



KENSINGTON PRIVATE
EQUITY FUND

Management Discussion and Analysis

FOR THE YEAR ENDED MARCH 31, 2022

June 28, 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. This continues to be displayed in KPEF's performance for the year ended March 31, 2022 as the Net Asset Value (NAV) of KPEF increased by approximately \$701 million, consisting of unrealized gains and new subscriptions received from investors, net of distributions paid. The IRR per Unit was 20.3% for the year compared to 31.8% the previous 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 year:

- Wyze Labs: Founded in 2017 and based out of Kirkland, Washington, Wyze Labs makes high quality smart home technology with highly disruptive and accessible pricing.
- Jewlr: Based out of Toronto, Ontario, Jewlr is a D2C ecommerce retailer that designs and manufactures personalized, made-to-order jewelry at scale. It is built on innovative, unique technology that differentiates it from competition.
- Arrow Machine and Fabrication Group: The company is based in Guelph, Ontario and specializes in machining, fabrication, casting, painting, and assembly of powertrain and structural component parts mainly for off-road vehicles. Its target is to become a Tier 1 preferred supplier to global OEM's, with an increasing share of the components of each vehicle platform.
- Anthem Limited Partners: Based out of Central Valley, California, the partnership is an operator of cemeteries and funeral homes and seeks to partner with other funeral homes and cemeteries across North America.
- Our Place: Founded in Culver City, California, it is a direct-to-consumer online brand selling houseware and kitchenware items with a mission of breaking down barriers through the promotion of inclusivity through cooking. The company creates products and experiences that celebrates cultures, honor traditions, and cultivates connection.
- Walts Wholesale Meats: It's an integrated meat processing company based in Woodland, Washington. It harvests, sources, fabricates cattle and butcher cuts, which are directly sold into the grocery stores or related co-manufacturing partners.

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Other portfolio activities include:

- Kensington Private Equity Fund IV, LP (“Fund IV”): KPEF purchased all the units of Fund IV from existing investors. At the time of the transaction, Fund IV held nine fund positions with the majority of the value accounted for by Champion Petfoods. Champion is a premium and ultra-premium producer of dry kibble and freeze-dried treats for dogs and cats. It is the sixth largest producer of premium pet food globally with distribution in nearly 100 countries.
- GuarantR: A New York based company founded in 2015 that operates in the insurtech/proptech space. It provides a real estate insurance platform that simplifies the leasing process for landlords and tenants.
- Drop Technology: A customer loyalty and rewards company based out of Toronto, Ontario. It helps consumers who use their debit and credit cards to collect points across array of vendors and redeems their points on the Drop platform.
- Any Hour: A Salt Lake City, Utah based home servicing company that provides services in the residential sector such as HVAC, plumbing, and electrical repairs, replacements, and maintenance.
- Humi Holdings Corp.: A Toronto, Ontario based Human Resources, payroll and benefits platform company. It specializes in talent acquisition, on-boarding, performance management, payroll administration, insurance, and benefits.
- 1NCE GmbH: Head quartered in Cologne, Germany and founded in 2018, 1NCE is an IoT Mobile Virtual Network Operator and managing service provider offering connectivity, data routing and technical support/service capabilities to customers.
- The Fund made follow-on investments in Clearpoint Health Network; GridPoint Inc; Mint Smartwash Ltd; Vaughn Mills Packaging Inc., and Open Mind Developments Corp.
- The Fund made several new fund commitments, into the following fund managers; BD-Capital; Golden Ventures; Inovia Capital; I-Squared Capital; Lumira Ventures; Marcy Ventures; Novacap Management; Portage Ventures; PSG Equity, Revelstoke Capital Partners; Tribe Capital; Version One; White Star Capital; and Yellow Point Equity Partners
- The Fund saw several Underlying Investments convert to public positions in the year; Lifespeak (XTSE: LSPK) provides expert education and advice on health and wellbeing issues that affect everyday life; Evercommerce (NASDAQ: EVCM) provides marketing and customer retention solutions; and Enthusiast Gaming (XTSE: EGLX)) digital media company specializing in video game journalism.

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Overview of the Economic Environment

The start of 2022 was met with a cautious but overall positive outlook. The pace of growth and inflation were expected to stabilize along with the supply/demand imbalance. However, as the Ukraine crisis escalated and labour shortages continued amidst the ongoing impacts of a lingering pandemic, the first half of 2022 has taken a different direction. The effects of rising interest rates and inflation, along with the substantial pull back in the financial markets have slowed the global economic recovery. The Bank of Canada started its quantitative tightening and in the first half of 2022 announced two consecutive 50bps rate increases. The rising input costs, difficulties hiring workers and supply chain challenges continue to put pressure on the profitability of many businesses. The Manager holds the view that certain industries will be able to weather the storm better than others. 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 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. 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

As public markets adjust to the heightened risk environment, significant repricing of financial assets have taken place in the second quarter of 2022. The sell-off moved valuations off all-time highs as investors moved from growth to value stocks. 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. While the global recovery from pandemic shutdowns continues there are growing interest rate and inflationary pressures that offset that growth. The Manager continues a conservative investment approach.

Current Private Equity Market Conditions

Following a record-setting 2021 in terms of deal activity and fundraising, the sector headed into the new year with firms expecting to maintain similar levels. However, with the ensuing market volatility and growing investor concerns, deal activity globally, including the Canadian private equity market, slowed considerably. 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.

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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. Sectors such as fintech, business productivity, and 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 growth capital market has been very popular with funds being raised in all parts of the world to invest in the acceleration of corporate growth. 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 March 31, 2022, KPEF held investments in 77 primary funds, 7 secondary fund portfolios, and 68 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.

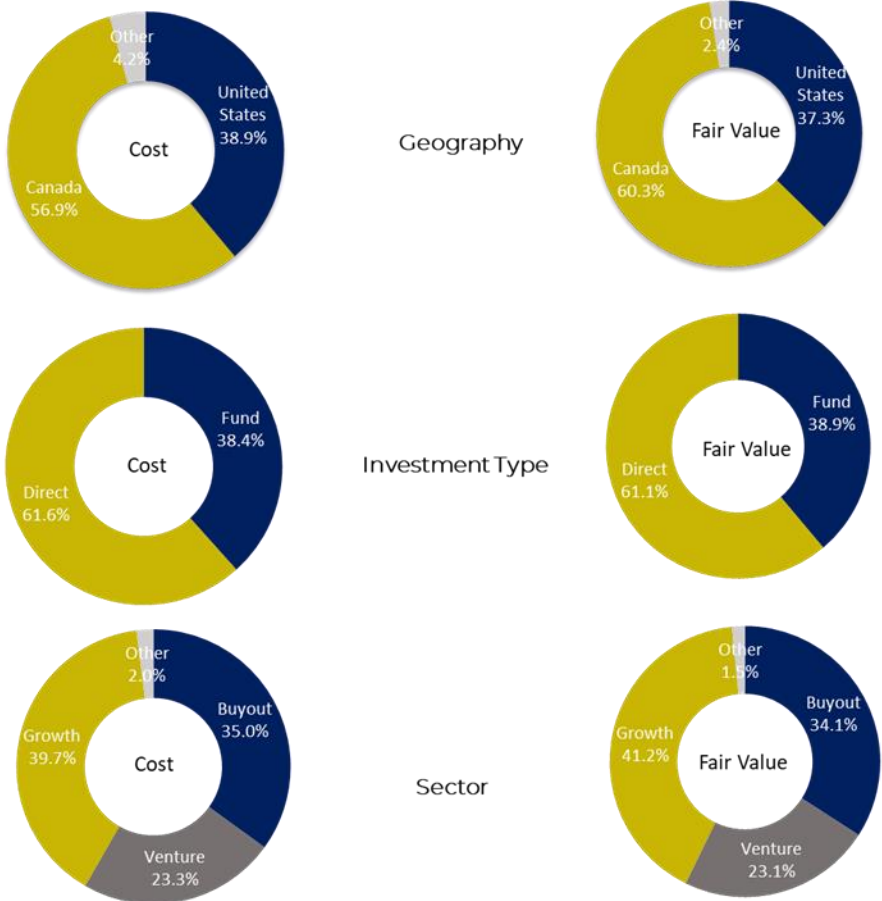
KPEF may base the valuation on references to third-party investments or precedent transactions in comparable equity securities of the company and other similarly situated companies, and will consider current average or median multiples as well as high and low ends of the comparative data set. After the 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 March 31, 2022 are set out below:

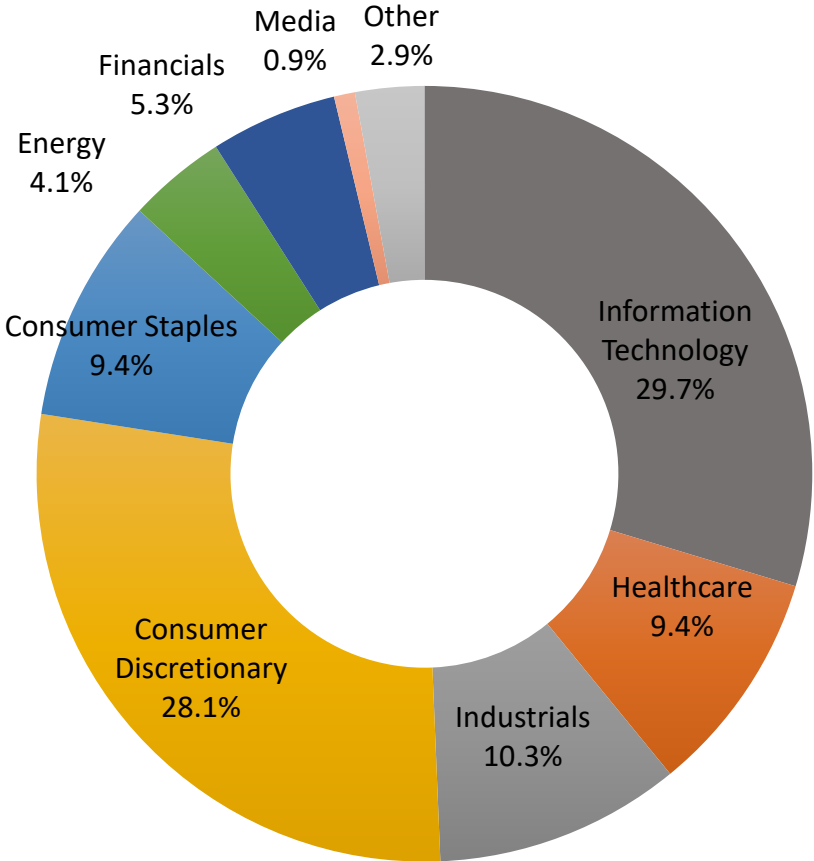
PORTFOLIO ALLOCATION WEIGHTINGS



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KPEF Industry Weightings of Private Equity Investments (Fair Value)

In addition to the 68 direct investments in private companies, the KPEF portfolio as of March 31, 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 March 31, 2022 KPEF held Underlying Investments totaling \$1.554 billion representing 95% of the NAV. During the year, KPEF realized certain private equity investments, resulting in a shift from unrealized gains reported in prior year to realized gains in the current year. Excluding the impact of net new subscriptions of \$504 million and distributions of \$61 million, the net asset value of the underlying investments increased by \$258 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 of March 31, 2022, KPEF held Liquid Investments totaling \$62 million, representing a decrease of \$50 million from the \$114 million of Liquid Investments held at March 31, 2021. Liquid Investments comprise 3.9% of the NAV. The Manager expects most of that liquidity to be utilized in the coming months.

	March 31, 2022			March 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	16,202,447	16,202,447	1.0%	48,853,974	48,853,974	5.2%
Kensington Alternative Strategy	42,724,462	46,428,690	2.8%	35,547,836	43,866,690	4.6%
GIC Investment	1,500,000	1,609,189	0.1%	21,500,000	21,605,338	2.3%
	60,426,909	64,240,326	3.9%	105,901,810	114,326,002	12.1%

* 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, 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. As of March 31, 2022, KPEF had issued (net of redemptions and conversions) 133,894 Class A Units, 16,465 Class F Units, 1,145,322 Class E Units, 33,517,031 Class G Units, 1,038,956 Class U Units, 8,537,796 Class C Units and 196,361 Class M Units for net proceeds of \$1.3 billion.

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.

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.

	Year Ended March 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	5,043,324	684,090	36,383,223	1,240,279,737	34,809,991	320,630,899	7,313,681
Units Outstanding	133,894	16,465	1,145,322	33,517,031	1,038,956	8,537,796	196,361
Management expense ratio %	4.16%	3.64%	5.03%	3.81%	3.85%	3.11%	2.08%
Unrecoverable management expense ratio %	2.91%	2.39%	3.77%	2.54%	2.59%	1.80%	0.26%

	Year 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%

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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 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	3,135,505	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	-	-	-	-	-	-	-

	For the quarter ended December 31, 2021						
	Class A	Class F	Class E	Class G	Class U	Class C	Class M
	\$	\$	\$	\$	\$	\$	\$
Total operating income	1,413	158	-11,682	-248,103	-960,875	-331,079	-94,734
Total profit/(loss)	-45,436	-5,269	-423,589	-9,528,488	-1,253,273	-2,011,653	-105,601
Total profit/(loss) attributable per-unit basis	-0.34	-0.32	-0.37	-0.30	-1.24	-0.29	-0.57
Total net assets	4,656,912	623,329	34,464,391	1,089,534,810	32,119,655	254,300,609	6,262,525
Distributions declared and paid	0.67	0.67	0.67	0.67	0.67	0.67	0.67

	For the quarter ended September 30, 2021					
	Class A	Class F	Class E	Class G	Class U	Class C
	\$	\$	\$	\$	\$	\$
Total operating income	500,369	66,458	3,302,753	106,956,199	3,556,589	20,485,587
Total profit/(loss)	453,177	61,195	2,921,182	97,695,503	3,252,123	18,997,656
Total profit/(loss) attributable per-unit basis	3.37	3.76	2.78	3.33	3.26	3.37
Total net assets	4,754,733	632,185	32,514,735	1,033,820,079	33,372,927	213,311,435
Distributions declared and paid	-	-	-	-	-	-

	For the quarter ended June 30, 2021					
	Class A	Class F	Class E	Class G	Class U	Class C
	\$	\$	\$	\$	\$	\$
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	-	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

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RELATED PARTY TRANSACTIONS

The KPEF investment portfolio includes investments in three funds managed by the Manager. KPEF has invested \$42,724,462 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, 2022, the total amount funded by KPEF into Kensington Venture Fund and Kensington Venture Fund II was \$21,700,374 and \$11,585,636, 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.

