

## Item 1 - Cover Page



**COVEY CAPITAL**  
ADVISORS, LLC

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## May 31, 2012 Brochure

This brochure provides information about the qualifications and business practices of Covey Capital Advisors, LLC ("Covey Capital"). If you have any questions about the contents of this brochure, please contact us at (404) 442-2725 or [swinton@coveycap.com](mailto:swinton@coveycap.com). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state authority.

Additional information about Covey Capital also is available on the SEC's website at [www.AdviserInfo.sec.gov](http://www.AdviserInfo.sec.gov).

## Item 2 - Summary of Material Changes

This Brochure is prepared in the revised format required by the SEC beginning in 2011. Registered Investment Advisers are required to use this format in order to inform clients of the nature of advisory services provided, types of clients served, fees charged, potential conflicts of interest and other information. The new Brochure requirements include providing a Summary of Material Changes (the "Summary") reflecting any change to our policies, practices, or conflicts of interest made since our last annual update. This Summary is provided to all clients within 120 days of our fiscal year-end. Our last annual update was filed on March 7, 2012. Of course the complete Brochure is available to clients at any time upon request.

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#### ***Item 4 - Advisory Business***

##### **General Information**

Covey Capital Advisors, LLC ("Covey Capital") was formed in 2007, and provides investment advisory services on a discretionary basis to commingled investment vehicles intended for institutional investors and other sophisticated investors, to separately managed accounts and also serves as a Sub-adviser to other Registered Investment Adviser firms on a non-discretionary basis.

##### **Private Investment Funds**

Covey Capital is the investment adviser for each of the following related entities: Covey Capital Partners, LP (the "**U.S. Fund**"), Covey Capital Partners Ltd., (the "**Offshore Fund**") and Covey Capital Partners Master Ltd. (the "**Master Fund**"). The U.S. Fund and Offshore Funds are collectively referred to as the "**Covey Funds**."

Investors do not invest directly in the Master Fund, but rather invest in either the U.S. Fund or the Offshore Fund. Both the U.S. Fund and the Offshore Fund invest substantially all of their assets in the Master Fund.

Covey Capital is a fundamental, research intensive value-oriented investor in the global public markets. The Fund's investment objective is the preservation of capital and generation of absolute returns while minimizing risk. Covey Capital defines risk as permanent loss of capital, rather than security price volatility. Covey Capital will seek to accomplish this objective through a long/short equity investment strategy.

##### **Option 1 Investments**

Individual investors with Option 1 Investments will not be permitted to withdraw any portion of their Capital Accounts within the first 36 months following the date of their investment.

##### **Option 2 Investments**

Individual Investors with Option 2 Investments will not be permitted to withdraw any portion of their Capital Accounts within the first 12 months following the date of their investment. Notwithstanding the above, during months 1 through 12 following the date of their investment, individual investors with Option 2 Investments may be permitted to withdraw all or a portion of their Capital Accounts (excluding amounts allocated to Special Investment Accounts), upon at least 60 days prior written notice, as of the first Business Day of any calendar quarter, upon the payment of an early withdrawal fee to the Partnership in an amount equal to 2.5% of the amount being withdrawn. Such early withdrawal fee will be deducted from the withdrawal payment and will be in addition to and not in lieu of any other amounts that may be chargeable to the individual investor upon withdrawal of their Interests, as set forth herein.

##### **Separately Managed Accounts**

Covey Capital provides investment advisory services on a discretionary basis to clients in Separately Managed Accounts. As a discretionary investment adviser, Covey Capital will have the authority to supervise and direct the portfolio without prior consultation with the client. Investment guidelines, terms, conditions and fees are set forth in an investment management agreement between Covey Capital and the client. Upon the inception of a client relationship, the adviser and the client will agree upon an investment objective and strategy, which may, but is not required to be, similar to the investment objective and strategy of a Fund managed by the adviser.

Clients with separately managed accounts have the right to impose certain restrictions on Covey Capital, such as prohibiting the inclusion of certain types of stocks in a portfolio or prohibiting the sale of certain stocks held in the account at the commencement of the relationship. Such restrictions and guidelines imposed by clients affect the composition and performance of portfolios. For these and other reasons, performance of portfolios within the same investment objective may differ and clients should not expect that the performance of their portfolios would be identical with either the average client of Covey Capital or of the Covey Funds.

#### Sub-Adviser

From time to time Covey Capital may serve as a Sub-adviser for other Registered Investment Advisers on a non-discretionary basis. In such instances Covey Capital normally provides ongoing review and advice, including the timing of trading activities, with respect to the selection of individual stocks in portfolios of the other adviser.

#### Principal Owners

J. Christopher Lanigan, Robert Scott Mayo and Sidney H. Gargiulo are the owners of Covey Capital. Please see Appendix A, **Brochure Supplement**, for more information on these owners and other individuals who formulate investment advice and have direct contact with clients, or have discretionary authority over client accounts.

#### Type and Value of Assets Currently Managed

As of April 30, 2012, Covey Capital managed \$82.4 million in assets on a discretionary basis, and \$79.3 million in assets on a non-discretionary basis.

### ***Item 5 - Fees and Compensation***

#### Private Investment Funds

Covey Capital will receive a management fee from the Covey Funds, at the rate of 1.5% per annum of the net asset value of the respective fund, for the investment management and administrative services it provides to the Funds (the "Management Fee"). This fee will be calculated quarterly on the basis of 0.375% (1.5% per annum) of each Funds' net asset value at the opening of business on the first day of each calendar quarter (after giving effect to capital contributions and withdrawals) and is payable in advance. Any Management Fee payable for any period of less than one full quarter shall be pro-rated.

In addition, Covey Capital or an affiliate receives performance-based compensation equal to (i) with respect to Option 1 Investments, 17.5% and (ii) with respect to Option 2 Investments, 20.0% of net profits (including realized and unrealized gains and losses) and is subject to a loss carryforward provision, so that if there is a loss during any fiscal year, a client account will not be charged any performance-based fees until the amount of the loss previously allocated to such account has been recouped.

Covey Capital may, at its discretion, make exceptions to the foregoing or negotiate special fee arrangements where Covey Capital deems it appropriate under the circumstances.

#### Separately Managed Accounts

The advisor will receive a management fee from Separately Managed Accounts, at the rate of 1.5% per annum of the net asset value of the respective account, for the investment management and administrative services it provides (the "Management Fee"). This fee will be calculated quarterly

on the basis of 0.375% (1.5% per annum) of each Separately Managed Account's value at the opening of business on the first day of each calendar quarter (after giving effect to contributions and withdrawals), using the prior day's closing prices, and is payable in advance. Any Management Fee payable for any period of less than one full quarter shall be pro-rated.

Separately Managed Accounts will also pay a performance fee based on the difference between the returns of the Account and the returns of an established benchmark (S&P 500 Index) over the same period (the "Excess Return"). On the first \$100 million under management the performance fee shall be 30% of the Excess Return. For separate accounts which exceed \$100 million, the performance fee will be 30% of the Excess Return on the first \$100 million, and 20% of the Excess Return on the balance above \$100 million. The performance component of Covey Capital's fee is paid in arrears. Additional details on the calculation of performance fees will be defined in the Investment Management Agreement.

Covey Capital may, at its discretion, make exceptions to the foregoing or negotiate special fee arrangements where Covey Capital deems it appropriate under the circumstances.

#### Sub-Adviser Services

Covey Capital receives a quarterly fee, in advance, based on the value of the assets held on the last day of the prior quarter.

#### General Fee Information

Fees paid to Covey Capital are exclusive of all custodial and transaction costs paid to the client's custodian, brokers or other third party consultants. Fees paid to Covey Capital are also separate and distinct from the fees and expenses charged by mutual funds, ETFs (exchange traded funds) or other investment pools to their shareholders (generally including a management fee and fund expenses, as described in each fund's prospectus or offering materials). The client should review all fees charged by funds, brokers, Covey Capital and others to fully understand the total amount of fees paid by the client for investment and financial-related services.

### ***Item 6 - Performance-Based Fees and Side-By-Side Management***

As noted above, Covey Capital will manage separate account portfolios pursuant to a "performance fee" arrangement. A performance arrangement is one in which a client compensates Covey Capital, at least in part, for its services by paying Covey Capital based on the performance of the account as defined in the Investment Management Agreement signed with each Separately Managed Account.

Performance-based fee arrangements are only available to clients who meet the eligibility requirements of Rule 205-3 under the Investment Advisers Act of 1940. The minimum requirements under the rule state that the client generally is not eligible unless he/she has at least \$1,000,000 under management with Covey Capital or has a net worth of at least \$2,000,000. Performance-based fees are calculated and assessed in arrears, and the client should carefully review the fee calculations for accuracy.

Performance-based fee arrangements and side-by-side management may create certain conflicts of interest for Covey Capital. For example, performance-based fee arrangements may create an incentive for Covey Capital to take more risk in a client's portfolio than Covey Capital would otherwise take in a non-performance fee based account. In addition, Covey Capital may have an

incentive to favor performance-based accounts by placing trades for these accounts before non-performance fee based accounts.

### ***Item 7 - Types of Clients***

Covey Capital provides investment advisory services on a discretionary basis to clients, which are commingled private investment vehicles, and to separately managed accounts, which are accounts for high net worth individuals, family partnerships, or other sophisticated investors “separate accounts”. With some exceptions, the minimum portfolio value eligible for conventional investment advisory services is \$3,000,000. Minimum annual fees may apply. Under certain circumstances and in its sole discretion, Covey Capital may negotiate such minimums.

### ***Item 8 - Methods of Analysis, Investment Strategies and Risk of Loss***

#### **Methods of Analysis and Investment Strategies**

When consistent with the objectives and risk tolerance levels of a client, Covey Capital may recommend investment in one of its affiliated funds. In other cases, again consistent with client mandates, goals and risk level, Covey Capital may invest client accounts via a separately managed account in individual stocks, ETF's, and fixed income instruments. Other types of investments may also be used as appropriate. When acting as a sub-adviser, Covey Capital will provide continuous and ongoing research, monitoring and review of individual stocks held in client accounts. Covey Capital will assist in the implementation of its recommendations with respect to these assets.

Covey Capital employs a value investing philosophy. Covey Capital only buys securities that trade at a meaningful discount to its estimate of intrinsic value and conversely sells short securities that it believes are overvalued utilizing the same methodology. Specifically, Covey Capital estimates the intrinsic value of a security by calculating the present value of the projected free cash flows of a business. Covey Capital then compares this per share value to the market price of the security. When applicable, Covey Capital conducts a balance sheet appraisal which marks to market the assets and liabilities on the balance sheet to calculate net asset value. Covey Capital then compares the results of these valuation approaches with historical transaction values in the relevant industry. Key qualitative factors are also evaluated which include, but are not limited to, identifying the sustainable competitive advantages of a company viewed as a prospective investment, understanding and rating the quality of the company management and most importantly, management's capital allocation skills. The Investment Manager believes that a portfolio of investments acquired at a discount to intrinsic value, provides a margin of safety that can reduce the likelihood of a permanent loss of partnership capital while creating the opportunity to generate positive absolute returns over the long-term.

Core to Covey Capital's strategy is a long-term investment time horizon of five years.

Covey Capital conducts proprietary due diligence or value added research (“VAR”), which often entails visits to operating sites, conversations with suppliers, customers, and competitors or other unique methods that aid in properly forecasting these key value drivers. Additionally, Covey Capital utilizes public market company and industry data to gain valuable insights into the financial health of a potential investment. Historical financial statements are read to understand a companies' financial performance in various stages of an economic and specific industry cycle. Covey Capital also uses historical financial statements, transcripts of conference calls and corporate presentations to reverse engineer and judge management's ability to effectively allocate excess capital. Taken

together, these insights allow Covey Capital to better forecast business scenarios and more accurately estimate intrinsic value.

#### Risk of Loss

While Covey Capital seeks to diversify clients' investment portfolios across the equity market in an effort to reduce risk of loss, all investment portfolios are subject to risks. Accordingly, there can be no assurance that client investment portfolios will be able to fully meet their investment objectives and goals, or that investments will not incur losses.

Below is a description of several of the principal risks that client investment portfolios face.

*Management Risks.* While Covey Capital manages client investment portfolios based on Covey Capital's experience, research and proprietary methods, the value of client investment portfolios will change daily based on the performance of the underlying securities in which they are invested. Accordingly, client investment portfolios are subject to the risk that Covey Capital allocates assets to asset classes that are adversely affected by unanticipated market movements, and the risk that Covey Capital's specific investment choices could not meet investment objectives.

*Equity Market Risks.* Covey Capital may invest portions of client assets directly into equity investments, primarily stocks, or into pooled investment funds that invest in equity securities. Risks associated with these investments include, without limitation, the risks that stock values will decline due to daily fluctuations in the markets, and that stock values will decline over longer periods (e.g., bear markets) due to general market declines in the stock prices for all companies, regardless of the prospects of any individual security.

*Fixed Income Risks.* Covey Capital may invest portions of client assets directly into fixed income instruments, such as bonds and notes, or may invest in pooled investment funds that invest in bonds and notes. While investing in fixed income instruments, either directly or through pooled investment funds, is generally less volatile than investing in stock (equity) markets, fixed income investments nevertheless are subject to risks. These risks include, without limitation, interest rate risks (risks that changes in interest rates will devalue the investments), credit risks (risks of default by borrowers), or maturity risk (risks that bonds or notes will change value from the time of issuance to maturity).

*Foreign Securities Risks.* Covey Capital may invest in non-U.S. markets and securities, and may also take positions in non-U.S. currencies. Investments in non-U.S. instruments involve risks and considerations not present in U.S. investments. Currency exchange rates can be affected unpredictably by controls or restrictions imposed by U.S. or foreign central banks or other governmental agencies in joint or unilateral efforts to alter exchange rate trends. Political developments in the United States or abroad may also affect currency exchange rates. There may be less publicly available information about foreign companies than U.S. companies. Non-U.S. companies may not be subject to accounting, auditing, and financial reporting standards, practices and requirements comparable to those applicable to U.S. companies. Non-U.S. investment may be less liquid and more volatile than U.S. investments. In many non-U.S. markets there may be less government supervision of exchanges, brokers and issuers than in the United States.

#### ***Item 9 - Disciplinary Information***

Covey Capital has no disciplinary events to report.

### ***Item 10 - Other Financial Industry Activities and Affiliations***

Covey Capital may recommend that clients invest in its related Funds. Clients should note that Covey Capital and the Covey Funds may charge fees or incur expenses for their services to clients which may benefit Covey Capital. Clients should inquire about these fees and expenses before investing, and should consider potential conflicts of interest raised by the relationships between Covey Capital and the Covey Funds before investing.

Covey Capital and its employees may personally invest in the Funds, and, therefore, such persons may hold the same securities as private clients or other investors in the Funds.

### ***Item 11 - Code of Ethics, Participation or Interest in Client Transactions and Personal Trading***

Covey Capital has adopted a Code of Ethics (the "Code") that obligates Covey Capital, its officers, employees and other related persons ("Access Persons") to place the interests of Advisory Clients and Fund Investors above their own interests and the interests of Covey Capital and to act honestly and fairly in all respects in their dealings with Advisory Clients. The Code also requires all Access Persons to comply with applicable federal securities laws, and to promptly notify the CCO of any violations of the Code. The Code also seeks to ensure the protection of non-public information about the activities of the Advisory Clients.

All Access Persons are provided with a copy of the Code and are required to acknowledge receipt of the Code upon hire and on at least an annual basis thereafter. Access Persons include, generally, any partner, officer or director of Covey Capital and any employee or other supervised person of Covey Capital who, in relation to the Advisory Clients, (i) has access to non-public information regarding any purchase or sale of securities, or non-public information regarding securities holdings or (ii) is involved in making securities recommendations, executing securities recommendations, or has access to such recommendations that are non-public. All employees of Covey Capital are deemed to be Access Persons and are subject to the Code.

Covey Capital and its investment personnel, in the course of investment management or other activities, may come into possession of confidential or material non-public information about issuers, including issuers in which Covey Capital or its Access Persons have invested or seek to invest on behalf of clients. Covey Capital is prohibited from improperly disclosing or using such information for its own benefit or for the benefit of any other person, regardless of whether such other person is a client, and Covey Capital maintains and enforces written policies and procedures designed to prohibit the communication of such non-public information to persons who do not have a legitimate need for such information. Covey Capital will have no responsibility or liability to an Advisory Client for not disclosing such information or using such information for the Advisory Client's benefit.

The General Partner has made a general partner or similar investment in the Covey Funds. Covey Capital investment professionals, principals, and related persons may invest in the Covey Funds or be granted interests related to the Covey Funds. We do not believe these investments cause a conflict of interest, but rather serve to align the interests of Covey Capital personnel with the interests of Investors. By virtue of such investments in the Covey Funds, Covey Capital personnel may be considered to participate, indirectly, in transactions effected for the Covey Funds.

As a general matter, personnel of Covey Capital (including its principals, officers, members and employees) are not permitted to engage in personal transactions outside of the Covey Funds for



their personal accounts. There are instances where such personnel may have a pre-existing personal securities account and may require the ability to sell securities from time to time. Among other requirements, the Code requires personnel to obtain pre-clearance and report certain personal securities transactions (i.e., the sale of a security) and holdings to Covey Capital, and Covey Capital is required to review such reports.

### ***Item 12 - Brokerage Practices***

#### **Best Execution and Benefits of Brokerage Selection**

When given discretion to select the brokerage firm that will execute orders in client accounts, Covey Capital seeks “best execution” for client trades, which is a combination of a number of factors, including, without limitation, quality of execution, services provided and commission rates. Therefore, Covey Capital may use or recommend the use of brokers who do not charge the lowest available commission in the recognition of research and securities transaction services, or quality of execution. Research services received with transactions may include proprietary or third party research (or any combination), and may be used in servicing any or all of Covey Capital’s clients. Therefore, research services received may not be used for the account for which the particular transaction was effected.

Covey Capital participates in the Institutional programs of several broker/dealers. While there is no direct link between the investment advice Covey Capital provides and participation in the programs, Covey Capital receives certain economic benefits from the programs. These benefits may include software and other technology that provides access to client account data (such as trade confirmations and account statements), facilitates trade execution (and allocation of aggregated orders for multiple client accounts), provides research, pricing information and other market data, facilitates the payment of Covey Capital’s fees from its clients’ accounts, and assists with back-office functions, recordkeeping and client reporting. Many of these services may be used to service all or a substantial number of Covey Capital’s accounts. The broker/dealers may also make available to Covey Capital other services intended to help Covey Capital manage and further develop its business. These services may include consulting, publications and conferences on practice management, information technology, business succession, regulatory compliance and marketing. In addition, the broker/dealers may make available, arrange and/or pay for these types of services to be rendered to Covey Capital by independent third parties. The broker/dealers may discount or waive fees it would otherwise charge for some of these services, pay all or a part of the fees of a third-party providing these services to Covey Capital, and/or the broker/dealers may pay for travel expenses relating to participation in such training.

The benefits received through participation in the programs do not necessarily depend upon the proportion of transactions directed to the broker/dealers. The benefits are received by Covey Capital, in part because of commission revenue generated for the broker/dealers by Covey Capital’s clients. This means that the investment activity in client accounts is beneficial to Covey Capital, because the broker/dealers do not assess a fee to Covey Capital for these services. This creates an incentive for Covey Capital to continue to recommend the broker/dealers to its clients. While it may be possible to obtain similar custodial, execution and other services elsewhere at a lower cost, Covey Capital believes that the broker/dealers provide an excellent combination of these services.

#### **Directed Brokerage**

Clients may direct Covey Capital to use a particular broker for custodial or transaction services on behalf of the client’s portfolio. In directed brokerage arrangements, the client is responsible for negotiating the commission rates and other fees to be paid to the broker. Accordingly, a client who

directs brokerage should consider whether such designation may result in certain costs or disadvantages to the client, either because the client may pay higher commissions or obtain less favorable execution, or the designation limits the investment options available to the client.

The arrangement that Covey Capital has with several broker/dealers is designed to maximize efficiency and to be cost effective. By directing brokerage arrangements, the client acknowledges that these economies of scale and levels of efficiency are generally compromised when alternative brokers are used. While every effort is made to treat clients fairly over time, the fact that a client chooses to use the brokerage and/or custodial services of these alternative service providers may in fact result in a certain degree of delay in executing trades for their account(s) and otherwise adversely affect management of their account(s).

By directing Covey Capital to use a specific broker or dealer, clients who are subject to ERISA confirm and agree with Covey Capital that they have the authority to make the direction, that there are no provisions in any client or plan document which are inconsistent with the direction, that the brokerage and other goods and services provided by the broker or dealer through the brokerage transactions are provided solely to and for the benefit of the client's plan, plan participants and their beneficiaries, that the amount paid for the brokerage and other services have been determined by the client and the plan to be reasonable, that any expenses paid by the broker on behalf of the plan are expenses that the plan would otherwise be obligated to pay, and that the specific broker or dealer is not a party in interest of the client or the plan as defined under applicable ERISA regulations.

### ***Item 13 - Review of Accounts***

J. Christopher Lanigan and R. Scott Mayo, are Managing Members and Portfolio Managers of Covey Capital, and together manage the Covey Funds. They also manage portfolios for separate account clients (the "Separate Accounts" and collectively with the Funds, the "Accounts"). They monitor the holdings in the Accounts continuously. Such holdings are monitored in light of trading activity, significant corporate developments and other activities which may dictate a change in portfolio positions. Before making the decision to purchase or sell a particular security on behalf of a client account, the Accounts holding such security will be reviewed in full. In addition, the Accounts are reviewed periodically from the standpoint of the specific investment objectives of the Accounts and as particular situations may dictate.

Account custodians are responsible for providing monthly or quarterly account statements which reflect the positions (and current pricing) in each account as well as transactions in each account, including fees paid from an account. Each investor in the Funds receives monthly capital account/net asset value statements directly from the Funds full service administrator, Kaufman Rossin Fund Services. Investors in the Funds receive audited financial statements on an annual basis. In addition, investors in the domestic Funds receive a Schedule K-1 for tax reporting purposes.

Separately Managed Accounts generally receive statements quarterly. These written reports normally include a summary of portfolio holdings and performance results. Additional reports are available at the request of the client.

#### ***Item 14 - Client Referrals and Other Compensation***

As noted above, Covey Capital may receive some benefits from several broker/dealers based on the amount of client assets held at the broker/dealers or transactions directed to the broker/dealers. Please see ***Brokerage Practices*** for more information. However, neither the broker/dealers nor any other party is paid to refer clients to Covey Capital.

#### ***Item 15 - Custody***

It is the responsibility of the Separate Account client's custodian to provide clients with confirmations of trading activity, tax forms and at least quarterly account statements. Clients are advised to review this information carefully, and to notify Covey Capital of any questions or concerns. Clients are also asked to promptly notify Covey Capital if the custodians fail to provide statements on each account held.

From time to time and in accordance with Covey Capital's agreement with clients, Covey Capital will provide additional reports to Separate Account clients. The account balances reflected on these reports should be compared to the balances shown on the brokerage statements to ensure accuracy. At times, there may be small differences due to such things as the timing of dividend reporting and pending trades.

#### ***Item 16 - Investment Discretion***

As described in the ***Advisory Business*** section, Covey Capital will accept clients on either a discretionary or non-discretionary basis. For *discretionary accounts*, a Limited Power of Attorney ("LPOA") is executed by the client, giving Covey Capital the authority to carry out various activities in the account, generally including the following: trade execution; the ability to request checks on behalf of the client; and, the withdrawal of advisory fees directly from the account. Covey Capital then directs investment of the client's portfolio using its discretionary authority. The client may limit the terms of the LPOA to the extent consistent with the client's investment advisory agreement with Covey Capital and the requirements of the client's custodian.

When acting as a sub-adviser, Covey Capital is generally engaged in a non-discretionary capacity. However, the services provided under such agreements are continuous in nature, and Covey will have the appropriate authority to facilitate the execution of trading in these accounts.

#### ***Item 17 - Voting Client Securities***

We have been delegated the authority to vote proxies regarding securities held by our Clients. We have adopted and implemented policies and procedures reasonably designed to ensure that we vote proxies in the best interests of our Clients. We make all voting decisions on behalf of Client accounts based solely on our determination of the best interests of that Client account subject to any specific proxy voting guidelines specifically requested by and agreed upon with Separate Account Clients.

Upon request, Clients may obtain a copy of our proxy voting policies and/or information regarding how we voted proxies on behalf of our Clients.

#### ***Item 18 - Financial Information***

Covey Capital does not require nor solicit prepayment of more than \$1,200 in fees per client, six months or more in advance, and therefore has no disclosure required for this item.