

# Management Report of Fund Performance



## COVINGTON VENTURE FUND INC.

Series VII  
Series VIII  
Series IX

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This annual management report of fund performance contains financial highlights but does not contain the annual financial statements of the Covington Venture Fund Inc., Series VII, VIII, IX (the “Fund”). You can obtain a copy of the annual financial statements at your request, and at no cost, by calling 1-866-244-4714, by writing to us at Covington Capital Corporation, 87 Front St. East, Suite 400, Toronto, Ontario M5E 1B8 or by visiting our website at [www.covingtonfunds.com](http://www.covingtonfunds.com) or on SEDAR at [www.sedar.com](http://www.sedar.com).

Shareholders may also contact us using one of these methods to request a copy of the Fund’s proxy voting policies and procedures or proxy voting disclosure record.

## CLASS A SHARES, SERIES VII, VIII, IX

[in \$ thousands of Canadian dollars except for per share amounts, number of shares and percentages]

### FORWARD LOOKING STATEMENTS

This report may contain forward-looking statements about the Fund, its future performance, strategies or prospects, and possible future Fund actions. The words “anticipate”, “could”, “should”, “may”, “expect”, “believe”, “plan”, “intends”, “estimate”, “forecast”, “objective”, “would”; and similar expressions are intended to identify forward-looking statements.

Forward-looking statements involve inherent risks and uncertainties, both about the Fund and general economic factors. It is not possible to guarantee that future performance, predictions, forecasts, projections or other forward-looking statements will be achieved. Factors such as economic, political and market factors in Canada, the United States and internationally, interest and foreign exchange rates, global equity markets, business competition, technological changes, changes in laws and regulations, judicial or regulatory judgments, legal proceedings or catastrophic events could cause actual events or results to differ materially from those expressed or implied in any forward-looking statement made by the Fund. Please consider these and other pertinent factors before making any investment decisions and do not place undue reliance on forward-looking statements. All opinions contained in forward-looking statements are subject to change without notice.

### INVESTMENT OBJECTIVES AND STRATEGIES

Covington Venture Fund Series VII, formerly the Capital First Venture Fund Inc., was launched in February 2004 with the following investment objectives: (i) to realize long-term capital appreciation by investing in securities of community small business investment fund corporations (“CSBIFs”); and (ii) to return to investors an amount equal to the subscription price paid on or about June 1, 2016. The CSBIF portion of Series VII has matured and been wound up; however, the Fund continues to manage eligible investments in emerging and high-growth Canadian companies and intends to develop and grow investee businesses in cooperation with strategic relationships introduced by the Fund’s Manager.

On November 13, 2007, the articles of Covington Venture Fund were amended to create Class A Shares, Series VIII and Series IX respectively. These series were offered for sale until March 31, 2008 at a price of \$10 per share and again from October 16, 2008 to March 31, 2009 at the net asset value per share at date of issue. The investment objectives are: (a) to provide mezzanine investments in eligible businesses and (b) to return an amount equal to an investor’s initial subscription on or about December 31, 2016 for the first offering of the Series VIII and IX shares or December 31, 2017 for the second offering.

Given the commonality of the investment objectives for each of the Series VII, VIII, and IX respectively, the Series were consolidated in February 2009 after receiving shareholder and regulatory approvals. The asset consolidation resulted in the Fund sharing a common pool of assets.

### RISK FACTORS

The Fund is suitable for investors with a longer-term investment focus and higher risk tolerance as discussed in the Fund’s Annual Information Form dated October 22, 2014.

The Fund’s venture portfolio consists of debt and equity instruments of privately held companies for which there is no readily available exit market. The impact to the portfolio is tighter liquidity and estimation in the valuation process. The process of valuing venture investments for which no published market exists is subject to inherent uncertainties and the resulting values may differ from values which would have been ascribed had a ready market existed for those investments. This is valuation risk as described in the Fund’s financial statements.

Approximately 85% of the Fund’s net assets attributable to holders of redeemable units at July 31, 2015 are held in either zero-coupon or corporate bond issues. Bond valuations are subject to credit and interest rate risks relating to both the issuer and overall market conditions. In uncertain credit markets, valuation of these bonds may become more volatile.

Investors who purchase LSIFs are required to hold their investment for eight years in order to retain the tax credit offered by the provincial and federal governments. If all shareholders were to redeem their shares at the same time, the Fund may need to liquidate investments at lower values than currently ascribed and shareholders may not receive the posted Net Asset Value (“NAV”). In any financial year, the fund is not obligated to redeem greater than 20% risk of the NAV of the Fund.

The Fund was closed to new subscriptions after the 2009 RSP season; as such the Fund is dependent upon internal growth of its portfolio in order to meet its investment objectives. In order to help meet the investment objectives of the Fund, certain of the original proceeds of sale of Class A Shares were set aside into long-term bonds set to mature in 2016. Even at maturity, there is no guarantee that the objective of returning the original subscription price can be met.

## CLASS A SHARES, SERIES VII, VIII, IX

[in \$ thousands of Canadian dollars except for per share amounts, number of shares and percentages]

### RESULTS OF OPERATIONS

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The net asset attributable to holders of redeemable shares as at July 31, 2015 totalled \$18,625. This is further broken down to three Series: Series VII-\$2,657, Series VIII-\$3,827 and Series IX-\$12,141. Overall, net assets have decreased by \$1,718 from July 31, 2014. The Fund realized \$693 in redemptions over the year as compared to \$1,287 in fiscal 2014.

As the time to the Fund's capital repayment dates approaches, management is accruing but not collecting fees in efforts to maintain liquidity within the Fund. While this will not guarantee that the Fund's objectives will be met, it will help to ensure smooth operations through the course as the time horizon shortens.

Unrealized losses within the investment portfolio contributed \$877 to the overall loss of \$1,025 for the year. Within the loss, the Fund took net negative fair value adjustments of \$549 against the venture investment portfolio as market and portfolio risk conditions within the portfolio have changed and/or financial results in certain of the investee companies have not met target expectations. Operating expenses for the period totalled \$1,034 compared to \$1,107 in 2014. Net asset based expenses have decreased in proportion to the decrease in assets under management, however, to the extent that the net assets of the remaining Series within Covington Venture Fund may decline at a faster rate, this Fund's proportionate share of fixed costs may increase. Overall, audit costs have declined in 2015 relative to 2014 due to the rationalization of other Series' within the Fund resulting in cost savings across the remaining Series of Covington Venture Fund.

To that end, the 2015 combined Series' management expense ratio is 5.35% representing a modest increase from the fiscal 2014 management expense ratio of 5.16% since the rate of decline in fixed costs was less than that of variable costs. See Ratios and Supplemental Data for an exact breakdown by Series.

No new or follow-on venture investments were completed or realized during the year.

### RECENT DEVELOPMENTS

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#### Fund Liquidity

The Fund has a strong liquidity position as at July 31, 2015 with \$16,039 or approximately 83% of total assets held in cash and marketable securities; however, \$15,807 of this value will not mature until 2016. While the strategy invest a portion on subscription proceeds to mature in 2016 will contribute toward the Fund's objectives, there is no guarantee that the objective of returning the original subscription price can be met.

#### International Financial Reporting Standards

Effective August 1, 2014, as required by the Canadian Accounting Standards Board ("AcSB") and the Ontario Securities Commission ("OSC"), the Fund has adopted International Financial Reporting Standards ("IFRS"). Previously, the Fund prepared its financial statements in accordance with Canadian generally accepted accounting principles as defined in Part V of the CICA Handbook ("Canadian GAAP"). Accordingly, the Fund's annual financial statements as at July 31, 2015 include comparative information that has been prepared in accordance with IFRS.

The most notable change involves the valuation of marketable securities at fair value. Under IFRS, this is specifically established as a price within the bid-ask spread on the financial statement date, and generally equates to the last traded price for the security on the principal exchange where they are traded. Under Canadian GAAP, these securities were previously valued at the last bid price. Comparative financial statements have been restated to reflect this change and a reconciliation provided in the notes to the therein. Adoption of IFRS has had no material impact on the Fund.

### RELATED PARTY TRANSACTIONS

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The Manager and Sponsor are deemed to be related parties to the Fund. During the year, the Fund accrued or paid \$237 in Management fees payable to the Manager and \$10 in Sponsor fees payable to the Sponsor. No other fees were paid or payable to related parties except for reimbursement of any expenses on account of the Fund which may have been otherwise paid by the Manager on the Fund's behalf. See Note 8 in the Fund's 2015 financial statements.

# COVINGTON VENTURE FUND INC.

## CLASS A SHARES, SERIES VII, VIII, IX

[in \$ thousands of Canadian dollars except for per share amounts, number of shares and percentages]

### FINANCIAL HIGHLIGHTS

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance.

#### FUND'S NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS

<b>SERIES VII</b>	<b>Year ended July 31, 2015</b>	Year ended July 31, 2014	Year ended July 31, 2013	Year ended July 31, 2012 <sup>(3)</sup>	Year ended July 31, 2011 <sup>(3)</sup>
Net assets attributable to holders of redeemable units, beginning of year <sup>(1)</sup> <sup>(2)</sup>	\$ 8.36	\$ 8.50	\$ 8.63	\$ 8.71	\$ 8.61
Increase (decrease) from operations:					
Total revenue	0.37	0.43	0.34	0.44	0.40
Total expenses	(0.32)	(0.36)	(0.30)	(0.41)	(0.45)
Realized gain (loss) on investments	-	0.02	0.16	0.05	-
Unrealized gain (loss) on investments	(0.45)	(0.31)	(0.32)	(0.16)	0.15
Total increase (decrease) from operations <sup>(2)</sup>	(0.40)	(0.22)	(0.12)	(0.08)	0.10
Net assets attributable to holders of redeemable units, end of year <sup>(1)</sup> <sup>(2)</sup>	\$ 8.05	\$ 8.36	\$ 8.50	\$ 8.63	\$ 8.71
<b>SERIES VIII</b>					
Net assets attributable to holders of redeemable units, beginning of year <sup>(1)</sup> <sup>(2)</sup>	\$ 9.74	\$ 10.03	\$ 10.32	\$ 10.45	\$ 10.31
Increase (decrease) from operations:					
Total revenue	0.43	0.46	0.41	0.52	0.48
Total expenses	(0.50)	(0.52)	(0.49)	(0.51)	(0.52)
Realized gain (loss) on investments	-	0.02	0.16	0.03	-
Unrealized gain (loss) on investments	(0.44)	(0.25)	(0.36)	(0.19)	0.16
Total increase (decrease) from operations <sup>(2)</sup>	(0.51)	(0.29)	(0.28)	(0.15)	0.12
Net assets attributable to holders of redeemable units, end of year <sup>(1)</sup> <sup>(2)</sup>	\$ 9.25	\$ 9.74	\$ 10.03	\$ 10.32	\$ 10.45
<b>SERIES IX</b>					
Net assets attributable to holders of redeemable units, beginning of year <sup>(1)</sup> <sup>(2)</sup>	\$ 9.57	\$ 9.89	\$ 10.21	\$ 10.37	\$ 10.27
Increase (decrease) from operations:					
Total revenue	0.42	0.45	0.38	0.51	0.48
Total expenses	(0.53)	(0.54)	(0.53)	(0.54)	(0.55)
Realized gain (loss) on investments	-	0.02	0.16	0.03	-
Unrealized gain (loss) on investments	(0.39)	(0.22)	(0.29)	(0.15)	0.18
Total increase (decrease) from operations <sup>(2)</sup>	(0.50)	(0.29)	(0.28)	(0.15)	0.11
Net assets attributable to holders of redeemable units, end of year <sup>(1)</sup> <sup>(2)</sup>	\$ 9.05	\$ 9.57	\$ 9.89	\$ 10.21	\$ 10.37

(1) This information is derived from the Fund's audited annual financial statements. The net assets per security presented in the financial statements may differ from the asset value calculated for fund pricing purposes.

(2) Net assets are based on the actual number of shares outstanding as at the stated dates. The increase/(decrease) from operations is based on the weighted average number of shares outstanding over the fiscal period.

(3) Historical figures are based on Canadian GAAP.

# COVINGTON VENTURE FUND INC.

## CLASS A SHARES, SERIES VII, VIII, IX

[in \$ thousands of Canadian dollars except for per share amounts, number of shares and percentages]

### RATIOS AND SUPPLEMENTAL DATA

<b>SERIES VII</b>	<b>Year ended July 31, 2015</b>	Year ended July 31, 2014	Year ended July 31, 2013	Year ended July 31, 2012	Year ended July 31, 2011
Total net assets attributable to holders of redeemable units <sup>(1)</sup>	\$ 2,657	\$ 3,354	\$ 4,463	\$ 6,521	\$ 11,150
Number of shares outstanding	330,120	401,356	525,122	755,056	1,279,728
Management expense ratio <sup>(2)</sup>	3.91%	3.84%	3.48%	4.63%	5.25%
Management expense ratio before IPA <sup>(2)</sup>	3.91%	3.84%	3.63%	4.57%	5.12%
Portfolio turnover rate <sup>(3)</sup>	-	-	18.99%	0.56%	-
Trading expense ratio <sup>(4)</sup>	-	-	-	-	-
Net assets attributable to holders of redeemable units per unit	\$ 8.05	\$ 8.36	\$ 8.50	\$ 8.64	\$ 8.71
<b>SERIES VIII</b>					
Total net assets attributable to holders of redeemable units <sup>(1)</sup>	\$ 3,827	\$ 4,058	\$ 4,238	\$ 4,398	\$ 4,485
Number of shares outstanding	413,875	416,664	422,353	426,000	429,008
Management expense ratio <sup>(2)</sup>	5.30%	5.18%	4.79%	4.89%	5.04%
Management expense ratio before IPA <sup>(2)</sup>	5.30%	5.18%	4.91%	4.80%	4.91%
Portfolio turnover rate <sup>(3)</sup>	-	-	18.99%	0.56%	-
Trading expense ratio <sup>(4)</sup>	-	-	-	-	-
Net assets attributable to holders of redeemable units per unit	\$ 9.25	\$ 9.74	\$ 10.03	\$ 10.32	\$ 10.46
<b>SERIES IX</b>					
Total net assets attributable to holders of redeemable units <sup>(1)</sup>	\$ 12,141	\$ 12,931	\$ 13,549	\$ 14,125	\$ 14,496
Number of shares outstanding	1,341,892	1,351,290	1,369,763	1,382,335	1,396,270
Management expense ratio <sup>(2)</sup>	5.71%	5.54%	5.18%	5.22%	5.34%
Management expense ratio before IPA <sup>(2)</sup>	5.71%	5.54%	5.31%	5.13%	5.20%
Portfolio turnover rate <sup>(3)</sup>	-	-	18.99%	0.56%	-
Trading expense ratio <sup>(4)</sup>	-	-	-	-	-
Net assets attributable to holders of redeemable units per unit	\$ 9.05	\$ 9.57	\$ 9.89	\$ 10.22	\$ 10.38

(1) This information is provided as at July 31 of the years shown.

(2) Management expense ratio includes all fees, expenses, capital taxes, and HST and the Manager's contingent IPA and is expressed as an annualized percentage of the average net assets administered during the period. IPA is the determination of the bonus that would be payable to the Manager if the Fund were to dispose of its venture investment at its carrying value as at the dates shown. The Manager is entitled to this bonus only upon realization of certain conditions as outlined in the Fund's prospectus and/or annual information form.

(3) The Fund's portfolio turnover rate indicates how active the Fund's portfolio advisor manages its portfolio investments. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the period. The higher a fund's portfolio turnover rate in a period, the greater the trading costs payable by the fund in the period, and the greater the chance of an investor receiving taxable capital gains in the period. There is not necessarily a relationship between a high turnover rate and the performance of a fund.

(4) The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net assets during the period.

**CLASS A SHARES, SERIES VII, VIII, IX**

[in \$ thousands of Canadian dollars except for per share amounts, number of shares and percentages]

**MANAGEMENT FEES**

The Manager is responsible for directing the business, operations and affairs of the Fund and for implementing the investment strategy, monitoring the Fund's investments and providing management assistance to portfolio companies. Because the portfolio companies of the Fund are generally small in size and at an earlier stage of development relative to conventional mutual funds, the Fund requires a greater level of management involvement in the analysis, monitoring support and development activities.

The Manager uses its management fees to finance its operations as follows: 95% for general administration over the affairs of the Fund including implementation of the Fund's investment strategy, portfolio management and monitoring, retaining and supervising service providers and managing the overall business affairs of the Fund and the Manager; and 5% for the implementation of communications, sales, marketing, and distribution strategies of the Fund and the Manager. Over time, the allocation of management resources has increased for Fund investment and portfolio management relative to sales, markets, and distribution.

The Fund pays annual fees of 1.25% of the net asset value of the Fund for these management fees.

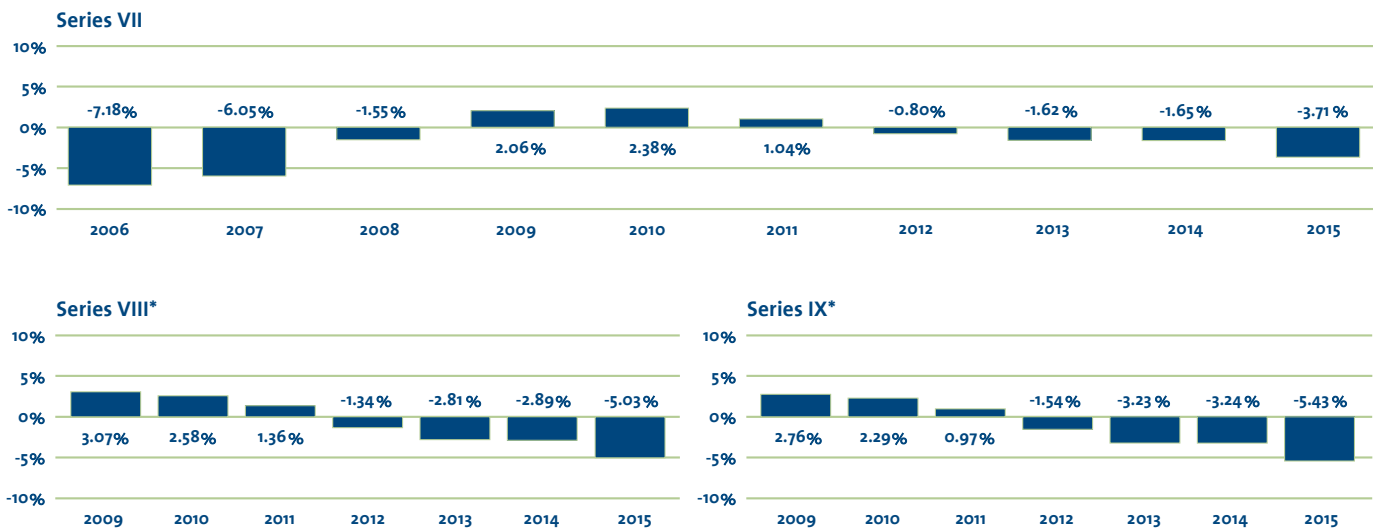
The Fund's MER consists of all of its operating expenses, including sales commissions, certain ongoing marketing costs of the Fund, audit and legal expenses, fees paid to any independent valuator, IPA (if any), and certain consultancy costs. The largest component of the MER are fees that are calculated as a percentage of the NAV of the Fund and these fees are the Management fees, the Dealer Service fees, the Sponsor's fees and the Transfer Agent's fees. For a summary of these fees, please see Note 8 to the Fund's financial statements.

**PAST PERFORMANCE**

The performance information shown does not take into account sales, redemption, distribution or other optional charges that would have reduced returns on performance. The Series' past performance is no guarantee of how it will perform in the future.

**Year by Year Non-Cumulative Returns**

The following chart shows how the performance of the Fund has varied year to year. It also shows, in percentage terms, how an investment made in the Fund would have increased or decreased over the Fund's reporting period. The Fund's past performance is no guarantee of how it will perform in the future.



\* Series VIII and IX were closed to new subscriptions on March 31, 2008 and as such, commercial active operations on April 1, 2008. As such, annual return is unavailable since there is only a four-month return as of July 31, 2008.

**CLASS A SHARES, SERIES VII, VIII, IX**

[in \$ thousands of Canadian dollars except for per share amounts, number of shares and percentages]

**PAST PERFORMANCE - Continued**

**Annual Compound Returns**

The table below summarizes the Fund's past performance for the five, three and one year periods ended July 31 of the periods indicated. As a basis of comparison, we have provided the Retail Venture Capital Index as posted on [www.globefund.com](http://www.globefund.com) as of July 31, 2015.

The retail Venture Capital Index is the most representative broad-based securities market index as it accumulates all the Ontario based LSIFs.

<b>Compound Returns</b>	<b>Series VII</b>	<b>Series VIII</b>	<b>Series IX</b>	<b>Retail Venture Capital Peer Index*</b>	<b>BMO Nesbitt Burns Cdn Small Cap Index**</b>
1 Year	-3.71%	-5.03%	-5.43%	-0.38%	-18.98%
3 Years	-2.33%	-3.58%	-3.97%	-0.42%	2.34%
5 Years	-1.36%	-2.16%	-2.52%	-0.08%	3.18%
10 Years	-1.75%	N/A	N/A	0.21%	4.28%
Since Inception	-1.84%	-1.06%	-1.35%	***	***

\* Source: [globefund.com](http://globefund.com)

\*\* The inclusion of the BMO Nesbitt Burns Cdn Small Cap Index is only intended to give perspective to general market activity.

\*\*\* This has not been included because there is no comparable index quotation for the same period.



**CLASS A SHARES, SERIES VII, VIII, IX**

[in \$ thousands of Canadian dollars except for per share amounts, number of shares and percentages]

**SUMMARY OF INVESTMENT PORTFOLIO**

Below is a summary of the Fund's portfolio as at July 31, 2015. This is a summary only and may change due to ongoing portfolio activity in the Fund. See the Statement of Investment Portfolio in the financial statements for a complete listing. An update is available quarterly on Covington's website at [www.covingtonfunds.com](http://www.covingtonfunds.com).

Stage of development	Number of companies	Cost of investments \$	% Total venture investments at cost %	Fair value of investments \$	% Total venture investments at fair value %
Expansion	4	4,035	100.0	3,220	100.0
	4	4,035	100.0	3,220	100.0
<b>Industry class</b>					
Distribution	1	1,200	29.7	1,200	37.3
Manufacturing	1	1,975	49.0	1,975	61.3
Technology	2	860	21.3	45	1.4
	4	4,035	100.0	3,220	100.0
<b>Composition of net assets</b>				Fair value of investments \$	% of net assets %
Marketable securities				15,807	84.9
Venture investments				3,220	17.3
Liabilities, net of other assets				(402)	(2.2)
<b>Net assets</b>				18,625	100.0

**TOP HOLDINGS <sup>(i)</sup>**

	Debt at cost \$	Equity at cost \$	Total at cost \$
<b>Marketable securities</b>			
Royal Bank of Canada	8,369	-	8,369
Loblaw Companies Ltd.	3,658	-	3,658
Nova Gas Transmission	3,193	-	3,193
<b>Venture investments</b>			
Mist Mobility Integrated Systems Technology Inc.	1,975	-	1,975
Fidelity Stainless Ltd.	1,200	-	1,200
WireIE Holdings International Inc.	-	815	815
bitHeads Inc.	-	45	45

**Fund Symbols**

Series VII CIG462 - Closed  
Series VIII CIG465 - Closed  
Series IX CIG466- Closed

**Fund Manager  
and Advisor**

**Covington Capital Corporation**  
87 Front Street East, Suite 400  
Toronto, ON M5E 1B8

**Sponsor**

**Canadian Federal Pilots Association**  
350 Sparks Street, Suite 400  
Ottawa, ON K1R 7S8

**Auditor**

**Ernst & Young LLP**  
Ernst & Young Tower  
P.O. Box 251  
Toronto-Dominion Centre  
Toronto, ON M5K 1J7

**Transfer Agent  
and Registrar**

**CI Investments Inc.**  
15 York Street, 2nd Floor  
Toronto, ON M5J 0A3  
Customer Service: 1 888 746 4751

87 Front Street East  
Suite 400  
Toronto, ON M5E 1B8  
Telephone: 416 365 0060  
Facsimile: 416 365 9822  
Email: [info@covingtonfunds.com](mailto:info@covingtonfunds.com)  
Website: [www.covingtonfunds.com](http://www.covingtonfunds.com)