



KENSINGTON PRIVATE
EQUITY FUND

Management Discussion and Analysis

FOR THE NINE MONTHS ENDED

December 31, 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 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 nine months ended December 31, 2022, the Net Asset Value (NAV) of KPEF increased by approximately \$116 million, consisting of gains in the value of some investments, plus new subscriptions received from investors offset by reductions in the value of certain other investments. The Internal Rate of Return (IRR) per Unit was -7.2% for the nine months compared to 13.1% the same period last year. It is based on the performance of the Underlying Investments and takes into consideration the impact of other cash flows into and out of KPEF.

The Fund further strengthened its portfolio with the addition of several new investments during the nine months:

- **Resolute Health:** Based in Bedford, Nova Scotia, offers a scaled sleep health product and services platform in the home medical devices sector that operates 72 clinics across 6 provinces from British Columbia to the Maritimes.
- **Global Premier Fertility:** Based in Southern California, focuses on the operation and consolidation of US fertility clinics.
- **Vetster:** Based in Toronto, Ontario, connects pet owners with licensed veterinary professionals for on-demand, voice, text and video enabled appointments.
- **Follow-on investments** in Kenona, a high-volume precision automotive machining company for the North American automotive sector; Element5, a company that designs, fabricates and assembles modern timber buildings; Jewlr, an ecommerce retailer that designs and manufactures personalized, made-to-order jewelry; and GuarantR, a real estate insurance platform for landlords and tenants.
- **Received a distribution-in-kind** from Walden partnerships of Soundhound AI: Soundhound (NASDAQ: SOUN) is a voice application technology company that went public in 2022.
- **Made commitments** to the following fund managers: One 9 and Cambium.

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Overview of the Economic Environment

2022 came to a close in a much different environment compared to expectations at the start of the year – “transitory” inflation became much more sticky and the multiple interest rate hikes that followed along with a substantial pullback in public equities presented conditions that investors have not seen in more than a generation. The supply-driven inflation caused a significant shift in spending from services to goods during most of 2022. As supply chain troubles gradually resolve, inventories are increasing and demand is falling in the face of higher costs. Heading into 2023, the pressures of geopolitical instability, the Russia-Ukraine war, tightening credit markets and recessionary concerns continue to present significant headwinds. While these challenges are expected to stabilize over the course of 2023, as inflation moderates and interest rates peak, the record-high corporate profits during the pandemic are starting to turn. Margins continue to come under pressure with sustained high energy price shocks, higher wages and more expensive financing costs. In Canada, the economy’s sizable exposure to the housing sector along with variable rate mortgages is a risk factor. When coupled with rising energy and food costs which also erode purchasing power, we expect a dampening of consumer spending. The degree of impact will vary by sector, with those producers of nondiscretionary goods such as foods and household personal care products more insulated while manufacturers and merchandisers of heavy equipment and large household appliances will likely face deferred spending decisions.

Investment Environment

Investors continue to navigate an uncertain market environment with levels of inflation not seen in decades, and central banks’ sustained quantitative tightening. After several years of significant gains, including through a pandemic, the S&P 500 saw a major bear market in 2022 down almost 20%, with almost all sectors retreating except for Energy. Communication Services, Consumer Discretionary and Technology were the top three losers while defensive sectors Utilities, Consumer Staples and Healthcare fell the least. The equity sell-off and declining valuations, especially in the high-growth and tech sectors have made it less attractive for prospective companies to price and have effectively closed the IPO window. The retrenchment is bringing discipline to valuations, fundraising, burn rates and governance as markets are focused on a fundamentals-driven approach and intrinsic value. The emphasis on profitability, margins, operating leverage and cash flow will be the path to success for companies looking to IPO in 2023. 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 past year. We expect continued volatility in public markets, and when considering new investments, we are treading with caution. The Manager looks for resilient businesses within those sectors capable of passing through price increases to deal with inflation. For example, tech companies and healthcare are positioned to pass on rising costs more readily than labor intensive industries such as retail and hospitality. We look for companies that can invest to adopt technologies to build competitive advantage. Strong local supply chains and distribution networks are increasingly valuable and will grow. The Kensington Private Equity Fund portfolio is well positioned from a defensive perspective. 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.

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Current Private Equity Market Conditions

Market volatility and uncertainty in global financial markets spilled over to private equity as investors and companies struggle to adapt to new market dynamics. The inflation-based margin compression, supply chain knock-on effects and increased cost of capital continued to put pressure on private market valuations, although mark-downs so far have been modest compared to their public counterparts. The pace of transactions slowed considerably and gave way to a deeper dive into fundamentals and related longer diligence periods. There is a greater potential for alpha as investors are able to identify top quality assets, creating a positive direction for the future returns of capital deployed today. As IPOs halted and a slowing exit environment emerged, GPs increasingly looked to secondary markets and sales to other financial sponsors or strategic buyers. As a result, there is a strong supply of high-quality funds available in the market creating further pricing pressure. This may also mean GPs hold onto assets longer, resulting in fewer distributions to limited partners. 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 labor shortages, attract and retain talent, source raw materials and finished goods, and steer through increasing demand for ESG policies. The Manager is prepared to face headwinds and continues to manage the portfolio for challenging market conditions. Private Equity-backed companies tend to experience more resiliency during times of crisis as they have greater access to external funding, as well as their fund managers who can provide deep sector expertise as a value add. 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 with thoughtful 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 diversification required to manage risk, and direct investments to enhance returns. Combined these provide investors with access to different segments of the private equity market through a single investment in KPEF;
- Secondary investments to opportunistically take advantage of market dislocations; 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 December 31, 2022, KPEF held investments in 82 primary funds, 7 secondary fund portfolios, 4 funds managed by the Manager 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.

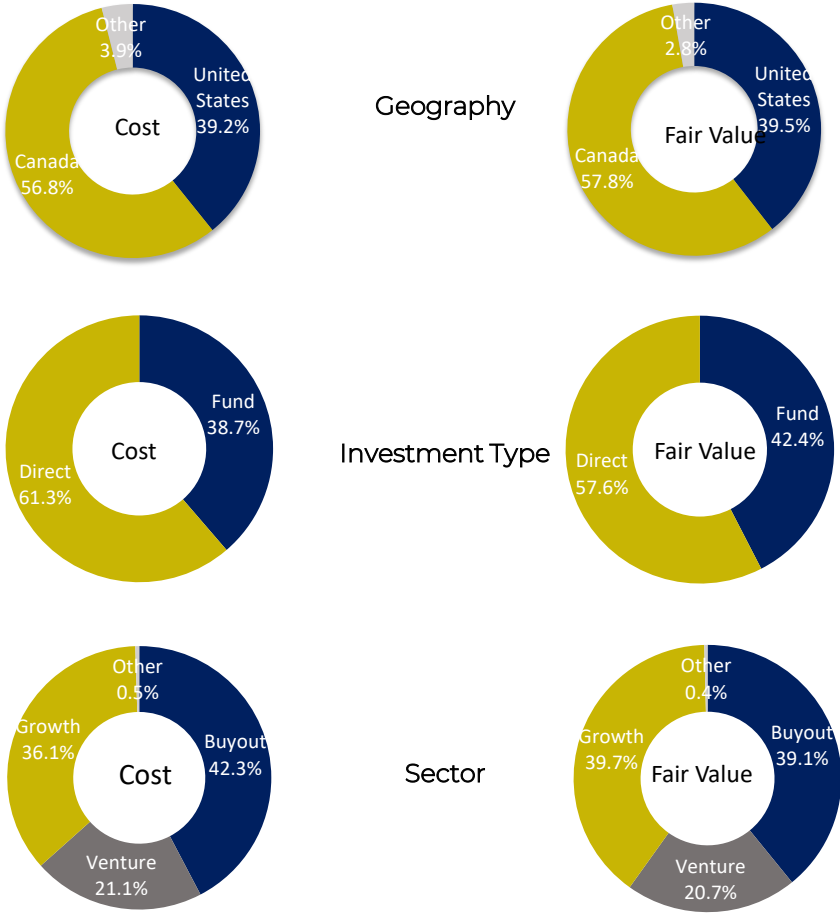
KPEF may base the valuation on references to third-party investments or precedent transactions in comparable equity securities of the company and other similarly situated companies, and will consider current average or median multiples as well as high and low ends of the comparative data set. After the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

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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 December 31, 2022 are set out below:

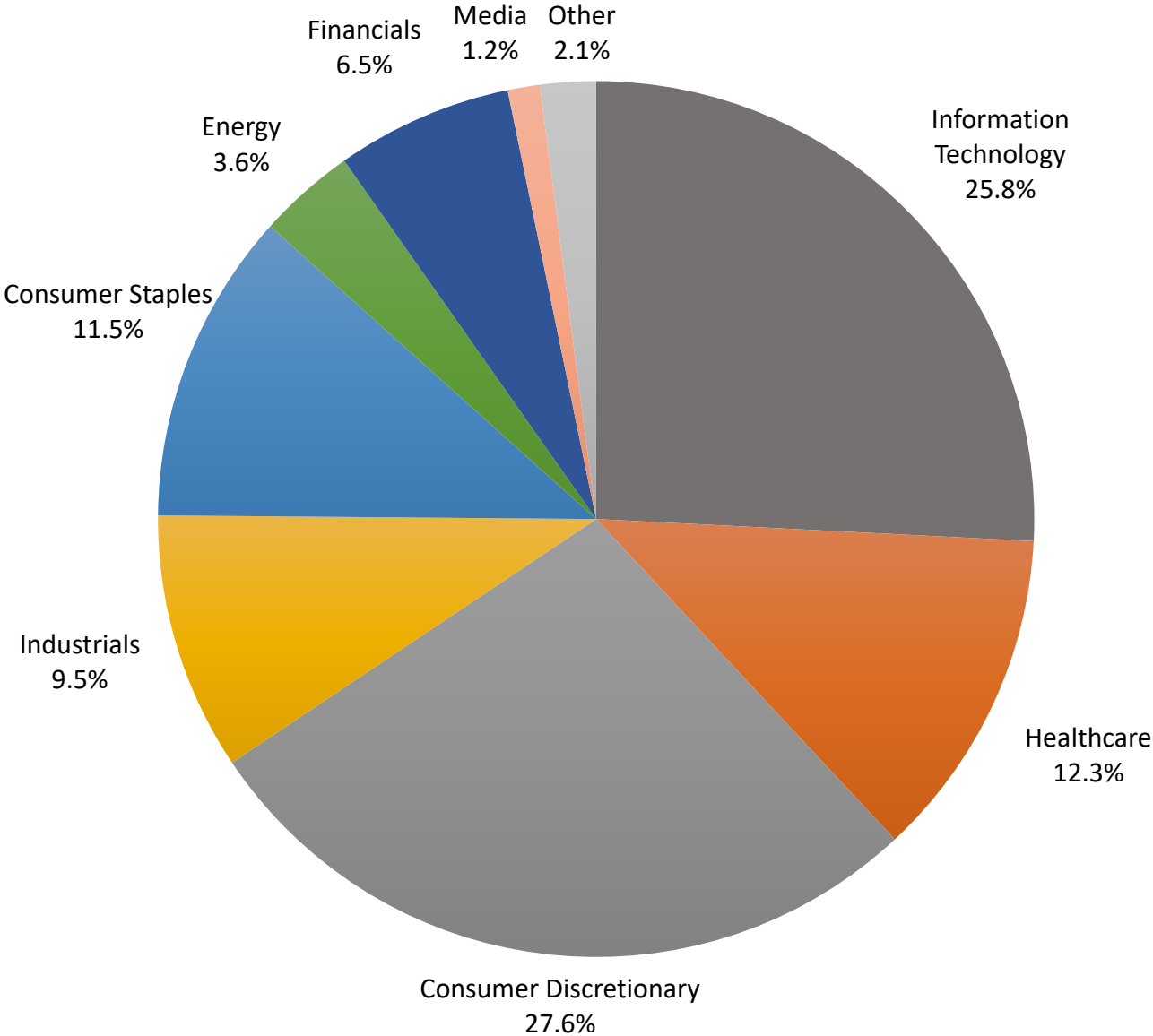
PORTFOLIO ALLOCATION WEITHINGS



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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 December 31, 2022, includes Underlying Investments in indirect investments in private companies through primary and secondary fund portfolios. These companies are diversified across multiple industry sectors, as set out in the chart below.



KPEF NET ASSET VALUE

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Investments:

As of December 31, 2022 KPEF held investments totaling \$1.863 billion. During the nine months period, KPEF realized certain private equity investments, resulting in a shift from unrealized gains reported in prior period to realized gains in the current period. Excluding the impact of net new subscriptions of \$210 million, the net asset value of the investments decreased by \$94 million during the nine months due to net decrease in fair value of direct and fund investments.

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 December 31, 2022, KPEF held Liquid Investments totaling \$37 million, representing a decrease of \$43 million from the \$80 million of Liquid Investments held at December 31, 2021. Liquid Investments comprise 2.2% of the NAV, consistent with the overall objectives of liquidity.

	December 31, 2022			December 31, 2021		
	Cost (CAD)	Estimated Fair Value (CAD)	% of Fund's Net Assets	Cost (CAD)	Estimated Fair Value (CAD)	% of Fund's Net Assets
Cash	6,166,404	6,166,404	0.4%	19,603,801	19,603,801	1.4%
Kensington Alternative Strategy Fund *	24,005,585	29,352,410	1.7%	48,547,836	58,370,485	4.1%
GIC Investment	1,500,000	1,609,189	0.1%	1,500,000	1,609,189	0.1%
	31,671,989	37,128,003	2.2%	69,651,637	79,583,475	5.6%

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

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KPEF UNITS ISSUED AND OUTSTANDING

As of December 31, 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 128,894 Class A Units, 16,465 Class F Units, 1,217,062 Class E Units, 36,598,713 Class G Units, 1,004,181 Class U Units, 11,307,913 Class C Units and 200,481 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 nine-months ended December 31, 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 (\$)	4,557,470	644,389	36,204,086	1,277,876,995	32,828,390	401,915,113	7,123,247
Units Outstanding	128,894	16,465	1,217,062	36,598,713	1,004,181	11,307,913	200,481
Management expense ratio %	3.73%	3.28%	4.00%	2.93%	2.96%	2.22%	1.12%
Unrecoverable management expense ratio %	2.81%	2.35%	3.07%	2.00%	2.03%	1.29%	0.19%
	For the nine-months ended December 31, 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	4,656,912	623,329	34,464,391	1,089,534,810	32,119,655	254,300,609	6,262,525
Units Outstanding	135,151	16,401	1,148,187	31,503,403	1,010,049	6,914,768	185,477
Management expense ratio %	3.99%	3.45%	4.76%	3.60%	3.66%	2.90%	2.04%
Unrecoverable management expense ratio %	2.98%	2.46%	3.77%	2.60%	2.66%	1.92%	0.72%

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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.

	For the quarter December 31, 2022						
	Class A	Class F	Class E	Class G	Class U	Class C	Class M
	\$	\$	\$	\$	\$	\$	\$
Total operating income	(20,733)	(2,606)	(140,276)	(4,918,815)	2,607,850	(1,447,281)	(28,418)
Total profit/(loss)	(75,657)	(9,499)	(586,651)	(17,118,346)	2,309,341	(4,521,701)	(64,927)
Total profit/(loss) attributable per-unit basis	(0.58)	(0.58)	(0.48)	(0.47)	2.30	(0.41)	(0.32)
Total net assets	4,557,470	644,389	36,204,086	1,277,876,996	32,828,390	401,915,113	7,123,247
Distributions declared and paid	-	-	-	-	-	-	-
	For the quarter ended September 30, 2022						
	Class A	Class F	Class E	Class G	Class U	Class C	Class M
	\$	\$	\$	\$	\$	\$	\$
Total operating income	(2,336)	(335)	(17,885)	(656,771)	(913,838)	(213,801)	(3,692)
Total profit/(loss)	(50,316)	(6,132)	(387,167)	(10,309,618)	(1,163,221)	(2,404,603)	(27,633)
Total profit/(loss) attributable per-unit basis	(0.38)	(0.37)	(0.33)	(0.29)	(1.11)	(0.23)	(0.14)
Total net assets	4,765,024	653,888	36,143,810	1,267,985,083	31,906,376	385,261,850	7,188,174
Distributions declared and paid	-	-	-	-	-	-	-
	For the quarter ended June 30, 2022						
	Class A	Class F	Class E	Class G	Class U	Class C	Class M
	\$	\$	\$	\$	\$	\$	\$
Total operating income	(136,488)	(18,519)	(993,639)	(34,425,403)	(1,813,461)	(9,409,379)	(199,596)
Total profit/(loss)	(182,266)	(24,017)	(1,364,309)	(44,092,008)	(2,082,201)	(11,472,328)	(221,466)
Total profit/(loss) attributable per-unit basis	(1.36)	(1.46)	(1.18)	(1.28)	(1.99)	(1.24)	(1.12)
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 March 31, 2022						
	Class A	Class F	Class E	Class G	Class U	Class C	Class M
	\$	\$	\$	\$	\$	\$	\$
Total operating income	500,278	67,822	3,610,203	122,126,612	2,342,774	31,219,295	714,690
Total profit/(loss)	441,751	60,707	3,135,305	110,067,994	1,994,743	28,706,982	675,588
Total profit/(loss) attributable per-unit basis	3.30	3.69	2.74	3.34	1.92	3.50	3.55
Total net assets	5,043,324	684,090	36,383,223	1,240,279,737	34,809,991	320,630,899	7,313,681
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 \$24,015,685 in Kensington Alternative Strategy Fund, committed \$24,850,000 to Kensington Venture Fund, L.P., which will be drawn by that fund over a 13-year period and committed \$25,745,857 to Kensington Venture Fund II, LP, which will be drawn by the fund over a 12-year period. In October 2022, the Government of Canada announced the successful applicants to its renewed venture capital investment program, the Venture Capital Catalyst Initiative (VCCI). Kensington was awarded a renewed mandate under the program, leading to the launch of our new Kensington Venture Fund III. KPEF's commitment is \$72,500,000.

As of December 31, 2022, the total amount funded by KPEF into Kensington Venture Fund, L.P. and Kensington Venture Fund II, L.P. was \$17,878,371 and \$15,447,514, 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.

