

SEC Form ADV Part 2A

“Brochure”

Item 1 – Cover Page

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This Brochure provides information about the qualifications and business practices of **COVINGTON CAPITAL MANAGEMENT** (hereinafter “Covington,” “Advisor” or the “Firm”). If you have any questions about the contents of this Brochure, please contact us by telephone at 213-629-7500. The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

COVINGTON CAPITAL MANAGEMENT is a registered investment advisor. Registration of an Investment Advisor does not imply any level of skill or training. The oral and written communications of an advisor provide you with information about which you determine to hire or retain an advisor.

Additional information about us is also available on the SEC's website at www.adviserinfo.sec.gov.

Item 2 – Material Changes

The Form ADV Part 2A dated March 31, 2018 contained two typographical errors. They are as follows:

- Item 4 – Advisory Business; C. Wrap Fee Programs
 - Covington does “not” participate in any wrap fee program. The March 31, 2108 version omitted the word, “not.”
- Item 5 – Fees and Compensation
 - The table containing the column header, *Assets under Management (Balanced Accounts)*, erroneously stated the third tier as *Balance over \$3 million* when it should have stated, *Balance over \$6 million*.

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Item 4 – Advisory Business

A. Description of Advisory Firm

Covington Capital Management was founded in 2004 as an independent investment advisor registered with and supervised by the Securities and Exchange Commission (hereinafter referred to as the “SEC”). We are a privately owned investment firm in Southern California. Covington serves a range of high net worth individuals, companies, corporate pension and profit-sharing plans, charitable institutions, foundations, endowments, and trusts. Covington emphasizes consistent returns, capital preservation, risk management, asset allocation, and diversification.

Covington’s sole business is managing our clients’ investment assets. As a privately held firm, we are positioned to focus our financial resources directly towards activities which benefit our clients and their investment portfolios. A testament to our clients’ confidence in our investment management approach is that our assets under management have grown steadily and significantly since our inception.

We offer a proactive approach to client service as reflected in our commitment to a high level of communication. We believe that our technical expertise and ability to pay close attention to detail are qualities that set us apart from our competition.

Listed below are the Firm’s key personnel and equity holders (note that no one individual controls 25% or more of Covington):

Richard E. Azarloza, CFA CFP – Chief Executive Officer

Gary H. Arakawa, CFA - Managing Director

Craig B. Burger, CFA – Managing Director

Jeffrey L. Glassman, J.D. – Chairman

B. Types of Advisory Services

Covington offers investment management services on both a discretionary and non-discretionary basis, as agreed to with the client. We primarily manage portfolios for individuals, trusts, retirement accounts (IRAs, pensions and profit sharing plans), and other

types of tax-exempt accounts. Covington customizes each client portfolio to such client's specific risk tolerance, time horizon, and particular goals.

The terms of individual managed accounts are negotiated separately with each client. Clients may impose modest restrictions or limitations on Covington's management of their portfolio. These restrictions or limitations, along with additional details regarding services, fees, investor suitability standards and other specific terms applicable to clients, are set forth in the investment management agreement between the clients and Covington.

Below are the guidelines that are followed when managing a client's portfolio:

- 1) Investment objectives are identified by assessing the client's risk tolerance, liquidity needs, income requirements, emphasis on growth, and emotional tolerance for volatility. Information provided by the client will be collected during meetings, interviews, and/or questionnaires;
- 2) After analyzing a client's financial situation and formulating an investment policy statement, we implement the investment strategy through an appropriate combination of stocks, bonds, exchange traded funds, cash equivalents, and selection of alternative securities. Clients can instruct us not to buy certain securities or types of securities;
- 3) Capital market conditions and client circumstances are monitored; and
- 4) Portfolio adjustments are made as appropriate to reflect significant changes in any or all of the above variables.

C. Wrap Fee Programs

Covington does not currently participate in any wrap fee program.

D. Amount of Managed Assets

Assets Under Management as of December 31, 2017	
Discretionary	\$2,672,816,088
Non-Discretionary	\$12,575,383
Total	\$2,685,391,471

Item 5 – Fees and Compensation

Covington receives compensation from 1) a percentage of the assets under management and 2) fixed fees.

Advisory fees are payable quarterly in advance. The first fee will be calculated as a percentage of the market value of all assets on the last trading day of the month in which the client's account was fully funded. For any partial calendar quarter, the advisory fee will be pro-rated based upon the number of days that the account was open (date of initial funding) during the quarter. Thereafter, the fee will be calculated based upon the market value at the end of the prior calendar quarter. The compensation for our services is as follows:

Assets under Management (Balanced Accounts)	Annual Fee Rate
First \$3 million	1.00%
Next \$3 million	0.75%
Balance over \$6 million	0.50%

There is a minimum quarterly fee of \$5,000.

Fees are deducted directly from the client's custody account pursuant to written agreement. The advisor will consider invoicing advisory fees if specifically requested by the client. The advisor reserves the right to adjust the fee schedule for accounts depending on the size and type of account and the services required. Clients will be provided with advanced written notification of any such adjustment. In some cases, negotiation of fees may result in different fees being charged for similar services and may be less than the stated fee schedule. (e.g., a flat annual fee charged quarterly).

Notwithstanding, as the custodian will not determine whether the fee has been properly calculated, clients should always verify the accuracy of the fee calculation submitted thereby.

Termination of Agreement. Either the advisor or the client may terminate the agreement in writing at any time. The client is responsible to pay for services rendered until the termination of the agreement. The client can cancel the agreement without penalty within the first five days after the signing of the agreement. Upon termination, the client shall receive a pro-rata refund of that portion of any prepaid advisory fees that have yet to be earned by advisor.

Mutual Fund Fees. Advisory fees charged by the advisor are separate and distinct from fees and expenses charged by mutual and/or exchange traded funds, which may be recommended to clients. A description of these fees and expenses are available in each fund's prospectus. Additionally, the fees charged by the advisor are exclusive of any costs related to custodians, brokers, or any other third parties. Clients should review all fees charged by the advisor, custodians, brokers, and others to fully understand the total amount of fees incurred.

ERISA Accounts. If a client's account is a pension or other employee benefit plan governed by the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), the advisor acknowledges that it is a fiduciary to the plan under Section 3(38) of ERISA. In providing its services, the sole standard of care imposed upon the advisor is to act with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent man acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims. Furthermore, the fact that the advisor may acquire, or not acquire, securities or property for itself or for any other client is not to be considered in determining the advisability of acquiring or not acquiring similar securities or property for the portfolio account of any client. The advisor is a fiduciary and may be liable under federal and state securities laws in certain instances for actions undertaken in good faith. In addition, the advisor assumes no responsibility for the accuracy of information furnished to the advisor by a client or a client's agent.

Item 6 – Performance-Based Fees and Side-By-Side Management

Covington does not charge any performance-based fees (fees based on a share of capital gains on or capital appreciation of the assets of a client).

Item 7 – Types of Clients

Covington provides portfolio management services to high net worth individuals, companies, corporate pension and profit-sharing plans, charitable institutions, foundations, endowments, and trusts.

While we do not have a minimum account size, we have a minimum quarterly fee of \$5,000, which equates to a \$2 million dollar account.

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

A. Methods of Analysis & Investment Strategies

We invest in equities, fixed income, mutual funds and ETFs, and cash/cash equivalents. Our equity strategy seeks companies with durable competitive advantages and leading industry positions with above-average operating margins, reasonable levels of debt and good corporate governance. The strategy is characterized by relatively long holding periods, low turnover, and more consistent investment results.

We use fixed income investments in our balanced portfolios in order to help offset the risks and potential volatility of equities. These instruments are used to produce stable income, predictable returns, and preserve capital. Risks are further controlled by using a diversified portfolio of bonds with short and intermediate maturities that are of investment grade quality and have the appropriate tax characteristics.

Balanced Portfolios. Covington believes that balanced portfolio investing can produce the most consistent returns within reasonable risk parameters. We believe that by allocating a client's portfolio across a wide spectrum of asset classes, the subsequent balanced portfolio can reduce volatility, while still allowing significant participation in the equity markets. We believe that globally balanced portfolios are best for meeting the combined growth, income, and safety needs of our clients.

Equity Investing. Covington's equity investment style is to construct blended stock portfolios with a mix of geographies (both foreign and domestic stocks), styles (value and growth), and capitalizations (small-cap, mid-cap, and large-cap). This style allows the client to participate in a number of equity sectors which tends to smooth performance over time and exposes an account to a large range of opportunities. Within this blended framework, Covington investment professionals then seek to add value through the over or underweighting of sectors and themes to capture industry or economic trends.

The core of the Covington's equity investment process is the fundamental research that is performed by our investment professionals. This research provides continuing analysis of the operating outlook and investment prospects for the securities under our supervision, and allows the investment team to synthesize and analyze the information to reach sound investment conclusions. In addition to primary research materials, the investment team also utilizes a number of third party sources of information, such as or similar to: Applied Finance Group, Bespoke Investment Group, Bloomberg, Gimme Credit, Morningstar, Ned Davis Research, Schwab Research, Securities Research Company, Standard & Poor's, Value Line and Zack's Research System.

The equity allocation of the portfolio is built upon the basis of secular, long-term growth trends and reasonable valuation metrics. Economic forecasts are utilized to establish near-term cyclical emphasis on specific sectors and industry groups.

The investment process involves the screening of companies for demonstrated ability:

- to increase revenues and earnings consistently
- to maintain a reasonable level of debt
- to raise dividends, or have the ability to pay dividends, on a consistent basis
- to operate in an attractive industry

Companies are analyzed on a fundamental and technical basis to determine reasonable entry prices. Specific factors include:

- Return on equity and earnings per share; past and future
- Dividend record (consistency and ability to increase)
- Debt levels

- Drivers and catalysts of future growth
- Relative strength
- Industry outlook
- Diversification effect
- Valuation measures such as: price/earnings, price/book value, price/sales
- Fair value prices, downside, upside and twelve-month target prices

The idea discovery process at Covington utilizes this in-house forward-looking research to produce a steady flow of original investment ideas that Covington believes have high potential/lower risk characteristics.

The timing of Covington's equity selection is influenced by our belief that no single investment style or sector is best for all times. Certain choices, whether value or growth, small or large, foreign or domestic, can outperform others for long periods of time. Effective style rotation involves specific choices to underweight the lagging sectors/styles and to overweight the superior performing ones.

We do not have in-house expertise in the areas of direct real estate and insurance, but maintain relationships with outside professionals in these areas and can refer clients who require such services.

Sell Discipline. Covington seeks to employ a sell discipline that involves both quantitative and qualitative analysis. The quantitative analysis of relative and historical valuation ratios, relative performance strength compared to industry group, and a significant absolute price decline review are combined with qualitative analysis of the company's fundamental outlook, better alternatives, and previously held faulty assumptions. Portfolio turnover is typically less than 30% per year.

Fixed Income Investing. Our objective for fixed income portfolios is stable income, consistent returns, and capital protection. Our style focuses on bonds with short and intermediate maturities of investment grade quality, with diversification across maturities and issue types. We construct fixed income portfolios by selecting among U.S. government, agency, corporate, mortgage and municipal bonds. We employ active management with particular attention to yield spread, credit quality, call structure, marketability, and diversification. We monitor and analyze portfolio positions in real time and take active portfolio positions in proportion to our conviction in certain sectors or securities and client guidelines.

When purchasing corporate credits, the fixed income portfolio managers utilize both in house research and external research sources. Our primary focus in evaluating a firm is the economic stability of the sector as well as the financial stability of a particular credit. Additionally, we look at rating agencies analyses as secondary sources of financial analysis.

B. Risk of Loss

Securities investments involve risk of loss. Clients are not guaranteed any returns and may lose money on investments. Covington aims to understand each Client's tolerance for risk. Asset allocation and diversification are the primary tools for controlling risk. We seek to ensure that our clients' mix of assets (cash equivalents, bonds, and equities) is appropriate for their temperament, desire for growth, tolerance of risk, need for liquidity, etc.

The review of material risks provided above is not meant to be a complete description of every risk that may be applicable. All investment activities involve a high degree of risk, including the possible risk of loss of an investor's entire investment. The information contained herein is a summary only.

Item 9 – Disciplinary Information

Registered investment advisors are required to disclose all material facts regarding any legal or disciplinary events that would be material to a client's or prospective client's evaluation of Covington or the integrity of our management.

Neither the firm nor our employees have had any disciplinary events.

Item 10 – Other Financial Industry Activities and Affiliations

Jeffrey Glassman is of counsel with Rodriguez, Horii, Choi & Cafferata. He is also a director for S.A. Camp Companies. Neither of these relationships creates a material conflict of interest with Covington's clients.

Neither Covington, nor our management personnel are registered or have an application pending to register as a broker-dealer or as a registered representative of a broker-dealer.

Neither Covington nor our management personnel are registered or have an application pending to register as a futures commission merchant, commodity pool operator, commodity trading advisor, or as an associated person of the foregoing entities.

Item 11 – Code of Ethics

A. Code of Ethics

Covington has adopted a Code of Ethics (hereinafter referred to as the "Code") in accordance with Rule 204A-1 of the Investment Advisers Act of 1940 (hereinafter the "Advisers Act"). The purpose of the Code is to set forth certain key guidelines that have been adopted by us and to specify the responsibility of our personnel to act in accordance with their fiduciary duty to our clients and to comply with applicable federal and state laws and regulations. The Code requires that all employees conduct themselves in accordance with the highest ethical standards, which should be premised on the concepts of integrity, honesty and trust. The Code additionally includes provisions relating to the confidentiality of client information, a prohibition on insider trading, a prohibition of rumor mongering, restrictions on the acceptance of significant gifts and the reporting of certain gifts and business entertainment items, and personal securities trading procedures, among other things. All supervised persons must acknowledge the terms of the Code of Ethics.

A copy of Covington's Code of Ethics is available upon request.

B. Investment in Securities Recommended to Clients

Employees of Covington are allowed to buy and sell securities in their personal accounts that may have been bought or sold in client accounts, provided that the trading does not interfere with the best interests of the client.

Item 12 – Brokerage Practices

A. Directed Brokerage

Absent an existing brokerage relationship, Covington will assist the client with developing a relationship with brokers that the advisor has a relationship with, which include: the Institutional Division of Charles Schwab & Co. (Schwab). Although we may recommend that clients establish accounts at Schwab, it is the client's decision to custody assets with Schwab. Covington is independently owned and operated and not affiliated with Schwab.

The advisor will make recommendations based on the needs of the client and the services provided by the broker/custodian such as ability to execute trades, margin rates, online access to accounts, transaction charges, consolidated reporting, duplicate monthly statements, access to mutual funds, including lower sales charges than for direct purchases, and lower minimum purchase amounts.

As part of the institutional programs offered by Schwab, the advisor receives benefits that it would not receive if it did not provide investment advice to clients. While there is no direct affiliation or fee sharing arrangement between Schwab and the advisor, economic benefits are received by the advisor which would not be received if the advisor did not have an established relationship with Schwab. These benefits do not depend on the amount of transactions directed by the advisor to Schwab. These benefits may include: a dedicated trading desk that services the advisor's clients, a dedicated service group and an account services manager dedicated to the advisor's accounts, access to a real time order matching system, ability to aggregate client trades, electronic download of trades, portfolio management software, access to an electronic interface, duplicate and batched client statements, confirmations and year-end summaries, the ability to have advisory fees directly debited from client accounts (in accordance with federal and state requirements), a quarterly newsletter, access to mutual funds, ability to have loads waived for the advisor's clients who invest in certain loaded funds when certain conditions are met and maintained, and the ability to have custody fees waived.

The advisor may aggregate trades on the purchase or sale of securities for the firms' clients, with transactions in the same security executed on behalf of some or all of advisor's clients on the same day. Clients should benefit from any savings that may result from such aggregation. However, advisor is under no obligation to aggregate orders.

B. Soft Dollars

Covington does not currently use soft dollars to pay for research services. To the extent that Covington will use soft dollars in the future, we expect that such use will fall within the safe harbor afforded by Section 28(e) of the Securities Exchange Act of 1934, as amended.

Item 13 – Review of Accounts

Client accounts are reviewed on a periodic basis, but not less than annually, by the assigned portfolio manager and the Chief Investment Officer. Changes in the investment holdings are made as appropriate. General conditions in the stock and bond markets are continuously monitored. Factors triggering changes to portfolios include changed circumstances of the clients; changed general conditions in the stock and bond markets; and changes in mutual funds or individuals securities owned by clients.

Item 14 – Client Referrals and Other Compensation

The Advisor has an agreement with a third party to compensate it for client referrals. Pursuant to this agreement, Advisor is obligated to pay a fee to the third party based on a percentage of assets under management by Advisor from referred clients. The agreement and payment arrangement, among other things, is disclosed to prospective clients at the time of introduction by the third party. Advisor may enter into similar agreements for client referrals in the future.

Item 15 – Custody

Covington has, or is considered to have, custody of client assets. When Covington serves as trustee to a client's account or otherwise has access to a client's account, it has custody. Covington is also considered to have custody when it fees are debited directly from client accounts. As a result, client assets are held at qualified custodians. Clients will receive account statements from the custodians at least quarterly. Clients are urged to carefully review those statements, and compare them to any account statements received from Covington. In addition, when Covington has actual custody, it engages an independent public accountant to conduct a surprise examination each year and file a certificate on Form ADV-E.

Item 16 – Investment Discretion

Covington usually receives discretionary authority from the client at the outset of an advisory relationship to select the identity and amount of securities to be bought or sold. In

all cases, however, such discretion is to be exercised in a manner consistent with the stated investment objectives for the particular client account.

When selecting securities and determining amounts, Covington observes the investment policies, limitations, and restrictions of the clients for which it advises. Investment guidelines and restrictions are documented in writing.

Item 17 – Voting Client Securities

We use the proxy voting service of Institutional Shareholder Services, Inc. (“ISS”) for those clients that authorize us to vote on their behalf. Voting records are maintained as required by regulation and are available upon request.

Item 18 – Financial Information

Registered investment advisers are required in this Item to provide you with certain financial information or disclosures about our financial condition. Covington does not have any financial commitments that impair its ability to meet contractual and fiduciary commitments to clients and has not been the subject of a bankruptcy proceeding.