

SEC Form ADV Part 2A

Covenant Financial Services, LLC

also known as “Covenant”

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This brochure provides information about the qualification and business practices of Covenant Financial Services, LLC (Covenant). If you have any questions about the contents of this brochure, please contact us at 405-848-6999 or by email at steve.hartman@covenantinvestors.com. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (SEC), or by any state securities authority.

Additional information about Covenant Financial Services, LLC is available on the SEC's website at www.adviserinfo.sec.gov.

3/31/11

Material Changes

Annual Update

Covenant is providing this information as part of our annual updating amendment which contains material changes from our last annual update. This section discusses only material changes since the last annual update which was made available in September, 2010.

Material Changes since the Last Update

The Securities and Exchange Commission adopted amendments to Part 2 of Form ADV effective October 2010. The newly revised Part 2 consists of Part 2A (the "Brochure") and Part 2B (the "Brochure Supplement"). Each update of the Brochure must now include a summary of all material changes since the last annual update.

This Brochure, dated March 31, 2011 is materially different in structure and contains certain new information that our previous brochure did not require. There are no other material changes to note.

Full Brochure Availability

The Firm Brochure for Covenant is available by contacting steve.hartman@covenantinvestors.com.

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Advisory Business

Firm Description

Covenant was founded in 1984 by Scott Duncan as a financial planning firm offering passive investment management services. Over time Covenant grew and evolved to where their primary service is active investment management for individuals and entities. Financial planning and private client services are still provided. Investment decisions are based on the client's needs, investment objectives, financial and tax status, and their risk tolerance among other factors.

Principal Owners

Covenant is owned by Steve Shafer, CEO and CIO and Steve Hartman, COO and CCO.

Types of Advisory Services

Covenant offers Investment Management, Financial Planning, and Private Client Services.

Investment Management

Covenant offers investment management services to individuals and entities on a discretionary basis. In a few limited circumstances Covenant advises on non-discretionary accounts. Investment decisions are based on the client's needs, investment objectives, financial and tax status, and their risk tolerance among other factors.

In addition to managing separate accounts, Covenant also serves as a general partner and/or investment adviser to six 3(c)1 hedge funds including:

- CFS Aggressive Strategy Fund, L.P.
- Covenant Aggressive Strategy Fund, LTD.
- CFS Total Return Fund, L.P.
- Covenant Total Return Fund, LTD.
- Covenant Income Appreciation Fund, L.P.
- CFS Opportunity Capital Fund, L.P.

Individually or collectively these are referred to as the Funds. The Funds invest in domestic and foreign common and preferred equities, fixed income securities, currencies, commodities, partnership interests, equity options and private transactions. The Funds are managed on a discretionary basis and a majority of Covenant's clients are invested in them.

Investments in the Funds is generally limited to natural persons whose individual or joint net worth with a spouse exceeds \$1 million (excluding their primary residence at the time of the purchase); or whose income exceeded \$200,000 in each of the two most recent years or joint

income with a spouse exceeded \$300,000 for those years and a reasonable expectation of the same income level in the current year.

Covenant does not maintain physical possession of the Funds or securities of the Funds. Covenant enters into Custodial Agreements with various qualified custodians. Pursuant to each such Custodial Agreement, Covenant is restricted from making payments from any account maintained by the custodian on behalf of the Funds unless certain requirements are met. Covenant acknowledges and agrees in writing to the terms of each Custodial Agreement.

In addition, the Funds are audited at least annually and audited financial statements are distributed to the Limited Partners within 120 days of the end of its fiscal year. Statements are typically prepared in accordance with generally accepted accounting principles and distributed to all limited partners, other beneficial owners, or their independent representatives.

Financial Planning

Covenant also offers financial planning services. Working with the client, Covenant gathers information about the client's financial circumstances and objectives, their financial and tax status, and their risk tolerance among other factors. Covenant also analyzes their assets and liabilities, current cash flow, insurance, and investment portfolio. Once all the information is assembled, Covenant then provides a written analysis and a plan of recommended action. This plan includes, but is not be limited to, the holding or sale of securities and other assets, projected cash flow, projected tax consequences, retirement planning, estate planning, education funding, and insurance. Covenant makes recommendations on the basis of the data provided by the client and includes considerations of the client's stated personal, financial, and investment objectives.

Once there is agreement on a financial plan, Covenant continues to update and analyze the client's financial situation according to a schedule that appropriately addresses circumstances, usually on a quarterly basis, for the term of the agreement. Ongoing evaluation includes all key areas as outlined in the client agreement, additional issues as needed, and updating recommendations.

In a situation where a need arises for asset allocation services for external pension, profit sharing, 401(k) and 403(b) plan assets; a different approach is taken. As part of a financial planning analysis and engagement, Covenant assists the client in determining investment goals and objectives, risk tolerance, and retirement plan time horizons. Covenant then recommends an initial asset allocation.

Private Client Services

Private Client Services are customized services for clients that includes, but is not limited to, property & casualty insurance, life/ health/ disability/ long term care insurance, tax information & review, major estate plan revisions, trust administration, communications management/ file organization, cash management, and special projects.

Tailored Relationships

Covenant can and does tailor the services we provide our clients . particularly those involving financial planning and private client services. However, investment management clients typically are only tailored through risk analysis measures.

Wrap Fee Programs

Covenant does not use %Wrap Fee Programs.+

Client Assets

Covenant's Discretionary AUM as of 12/31/10 was \$269,650,108.55.

Covenant's Non-Discretionary AUM as of 12/31/10 was \$7,150,492.09.

Fees and Compensation

Description

Investment Management

Investment management advisory fees are payable quarterly, in advance, are due on the first day of the calendar quarter, and are based on the account's asset value at the beginning of each calendar quarter. The fees are deducted from client's assets. Fees are prorated for accounts opened during the quarter. Covenant's blended fee schedule is as follows:

<u>Value of Client Account</u>	<u>Advisor Fees</u>
Assets up to the first \$2,000,000	1.50% of assets under management
Assets of \$2,000,001 to \$5,000,000	1.25% of assets under management
Assets over \$5,000,000	1.00% of assets under management
All assets invested in the CFS Opportunity Capital Fund, L.P.	1.25% of assets under management (1.25% flat fee for assets invested in CFS Opportunity Capital Fund, L.P.)

The fee schedule is negotiable between Covenant and the client. Covenant reserves the right to amend fees (up or down) as individual situations warrant or under unusual/ special circumstances. However, fees will never be less than .5% (one half of 1%) for the first \$1,000,000 or more than 2%.

Once engaged, the contract can be terminated within five business days, without penalty. Thereafter withdrawals are permitted with at least ten (10) days advance written notice and will be effective the last business day of any fiscal quarter. Clients receive a pro-rata refund of unearned fees. As it pertains to Limited Partners in the Funds, Covenant may, at its sole discretion, waive or modify the conditions of withdrawal or suspend the Limited Partners' withdrawal rights when it believes it is in the best interest of the Partnership.

Financial Planning

Clients' financial planning fees are determined on the basis of the complexity of the issues involved and the anticipated amount of work required to prepare the financial plan. It is a fixed fee and generally ranges from \$4,000 - \$10,000. Half of the fee is payable upon, or immediately after, the acceptance of the Client Agreement with the remainder due upon the client's receipt of the financial planning book.

The agreement's terms outline the client's relationship with Covenant. The initial financial planning phase, for which a full fee is charged, is one (1) year. Renewal, and the resulting renewal fee, commences at the beginning of the quarter closest to the end of the first year.

Covenant's current practice is to renew this agreement at the end of one year for a fee to be negotiated at that time. Covenant reserves the right to review each individual situation and set a renewal fee based upon then-current circumstances. One-fourth of this fee is billed quarterly, in advance.

It is understood that either party may terminate the engagement at any time with 30 days prior written notice. At such point, all work in progress will be immediately halted, and copies of all documents returned to the client upon receipt of a written request and at client's expense. If a termination notice is provided to Covenant within five (5) business days of the client's initial acceptance, a full refund will be made.

Thereafter, fees will be refunded as follows:

- After deducting appropriate amounts for any time Covenant has already devoted to the plan during the first year of the contract or,
- Following the first contract year, a full refund of the quarter's fee may be obtained if a written request for refund is received within five (5) business days of the beginning of the quarterly billing period in question.

Private Client Services

Fees for Private Client Services are determined on the basis of the complexity of the issues involved and the anticipated amount of work required to successfully execute the client's scope of work. In negotiating the fee, consideration is given on whether the client receives financial planning services and/or investment management services. The fee is a fixed fee, payable quarterly in advance, and generally ranges from \$2,000 to \$20,000 per year.

Other Fees

Covenant, or an associated person of Covenant, as a part of Covenant's financial planning services, may receive normal commissions from the sale of life and health insurance products. In the event that this occurs the commission is disclosed to the client to address any potential conflict of interest concerns. Covenant has no other fees other than those previously noted above.

Fees Paid in Advance

All fees are paid quarterly in advance with the exception of the initial financial plan (year one) which is paid half upon initiation and half upon completion.

Additional Compensation

All compensation for Covenant is derived from the previously noted fees.

Performance-Based Fees & Side-by-Side Management

Sharing of Capital Gains or Capital Appreciation

Covenant does not charge a performance-based fee over and above the management fee. The complete fee for investment management services is the 1.50%, 1.25%, or 1.00% of AUM, (or a blending of the three) as noted above.

Types of Clients

Description

Covenant's current clients include individuals, families, pension funds, charitable organizations, and corporations. We are currently marketing our services to family offices, fund-to-funds, foundations, and other institutional clients. For our individual clients, while there is no hard minimum we do target accredited investors.

Methods of Analysis, Investment Strategies and Risk of Loss

Methods of Analysis

Covenant's investment process begins with the formation of a global macro outlook; a syntheses of the cyclical view and secular view into what it sees as the dominant influences over global markets. The cyclical view focuses on the global business cycle, its trajectory and rate of change, and its linkages to investment markets over a one-year horizon while the secular view reflects detailed analysis of the economic, political, and social forces influencing the structural underpinnings and operational dynamics of global economies and markets over a one-year to three-year time horizon.

Using this top-down, fundamental, macroeconomic research approach to identify investment opportunities, Covenant frequently employs a combination of asset allocation, risk budgeting, stress-testing and scenario analysis, and diversification techniques and parameters to establish investment positions. Periodically Covenant may invest in relatively illiquid asset classes to structure the various investment exposures it seeks in an effort to adequately address identified opportunities and risks.

Covenant consults multiple sources of research and produces proprietary research. It relies on a broad range of analysis to identify investment opportunities and risks. These include top-down and bottom-up estimates of the intrinsic value of various asset classes and securities using discounted present value calculations, relative value estimations derived from comparisons with other similar and dissimilar securities and asset classes, and valuations set via transactions executed by other investors in similar securities or asset classes. Covenant also considers expected interest rate, inflation, economic growth, unemployment, earnings, currency, commodity price, geo-political, public policy, and global trade factors in analyzing the intrinsic value of markets, securities, asset classes, and various kinds of structured transactions.

Covenant consults specialists in financial planning, variable annuities, mutual funds, and we speak with due diligence professionals that review the products of other issuers. Covenant employs various forms of technical analysis to determine the potential trading and price behavior of market segments in an effort to formulate views about the potential beginning, maturity, or end of trading trends. Trend analysis and other technical and statistical analysis tools to determine potential entry and exit points for portfolio positions is also used.

Covenant also may use technical analysis to identify potential short-term trading opportunities or risks as market volatility increases or decreases. Additionally, it may use various option strategies, periodic short sales or varying degrees of leverage to exploit perceived opportunities or to protect the portfolio against perceived risks.

Investment Strategies

Covenant is a multi-strategy, multi-asset manager focused on protecting capital while generating targeted rates of return. As the general partner and/or investment adviser for the Funds and/or as the investment manager for its separate account clients, Covenant invests in and trades a variety of securities, investment structures, and asset types. Its investment positions are frequently traded publicly in both U.S. and non-U.S. investment markets but also may include privately-structured transactions with varying degrees of liquidity.

Covenant may invest in preferred stocks, convertible securities, warrants, rights, options (including covered and uncovered puts and calls and over-the-counter options), swaps and other derivative instruments, bonds and other fixed and floating-rate securities, non-U.S. securities, currencies, futures, options on futures, and money market instruments. Covenant may also engage in short selling, margin trading, hedging, and multiple other potential investment strategies.

While Covenant expects to invest in the Funds' or separate account clients' assets principally in equity and debt securities, it also expects to invest their assets in securities representing direct or derived interests in commodities, hard assets and natural resources, including precious and industrial metals, energy sources, electricity, bio-fuels, agricultural products at various stages of production and processing, environmental products, petrochemicals and plastics and collectibles including jewelry, diamonds and other precious stones and gems.

Covenant also may invest directly in various forms of real estate, including undeveloped land, mineral interests, commercial buildings, industrial facilities, retail properties, and vacation or multi-family structures. Additional investments might also include private transactions and private securities representing majority or minority interests in ongoing businesses.

Covenant seeks to generate long-term returns for its limited partners and clients, seeking generally to meet performance goals over 1 to 3 years at a minimum and 5 years at a maximum. Covenant encourages prospective investors to view their investments as a long-term in nature.

Covenant pro-actively evaluates portfolio positions daily, weekly and monthly depending on each position's intended purpose and representation within the aggregate portfolio. During these reviews, positions may be accumulated, liquidated or re-balanced depending on changing risk, return and competing opportunity factors. Covenant's review, re-balancing and portfolio maintenance discipline is intended to gauge and subsequently manage the potential impact that changes in the value of various positions might have on aggregate Fund performance.

Each of Covenant's Funds has a market benchmark. A benchmark is a standard against which the performance of an investment or investment adviser is measured. Generally, broad market and market-segment securities indexes are used for this purpose. When evaluating the performance of any investment, ideally, it would be important to compare it against an appropriate benchmark. Because of the construction of each of the Funds' portfolios, there is not a market benchmark that is directly comparable to their performance. However, Covenant has assigned a relative market benchmark based on the funds risk parameters.

Risk of Loss

As with the investment of any type of security, clients should be aware that there is a risk of loss. Investment returns and principal value will fluctuate, so that clients' investments when sold may be worth more or less than their original cost. Covenant's past performance is no guarantee of future results.

While Covenant's investment strategy focuses principally on investing in equity and debt securities, it periodically invests in additional asset classes that are more illiquid. This means that when investors elect to make withdrawals, there is the risk that Covenant will be unable to sell these assets at a favorable price and/or in a timely manner to fund the withdrawals.

Disciplinary Information

Legal and Disciplinary

None

Criminal or Civil Action

None

Administrative Proceeding

None

Self-Regulatory Proceeding

None

Other Financial Industry Activities and Affiliations

Broker-dealer or Registered Representative

None

Futures Commission Merchant, Commodity Pool Operator, Commodity Trading Adviser or Associated Person

None

Material Relationships or Arrangements with Financial Industry

None

Recommend or Select Other Investment Advisers

None

Code of Ethics, Participation or Interest in Client Transactions and Personal Trading

Code of Ethics

Covenant has adopted a Code of Ethics (Code) for the purpose of instructing its personnel in their ethical obligations and to provide rules for their personal securities transactions. Covenant and its personnel owe a duty of loyalty, fairness, and good faith towards their clients, and the obligation to adhere not only to the specific provisions of the Code but to the general principles that guide the Code.

The Code covers a range of topics that may include: general ethical principles, reporting personal securities trading, exceptions to reporting securities trading, reportable securities, initial public offerings and private placements, reporting ethical violations, distribution of the Code, review and enforcement processes, amendments to Form ADV and supervisory procedures. Covenant will

provide a copy of its Code to any client or prospective client upon request.

Recommend Securities with Material Financial Interest

Covenant may offer its clients an opportunity to invest in Funds to which the Covenant is the general partner. In those instances clients receive a copy of the offering documents, which disclose the relationship between Covenant and the Funds.

Invest in Same Securities Recommended to Clients

At times, the interests of the advisor or related persons' accounts may coincide with the interests of clients' accounts; however, at no time will the advisor or any related person receive any benefit or advantage over clients with respect to these transactions. The investment advisor will maintain a record of personal securities transactions and enforce all applicable rules and regulations. The investment advisor will not permit insider trading.

Personal Trading Policies

We regularly review personal trading activities of all of Covenant's associated persons.

Brokerage Practices

Selecting Brokerage Firms

Covenant has discretion over the selection of the broker to be used and the commission rates to be paid. In selecting a broker for any transaction or series of transactions, Covenant may consider a number of factors, including, for example, net price, the financial stability and reputation of the broker, the quality of the investment research, investment strategies, special execution capabilities, clearance, settlement, custody, record keeping and other services provided by such broker. Clients may pay commissions or fees that are higher or lower than those that may be obtained from elsewhere for similar services. Although funds typically have a prime broker, Covenant has agreements with multiple brokers and looks for the right broker depending on the transaction.

Research and Soft Dollars

Covenant does not engage in any soft dollar commission/fee arrangements. Covenant selects the brokers/dealers it uses on the basis of the type of security being purchased or sold and the best price it is able to obtain from each broker-dealer at any given time. If two broker-dealers

offer or bid for the same security, the best offer/bid, combined with transactional speed and clearing efficiency, is selected.

Brokerage for Client Referrals

None

Directed Brokerage

None

Order Aggregation

Covenant consistently aggregates its trading orders. No advisory client will be favored over any other client; each client that participates in an aggregated order will participate at the average share price for all transactions in that security on a given business day, with transaction costs shared pro-rata based on each client's participation in the transaction.

Review of Accounts

Periodic Reviews

Advisory associates perform reviews of all investment advisory accounts no less than quarterly. There is currently no limit on the number of accounts that can be reviewed by an associate. In addition, brokerage statements are generated no less than quarterly. These statements are sent directly from the account custodian. These reports list the account positions, activity in the account over the covered period, and other related information. Clients are also sent confirmations following each brokerage account transaction unless confirmations have been waived.

Accounts are reviewed for consistency with the investment strategy and performance. Reviews may be triggered by changes in an account holder's personal, tax or financial status. Macroeconomic and company specific events may also trigger reviews. Financial plans are reviewed only upon request unless the applicant is retained to update the plan on an ongoing basis.

The fourth quarter report (only) will include a Gain/Loss Recap report which shows assets that have been sold and the short-term/long-term gain/loss for tax purposes. The following reports will be sent to Financial Planning clients upon request:

Estate Analysis
Income Tax Analysis
Financial Statement
Cash Flow Analysis
Retirement Analysis
Education Funding Analysis

Regular Reports

Covenant will provide each client with periodic reports no less frequently than annually that will include financial statements, information concerning valuations, profits, gains, and losses. In addition, Covenant will provide each Limited Partner with tax related information on an annual basis.

Client Referrals and Other Compensation

Economic Benefits

None

Third Party Solicitors

Covenant has none at this time but is exploring the possibility of adding third party solicitation services in the future.

Custody

Account Statements

Custodians and the Fund administrator provide monthly account statements directly to clients. Covenant provides quarterly performance reports and encourages clients to compare our reports to the custodian statements. The funds are audited and copies of the audited financials are delivered to clients within 120 days of the end of the fiscal year.

Investment Discretion

Discretionary Authority for Trading

As previously noted, based on the Client Agreement Covenant has full discretion to purchase or sell securities and all other asset classes as it sees best benefits the clients.

Voting Client Securities

Proxy Voting

While Covenant votes proxies in the Funds in the interest of the Limited Partners, it does not vote proxies for separate accounts. For those clients, Covenant explains that it can help them with any questions they might have and how to contact them. Separate account clients would receive the proxy either from the company or the company's agent. In the event Covenant receives their proxy, it forwards it to the client.

Financial Information

Prepayment of Fees

None

Financial Condition

Covenant submits that its financial condition is sound and has not been the subject of a bankruptcy petition.