



CAPITAL PARTNERS

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FORM ADV PART 2

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This brochure provides information about the qualifications and business practices of Capital Partners. If you have any questions about the contents of this brochure, please contact us at (203) 625-0770. 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.

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

Item 2 – Material Changes

This brochure regarding the investment advisory business of Capital Partners Holdings Inc. dated March 2019 (this “Brochure”) is an update to the version of the Brochure filed in March 2018. Although this Brochure contains a number of refinements, there are no material changes to be disclosed at this time.

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Item 4 – Advisory Business

Structure; History and Ownership

Capital Partners Holdings, Inc. (referred to in this Brochure as “Capital Partners” or “the Firm”) is a private equity investor, manager and adviser with its principal place of business in Norwalk, Connecticut. Brian D. Fitzgerald founded the Firm in 1982. Today, Capital Partners and the Relying Advisors (as defined below) are principally owned and managed by Robert S. Tucker and Mark D. Allsteadt (the “Managing Partners”) and Brian D. Fitzgerald (“Chairman” or “Founder”).

Capital Partners and its affiliates have formed Capital Partners Private Equity Income Fund, L.P. (“Fund I”), Capital Partners Private Equity Income Fund II, L.P. (“Fund II”), Capital Partners Private Equity Income Fund II Inst., L.P. (“Fund II Inst”) and Capital Partners Private Equity Fund III, L.P. (“Fund III”) and together with Fund I, Fund II, Fund II Inst, Fund III and any additional pooled investment vehicles sponsored by Capital Partners or its affiliates, the “Funds”) which primarily make control equity and equity-related investments in small and mid-sized private companies. The general partner of Fund I is Capital Partners Private Equity Income Fund, LLC, a Delaware limited liability company (the “Fund I General Partner”). The General Partner of Fund II and Fund II Inst is Capital Partners Private Equity Income Fund II, LLC, a Delaware limited liability company (the “Fund II General Partner”) and the General Partner of Fund III is Capital Partners Private Equity Income Fund III, LLC, a Delaware limited liability company (“Fund III General Partner” and together with the Fund I General Partner and Fund II General Partner the “General Partners”). The Fund II General Partner has delegated management authority over Fund II’s and Fund II Inst’s portfolio to Capital Partners Fund II, LLC, a Delaware limited liability company (the “Fund II Investment Adviser”). The Fund III General Partner has delegated management authority over Fund III’s portfolio to Capital Partners, LLC, a Connecticut limited liability company (“Fund III Investment Adviser”). The General Partners, the Fund II Investment Adviser and the Fund III Investment Adviser (collectively, the “Relying Advisors”) conduct a single advisory business with Capital Partners. Collectively, the Firm, the General Partners and the Relying Advisors are referred to in this Brochure as “we” or “us.”

Type of Advisory Services

We provide discretionary investment management services to the Funds and to various acquisition vehicles through which the Funds and co-investors pool their capital to invest in portfolio companies (“co-investment vehicles” and collectively with the Funds, our “clients”). We generally provide investment advice with respect to equity and equity-related investments in private companies, although we may advise our clients regarding investments in debt if appropriate under the circumstances.

Our clients do not offer their interests to the public. Such interests are only offered in private placements to qualified investors. The terms of such offerings and the investments themselves are described in each client’s offering documents.

Impersonalized Investment Advice

We do not tailor our investment strategy to the needs of individual investors. Our clients and the Funds’ investors may include taxable and tax-exempt entities and persons or entities organized in various jurisdictions. Conflicts of interest may therefore arise in connection with decisions that may be more beneficial for one type of client or investor than another. In selecting investments appropriate for our clients, we consider the investment objectives of the applicable client as a whole, not the investment objectives of such client’s individual investors.

Assets Under Management

As of December 31, 2018, we managed approximately \$1,126,800,000 of client assets on a discretionary basis. We do not manage any client assets on a non-discretionary basis.

Item 5 – Fees and Compensation

Fees

We are generally entitled to management fees and/or performance-based compensation from our clients. The Funds generally pay us management fees quarterly in advance in an amount equal to 2% of the capital commitment of each investor in the Fund until the end of such Fund's commitment period and, thereafter, 2% per year on such investor's share of the cost basis of portfolio investments then held by the Fund, less any write-offs. The management fees we receive from the Funds are subject to reduction in proportion to certain fees we receive from the portfolio companies in which the Funds are invested.

We are also entitled to receive performance-based compensation from the Funds in the form of a carried interest equal to 20% of distributions in excess of (i) capital contributed in respect of each portfolio investment that has been disposed of at the time of distribution, (ii) capital contributed for management fees and entity expenses and (iii) a preferred return of 8% per annum, compounded annually. The carried interest is subject to a claw back. The above is a simplified explanation; please review the applicable Fund's offering documents for full details.

The fees described above represent our typical compensation rates. However, we may enter into negotiated agreements with one or more investors which provide for the waiver or modification of certain terms of the offering of Fund interests, or certain rights and obligations of investors, including fees, otherwise applicable to such interest(s). Further detail regarding calculation of the Funds' fees can be found in the Funds' offering documents, which are provided to potential investors.

Generally, co-investment vehicles do not pay management fees, although the portfolio companies in which they invest may compensate Capital Partners as discussed in the next paragraph. Investors in co-investment vehicles are subject to performance-based compensation similar to that of the Funds as outlined above.

In addition to fees and compensation received from our clients, we also generally receive fees from the companies in which our clients invest in exchange for the management, financial and industry expertise we provide. This fee is based on a percentage of earnings before a reduction for interest, income taxes, depreciation and amortization; a portion of this fee is generally used to partially or wholly offset the management fees payable by the Funds. Please review the applicable offering documents for full details.

Expenses

The Funds bear the organizational and offering expenses incurred in their formation. We bear the cost of any placement fees payable to agents in connection with the Funds. We are responsible for all customary overhead expenses of managing the applicable Fund, including compensation for its employees, rent, utilities and other overhead expenses. The Funds pay or reimburse us for all of their expenses for which we are not reimbursed by portfolio companies, including expenses associated with financial statements, tax returns and K-1's; fees and expenses of accountants, valuation consultants and counsel; expenses for transactions not consummated; other expenses associated with the acquisition, holding and disposition of investments, including extraordinary expenses (such as litigation costs); costs and expenses associated with the Funds' advisory boards (the "Advisory Boards") and the annual meeting; the cost of insurance, including errors and omissions insurance; and any taxes, fees or other governmental charges.

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

We receive performance-based compensation which is tied to the performance of the Funds. Simultaneously, we manage co-investment vehicles, certain investors in which may not be subject to performance-based compensation or may be subject to individualized performance-compensation rates. Although we may theoretically have an incentive to allocate more profitable investment opportunities to clients who pay the highest performance-based compensation rates, as a practical matter such conflicts of interest rarely arise. Generally, once we identify an investment opportunity that fits our investment strategy, we determine how much is appropriate for the Funds to invest in the opportunity. Because we occasionally seek investments that are too large for the Funds to invest in alone, we invite individuals and entities with which we have relationships (including members of our investment team, investors in the Funds and investors in prior investment vehicles managed by us) to co-invest with us through the co-investment vehicles to make up the difference between the size of the opportunity and the Funds' investment. When prospective co-investors' interest in the opportunity exceeds the portion not preliminarily allocated to the Funds, we may reduce the allocation to the Funds in favor of the prospective co-investors if we determine that it is in the best interest of the Funds to do so. Where such conflicts of interest do arise, we allocate investment opportunities among our clients based on the propriety of the investment for each of our clients and the best interests of our clients as a whole, without regard to our own interests.

Item 7 – Types of Clients

Our clients are the Funds and the co-investment vehicles. The minimum amount which may be committed to a Fund is one million dollars, although the general partner of each of the Funds may accept lesser amounts in its discretion. The Funds' investors are typically high net worth individuals, institutional investors and pension plans. Investors in the co-investment vehicles are usually individuals or entities (including members of our investment team and investors in the Funds) which possess the ability to raise significant amounts of capital on short notice.

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

Investment Objective and Strategy

Our objective is to generate attractive returns for our clients through the combination of quarterly cash distributions and longer-term capital appreciation. We pursue this objective by investing in established, well-positioned private companies that possess relatively stable cash flows and modest capital expenditure requirements. Our usual approach is to make control investments, focusing on companies which present us with opportunities to leverage our experience to actively support the development and execution of such companies' strategic plans for growth and the generation of long-term gains. We finance acquisitions with moderate amounts of outside debt in order to have a stronger balance sheet from which to implement companies' strategic plans and to facilitate both a current cash yield and longer-term capital gains for investors.

Investment Philosophy

The Firm has invested in more than sixty companies since its founding in 1982. We strive to be patient and disciplined investors who support exceptional management teams as they develop their businesses. On average, we hold our investments for over five years. We often aid management through the acquisition of complementary businesses.

Investment Approach

We focus our energies on (i) having a large number of potential investment opportunities to evaluate, (ii)

conducting thorough due diligence on transaction opportunities, (iii) negotiating attractive purchase prices along with good terms and conditions for each investment, (iv) actively working with portfolio companies to enhance value through strategic management and (v) successfully realizing value in each investment through a sale or recapitalization of the business. Our focus on the less-efficient small to mid-sized company market with an investment approach that combines active, strategic management utilizing the significant investment and operating experience of the Managing Partners and Founder with a low-debt, quarterly-cash-yielding model should reduce financial volatility and afford investors the opportunity to achieve attractive returns. We believe that this approach is unique and helps to enable Capital Partners to differentiate itself in sourcing investment opportunities, with many of the platform acquisitions and add-on acquisitions that we have made since the Firm's founding being sourced directly or from a broken auction process. We finance our acquisitions using a moderate level of outside debt, with most of the capital being provided by the Funds and the co-investment vehicles in the form of equity, which is structured to receive regular, periodic cash distributions, or as subordinated debt (in combination with equity) receiving current interest income. We believe that our use of moderate levels of outside debt to finance transactions results in decreased leverage-related risk for the portfolio companies. We believe that this results in investment products that should combine the attractive overall equity return opportunity of smaller buyouts with the potential for lower portfolio volatility and the generation of current cash yields.

Risks Associated with Our Investment Strategy

As with other private equity investments, an investment with us involves a high degree of risk. Prospective investors should carefully consider, among other factors, the risks described below, each of which could have an adverse effect on the value of their investment. There can be no assurance, based on these risks, as well as other risks inherent in any investment, that we will meet our investment objectives or otherwise be able to successfully carry out our investment program.

Competitive Nature of Our Business. Our business is highly competitive. Although we were successful in identifying suitable investments in the past, we compete for investment opportunities against other groups, including direct investment firms, merchant banks and industrial groups, and we may be unable to identify a sufficient number of attractive investment opportunities to meet our investment objectives. No assurance can be given that we will be successful in obtaining suitable investments or that if such investments are made, that our objectives will be achieved.

Dependence on Key Personnel. Our success depends in substantial part on the skill and expertise of the Managing Partners, Founder and other key employees. There can be no assurance that these individuals will continue to be employed by us. To the extent that we are unable to retain our key employees, we may be unable to identify and/or invest in suitable investments.

Carried Interest. The existence of the General Partners' carried interest may create an incentive for the General Partners to make more speculative investments than they would otherwise make in the absence of performance-based compensation.

Risk of Reliance on Management by Third Parties. While it is our intent to invest in companies with proven operating management in place, there can be no assurance that such management will continue to operate successfully. Although we monitor the performance of each investment, we rely upon management to operate the portfolio companies on a day-to-day basis.

Lack of Liquidity of Investments. The investments we make on our clients' behalf are illiquid. This illiquidity may result from the absence of an established market for the investments, market disruptions, cash flow disruptions, lack of available capital for potential purchasers or legal, contractual or other restrictions on their resale. Dispositions of investments may be subject to contractual and other limitations on transfer or other restrictions that would interfere with subsequent sales of such investments or adversely affect the terms that could be obtained upon any disposition thereof.

Leverage. We may leverage our investments with non-recourse debt financing, in which case a third-party lender could be entitled to the cash flow generated by such investment prior to distribution to clients. Although the use of leverage may enhance returns and increase the number of investments that can be made, it involves a heightened degree of risk, is inherently more sensitive to adverse economic factors (such as a significant rise in interest rates, a downturn in the economy, deterioration in the condition of such investments, declines in revenues and increases in expenses) and can exaggerate the financial effect of any increase or decrease in the value of such investments.

Risks Upon Disposition of Investments. In connection with the disposition of an investment in a portfolio company, we may be required to make representations about the business and financial affairs of the portfolio company typical of those made in connection with the sale of any business, or may be responsible for the contents of disclosure documents under applicable securities laws. We may also be required to indemnify the purchasers of such investment or underwriters to the extent that any such representations or disclosure documents turn out to be incorrect, inaccurate or misleading. These arrangements may result in contingent liabilities, which might ultimately have to be funded by the investors. Generally, we set aside reserves and/or escrow funds to cover potential contingent liabilities; however, the amounts of the escrows or reserves may not be sufficient to cover all claims and an investor may have to return some proceeds received.

Risk Arising from Provision of Managerial Assistance. In certain situations, our clients may obtain rights to participate substantially in and to influence substantially the conduct of the management of its portfolio companies. This may result in such clients designating directors to serve on the board of directors of their portfolio companies. The designation of representatives and other measures contemplated could expose such clients' assets to claims by a portfolio company, its security holders and its creditors, including claims that clients are controlling persons and thus are liable for securities law violations of a portfolio company. These measures could also result in certain liabilities in the event of the bankruptcy or reorganization of a portfolio company; could result in claims against such clients if the designated directors violate their fiduciary or other duties to a portfolio company or fail to exercise appropriate levels of care under applicable corporate or securities laws, environmental laws or other legal principles; and could expose such clients to claims that they have interfered in management to the detriment of a portfolio company. Although we maintain insurance intended to cover such situations, there is no guarantee that such policies will cover all eventualities or be sufficient to protect our clients from all liabilities. While we intend to manage our clients in a way that will minimize the exposure to these risks, the possibility of successful claims cannot be precluded.

General Economic Conditions, Political Risks and Catastrophic Events. General economic conditions may affect the Funds' activities. Interest rates, general levels of economic activity, the price of securities and participation by other investors in the financial markets may affect the value and number of investments made by the Funds or considered for prospective investment. Depending on the country in which a portfolio company has subsidiary operations, there may exist the risk of adverse political developments, including nationalization, confiscation without fair compensation or war.

Portfolio investments may also be subject to catastrophic events and other *force majeure* events, such as fires, earthquakes, adverse weather conditions, changes in law, eminent domain, riots, terrorist attacks and similar risks. These events could result in the partial or total loss of a portfolio investment or significant down time resulting in lost revenues, among other potentially detrimental effects.

Item 9 – Disciplinary Information

Neither Capital Partners nor its Managing Partners or Founder have ever been sanctioned or reprimanded by any regulator or self-regulatory organization, nor has any such person been successfully sued by any client or by any local state or federal authority on behalf of a client.

Item 10 – Other Financial Industry Activities and Affiliations

None.

Item 11 – Code of Ethics, Participation or Interest in Client Transactions and Personal Trading

Code of Ethics

We have established a Code of Ethics pursuant to Rule 204A-1 under the Investment Advisers Act of 1940, as amended, as part of our overall compliance program. The Code of Ethics includes policies and procedures relating to personal securities trading by Firm personnel and protection against the misuse of material nonpublic information. The Code of Ethics is designed to prevent, among other things, any improper conduct whenever any potential conflict of interest may exist with respect to any fund or investment portfolio. In addition, the Code of Ethics requires the Firm and/or all supervised persons of the Firm to safeguard and prevent dissemination of non-public information, to refrain from engaging in self-interested transactions without prior approval, to develop adequate internal accounting controls and maintain proper books and records, and to refrain from insider trading. The Code of Ethics also outlines the duties of care and loyalty that the Firm and its supervised persons are required to follow with respect to clients, to act in the best interests of clients and to render impartial advice to clients. A copy of the Code of Ethics is available upon written request to Anastasia Kowal, Chief Compliance Officer, c/o Capital Partners, 301 Merritt 7, Norwalk, Connecticut 06851.

Participation or Interest in Client Transactions and Personal Trading

The existence of the Carried Interest may create an incentive for us to make more speculative investments than we would make in the absence of performance-based compensation. However, we believe that this incentive is mitigated by our significant capital commitments and those of the Managing Partners, Founder and the members of our management team.

The Managing Partners and Founder, entities controlled by them and other related parties invest in and co-invest along with our clients. We deal with the potential conflict of interest that such investments may present by (i) giving the Funds first priority with respect to investment opportunities, (ii) acting in the Funds' best interests and (iii) establishing and utilizing the Advisory Boards.

We do not permit our Managing Partners, Founder or employees to invest in any of the securities in which we have invested our clients' assets except as investors in the co-investment vehicles.

Item 12 – Brokerage Practices

This item is not applicable.

Item 13 – Review of Accounts

Our clients primarily make control equity and equity-related investments in small and mid-sized private companies, for which we then take an active role in managing the board and setting strategic direction. In this regard, our investment personnel are constantly reviewing our clients' investments. However, because of the private equity and opportunistic nature of these investments, we do not review our clients' accounts for purposes of rebalancing. Our clients receive periodic reports on their investments.

Item 14 – Client Referrals and Other Compensation

We pay placement agents a portion of our management fees with respect to those investors introduced to our clients by such agents. We do not receive any economic benefit from any person that is not a client for providing investment advice or other services to our clients. We do receive fees from the companies in which our clients invest. See Item 5 "Fees and Compensation – Fees" above.

Item 15 – Custody

We have custody of client funds and securities, but we do not utilize a custodian to send quarterly account statements to our clients.

Item 16 – Investment Discretion

We maintain discretionary authority over all of our clients' accounts. Aside from the investment limitations set forth in our Funds' offering documents, we do not permit our clients to limit our investment discretion with respect to the assets we manage.

Item 17 – Voting Client Securities

We have adopted a proxy voting policy designed to ensure that we comply with the requirements of Rule 206(4)-6 and Rule 204-2 promulgated pursuant to the Investment Advisers Act of 1940, as amended, and fulfill our obligation thereunder with respect to proxy voting, disclosure and recordkeeping. Because of the nature of our investment advisory activities, it is unlikely that we will be in a position to vote proxies on behalf of any of our clients. In the event that we are in a position to do so, our objective is to ensure that our proxy voting activities on behalf of our clients are conducted in a manner consistent, under all circumstances, with the best interest of our clients. If we determine that we have, or may be perceived to have, a conflict of interest when voting a proxy, we will address matters involving such conflicts of interest on a case-by-case basis, and may consult with the Advisory Board to ensure proper handling of conflicts.

Investors may obtain a copy of our proxy voting policies and procedures, and information regarding how we voted particular proxies on behalf of the accounts, on request.

Item 18 – Financial Information

This item is not applicable.