KENSINGTON PRIVATE EQUITY FUND

Management Discussion and Analysis

FOR THE NINE MONTHS ENDED December 31, 2023

2023

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.

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, 2023, the Net Asset Value (NAV) of KPEF decreased by approximately $20 million, consisting of gains in the value of some investments, plus net new subscriptions received from investors offset by reduction in the value of certain investments. The NAV per Unit decreased by 3.1% for the nine months compared to a decrease of 5.4% 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. Investment returns reflect the effect of fund commitments and direct investments made in any prior 3-year period that take time to generate increases in value. Some of KPEF's top performing funds were due for re-investment during the past 3 years. We anticipate continued strong performance from those funds.

During the nine months, the fund strengthened its liquidity position with the exits of SoundHound AI, a voice application technology company that went public in 2022; Ace Beverage Group, the fastest growing ready to drink brand in Canada; and Clearpath Robotics, a leader in autonomous mobile robots for industrial applications.

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

- Resolute Health, a company that is a sleep services platform in the medical services sector;
- Bold Canine, a Canadian based manufacturer of food for dogs and cats;
- Jewlr, an ecommerce retailer that designs and manufactures personalized, made-to-order jewelry;
- Valent Low Carbon Technologies, an energy technology company focused on aggregating and building out net-zero fuels for aviation, marine and heavy land transport; and
- Element5, a company that designs, fabricates, and assembles modern timber buildings.

The fund also sold its investment in Tomahawk Robotics in a cash and share transaction acquiring shares in AeroVironment Inc. (NASDAQ: AVAV). AeroVironment designs and manufactures unmanned aerial vehicles.

Overview of the Economic Environment

The North American economy defied expectations in 2023 as the much-anticipated recession and pessimistic forecasts did not materialize. In fact, it was surprisingly resilient as employment numbers remained strong with both the U.S. and Canada seeing steady levels of job gains keeping unemployment levels well below historical averages. Inflation appears to have peaked as the price of food, energy, and goods stabilized through the course of the year. The services sector, which heavily depends on labour, is beginning to see a deceleration in wage inflation. The clearing up of supply chain issues along with cooling consumer demand has largely accounted for the easing of inflationary pressures and more importantly, the ability to do so without a material impact on unemployment rates. Looking forward to 2024, recessionary concerns persist although many economists expect either a soft-landing or shallow recession. In Canada, household debt is amplified by the sharp rise in interest rates and worries that the real impact is yet to be seen as over 60 percent of outstanding mortgages at the Canadian chartered banks are set to renew over the next two years. Globally, a similar story can be told with European economies under pressure, and in Asia, China's growing debt and property market problems are undermining consumer confidence. 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. The escalation of the Israel-Hamas war and fears of a broader regional conflict could add another shock and accelerate a global economic downturn. The U.S. presidential elections later this year also add another layer of volatility as investors price in the risks for post-election changes in fiscal spending, taxation, and other policies.

Investment Environment

The S&P 500 finished the year strong, posting nine consecutive weeks of increases, the longest win streak since 2004. Four sectors largely drove the increase. The Technology sector, and the 'magnificent seven' outperformance; Communications, largely fueled by investor enthusiasm for artificial intelligence; Consumer Discretionary performed well with cooling inflation and continued consumer confidence and Industrials as raw materials, supply chains, logistics, and labour pressures eased. Despite ongoing macroeconomic concerns, corporate earnings were better than expected in the last quarter of 2023 and early into 2024. Helping companies' bottom lines were easing input costs and more emphasis on cost controls and efficiencies. However, market sentiments continue to be cautious as CPI and employment data continue to present ambivalent results. The Fed is reaching a critical point in its battle against inflation, trying to navigate a soft landing. The emerging consensus is that rates will hold steady until H2 2024. Similarly, the Bank of Canada continues to express its concern about the stickiness of inflation and its preparedness to raise rates. The focus will continue to be on companies with solid balance sheets and durable business models and the search for attractive valuations. The Nasdaq Composite Index experienced one of its strongest years on record as the index benefitted from the continued digitization of industries and accelerating technological advances, in particular in artificial intelligence. While the majority of the gains were centered around the magnificent seven, this widened out across the market in the last quarter, although with increasing concerns that valuations have now fully priced in expected gains for 2024. We expect continued volatility in public markets, and when considering new private market investments, we are treading with caution. The Manager looks for resilient businesses within those sectors capable of passing through price increases. We look for companies that invest in and adopt technologies to build their 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.

Current Private Equity Market Conditions

Private Equity is going through an adjustment period, adapting to a new environment of higher interest rates, and changing market dynamics that include tightening credit, economic uncertainty and geopolitical instability. Dealmaking stalled in 2023 with both deal values and volume declining significantly year-over-year. The increased cost of capital and contracting valuation multiples highlighted challenges across the M&A landscape. Valuation priorities have shifted with investors having moved away from an emphasis on revenue growth and revenue multiple. There is a sharp focus instead on profitability, on positive free cash flow and an emphasis on DCF and comparable-based multiples. Fund managers are increasingly focused on profitability and optimization strategies that will position their portfolio companies for successful exits once deal markets begin to rebound. There is a delayed impact of recycling sale proceeds into new investments that will not be fully realized for several more years. Mid-market buyouts have been better positioned as private equity firms are able to increase equity contributions and focus more on the execution of add-on deals. Economic headwinds and rising costs of capital have amplified the attractiveness of higher quality sectors such as technology and healthcare. 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 operational 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. With limited exit opportunities, both GPs and LPs continue to turn to the secondaries market for liquidity.

Venture capital valuations and exit activity have declined significantly through the past two years, as venture-backed companies attempted the difficult adjustment from growth-at-all-costs to achieving breakeven and profitability. Many investors exited the venture market in the past two years, forcing VC firms to focus on funding and managing their existing portfolios through this transition without relying on new financial partners, reinforcing the decline in new investment activity. The exit environment has also suffered as strategic buyers stayed largely on the sidelines awaiting more stability in valuations, while the public IPO markets were shut. While some additional layoffs and valuation declines may still emerge in the months ahead, CEOs and VCs have largely adapted to these new conditions. During Q3 2023, Canada saw $1.2 billion invested across 134 venture deals, representing a decrease from the prior quarter of 60% in value terms and 26% in number of transactions, respectively. These quarterly totals marked Canada’s slowest quarter for investment dollars since Q3 2022 and venture deal volume since Q3 2020. These declines represent a sharp contrast to the outlier years of 2021 and 2022 but signal a return to pre-pandemic levels: 2023 year-to-date investment dollars of $5.4 billion across 494 venture deals is broadly consistent with the $5 billion invested across 418 venture deals in the same period in 2019.

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 selectively invest and periodically sell investments during the coming year 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.

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 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.

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, 2023, KPEF held investments in 80 primary funds, 6 secondary fund portfolios, 4 funds managed by the Manager and 64 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.

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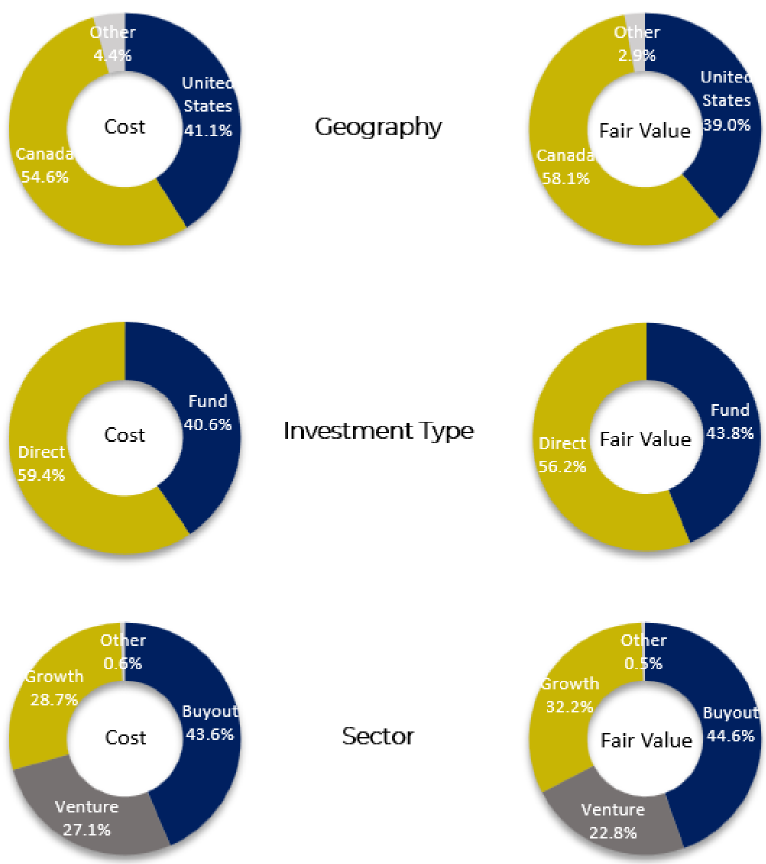
The fair value of private equity investments is valued initially based on the transaction price and may continue to be valued at cost for a significant time period after the acquisition, if this is determined to be the best indicator of fair value. Valuations may also be derived by reference to observable 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 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, 2023 are set out below:

PORTFOLIO ALLOCATION WEITHINGS



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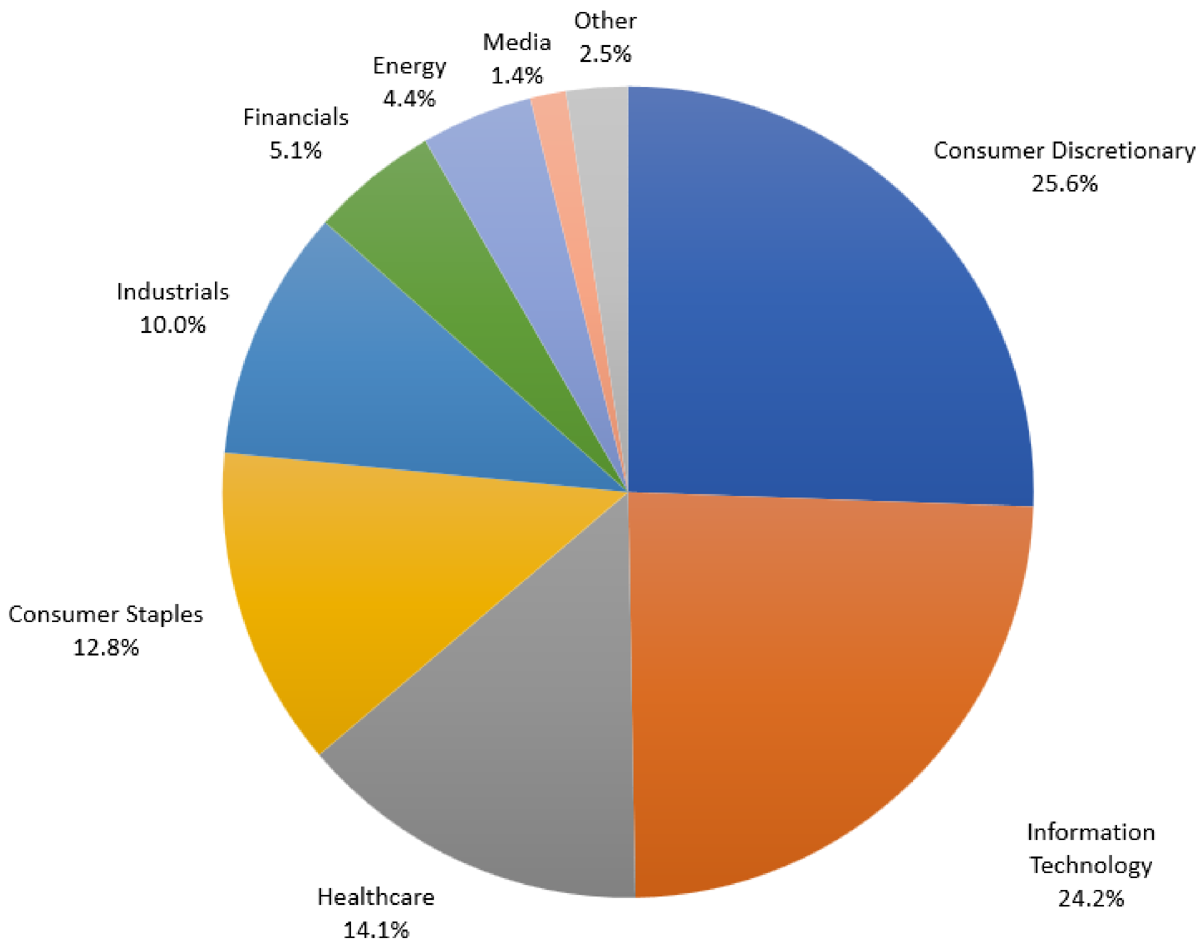
KPEF Industry Weightings of Private Equity Investments (Fair Value)

In addition to the 64 direct investments in private companies, the KPEF portfolio as of December 31, 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.



KPEF NET ASSET VALUE

Investments:

As of December 31, 2023 KPEF held investments totaling $1.9 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 $214 million (includes $117M from DRIP) and gross distribution of $175M, the net asset value of the investments decreased by $58 million during the nine months due to net decrease in fair value of 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, 2023, KPEF held Liquid Investments totaling $77 million, representing an increase of $40 million from the $37 million of Liquid Investments held at December 31, 2022. Liquid Investments comprise 4.5% of the NAV, consistent with the overall objectives of liquidity.

	December 31, 2023			**December 31, 2022**		
	Cost (CAD)	Estimated Fair Value (CAD)	% of Fund's Net Assets	Cost (CAD)	Estimated Fair Value (CAD)	% of Fund's Net Assets
Cash	49,896,674	49,896,674	2.9%	6,166,404	6,166,404	0.4%
Kensington Alternative Strategy Fund *	21,644,421	27,346,344	1.6%	24,005,585	29,352,410	1.7%
GIC Investment	0	0	0.0%	1,500,000	1,609,189	0.1%
	71,541,095	**77,243,018**	**4.5%**	**37,671,989**	**37,128,003**	**2.2%**

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

KPEF UNITS ISSUED AND OUTSTANDING

As of December 31, 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 128,312 Class A Units, 18,783 Class F Units, 1,277,692 Class E Units, 37,452,068 Class G Units, 791,472 Class U Units, 14,081,302 Class C Units and 336,251 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, 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 ($)	4,132,961	680,091	33,216,735	1,180,591,427	23,083,059	456,826,927	11,194,952
Units Outstanding	128,312	18,783	1,277,692	37,452,068	791,472	14,081,302	336,251
Management expense ratio %	4.30%	3.75%	5.03%	3.89%	3.90%	3.17%	1.68%
Unrecoverable management expense ratio %	3.24%	2.71%	3.97%	2.84%	2.85%	2.11%	0.62%

	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%

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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 December 31, 2023						
	Class A	Class F	Class E	Class G	Class U	Class C	Class M
	$	$	$	$	$	$	$
Total operating income	(23,143)	(4,699)	(194,887)	(6,931,676)	194,736	(2,745,335)	(65,949)
Total profit /(loss)	(73,925)	(11,405)	(663,757)	(19,986,601)	(51,514)	(6,836,599)	(124,127)
Total profit/(loss) attributable per-unit basis	(0.58)	(0.65)	(0.54)	(0.55)	(0.07)	(0.50)	(0.38)
Total net assets	4,132,961	680,091	33,216,735	1,180,591,427	23,083,059	456,826,927	11,194,952
Distributions declared and paid	1.70	1.70	1.70	1.70	1.70	1.70	1.70

	For the quarter ended September 30, 2023						
	Class A	Class F	Class E	Class G	Class U	Class C	Class M
	$	$	$	$	$	$	$
Total operating income/(loss)	71,874	10,038	559,168	19,646,455	141,939	7,391,128	185,904
Total profit/(loss)	14,830	2,695	(49,596)	2,319,621	(195,901)	1,603,810	111,190
Total profit/(loss) attributable per-unit basis	0.12	0.17	(0.04)	0.07	(0.27)	0.12	0.34
Total net assets	4,410,082	616,320	34,113,977	1,212,205,364	22,386,443	460,347,377	11,459,414
Distributions declared and paid	-	-	-	-	-	-	-

	For the quarter ended June 30, 2023						
	Class A	Class F	Class E	Class G	Class U	Class C	Class M
	$	$	$	$	$	$	$
Total operating income/(loss)	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	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	-	-	-	-	-	-	-

RELATED PARTY TRANSACTIONS

The KPEF investment portfolio includes investments in four funds managed by the Manager. KPEF has invested $21,644,421 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, 2023, the total amount funded by KPEF into Kensington Venture Fund, L.P. and Kensington Venture Fund II, L.P. was $17,878,381 and $18,934,173, 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

This management discussion and analysis of the Kensington Private Equity Fund contains financial highlights as well as the financial statements for the nine months ended December 31, 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.