



KENSINGTON PRIVATE
EQUITY FUND

Management Discussion and Analysis

FOR THE QUARTER ENDED JUNE 30, 2022

August 12, 2022

2022

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INTRODUCTION

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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RECENT DEVELOPMENTS

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. For the quarter ended June 30, 2022, the Net Asset Value (NAV) of KPEF increased by approximately \$30 million, consisting of new subscriptions received from investors offset with net unrealized losses. The IRR per Unit was -13.6% for the quarter compared to -0.2% the same period last year. It is based on the performance of the Underlying Investments and considering the impact of other cash flows into and out of KPEF.

The Fund further strengthened its portfolio with the addition of several new direct investments during the quarter:

- **Resolute Health:** Based in Bedford, Nova Scotia, it is Canada's largest privately owned sleep health product and service provider.
- **Global Fertility:** Based in Southern California, it has medical clinics related to fertility.
- **Vetster:** Based in Toronto, Ontario, Vetster connects pet owners to veterinarians through video chat appointments.
- The Fund made follow on investments in GuarantR, a real estate insurance platform for landlords and tenants and Strider, a company combatting intellectual theft.
- The Fund received a distribution-in-kind from Walden partnerships of Soundhound AI. Soundhound (NASDAQ: SOUN) went public during the quarter. It is a voice technology company.
- The Fund made commitments to the following fund managers; Rhino, Knox Lane, Trinity Hunt, One 9, Cambium, Georgian and Garage Capital.

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Overview of the Economic Environment

As we head into the second half of the year, the same challenges that surfaced at the start of 2022 prevail. The protracted conflict in Europe and a COVID-19 crisis in China continue to exacerbate supply shortages, while tightening financial conditions and high inflation rates are concerning. In Canada, the economy's sizable exposure to the housing sector along with variable rate mortgages make the economy more fragile. When coupled with rising energy and food costs, the eroding purchasing power and higher financing costs will continue to dampen consumer spending. Stagflation is a risk among developed countries. The Manager looks for resilient businesses within those sectors more correlated with inflation dynamics. For example, tech companies and healthcare are positioned to pass on rising costs more readily than labour intensive industries such as retail and hospitality. We look for companies that are willing to invest to adopt technologies that can offer competitive advantage to build a base for long term success. Strong local supply chains and distribution networks are valuable and will grow. 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.

Investment Environment

The S&P 500 recorded its largest loss in the first half of 2022 since 1970. The continued equity sell-off has helped absorb peak valuations but arguably has not incorporated a deterioration in corporate fundamentals. Risks remain in the growth space. There may be additional risks of decline as the market more fully discounts the liquidity drain, productivity disruptions and downward earnings revisions. The Nasdaq Composite Index, heavily concentrated in technology stocks, fell as much as 36% from its peak. In particular, while fintech companies saw demand rise strongly through the pandemic, driven by rising e-commerce spending, an accelerated shift toward digital payments and growing interest in cryptocurrencies, the sector has seen sharp declines this year. Canadian equities have been helped by heavy weightings in energy and other resource companies that are benefiting from the high inflation environment. The challenge for the Manager is finding those opportunities that are well priced relative to the return expectations. While valuations across public equities are seeing sharp declines, private assets are seeing adjustment as well, although not at the same pace, quantum nor uniformity. While different sectors will have varying experiences, companies that lean into technology adoption such as cloud services, artificial intelligence, robotics and more, are poised to seize opportunities as the digitization of traditional firms continues. Furthermore, the ongoing push to a greener economy including decarbonization and increased focus on sustainability is expected to increasingly influence investor behavior. We expect continued volatility in public markets, and price expectations of sellers in the private market to decline slowly. We are trading with caution.

Current Private Equity Market Conditions

The Canadian Private Equity market was very active in the first quarter of the year with investment activity seeing the second-highest Canadian totals on record. However, the landscape changed rapidly in the second quarter amid growing concerns about a global recession. The pace of transactions is slowing and giving way to a deeper dive into fundamentals and related longer diligence periods. Heading

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into the second half of the year, deal pipelines in many sectors are softening, especially in technology and debt is becoming more expensive. Public market volatility has had an impact on exits as the number of IPOs have significantly decreased. The good news is that there remains ample dry powder that puts funds in a good position to weather a downturn. Furthermore, deals that are completed coming out of recessions tend to deliver strong returns. The Manager continues to follow its investment thesis to partner with strong management teams to build great businesses. The philosophy applies to both funds and to direct investments. The quality of management is the most important factor in both. Under the current environment, those companies well positioned are the ones that demonstrate the ability to handle labour shortages, retain talent, source raw materials and finished goods, and steer through increasing pressures for ESG policies. The Manager has developed the Fund's portfolio to include a balance of venture, growth, and mature funds and companies. While the venture capital market continued to see large dollars invested in the first half of this year, overall deal count has declined over the last three consecutive quarters along with VC-backed exits. Firms are decelerating their investment pace as they navigate through the volatility of the public markets. Sectors such as business productivity, health and biotech will likely continue to attract capital. Cybersecurity will also be a high-focus area for investors, with the increase in remote working and as more transactions and data move to cloud networks. The popular growth capital market has had some of the exuberance in valuations taken away. Firms that consume capital to fuel that growth are gearing down to preserve capital as the enthusiasm for top line growth has given way to more focus on positive cash flow. We are seeing a meaningful flow of opportunities in all sectors and have been fortunate in having long-standing relationships that afford some well-priced investments that have been made by the Fund. We believe that gradually 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. Lastly, ESG factors are clearly rising in importance with investors. Sustainability is reshaping the world and there is an emerging opportunity for private equity sponsors to respond by implementing new and creative investment practices. We view ESG as consistent with our investment decision making process, which includes strong corporate governance, as well as consideration of responsible stewardship of environmental and social 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 that span two decades, 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, albeit with dampened pricing driven by uncertainty. 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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RESULTS OF OPERATIONS

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 of June 30, 2022, KPEF held investments in 83 primary funds, 7 secondary fund portfolios, and 70 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.

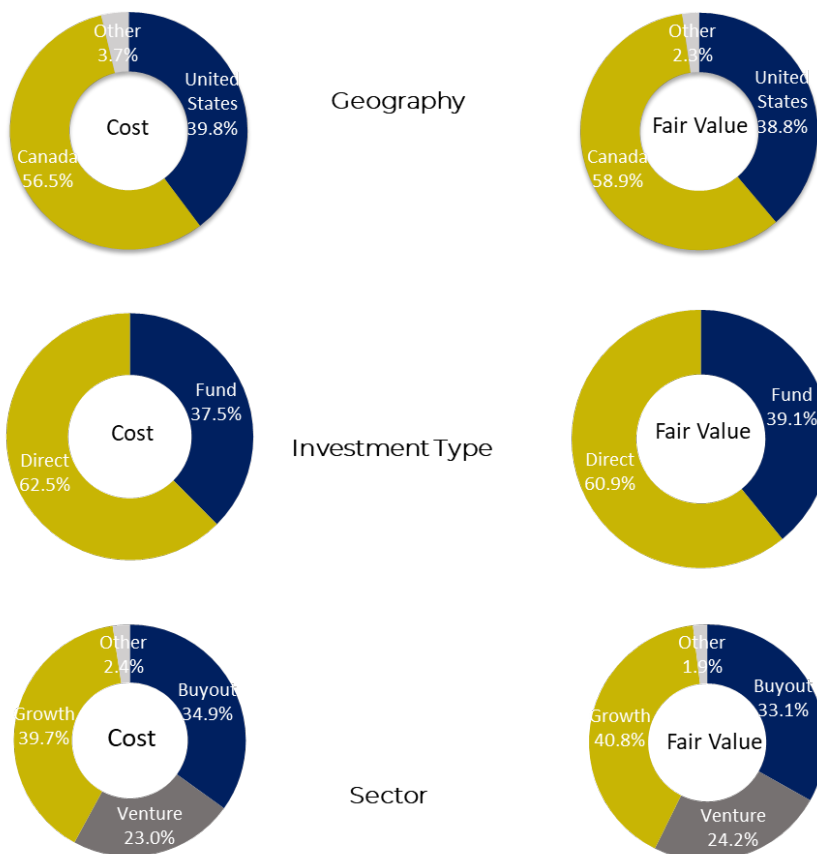
KPEF may base the valuation on references to third-party investments or precedent transactions in comparable equity securities of the company and other similarly situated companies, and will consider current average or median multiples as well as high and low ends of the comparative data set. After the 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

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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.

The portfolio allocation weightings as at June 30, 2022 are set out below:

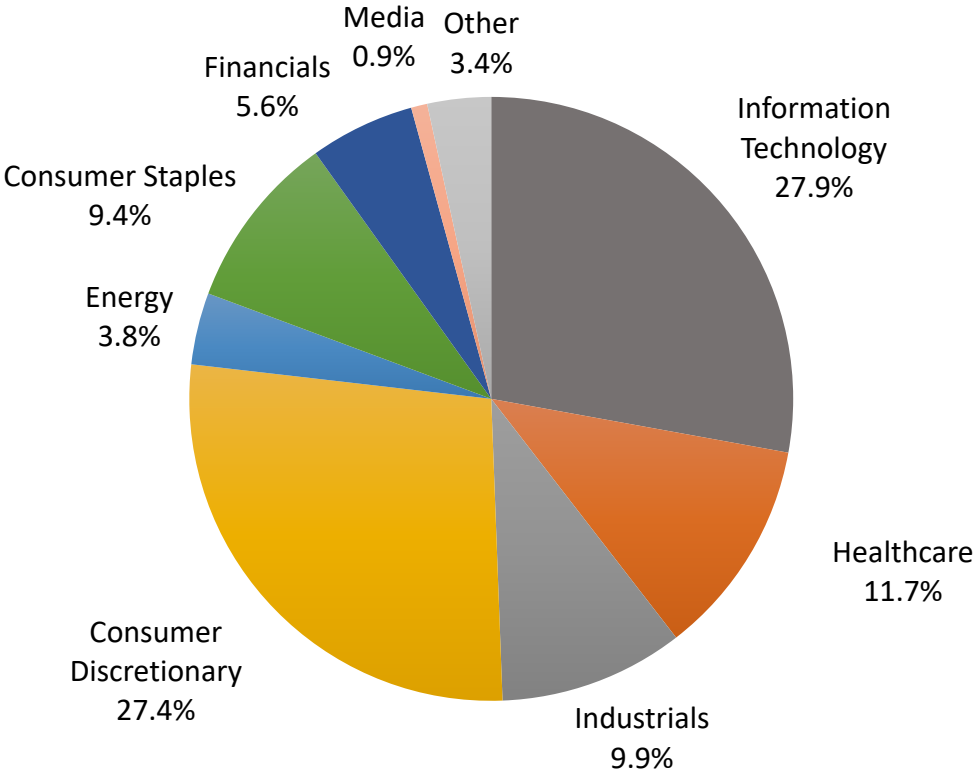
PORTFOLIO ALLOCATION WEIGHTINGS



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KPEF Industry Weightings of Private Equity Investments (Fair Value)

In addition to the 70 direct investments in private companies, the KPEF portfolio as of June 30, 2022, 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.



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KPEF NET ASSET VALUE

Underlying Investments:

As of June 30, 2022 KPEF held Underlying Investments totaling \$1.643 billion representing 98% of the NAV. During the quarter, KPEF realized certain private equity investments, resulting in a shift from unrealized gains reported in prior quarter to realized gains in the current quarter. Excluding the impact of net new subscriptions of \$90 million, the net asset value of the investments decreased by \$59 million during the quarter mainly due to the holdings of public stocks. These public stocks are positions that KPEF holds through Special Purpose Vehicles (SPVs) which KPEF has no control over the timing of liquidation or public stocks that KPEF holds directly but are still under a lock up 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 money market instruments and other securities, consistent with the overall objectives of liquidity, capital preservation and an appropriate return.

As of June 30, 2022, KPEF held Liquid Investments totaling \$54 million, representing a decrease of \$83 million from the \$137 million of Liquid Investments held at June 30, 2021. Liquid Investments comprise 3.2% of the NAV, consistent with the overall objectives of liquidity.

	June 30, 2022			June 30, 2021		
	Cost (CAD)	Estimated Fair Value (CAD)	% of Fund's Net Assets	Cost (CAD)	Estimated Fair Value (CAD)	% of Fund's Net Assets
Cash	21,494,253	21,494,253	1.3%	65,154,228	65,154,228	5.9%
Kensington Alternative Strategy Fund *	25,551,735	30,495,848	1.8%	41,547,836	50,237,369	4.6%
GIC Investment	1,500,000	1,609,189	0.1%	21,500,000	21,634,817	2.0%
	48,545,988	53,599,250	3.2%	128,202,064	137,026,414	12.5%

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

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KPEF UNITS ISSUED AND OUTSTANDING

As of June 30, 2022, KPEF had issued seven classes of Units, Class A Units, Class F Units, Class E Units, Class G Units, Class U Units, Class C Units and Class M Units. KPEF's issuances included 133,894 Class A Units, 16,465 Class F Units, 1,151,460 Class E Units, 34,756,719 Class G Units, 1,049,829 Class U Units, 9,782,329 Class C Units and 199,789 Class M Units

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), KEN 130 (Class C Units) and KEN 135 (Class M Units). Current NAV information is provided directly to investment accounts through Fundata.

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

	For the quarter ended June 30, 2022						
	Class A Units	Class F Units	Class E Units	Class G Units	Class U Units	Class C Units	Class M Units
Net Asset Value (\$)	4,860,665	660,020	35,195,529	1,240,206,850	33,069,597	354,042,857	7,215,807
Units Outstanding	133,894	16,465	1,151,460	34,756,719	1,049,829	9,782,329	199,789
Management expense ratio %	3.60%	3.17%	3.89%	2.87%	2.95%	2.19%	1.08%
Unrecoverable management expense ratio %	3.32%	2.89%	3.62%	2.60%	2.68%	1.90%	0.80%
	For the quarter ended June 30, 2021						
	Class A Units	Class F Units	Class E Units	Class G Units	Class U Units	Class C Units	Class M Units
Net Asset Value	4,728,671	570,990	27,138,426	881,348,326	30,120,804	157,569,238	-
Units Outstanding	147,783	16,275	996,443	28,139,290	996,193	4,984,333	-
Management expense ratio %	3.40%	2.98%	4.52%	3.55%	3.64%	2.91%	-
Unrecoverable management expense ratio %	2.20%	1.78%	3.32%	2.33%	2.44%	1.69%	-

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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 last four quarters that ended June 30.

	For the quarter ended June 30, 2022						
	Class A	Class F	Class E	Class G	Class U	Class C	Class M
	\$	\$	\$	\$	\$	\$	\$
Total operating income	(51,538)	(6,996)	(373,353)	(13,144,015)	(609,730)	(3,749,877)	(76,348)
Total profit/(loss)	(67,638)	(8,941)	(506,429)	(16,693,262)	(708,200)	(4,540,133)	(84,956)
Total profit/(loss) attributable per-unit basis	(0.51)	(0.54)	(0.44)	(0.48)	(0.67)	(0.49)	(0.43)
Total net assets	4,860,665	660,020	35,195,529	1,240,206,850	33,069,597	354,042,857	7,215,807
Distributions declared and paid	-	-	-	-	-	-	-
	For the quarter ended June 30, 2021						
	Class A	Class F	Class E	Class G	Class U	Class C	Class M
	\$	\$	\$	\$	\$	\$	\$
Total operating income	255,835	30,796	1,449,881	43,418,744	1,482,219	7,697,327	-
Total profit/(loss)	(487)	1,078	18,456	2,204,016	(133,913)	1,204,725	-
Total profit/(loss) attributable per-unit basis	(0.00)	0.07	0.02	0.08	(0.13)	0.26	-
Total net assets	4,728,671	570,990	27,138,426	881,348,326	30,120,804	157,569,238	-
Distributions declared and paid	1.12	1.12	1.12	1.12	1.12	1.12	-
	For the quarter ended June 30, 2020						
	Class A	Class F	Class E	Class G	Class U	Class C	Class M
	\$	\$	\$	\$	\$	\$	\$
Total operating income	53,539	6,235	282,250	5,707,905	36,504	912,899	-
Total profit/(loss)	10,790	2,453	32,638	2,244,233	(135,506)	483,917	-
Total profit/(loss) attributable per-unit basis	0.07	0.15	0.04	0.14	(0.17)	0.19	-
Total net assets	3,966,420	444,162	21,010,867	428,149,529	21,169,994	66,626,135	-
Distributions declared and paid	-	-	-	-	-	-	-
	For the quarter ended June 30, 2019						
	Class A	Class F	Class E	Class G	Class U	Class C	Class M
	\$	\$	\$	\$	\$	\$	\$
Total operating income	11,984	5,320	204,934	845,580	-	-	-
Total profit/(loss)	(28,977)	(10,525)	(539,513)	(1,366,554)	-	-	-
Total profit/(loss) attributable per-unit basis	(0.17)	(0.16)	(0.17)	(0.12)	-	-	-
Total net assets	4,278,735	1,900,248	73,775,071	321,963,916	-	-	-
Distributions declared and paid	-	-	-	-	-	-	-

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RELATED PARTY TRANSACTIONS

The KPEF investment portfolio includes investments in four funds managed by the Manager. KPEF has invested \$25,551,735 in Kensington Alternative Strategy Fund, committed \$23,850,000 to Kensington Venture Fund, L.P., which will be drawn by that fund over a 13-year period, committed \$25,745,857 to Kensington Venture Fund II, LP, which will be drawn by the fund over a 12-year period, and committed \$100,000,000 to Kensington Venture Fund III, L.P.. As of June 30, 2022, the total amount funded by KPEF into Kensington Venture Fund, L.P., Kensington Venture Fund II, L.P., and Kensington Venture Fund III, L.P., was \$21,700,374; \$11,585,636 and \$7,199,609, 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, 2022.

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.

