



KENSINGTON PRIVATE
EQUITY FUND

Management Discussion and Analysis

FOR THE QUARTER ENDED June 30, 2023

2023

KENSINGTON PRIVATE EQUITY FUND

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 quarter ended June 30, 2023, the Net Asset Value (NAV) of KPEF decreased by approximately \$28 million, consisting of gains in the value of some investments, plus net new subscriptions received from investors offset by reductions in the value of certain other investments. The Internal Rate of Return (IRR) per Unit was -7.7% for the quarter compared to -13.6% 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.

During the quarter, the fund strengthened its liquidity position with the exit of Soundhound AI, a voice application technology company that went public in 2022.

The fund also made several follow-on investments in the period.

- Valent Low Carbon Technologies, an energy technology company focused on aggregating and building out net-zero fuels for aviation, marine and heavy land transport.
- Bold Canine, a Canadian based manufacturer of frozen raw food for dogs and cats.
- Element5, a company that designs, fabricates, and assembles modern timber buildings.
- Resolute Health, the company offers a scaled sleep health product and services platform in the home medical devices sector.

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Overview of the Economic Environment

Now through two quarters of 2023, the global economy has unfolded largely as anticipated with a contracting economic cycle and an increasing risk of recession, although the depth and length of a slowdown remain in question. The debate over a soft or hard economic landing continues but the view of a bumpy landing is emerging, as central banks continue to oscillate between dovish and hawkish stances with the full effects of the interest rate hike cycle still playing out. This is perpetuating the uncertainty and risk within the banking sector, and while the US government has supported the financial system in the wake of the recent banking crisis, the environment is tougher for regional and smaller banks. Stricter credit conditions from lending institutions and the quantitative tightening from central banks continue to constrain the economy. The timing of capital requirements for banks under the new Basel rules is also limiting credit availability. Supply chain pressures have eased and some input commodity costs have eased. Manufacturing is expected to remain weak until monetary policy begins to ease, while services demand remains strong. These market forces combined with an ongoing landscape of geopolitical instability including the Russia-Ukraine war and U.S.-China tensions continue to present a level of unpredictability. In Canada, economic growth was better than expected as exports rose, led by passenger cars and light trucks, along with precious metals and wheat. Higher household spending also spurred the growth while housing construction and business investment in machinery and equipment continued to decline. The falling rate of personal savings and weaker corporate incomes could have knock-on effects to already highly levered Canadian households and could determine the severity of a possible recession late in the year.

Investment Environment

Investors are largely on the sideline, redirecting flows into money market funds. This sidelined cash will eventually make its way into the markets. But with GICs yielding over 5%, those investors that are in cash can be patient. The public market retrenchment is bringing a lot of focus onto valuations, fundraising, burn rates and governance as investors are again focused on a fundamentals-driven approach and intrinsic value. The emphasis is on profitability, margins, operating leverage and cash flow. The Nasdaq Composite Index, heavily concentrated in technology stocks, is up over 39% for the first six months of 2023, its strongest start to the year since its inception. The wave of interest in AI and recent developments with ChatGPT have contributed to the gains in the technology sector. AI has been a little understood tool for years with its rapid growth coming as a result of breakthroughs in technology. We believe that the tech sector will continue to deliver opportunities for growth and in the current risk-off environment, valuations will be low. The S&P 500 is up over 16% for the first six months of 2023, largely driven by seven mega cap tech companies. We expect continued volatility in public markets, and when considering new private market investments, we are trading with caution. The Manager looks for resilient businesses within those sectors capable of passing through price increases to deal with inflation. We look for companies that invest in and 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

The first half of 2023 continues to see a slowdown in deal activity and a tougher fundraising environment. While Canada has not seen the same capital pressures in the banking system as the US, deal flows have been impacted with lenders pulling back from new originations as well as strong competition among dealmakers for the credit that is available. The higher cost and lower availability of debt, significant declines in public market valuations and slower-paced deal making collectively affected activity in the private market. Private equity strategies have been shifting to a longer investment cycle that increasingly includes continuation funds. These longer hold times for private equity portfolio companies are placing a renewed emphasis on value creation. Skilled active private equity fund managers stand to accelerate ahead of the pack. The slower pace of transactions is giving 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 and negotiate better terms than was the case two years ago, creating a positive direction for the future returns of capital deployed today. Historically, deals that are completed coming out of recessions tend to deliver strong returns. The Secondaries market is on pace to match its record volumes seen in 2021 and 2022 as it continues to play a role as a liquidity tool, becoming a more standard exiting or reallocating-capital approach for LPs and a means by which GPs can adjust portfolios to focus on managing high-quality assets. Venture Capital, already struggling over the past year from market pullbacks, was further rattled in March by the sudden collapse of Silicon Valley Bank. VC is in a period of deep revaluation that will require time for both buyers and sellers to agree on appropriate metrics for value. Capital formation amid this uncertainty is a challenge. As a result, venture-backed companies have shifted focus away from growth to becoming cash flow breakeven and profitable. At the buyout end of the spectrum, credit availability and cost has lowered the valuations for buyers while sellers are reluctantly starting to lower price expectations. 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. The Manager expects to face headwinds and continues to manage the portfolio for challenging market conditions. Private Equity-backed companies that are not over leveraged tend to be resilient during times of crisis because of the depth of capital access that their backers enjoy.

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. ESG is an integral part of our investment 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. There are always companies in the process of being sold. Partly 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. The interest in acquisitions among strategic buyers is strong relative to that of financial buyers in today's conditions. 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 June 30, 2023, KPEF held investments in 85 primary funds, 7 secondary fund portfolios, 4 funds managed by the Manager 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.

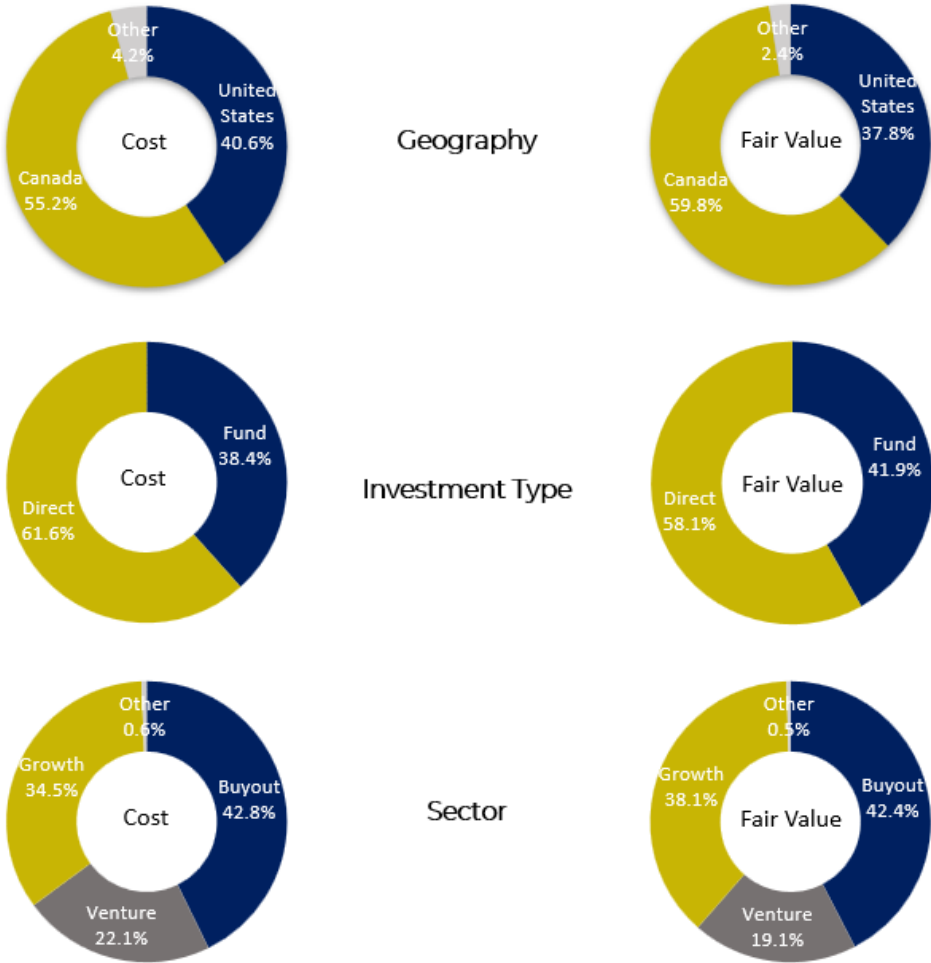
KPEF may base the valuation on references to third-party investments or precedent transactions in comparable equity securities of the company and other similarly situated companies, and will consider current average or median multiples as well as high and low ends of the comparative data set. After the 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 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 June 30, 2023 are set out below:

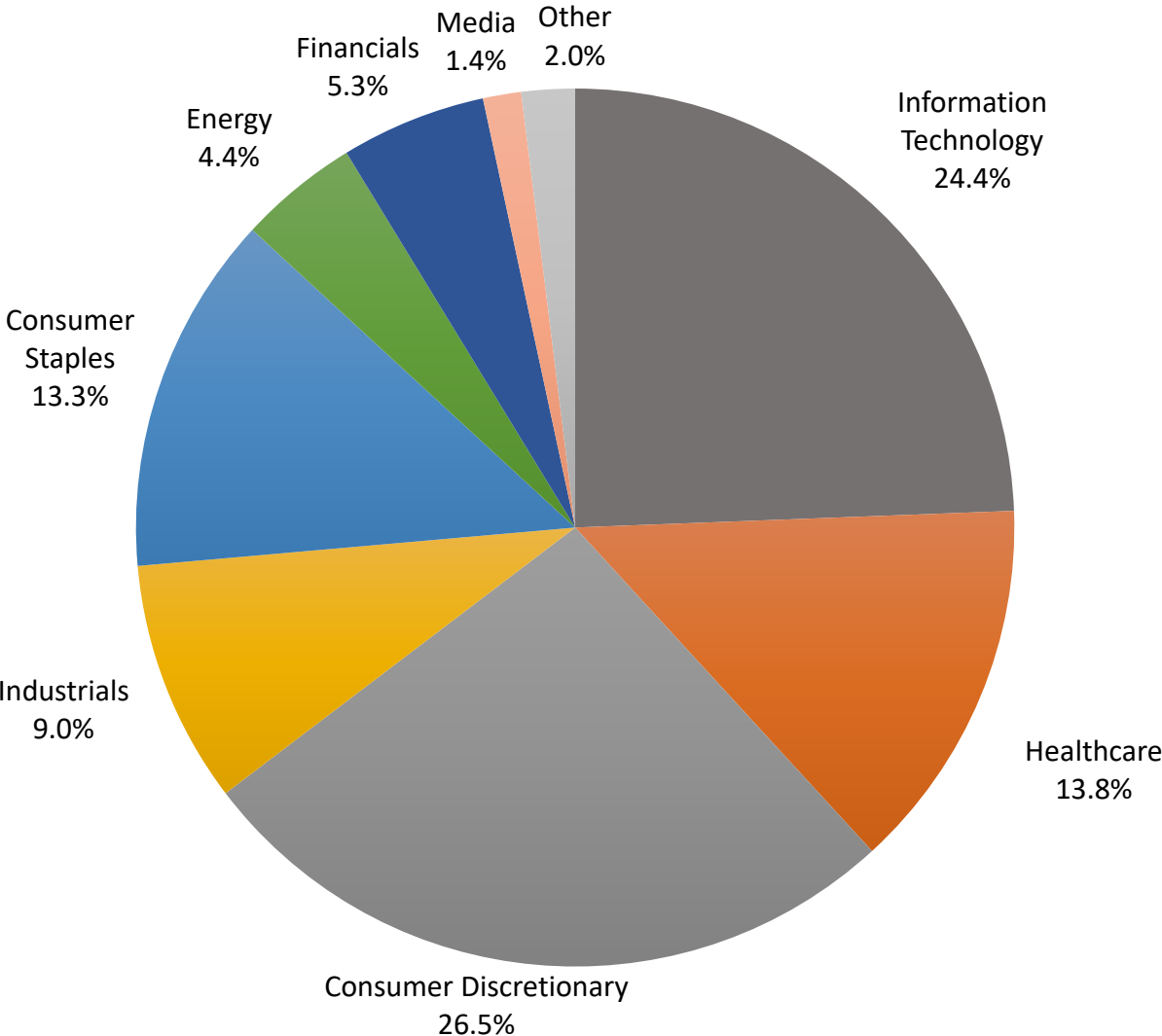
PORTFOLIO ALLOCATION WEIGHTINGS



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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 June 30, 2023, 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.



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KPEF NET ASSET VALUE

Investments:

As of June 30, 2023 KPEF held investments totaling \$2.0 billion. During the quarter, 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 \$92 million (includes \$59M from DRIP) and gross distribution of \$86M, the net asset value of the investments decreased by \$34 million during the quarter 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 June 30, 2023, KPEF held Liquid Investments totaling \$89 million, representing an increase of \$35 million from the \$54 million of Liquid Investments held at June 30, 2022. Liquid Investments comprise 5.3% of the NAV, consistent with the overall objectives of liquidity.

	June 30, 2023			June 30, 2022		
	Cost (CAD)	Estimated Fair Value (CAD)	% of Fund's Net Assets	Cost (CAD)	Estimated Fair Value (CAD)	% of Fund's Net Assets
Cash	62,203,184	62,203,184	3.7%	21,494,253	21,494,253	1.3%
Kensington Alternative Strategy Fund *	21,336,858	27,208,823	1.6%	25,551,735	30,495,848	1.8%
GIC Investment	0	0	0.0%	1,500,000	1,609,189	0.1%
	83,540,042	89,412,007	5.3%	48,545,988	53,599,290	3.2%

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

KPEF UNITS ISSUED AND OUTSTANDING

As of June 30, 2023, 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 127,866 Class A Units, 16,010 Class F Units, 1,192,870 Class E Units, 34,852,921 Class G Units, 725,730 Class U Units, 13,172,191 Class C Units and 323,378 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.

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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, 2023

	Class A Units	Class F Units	Class E Units	Class G Units	Class U Units	Class C Units	Class M Units
Net Asset Value (\$)	4,395,252	613,625	33,712,185	1,174,291,892	22,582,344	454,460,512	11,323,224
Units Outstanding	127,866	16,010	1,192,870	34,852,921	725,730	13,172,191	323,378
Management expense ratio %	8.86%	7.96%	10.61%	8.22%	8.04%	6.52%	3.38%
Unrecoverable management expense ratio %	6.91%	6.00%	8.65%	6.27%	6.11%	4.63%	1.57%

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%

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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 June 30, 2023						
	Class A	Class F	Class E	Class G	Class U	Class C	Class M
	\$	\$	\$	\$	\$	\$	\$
Total operating income	25,300	3,527	194,356	6,621,485	(253,267)	2,569,330	64,724
Total profit / (loss)	(28,988)	(3,237)	(213,696)	(4,747,559)	(476,342)	(944,372)	508
Total profit/(loss) attributable per-unit basis	(0.23)	(0.20)	(0.18)	(0.14)	(0.66)	(0.07)	0.00
Total net assets	4,395,252	613,625	33,712,185	1,174,291,892	22,582,344	454,460,512	11,323,224
Distributions declared and paid	1.80	1.80	1.80	1.80	1.80	1.80	1.80
	For the quarter ended March 31, 2023						
	Class A	Class F	Class E	Class G	Class U	Class C	Class M
	\$	\$	\$	\$	\$	\$	\$
Total operating income/(loss)	265,461	36,678	2,035,023	69,874,903	1,476,323	25,422,346	648,873
Total profit/(loss)	202,801	28,520	1,112,912	43,669,344	967,231	16,761,031	569,903
Total profit/(loss) attributable per-unit basis	1.62	1.80	0.98	1.31	1.41	1.42	2.08
Total net assets	4,625,276	636,547	35,029,272	1,210,525,576	23,427,331	443,348,760	11,654,583
Distributions declared and paid	-	-	-	-	-	-	-
	For the quarter ended December 31, 2022						
	Class A	Class F	Class E	Class G	Class U	Class C	Class M
	\$	\$	\$	\$	\$	\$	\$
Total operating income/(loss)	(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	(4,521,700)	(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	-	-	-	-	-	-	-

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RELATED PARTY TRANSACTIONS

The KPEF investment portfolio includes investments in four funds managed by the Manager. KPEF has invested \$21,336,858 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 June 30, 2023, 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 29, 2023.

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.

CONTACT

Kensington Capital Partners

95 St. Clair Ave W., Suite 905

Toronto, ON M4V 1N6

1-855-362-9329

www.kcpl.ca

info@kcpl.ca

[@KensingtonFunds](https://twitter.com/KensingtonFunds)

This management discussion and analysis of the Kensington Private Equity Fund contains financial highlights as well as the financial statements for the quarter ended June 30, 2023. 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.