapidly driving disruption and investment focus by accelerating technology adoption, prioritizing value for money and becoming more digitally savvy. 2021 is positioned to be an active year for deal activity as record high dry powder coupled with high demand will further drive acquisitions. 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. The ballooning of SPAC activity in 2020 and the beginning of 2021 has reached record highs globally. 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. 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.

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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 March 31, 2021, KPEF held investments in 55 primary funds, 9 independent secondary fund portfolios, and 50 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 fair value of private equity investments is valued initially based on the transaction price and may continue to be valued at cost for a significant time period after the acquisition, if this is determined to be the best indicator of fair value. Valuations may also be derived by reference to observable valuation measures for comparable companies or transactions, such as multiplying a key performance metric by a relevant valuation multiple. These multiples are derived from observable market data and private market data by applying assumptions on the comparability of the businesses, considering operational, market, financial and non-financial factors.

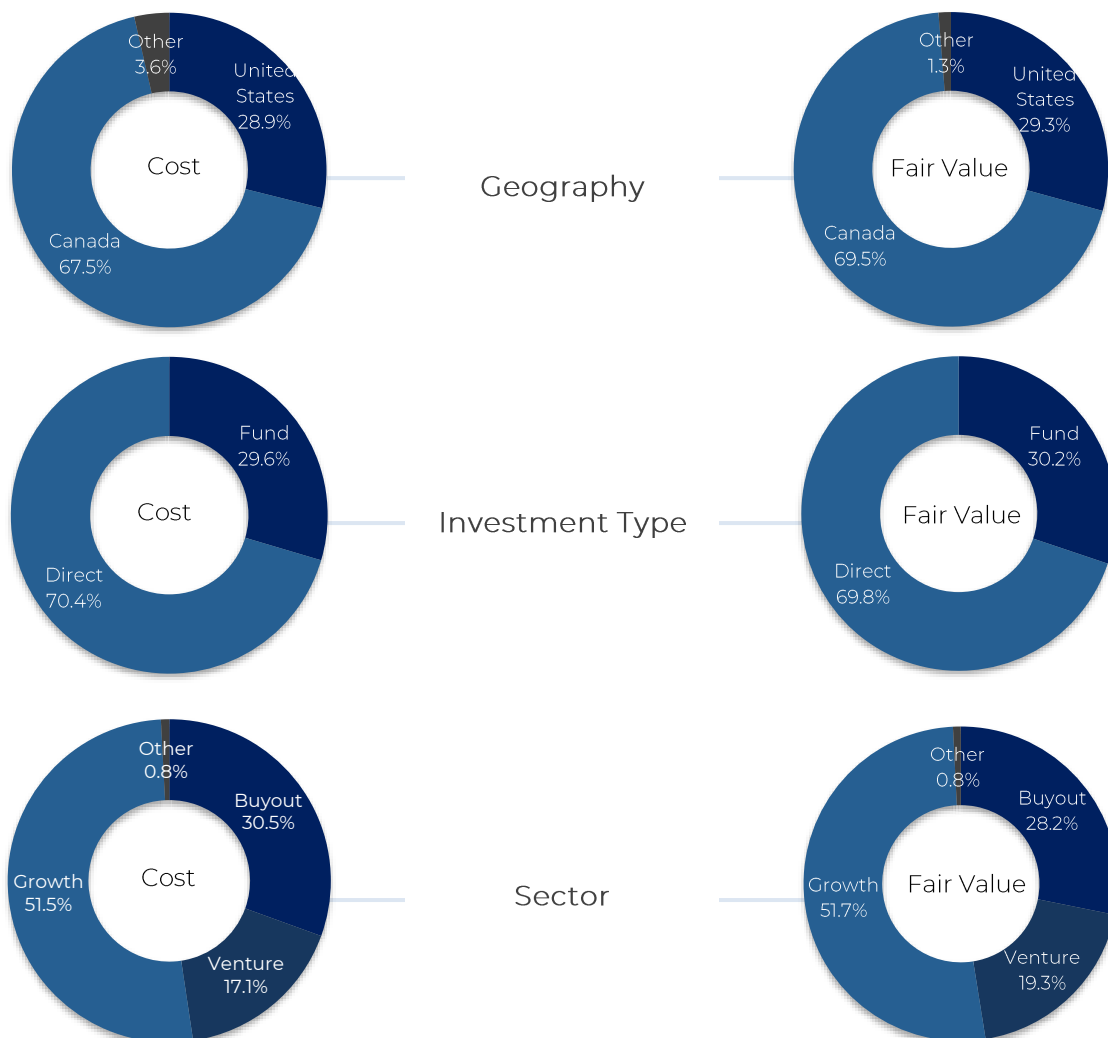
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CURRENT PORTFOLIO OF UNDERLYING INVESTMENTS (CONTINUED)

KPEF may base the valuation on references to third-party investments or precedent transactions in comparable equity securities of the company and other similarly situated companies, and will consider current average or median multiples as well as high and low ends of the comparative data set. After the valuation of a company is determined, the next step is to determine the value of the specific securities owned by KPEF. In many cases, the securities of venture and growth stage investments are structured with a downside liquidation preference or similar provision providing substantial reduction in downside risk while preserving full upside participation. As a result, the uncertainty in KPEF private market valuations is asymmetric, with lower downside risks relative to higher upside opportunities. A similar asymmetric valuation assessment applies to certain fund investments held by KPEF where the specific securities held by KPEF have features that reduce their downside financial risks.

PORTFOLIO ALLOCATION WEIGHTINGS

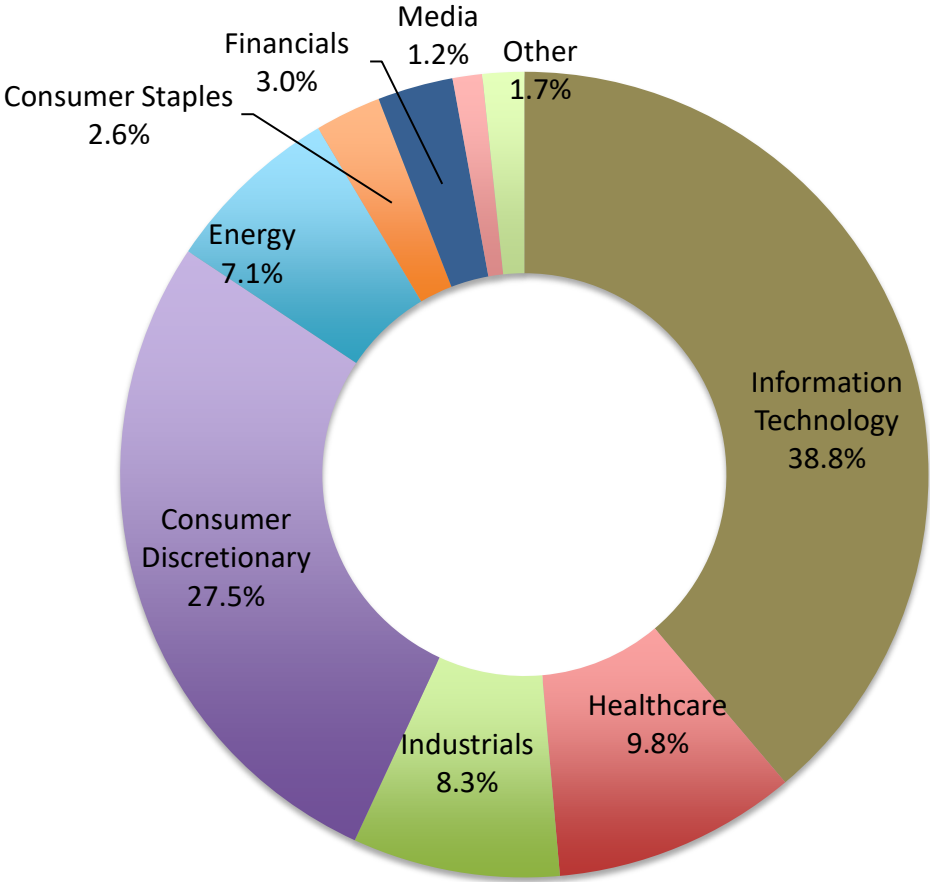
MARCH 31, 2021



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KPEF Industry Weightings of Private Equity Investment (Fair Value)

In addition to the 50 direct investments in private companies, the KPEF portfolio as of March 31, 2021, 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 to the right.



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KPEF Net Asset Value

Underlying Investments:

As at March 31, 2021 KPEF held Underlying Investments totaling \$766 million representing 81% 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 \$246 million and distributions of \$43 million, the net asset value of Underlying Investments increased by \$212 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 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, 2021, KPEF held Liquid Investments totaling \$114 million, representing an increase of \$23 million from the \$91 million of Liquid Investments held at March 31, 2020. At March 31, 2021, Liquid Investments comprised 12.1% 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.

	March 31, 2021			March 31, 2020		
	Cost (CAD)	Estimated Fair Value (CAD)	% of Fund's Net Assets	Cost (CAD)	Estimated Fair Value (CAD)	% of Fund's Net Assets
Cash	48,853,974	48,853,974	5.2%	67,286,578	67,286,578	12.7%
Kensington Alternative Strategy Fund*	35,547,836	43,866,690	4.6%	19,547,836	21,810,107	4.1%
GIC Investment	21,500,000	21,605,338	2.3%	1,500,000	1,573,993	0.3%
	105,901,810	114,326,002	12.1%	88,334,414	90,670,678	17.1%

* This fund is also managed by the Manager - see "Related Party Transactions".

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KPEF Units Issued and Outstanding

As of March 31, 2021, 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, 2021, KPEF had issued (net of redemptions and conversions) 147,708 Class A Units, 15,921 Class F Units, 892,859 Class E Units, 23,472,630 Class G Units, 937,100 Class U Units and 3,708,746 Class C Units for net proceeds of \$710 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.

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 March 31, 2021					
	Class A Units	Class F Units	Class E Units	Class G Units	Class U Units	Class C Units
Net Asset Value	4,892,303	575,907	25,407,556	762,208,361	29,580,717	121,379,352
Units Outstanding	147,708	15,921	892,859	23,472,630	937,100	3,708,746
Management expense ratio %	3.37%	2.89%	4.14%	3.16%	3.14%	2.46%
Unrecoverable management expense ratio %	2.59%	2.11%	3.36%	2.38%	2.36%	1.68%

	Period Ended March 31, 2020					
	Class A Units	Class F Units	Class E Units	Class G Units	Class U Units	Class C Units
Net Asset Value	3,955,630	472,651	28,564,709	416,463,144	21,305,500	57,602,991
Units Outstanding	149,795	16,535	1,240,088	16,110,606	794,213	2,226,454
Management expense ratio %	3.96%	3.37%	4.85%	3.93%	3.59%	3.67%
Unrecoverable management expense ratio %	2.97%	2.43%	3.91%	2.92%	2.55%	2.05%

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Selected Financial Data

The following table shows selected key financial information about KPEF, which summarizes the KPEF financial performance for the year ended March 31, 2021 along with the performance of the three previous years.

	For the year ended March 31, 2021					
	Class A	Class F	Class E	Class G	Class U	Class C
	\$	\$	\$	\$	\$	\$
Total operating income	1,335,500	154,942	6,998,509	188,533,688	6,180,542	29,381,851
Total profit/(loss)	1,194,962	140,996	5,918,440	171,849,880	5,439,217	27,563,418
Total profit/(loss) attributable per-unit basis	7.93	8.82	6.45	8.91	6.40	9.41
Total net assets	4,892,303	575,907	25,407,556	762,208,361	29,580,717	121,379,352
Distributions declared and paid	1.27	1.27	1.27	1.27	1.27	1.27

	For the year ended March 31, 2020					
	Class A	Class F	Class E	Class G	Class U	Class C
	\$	\$	\$	\$	\$	\$
Total operating income	369,799	118,614	5,206,691	34,721,190	2,231,792	1,999,285
Total profit/(loss)	205,997	61,574	1,839,555	20,443,049	1,738,558	1,539,794
Total profit/(loss) attributable per-unit basis	1.29	1.01	0.60	1.43	2.23	0.96
Total net assets	3,955,630	472,651	28,564,709	416,463,144	21,305,500	57,602,991
Distributions declared and paid	1.00	1.00	1.00	1.00	-	-

	For the year ended March 31, 2019			
	Class A	Class F	Class E	Class G
	\$	\$	\$	\$
Total operating income	576,462	225,198	8,950,842	30,920,064
Total profit/(loss)	406,539	170,750	5,399,732	22,087,070
Total profit/(loss) attributable per-unit basis	2.26	2.77	1.81	2.50
Total net assets	4,418,018	1,879,501	72,724,213	269,256,379
Distributions declared and paid	2.25	2.25	2.25	2.25

	For the year ended March 31, 2018			
	Class A	Class F	Class E	Class G
	\$	\$	\$	\$
Total operating income	959,479	272,507	10,510,574	27,069,950
Total profit/(loss)	700,004	222,725	7,975,329	22,464,462
Total profit/(loss) attributable per-unit basis	2.40	3.82	3.27	4.08
Total net assets	4,907,318	1,622,259	65,334,038	172,114,383
Distributions declared and paid	0.72	0.72	0.72	0.72

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RELATED PARTY TRANSCATIONS

The KPEF investment portfolio includes investments in three funds managed by the Manager. KPEF has invested \$35,547,836 in Kensington Alternative Strategy Fund, KPEF has committed \$23,850,000 to Kensington Venture Fund, LP, which will be drawn 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 by the fund over a 12-year period. As of March 31, 2021, 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 are structured to ensure there is no duplication of management fees paid by KPEF to the Manager.

RISK FACTORS

KPEF is subject to several risks, including all the risks described in the KPEF Annual Information Form dated June 28, 2021.

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.

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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, 2021. 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.