

Covington Strategic Capital Fund ("SCF") Distribution FAQ

Covington Strategic Capital Fund Dividend Key Facts

1. **Q: Are both Series affected?**

A: Yes. Shareholders in both Series I and Series II will be affected by the dividend.

2. **Q: What is the date of the dividend payment?**

A: The dividend record and payment date will be October 7, 2008.

3. **Q: What is the amount of the dividend payment?**

A: The total payout will be approximately \$2,260,000 or approximately \$2.02 per share.

4. **Q: What confirmation of payment will I receive?**

A: Shareholders in non-registered (open/cash) accounts will receive a T5 slip early in 2009. There will be no other confirmations issued or transaction reflected on client statements. Shareholders will simply see their adjusted cost base ("ACB") change on their year end statements issued in December 2009.

5. **Q: Does the change in ACB affect the clawback if shares are redeemed early?**

A: No, the clawback is based on the less amount of the original amount purchased or the amount paid on redemption.

About Deemed Dividends

1. **Q: When is there a deemed dividend?**

A: In order to minimize the tax paid by the Fund, the Board of Directors may capitalize a portion of the Fund's earnings, thereby converting the earnings into share capital. When earnings are capitalized, holders of Class A shares of the Fund are considered for tax purposes to have received a deemed dividend even though no cash or additional shares are paid out. For shareholders holding SCF shares in a non-registered account, tax may have to be paid in respect of the deemed dividend. The tax implications are deferred for shareholders holding shares in a registered account. Therefore, non-registered account holders will receive notification of any impending deemed dividends, prior to the dividend. The T5 reporting slip for deemed dividends is mailed to non-registered account holders only.

2. **Q: What are the tax implications of a capital gains dividend?**

A: There are tax implications in the year of the deemed dividend for non-registered account holders only. If you are a non-registered account holder, talk with your investment advisor or accountant, about the tax implications to you of the deemed dividend.

3. **Q: Why haven't I received cash or shares in payment of the dividend?**

A: This is a deemed dividend rather than an actual dividend, so no cash is paid. Unlike many mutual funds, no shares are issued in connection with the deemed dividend since the issuance of new shares in payment of the dividend would result in an eight-year hold on the new shares.

4. **Q: How do I avoid being taxed again when my shares are redeemed if I don't receive more shares?**

A: In calculating the taxable capital gains on the redemption of your shares, all deemed dividends during the eight-year hold period would be added to the original cost base of your shares, thereby increasing the adjusted cost base (ACB) of your shares by the amount of the deemed dividends and reducing any capital gain resulting from the redemption.

Strategic Capital Fund – Distribution Overview

Pre-Distribution

RRSP & Non-RRSP Shareholders

Original SCF Purchase

Cost Base of Holding: \$5,000
 # of Shares: 416

 Original Cost Per Share: \$12.00

SCF Board of Directors declares a dividend @ \$2.00 per share.
(the dividend is treated as a capital gains dividend)

Shareholders' ACB increases by \$2.00 per share

New Value of SCF

Cost Base of Holding: \$5,824
 # of Shares: 416

 Adjusted Cost Per Share: \$14.00

Post-Distribution

RRSP Shareholders

Shareholder now owns 416 shares with a cost base of \$14.00 per share

Total Cost Base: \$5,824

Shareholders' ACB increases on a go forward basis is \$14.00 per share

Non-RRSP Shareholders

Shareholder now owns 416 shares with a cost base \$14.00 per share

Total cost base: \$5,824

T5 Issued

Capital Gain Dividend issued on \$2.00 per share x 416 shares
(the tax on the capital gain dividend is @ 50% - eg: capital gains on \$2.00 dividend is calculated on value of \$1.00)

Taxable Action

Shareholder pays tax on \$416 at their personal income tax rate.

Shareholders' ACB increases on a go forward basis is \$14.00 per share

Important information about Covington Funds is contained in their prospectus. Please obtain a copy of a prospectus from your financial advisor and read it carefully before investing. This investment may not be suitable for all investors. Some conditions apply. Commissions, trailing commissions, management fees and expenses all may be associated with this investment. Covington's funds are not guaranteed, their value changes frequently and there can be no assurance that the full amount of your investment will be returned to you. Tax credits subject to certain conditions and units must be held for eight years in order to keep the tax credits. Inception date for Covington Strategic Capital Fund January 2004. This communication is paid for in part by Covington Group of Funds.