

Covington & Associates, Inc.

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Firm Brochure (Part 2A of Form ADV)

This “Brochure” provides information about the qualifications and business practices of Covington & Associates, Inc. If you have any questions about the contents of this brochure, please contact us at (908) 232-4717. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (the “SEC”) or by any state securities authority.

Additional information about Covington & Associates, Inc. is also available on the SEC’s website at www.adviserinfo.sec.gov.

The term “registered investment advisor” signifies the registration of the company with the United States Securities and Exchange Commission. It does not imply a certain level of skill or training.

March 2024

Item 2: Material Changes

The Material Changes section of this brochure is updated annually and when material changes occur since the previous version of the brochure. This Brochure contains an updated Regulatory Assets Under Management as of December 31, 2023.

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Item 4: Advisory Business

Successful investment management requires dedication, flexibility, and extensive knowledge in the selection and weighting of securities within a portfolio for capital appreciation and for income generation. Based on this philosophy, Covington & Associates, Inc. (hereinafter “Covington”, “we”, “us”, “our” or the “Firm”) was founded in 1989 to provide personalized investment advisory services for selected individual, institutional, and corporate clients. Covington is organized as a New Jersey corporation. All portfolios are managed by a three-member advisory team including the Firm’s president and owner, Hugh Richard Covington.

Covington currently manages a variety of portfolios with investment objectives ranging the spectrum from capital preservation with minimum risk to aggressive capital appreciation with additional risk. The Firm provides individuals, corporations, corporate pension plans, foundations, and trusts with personalized portfolios based on their specific risk and reward expectations. Clients have direct access to the Firm’s advisory team who manages the portfolios. The Firm invests in stocks, bonds, mutual funds, exchange-traded funds, real estate investment trusts and options in appropriate weightings and combinations. It does not invest in commodity futures or non-marketable securities. Because Covington recognizes the unique attributes and concerns of each client, it customizes each client’s portfolio to reflect the client’s investment restrictions.

There are no wrap-fee programs for clients of Covington. There are no commission sales. Clients are charged a fixed fee for assets under management after services are performed.

As of December 31, 2023, Covington has \$241,880,184 of total regulatory assets under management, \$231,335,803 of which is managed on a discretionary basis and \$10,544,381 managed on a non-discretionary basis.

Item 5: Fees and Compensation

As a boutique investment advisory firm providing custom-tailored portfolios, Covington does not act as a broker-dealer. The Firm maintains a fee-based relationship reflecting assets under management. Covington provides investment advisory services for a fee that ranges from 0.5% to 1% of assets under management, depending on the client’s individual situation and investment strategy.

Investment advisory fees are charged at the end of each quarter of service (March 31, June 30, September 30, December 31) by multiplying the client’s ending portfolio balance by the appropriate percentage (.125% - .25%). No fees are charged in advance. There are no fixed-term contracts at the Firm. Either party may cancel investment advisory agreements in writing at any time.

Covington elects not to earn any commission dollars, or relationship dollars, as the Firm does not wish to have financial interests other than the growth of the clients’ portfolios. The Firm is not an asset custodian or broker-dealer and does not have financial or soft-dollar relationships with any custodians or broker-dealers.

Client portfolio assets are held by an external qualified custodian and/or broker-dealer that the client may help to select. Covington is happy to use the client’s recommended custodian if the Firm

is satisfied with the custodian's skill level. To assure investment focus, Covington does not provide securities warehousing or back-office services. It works with the custodian to secure those services as needed.

The broker-dealer may earn trading commissions, and there may be fees associated with maintaining an account at a brokerage firm. Mutual fund companies may also have fees associated with investing in their funds. These fees and expenses are described in each fund's prospectus. We do not collect any commissions, and we do not share in any of the account fees.

Item 6: Performance-Based Fees

We do not accept any performance-based compensation for any clients. As a result, we do not face any conflicts of interest that may arise when an investment adviser accepts performance-based fees from some clients, but not from other clients.

Item 7: Types of Clients

Covington manages portfolios for individuals, corporations, corporate pension plans, foundations, and trusts as described in Item 4.

Item 8: Methods of Analysis, Investment Strategies, and Risk of Loss

The descriptions set forth in this Brochure of specific advisory services that we offer to clients, and investment strategies pursued, and investments made by us on behalf of our clients, should not be understood to limit in any way our investment activities. We may offer any advisory services, engage in any investment strategy and make any investment, including any not described in this Brochure, that we consider appropriate, subject to each client's investment objectives. The investment strategies we pursue are subject to certain risks. Investors should be prepared to bear a substantial loss of capital. There can be no assurance that the investment objectives of any client will be achieved.

Methods of Analysis and Investment Strategies

Investment strategies (balanced, growth, income, etc.) vary by client and portfolio. Regardless of the strategy, the Firm's method of security selection relies on a combination of macroeconomic vision, fundamental analysis and a focus on traditional value investing. We often utilize proprietary systems and techniques to build diversified portfolios from those securities that meet our selection criteria. As part of this effort, we perform original research and keep abreast of industry trends through technical publications and conferences.

Material risks are involved in securities investing. Covington provides its best effort, relying on standard industry-wide metrics on risks and returns, to select securities that meet our client's investment objectives. However, a change in a security's value is subject to market forces, which are beyond the Firm's control. Stock prices can be volatile, and there is no guarantee that the eventual outcome will be one of asset appreciation. Bond prices also move up and down, and there is no guarantee of a return of investment principal or payment of interest.

Taxes may be due after a security transaction and timely payment of those taxes is the client's sole responsibility.

Risk of Loss

Investment Risks and Concentration. An investment involves risk, including the risk that the entire amount invested may be lost. No guarantee or representation is made that the investment program will be successful. The Firm will be investing substantially all of the client account's assets in a limited number of securities. Therefore, the client accounts will be much more susceptible to fluctuations in value resulting from adverse economic conditions affecting the performance of the securities than a less concentrated portfolio would be. As a result, the client account's aggregate return may be volatile. All securities and related investments create the risk of the loss of capital.

Equity Securities Generally. The Firm intends to invest in equity securities and equity-related securities of public companies in the U.S. The value of these financial instruments generally will vary with the performance of the issuer and movements in the equity markets. As a result, the client accounts may suffer losses if they invest in equity instruments of issuers whose performance diverges from the Firm's expectations or if equity markets generally move in a single direction. The client accounts also may be exposed to risks that issuers will not fulfill contractual obligations such as, in the case of convertible securities, delivering marketable common stock upon conversions of convertible securities.

Equity Price Risk. The investment portfolio may include long positions in equity securities. Equity securities fluctuate in value in response to many factors, including, among others, the activities and financial condition of individual companies, geographic markets, industry market conditions, interest rates and general economic environments. In addition, events such as the domestic and international political environments, terrorism and natural disasters, may be unforeseeable and contribute to market volatility in ways that may adversely affect investments made in the client account.

Undervalued Equity Securities. The Firm's investment strategy focuses on investing in companies that the Firm believes are undervalued, particularly from a longer-term perspective. Opportunities in undervalued equity securities arise from market inefficiencies or due to a lack of wide recognition of the potential impact (positive or negative) that specific events or trends may have on the value of a security. The identification of investment opportunities in undervalued securities is a difficult task, and there is no assurance that such opportunities will be successfully recognized or acquired, particularly given the Firm's desire to identify securities that are undervalued based on longer-term projections. While investments in undervalued securities offer the opportunities for above-average capital appreciation, these investments involve a high degree of financial risk and can result in substantial losses.

Convertible Securities and Investments in Equity-Related Convertible Securities. The Firm may invest a portion of its client's capital in convertible securities and equity-related convertible securities. Convertible securities are equities, bonds, debentures, preferred stocks or other securities that may be converted into or exchanged for a specified fixed or variable amount of common stock of the same or different issuer within a particular period of time at a specified price or formula. A convertible security entitles the holder to receive interest that is generally paid or accrued on debt or a dividend that is paid or accrued on preferred stock until the convertible security matures or is redeemed, converted or exchanged. Convertible securities have unique

investment characteristics in that they generally (i) have higher yields than common stocks, but lower yields than comparable non-convertible securities, (ii) are less subject to fluctuation in value than the underlying common stock due to their fixed-income characteristics and (iii) provide the potential for capital appreciation if the market price of the underlying common stock increases. The value of a convertible security is a function of its “investment value” (determined by its yield in comparison with the yields of other securities of comparable maturity and quality that do not have a conversion privilege) and its “conversion value” (the security’s worth, at market value, if converted into the underlying common stock). The investment value of a convertible security is influenced by changes in interest rates, with investment value declining as interest rates increase and increasing as interest rates decline. The credit standing of the issuer and other factors may also have an effect on the convertible security’s investment value. The conversion value of a convertible security is determined by the market price of the underlying common stock. If the conversion value is low relative to the investment value, the price of the convertible security is influenced principally by its investment value. To the extent the market price of the underlying common stock approaches or exceeds the conversion price, the price of the convertible security will be increasingly influenced by its conversion value. A convertible security generally will sell at a premium over its conversion value by the extent to which investors place value on the right to acquire the underlying common stock while holding a fixed-income security. Generally, the amount of the premium decreases as the convertible security approaches maturity. A convertible security may be subject to redemption at the option of the issuer at a price established in the convertible security’s governing instrument.

Investments in Preferred Stock. The Firm may invest in the preferred shares of certain companies. Preferred shares may pay dividends at a specific rate and generally have preference over common stock in the payment of dividends in a liquidation of assets but rank after debt securities. Unlike interest payments on debt securities, dividends on preferred shares are generally payable at the discretion of the board of directors and advisory board of the issuer. The market prices of preferred shares are subject to changes in interest rates and are more sensitive to changes in the issuer’s creditworthiness than are the prices of debt securities.

High-Yield. Bonds or other fixed-income securities that are “higher yielding” (including non-investment grade) debt securities are generally not exchange-traded and, as a result, these securities trade in the OTC marketplace, which is less transparent and has wider bid/ask spreads than the exchange-traded marketplace. High-yield securities face ongoing uncertainties and exposure to adverse business, financial or economic conditions, which could lead to the issuer’s inability to meet timely interest and principal payments. High-yield securities are generally more volatile and may or may not be subordinated to certain other outstanding securities and obligations of the issuer, which may be secured by substantially all of the issuer’s assets. High-yield securities may also not be protected by financial covenants or limitations on additional indebtedness. The market values of certain of these lower-rated and unrated debt securities tend to reflect individual corporate developments to a greater extent than do higher-rated securities, which react primarily to fluctuations in the general level of interest rates, and tend to be more sensitive to economic conditions than are higher-rated securities. Companies that issue such securities may be highly leveraged and may not have available to them more traditional methods of financing.

Exchange-Traded Funds. The Firm may buy shares of exchange-traded funds (“ETFs”) and other similar instruments. ETFs and other similar instruments involve risks generally associated with investments in a broadly based portfolio of common stocks, including the risk that the general level of stock prices, or that the prices of stocks within a particular sector, may increase or decrease, thereby affecting the value of the shares of the ETF or other instruments. As investors in ETFs, the

clients will bear their ratable share of various fees, allocations and expenses of the ETF, all of which are embedded in the net asset value of the ETF. ETFs may not be able to exactly replicate the performance of the indices because of their expenses and other factors.

Small-Cap and Mid-Cap Risks. The Firm may trade equities of small-capitalization (“small-cap”) and mid-capitalization (“mid-cap”) companies. While, in the Firm’s opinion, the securities of small-cap and mid-cap issuers may offer the potential for greater capital appreciation than investment in securities of larger-cap issuers, securities of small-cap and mid-cap issuers may also present greater risks. For example, some small-cap and mid-cap issuers have limited product lines, markets, or financial resources and may be dependent for management on one or a few key persons. In addition, such issuers may be subject to high volatility in revenues, expenses and earnings. Their securities may be thinly traded, may be followed by fewer investment analysts and may be subject to wider price swings and thus may create a greater chance of loss than when investing in securities of larger-cap issuers. In addition, due to thin trading in many smaller capitalization stocks, an investment in such stocks may be characterized by reduced liquidity. Further, the risk of bankruptcy or insolvency of many smaller companies (with the attendant losses to investors) is potentially higher than for larger, “blue-chip” companies. The market prices of securities of small-cap and mid-cap issuers generally are more sensitive to changes in earnings expectations, corporate developments, and market rumors than are the market prices of larger-cap issuers. Transaction costs in securities of small-cap and mid-cap issuers may be higher than in those of large-cap issuers. There may be less information about small and mid-cap companies than larger cap companies.

General Economic and Market Conditions. The success of the Firm’s activities will be affected by general economic and market conditions, such as interest rates, availability of credit, credit defaults, inflation rates, economic uncertainty, changes in laws (including laws relating to taxation of the client account’s investments), trade barriers, currency exchange controls, and national and international political circumstances (including wars, terrorist acts or security operations). These factors may affect, among other things, the level and volatility of securities’ prices, the liquidity of the investments and the availability of certain securities and investments.

Client accounts may incur major losses in the event of disrupted markets and other extraordinary events in which historical pricing relationships become materially distorted. The risk of loss from pricing distortions is compounded by the fact that in disrupted markets many positions become illiquid, making it difficult or impossible to close out positions against which the markets are moving. Market disruptions may from time-to-time cause losses for the client accounts, and such events can result in otherwise historically low-risk strategies performing with unprecedented volatility and risk.

Item 9: Disciplinary Information

There are no current or past legal or disciplinary events pertaining to Covington or any of its current employees. No violations, suspensions, legal actions, or regulatory issues have been raised since the Firm was founded in 1989.

Item 10: Other Financial Industry Activities and Affiliations

None of the employees of Covington has any other financial services industry affiliations or activities. Because its employees are not financial planners, lawyers, or accountants, the Firm does not provide the services associated with these professions.

No employee of the Firm is registered as a broker-dealer, and none have any application pending to register with the SEC as a broker-dealer or registered representative of a broker-dealer, respectively. No employee of the Firm is registered as, and does not have any application to register as, futures commission merchants, commodity pool operators, commodity trading advisors or associated persons of the foregoing entities.

We do not recommend or select other investment advisers for our clients.

Item 11: Code of Ethics, Participation or Interest in Client Transactions and Personal Trading

The employees of Covington are committed to the fiduciary responsibilities of an investment advisor whereby all business must be conducted with the clients' interests first. Covington has adopted a "Code of Ethics" that establishes the high standard of conduct that we expect of our employees and procedures regarding our employees' personal trading of securities. Our employees are required to certify their adherence to the terms set forth in the Code of Ethics upon commencement of employment and annually thereafter.

The foundation of our Code of Ethics is based upon the following underlying fiduciary principles:

- Employees must at all times place the interests of its clients first;
- Employees must ensure that all personal securities transactions are conducted consistent with the Code of Ethics' Employee Personal Investment Policy (described below); and
- Employees should not take inappropriate advantage of their position at the Firm.

Covington does not recommend, buy, or sell for clients any securities in which an employee has a material financial interest. During the normal course of business, Covington may buy or sell securities for its clients that the Firm's principals may also buy/sell for themselves. The Firm always places client orders prior to their own personal orders to avoid any conflict of interest when buying or selling a common security. The Firm's only interest is the client's interest.

A copy of the Code of Ethics is available upon request. Investors may make such a request by contacting us at the telephone number listed on the first page of this document.

Item 12: Brokerage Practices

Covington does not have any affiliation with brokerage firms or other product sales firms. The selection of a broker-dealer is made together with the client. The Firm is happy to use the client's recommended broker-dealer if it is satisfied with the broker's skill level and the quality of the parent firm as a custodian. The criteria that Covington uses to examine a broker for a client include transaction costs, quality of execution, the types of securities being managed, the frequency and

size of trades, the need for cash or asset transfers, custody costs, online access, the need for checking or credit card services, and other client-specific issues. Although the selection made in concert with the Firm's clients may not always be the least expensive, the Firm does its best to obtain the lowest fees possible for quality service.

Covington receives no research or other benefits that are not available for free to other retail clients of the brokerage firm promulgating the information. Covington has no incentives to use a particular brokerage firm.

Since 1989, Covington has never received a referral of a client from a brokerage firm and there are no such programs in place or anticipated.

Covington does not require clients to direct the Firm to execute a transaction through a specific broker-dealer. When a client requests the execution of a transaction through a specific broker-dealer, the client understands that Covington may not be able to achieve the most favorable execution and that the client's decision could cost more money than the alternatives.

The aggregation of client securities for purchase or sale is only allowed in certain brokerage accounts. When available, Covington uses this feature to expedite client transactions.

Item 13: Review of Accounts

All client accounts are reviewed internally by Covington at least quarterly. Covington continuously reviews the newswires for information about the securities held in the client portfolios, as well as companies and investments of interest to the Firm. Relevant new information may prompt unscheduled discussions about specific securities or specific portfolios. More frequent reviews may also be triggered by material economic, political or market events, new purchase or sale decision, changes in the client's financial situation, deposit or withdrawal, as well as at the request of a client. These reviews may include topics such as asset allocation, cash balance, security selection, transactions, target prices, changes in expectations, taxes, correlations, or other statistical analysis.

Clients receive reports on all transactions directly from their brokerage firm after the execution of each transaction. The brokerage firm provides a client's account holdings and a summary of the account's transactions at least quarterly. Many brokerage firms also allow clients to check their account's status at any time on the Internet. Covington personally meets with clients, as often as they require, to review their goals, the Firm's current investment strategy, recent portfolio performance, and plans for the upcoming year.

Item 14: Client Referrals and Other Compensation

Covington does not accept payment or make payment for client referrals.

Item 15: Custody

Since Covington can direct third party transfers of client funds, given prior written and signed authorization by the client and subject to certain broker requirements, the Firm is deemed to have custody of client funds. Clients receive statements at least quarterly directly from their brokerage firm and/or qualified custodian. Covington does not provide other account statements. Account statements and confirmations should be carefully reviewed by clients.

Item 16: Investment Discretion

Covington manages client portfolios on a discretionary basis. Clients are free to set limitations on security selection based on their particular situations (e.g., exclude specific industries or companies). Before assuming trading authority, Covington requires its clients to provide limited power of attorney over the specific accounts being managed.

Item 17: Voting Client Securities

Covington does not have, nor does it accept, authority to vote client securities. Clients will receive proxies and solicitations directly from the account custodian.

Item 18: Financial Information

Covington does not require prepayment for any services. There are no financial conditions that could impair its ability to provide client services.