

SEC Form ADV Part 2A

“Brochure”

Item 1 – Cover Page

Covington Capital Management

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March 31, 2022

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 (“SEC”) 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

Summary of Material Changes

This Brochure contains updated information about Covington Capital Management (referred to herein as “Covington,” “CCM,” “Firm,” “Company,” “Advisor,” “we,” “our,” “our firm” or “the firm”) business since the last update dated March 31, 2020. This section of the Brochure will address only those “material changes” that have been incorporated since the last annual delivery of this document on the SEC’s public disclosure website (IAPD). The Material Changes section of this brochure will be updated annually or when material changes occur since the previous release of the Firm Brochure. Covington wants to make you aware of the following material changes:

We have expanded the disclosure in Item 8 – Methods of Analysis, Investment Strategies, and Risk of Loss to reflect our additional methods of analysis and risk of loss, including geopolitical risks and research materials the investment team also utilizes.

We have revised Item 14 – Client Referrals and Other Compensation to disclose additional third parties that provides lead referrals to Covington.

Additional information about Covington is also available via the SEC’s web site www.adviserinfo.sec.gov. The SEC’s web site also provides information about any persons affiliated with Covington who would be required to be notice filed as investment advisor representatives of Covington. If you would like another copy of this Brochure, please download it from the SEC Website as indicated above or you may contact our CCO, Dwight Liu, at (213) 629-7500. We encourage you to read this document in its entirety.

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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 and families, companies, retirement plans (IRAs, corporate pensions and profit sharing plans), charitable institutions (foundations and 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 CFP - 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 high net worth individuals and families, trusts, retirement accounts (IRAs, corporate pensions and profit sharing plans), and charitable organizations (foundations and endowments).

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 investment restrictions or limitations on Covington's management of their portfolio. These investment 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 financial 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, 2021	
Discretionary	\$4,174,644,284
Non-Discretionary	\$29,544,309
Total	\$4,204,188,593

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 \$5 million	1.00%
Next \$5 million	0.75%
Balance over \$10 million	0.50%

There is a minimum relationship market value of \$2,000,000.

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 upon at least a 30 day written notice by either party. 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 and families, companies, retirement plans (IRAs, corporate pension and profit-sharing plans), charitable institutions (foundations, endowments), and trusts.

While we do not have a minimum fee, we have a minimum relationship market value of \$2,000,000.

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 exchange traded funds (“ETFs”), cash/cash equivalents, and a selection of alternative securities. 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.

Exchange-Traded Funds: ETFs are typically investment companies that are legally classified as open end mutual funds or unit investment trusts (“UITs”). However, they differ from traditional mutual funds, in particular, in that ETF shares are listed on a securities exchange. Shares can be bought and sold throughout the trading day like shares of other publicly traded companies and the market price for a share of an ETF may fluctuate from the value of its underlying securities. Consequently, ETF shares may trade at a discount or premium to their net asset value. This difference between the bid price and the ask price is often referred to as the “spread”, which generally varies based on the ETF’s trading volume and market liquidity. Although many ETFs are registered as an investment company under the Investment Company Act of 1940, some ETFs, in particular those that invest in commodities, are not registered as an investment company.

ETF and Mutual Fund Risk. When investing in an ETF or mutual fund, you will bear additional expenses based on your pro rata share of the ETF's or mutual fund's operating expenses, including the potential duplication of management fees. The risk of owning an ETF or mutual fund generally reflects the risks of owning the underlying securities the ETF or mutual fund holds. You will also incur brokerage costs when purchasing ETFs.

Financial Risk. The risk that the companies we recommend to you may perform poorly, affecting the value of your investment.

Geopolitical Risk: Geopolitical and other events (e.g., war or terrorism) may disrupt securities markets and adversely affect global economies and markets, thereby decreasing the value of an account's investments. Sudden or significant changes in the supply or prices of commodities or other economic inputs such as oil may have material and unexpected effects on both global securities markets and individual countries, regions, sectors, companies, or industries, which could significantly reduce the value of an account's investments. War, terrorism and related geopolitical events have led, and in the future may lead, to increased short-term market volatility and may have adverse long-term effects on U.S. and world economies and markets generally.

Industry Risk. The risk that a group of stocks in a single industry will decline in price due to adverse developments in that industry, decreasing the value of stocks or mutual funds that are significantly invested in that industry.

Inflation Risk. The risk that the rate of price increases in the economy exceeds the returns associated with stocks or mutual funds that we recommend to you.

Market Risk. When pursuing our long-term purchases strategy, we are assuming the Financial Markets will go up in the long term which may not be the case. There is also the risk that the segment of the market in which you are invested, or perhaps only your particular investment, will go down over time, even if the overall Financial Markets advance. In addition, purchasing investments long term may create an opportunity cost - "locking-up" assets that may be better utilized in the short term in other investments.

Political and Governmental Risk. The risk that the value of your investment may decline with the introduction of new laws or regulations.

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 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, BCA Research, Bespoke Investment Group, Bloomberg, Piper Sandler, Cornerstone Macro, CreditSights, Morningstar Research, Ned Davis Research, Schwab Research, Securities Research Company, S&P Global/CFRA, S&P Capital IQ, LLC., Value Line, and Zack's Investment Research.

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.

Cybersecurity Risk. With the increased use of technologies such as the Internet to conduct business, Covington and its clients are susceptible to operational, information security, and related risks. In general, cyber incidents can result from deliberate attacks or unintentional events. Cyber incidents affecting Covington and its service providers (including, but not limited to, accountants, law firms, custodians, and financial intermediaries) have the ability to cause disruptions and impact business operations, potentially resulting in financial losses, impediments to trading and the inability of clients and/or investors to transact business. Similar adverse consequences could result from cyber incidents affecting issuers of securities in which a client invests, counterparties with which a client engages in transactions, exchange and other financial market operators, banks, brokers, dealers, insurance companies and other financial institutions (including financial intermediaries and other service providers for clients) and other parties. Furthermore, the Advisor cannot control the cyber security plans and systems put in place by its service providers or any other third parties whose operations may affect a client. As a result, clients could be negatively impacted.

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, our Chairman, 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.

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 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 custodial relationship, Covington will assist the client with developing a relationship with a custodian that the advisor has a relationship with: the Institutional Division of Charles Schwab & Co. (Schwab); the Institutional Division of Fidelity Investments; or the Institutional Division of BNY Mellon Pershing. Although we may recommend that clients establish accounts with one of these custodians, it is the client's decision to custody assets with the custodian. Covington is independently owned and operated and not affiliated with any of the custodians.

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 the custodian, 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 the custodian 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 the custodian. These benefits do not depend on the amount of transactions directed by the Advisor to the custodian. 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 agreements with several third parties to compensate it for client referrals. Pursuant to these agreements, 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.

Item 15 – Custody

Covington is not a custodian but it is deemed to have custody of client assets by: 1) having the ability to authorize the deduction of investment advisory fees directly from the client's custodial account; and 2) by acting as trustee and advisor to a trust. As client assets are held

at qualified custodians, clients should receive account statements from the custodians at least quarterly. Clients are urged to carefully review those statements. In addition, when Covington is deemed to have custody of client assets, 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.