



Heartwood Partners, LLC

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FORM ADV PART 2

March 27, 2024

This brochure provides information about the qualifications and business practices of Heartwood Partners, LLC. 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 Heartwood Partners, LLC 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 Heartwood Partners, LLC (this “Brochure”) is an update to the version of the Brochure filed in March 2023.

As of October 2, 2023, Berat Rifati is the Chief Compliance Officer and Chief Financial Officer for Heartwood Partners, LLC.

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Item 4 – Advisory Business

Structure; History and Ownership

Heartwood Partners, LLC (referred to in this Brochure as “Heartwood Partners” or “the Firm”) is a private equity investor, manager and adviser with its principal place of business in Norwalk, Connecticut. Heartwood Partners is principally owned and managed by Robert S. Tucker and Mark D. Allsteadt (the “Managing Partners”). In September 2020, Heartwood Partners rebranded from its former name, “Capital Partners”, the name used since the Firm’s founding in 1982.

Heartwood Partners and its affiliates have formed Heartwood Partners II, L.P. (“Fund II”), Heartwood Partners III, L.P. (“Fund III”), and Heartwood Partners IV, LP (“Fund IV”) and together with Fund II, Fund III, Fund IV and any additional pooled investment vehicles sponsored by Heartwood Partners or its affiliates, the “Funds”), which make control equity and equity-related investments in small and mid-sized, U.S.-based private companies (referred to later as “portfolio companies” or a “portfolio investment”). The General Partner of Fund II is Heartwood Partners II GP, LLC, a Delaware limited liability company (the “Fund II General Partner”). The General Partner of Fund III is Heartwood Partners III GP, LLC, a Delaware limited liability company (“Fund III General Partner”). The general partner of Fund IV is Heartwood Partners IV GP, LLC, a Delaware limited liability company (the “Fund IV General Partner” and together with the Fund II General Partner and the Fund III General Partner the “General Partners”). Collectively, the Firm, the General Partner 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 generally 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, 2023, we managed approximately \$1,432,300,000 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

The limited partnership agreement for the Funds (the “Limited Partnership Agreement”) generally entitles us to management fees and/or performance-based compensation from our clients. Per the Limited

Partnership Agreements, the Funds would generally pay us management fees quarterly in advance in an amount equal to 2% of the capital commitment of each investor in the Funds (except for the General Partner and its affiliates) until the end of such Funds' commitment period and, thereafter through the initial life of the Funds, 2% per year on such investor's share of the cost basis of portfolio investments then held by the Funds, less any write-offs (management fees would step down further during any extension periods). 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.

Per the Limited Partnership Agreements, 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, on the foregoing amounts. The carried interest is subject to a claw back. The above is a simplified explanation; please review the Funds' offering documents, including the Limited Partnership Agreements, 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 Funds 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, including the Limited Partnership Agreements, 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 Heartwood Partners as discussed in the next paragraph. Investors in co-investment vehicles are generally 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 generally 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 Limited Partnership Agreements for full details.

Expenses

The Funds bear the organizational and offering expenses incurred in its 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 Funds, including compensation for its employees, rent, utilities and other overhead expenses. The Funds pay or reimburse us for all of its 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 board (the "Advisory Board") 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 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, insurance companies, endowments and foundations. Investors in the co-investment vehicles are usually the same or similar investors in the Funds (including members of our investment team).

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 moderate 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 longer-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

Prior to September 2020, Heartwood Partners was known as "Capital Partners", a name used since the Firm's founding in 1982. Heartwood rebranded as the Firm believed "Capital Partners" had become a generic component of many other private equity firms' names and Heartwood Partners better exemplified the lower-debt, cash-yield investment approach the Firm executes. Other than the rebranding, all other Firm activities remain the same.

Throughout its history, Heartwood Partners has focused on investing in and acquiring lower-middle-market companies. The Firm successfully raised and invested two private equity funds in the 1980's and 1990's and then evolved into acquiring portfolio companies primarily for its account with co-investment from past investors in the latter half of the 1990's through early 2005. Throughout this time, Capital Partners (as it was known at the time) predominately structured its acquisitions as fully leveraged buyouts.

In November 2004, the Firm recruited Mark Allsteadt and Robert Tucker as part of a succession plan. After joining the Firm, Messrs. Allsteadt and Tucker worked with the founder of the Firm to create a new investment strategy that has been employed ever since then. They had a view that the lower middle market was an attractive area in which to invest, but that the market was becoming more competitive, driven by

growing equity commitments to the segment and increasing sophistication among sellers and their advisors. As a result, they believed that to continue to generate attractive returns, more emphasis needed to be placed on growing the earnings of underlying portfolio companies with greater consistency and sourcing transactions in a more differentiated fashion outside of highly competitive auctions. It was with these premises in mind that they devised the current strategy of continuing to predominately acquire control of lower middle market companies, but to focus on building businesses using a lower-debt, higher-equity capital structure and providing investors with a quarterly cash yield in combination with a longer-term gain upon the final sale of the businesses. The primary goals were (and continue to be) to (i) create a balance sheet from which management teams of portfolio companies can execute strategic growth plans with higher probabilities of success, with less exposure to such things as adverse macroeconomic conditions or changes in the availability of debt financing generally, (ii) reduce the dispersion of investment returns (or investment volatility) for investors that has typically accompanied more higher-leveraged buy-outs and (iii) create a highly differentiated approach that would enable the Firm to source transactions in a less competitive manner, especially from companies owned by families or management teams.

Investment Approach

The Firm's objective is to generate attractive risk-adjusted returns for its investors with lower volatility and financial risks relative to other private equity strategies. The Firm seeks to develop a lower volatility investment portfolio by employing meaningful equity and only moderate amounts of outside debt financing. This structure should allow the Firm's investments to generate a combination of quarterly cash returns and longer-term upside gains.

Heartwood Partners intends to predominantly invest in established, well-positioned family and/or management-owned manufacturing, distribution, consumer and service businesses that have a history of generating free cash flow with moderate capital intensity. We plan to focus on the less efficient, lower- and middle-market segments of the buyout market, where valuations have been relatively attractive, and businesses have annual earnings before interest, taxes and depreciation ("EBITDA") between \$5 million and \$30 million. We will primarily make control investments.

In executing our strategy, we focus on (i) sourcing a large number of quality investment opportunities, (ii) focusing on opportunities where the sellers and management team dynamics align well with Heartwood Partners' approach, which often leads to less competitive transaction dynamics, (iii) conducting thorough due diligence to evaluate risks as well as growth and value creation opportunities on investment prospects, (iv) negotiating attractive purchase prices and other terms for each investment, (v) actively partnering with portfolio companies to enhance value and (vi) successfully realizing value in each investment through quarterly cash distributions and a sale or recapitalization.

We believe our focus on the small- to mid-sized company market with an investment approach that combines active, strategic management utilizing the significant investment and operating experience of the team with a lower-debt, quarterly-cash-yielding model should reduce financial volatility and afford investors the opportunity to achieve attractive returns. We believe that this approach is differentiated and helps to enable Heartwood Partners to contrast itself in sourcing investment opportunities, with many of the portfolio acquisitions and add-on acquisitions that we have made since the Firm's founding being sourced directly, from a broken auction process or from smaller or regional advisors and investment banks.

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 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 Partner's carried interest may create an incentive for the General Partner to make more speculative investments than it 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 reserves or escrows 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 Fund's 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 Fund 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, environmental or biological events, 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.

Environmental, Social and Governance Matters. While we seek to follow practices that ensure environmental, social or governance ("ESG") matters are incorporated into our investment process, ESG is only one of the many factors we will consider in making an investment. There is no guarantee that we will successfully implement and make investments in companies that create a positive ESG impact while enhancing long-term shareholder value and achieving financial returns. To the extent we engage with companies on ESG-related practices and potential enhancements thereto, such engagements may not achieve the desired financial and social results, or the market or society may not view any such changes as desirable. Successful engagement efforts on our part will depend on our skill in properly identifying and analyzing material ESG and other factors and their impact-related value, and there can be no assurance that the strategy or techniques employed will be successful. Considering ESG qualities when evaluating an investment may result in the selection or exclusion of certain investments based on our view of certain ESG-related and other factors and carries the risk that we may underperform funds that do not take ESG-related factors into account because the market may ultimately have a different view of a particular company's performance than that anticipated by us.

Applying impact investing goals to investment decisions is qualitative and subjective by nature, and there is no guarantee that the criteria utilized, or any judgement exercised will reflect the beliefs or values of any particular investor. In evaluating a company, we are dependent upon information and data obtained through voluntary or third-party reporting that may be incomplete, inaccurate or unavailable, which could cause us to incorrectly assess a company's ESG practices and/or related risks and opportunities. ESG-related practices or our assessment of such practices may change over time.

Item 9 – Disciplinary Information

Neither Heartwood Partners nor its Managing Partners 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

Heartwood Partners does not have any other financial industry activities or affiliations to disclose at the time of this brochure.

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 non-public 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 Berat Rifati, Chief Compliance Officer, c/o Heartwood Partners, LLC, 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 and the members of our management team.

The entities controlled by the Managing Partners 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 Fund first priority with respect to investment opportunities, (ii) acting in the Fund's best interests and (iii) establishing and utilizing the Advisory Board.

We do not permit our Managing Partners 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, U.S. based 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 Fund’s 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.