

ANNUAL REPORT OF THE INDEPENDENT REVIEW COMMITTEE OF THE COVINGTON FUNDS

October 25, 2017

Dear Securityholder:

This is our Annual Report to Securityholders as the Independent Review Committee (the “IRC”) for the Covington Funds (the “**Funds**”) managed by Covington Capital Corporation (the “**Manager**”) for the period of October 16, 2016 through October 15, 2017. A list of the Funds is included in this Report.

The IRC was formed pursuant to National Instrument 81-107—Independent Review Committee for Investment Funds (“**NI 81-107**”) issued by the Canadian Securities Administrators. NI 81-107 requires that conflict of interest matters (the “**Conflicts**”) identified by the Manager be referred to the IRC for its recommendation or approval, depending on the nature of the Conflict. Conflict of interest matters arise when the interests of the Manager and those of the securityholders of the Funds are not necessarily the same. In such circumstances, the Manager is required to establish Policies and Procedures that will ensure that any potential Conflicts will be appropriately resolved and that the Manager will act in the best interests of the securityholders of the Funds. For each Conflict referred to the IRC by the Manager, the IRC’s responsibility is to determine if the Manager’s proposed action achieves a fair and reasonable result for the Funds. The Manager is not required to refer Conflicts to the IRC each time one arises if the resolution complies with the terms of standing instructions from the IRC that are then in effect.

The appointed members of the IRC have a broad range of expertise in a variety of areas including finance, corporate governance and asset management. As part of this Annual Review, the IRC reaffirmed the standing instructions to the Manager which have been effective since November 19, 2008, requiring the Manager to comply with its Policies and Procedures when dealing with the identified Conflicts, and to provide the IRC with periodic reports of the occasions on which it applied such Policies and Procedures.

Throughout this past year, the IRC has been able to work well with the Manager to serve in the best interests of all the shareholders of the Funds. Our Report to Securityholders can be found at the www.covingtonfunds.com website and it is filed annually with SEDAR at www.sedar.com.


Henry Pankratz
Chair, Independent Review Committee

The Independent Review Committee (the “**IRC**”) for the Covington Funds (the “**Funds**”) managed by Covington Capital Corporation (“**Covington**” or the “**Manager**”) was formed pursuant to National Instrument 81-107—Independent Review Committee for Investment Funds (“**NI 81-107**”) issued by the Canadian Securities Administrators and became operational on October 11, 2007. The IRC issued its first report to securityholders dated October 31, 2008. The information in this report is for the annual period from October 16, 2016 to October 15, 2017.

IRC Members

<u>Name</u>	<u>Residence</u>
Henry J. Pankratz	Toronto, Ontario
R. Scott Colbran	Oakville, Ontario
Terrence B. Kulka	Ottawa, Ontario

The IRC meets periodically with representatives of the Manager and at least annually, holds a meeting without the Manager being present to discuss matters affecting the Manager’s policies and procedures, Standing Instructions and conflict of interest matters referred to the IRC. During the period of October 16, 2016 to October 15, 2017, the IRC held two meetings with representatives of the Manager.

None of the IRC members serves on the independent review committee for any other mutual fund family and none of the members of the IRC have any relationships which would compromise their independence with respect to the Funds.

All IRC members listed above were first appointed to the IRC on September 15, 2009. Since their appointment, there have been no changes in the composition or membership of the IRC.

Holdings of Securities

Funds

As at October 15, 2017, the percentage of each class or series of voting or equity securities beneficially owned directly or indirectly, in aggregate, by all members of the IRC in any Fund did not exceed 10 percent.

Manager

Covington is a wholly owned subsidiary of RC Capital Management Inc. (“RC Capital”). RC Capital is owned as to 50% by a trust of which Philip R. Reddon is the sole trustee, and 50% by a trust of which Scott D. Clark is the sole trustee.

Service Providers

The following entities (the “**Service Providers**”) provide services to the Funds:

RBC Investor Services Trust provides accounting and custodian services to the Funds: RBC Investor Services is owned by the Royal Bank of Canada.

CI Investments Inc. provides back office and administration services to the Funds: CI Investments is controlled by CI Financial Corp, a publicly-listed company on the Toronto Stock Exchange.

As at October 15, 2017, the members of the IRC would beneficially own directly or indirectly, less than 1% of any securities of any person or company that provides services to the Funds or to the Manager.

IRC Compensation and Indemnities

The aggregate compensation payable by the Funds to IRC members in their capacity as the IRC members for the Funds for the period from October 16, 2016 (the date of the last IRC Report to Securityholders) to October 15, 2017 was \$43,973. This amount will be allocated among the Funds.

No indemnities were paid to the IRC members by the Funds during the period.

The IRC reviewed its compensation for the year, and in accordance with its Charter, gave consideration to the following factors:

1. the best interests of the Funds;
2. the number, nature, size and complexity of the Funds;
3. the nature and extent of the workload of each IRC member, including the commitment expected of each member;
4. industry best practices, including industry averages and trends in the compensation of the IRC members;
5. the IRC's most recent assessment of its members' compensation and expenses;
6. the aggregate compensation paid to each IRC member; and,
7. the recommendation of the Manager, if any.

The IRC has reviewed its compensation in light of the abovementioned factors, and in concert with the Manager's recommendations has determined that it continues to be appropriate with no changes recommended.

Conflict of Interest Matters

Standing Instructions

When a conflict of interest matter arises, the Manager must, with the input of the IRC, establish written Policies and Procedures with respect to that type of matter and refer the matter, along with its proposed action, to the IRC for its review and recommendation or approval, depending on the nature of the conflict. As of October 15, 2017, the conflict of interest matters identified by the Manager that were referred to the IRC for its review, and for all of which the IRC provided recommendations and standing instructions to the Manager, based on the Policies and Procedures presented by the Manager, were:

1. Code of Ethics
2. Valuation of Fund Holdings and Fund Billing
3. Portfolio Compliance and Investment Oversight
4. Allocation of Investment Opportunities and Standard of Fairness
5. Statement of Policies for Related Registrants
6. Brokerage Practices
7. Gift Policy
8. Marketing
9. Error Correction

The standing instructions provided by the IRC for each of the above-noted conflict of interest matters require the Manager to comply with the Policies and Procedures presented to the IRC in respect of those matters and to provide periodic reports to the IRC in accordance with NI 81-107.

Approvals

In the reporting period, Covington identified and referred to the IRC a single matter that addressed an actual or potential conflict of interest. This matter was reviewed by the IRC:

1. Covington Fund II was required to honour approximately \$28M in redemption requests as at October 24th, 2016 which represented the annual 20% of NAV redemption requirement in the prospectus disclosure. The Fund had a cash shortfall in honouring this amount of \$5.25M which was bridged by a \$3.75M loan from a third party (Espresso Capital) and a \$1.5M loan from the Manager, Covington Capital Corporation. The Manager charged no interest or fees on the loan and agreed to accrue all fees through the loan period so that no benefit to the Manager nor conflict with the Fund could be construed from the loan position. On October 19th, 2016, the IRC reviewed the proposed loan from the Manager to the Fund and concluded the transaction was fair and reasonable to the Fund.

Conclusion

During the period, there was no instance when the Manager acted in a conflict of interest matter referred to the IRC for which the IRC did not give a positive recommendation. The IRC is not aware of any instance when the Manager acted in a conflict of interest matter referred by the Manager to the IRC but did not meet a condition imposed by the IRC in its recommendation.

Appendix A
Funds Covered by This Report

Covington Fund II Inc.
Covington Venture Fund Inc.