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Pzena Investment Management, Inc.

Form 10-K

March 09, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

ý Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the Fiscal Year Ended December 31, 2017

or

o Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from to

Commission file number 001-33761

PZENA INVESTMENT MANAGEMENT, INC.

(Exact Name of Registrant as Specified in its Charter)

Delaware

20-8999751

(State or Other Jurisdiction of Incorporation or Organization) (I.R.S. Employer Identification No.)

320 Park Avenue

New York, New York 10022

(Address of Principal Executive Offices)

Registrant's telephone number, including area code: (212) 355-1600

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
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Class A Common Stock, par value \$.01 per share	New York Stock Exchange
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Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes o No ý

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No ý

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act

Large accelerated filer o	Accelerated filer x	(Do not check if a smaller reporting company)	Non-accelerated filer o	Smaller reporting company o	Emerging growth company o
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Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act) Yes o No ý

The aggregate market value of the common equity held by non-affiliates of the registrant as of June 30, 2017, the last business day of its most recently completed second fiscal quarter, was approximately \$169.2 million based on the closing sale price of \$10.16 per share of Class A common stock of the registrant on such date on the New York Stock

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Exchange. For purposes of this calculation only, it is assumed that the affiliates of the registrant include only directors and executive officers of the registrant.

As of March 8, 2018, there were 17,876,684 outstanding shares of the registrant's Class A common stock, par value \$0.01 per share.

As of March 8, 2018, there were 51,081,651 outstanding shares of the registrant's Class B common stock, par value \$0.000001 per share.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's definitive proxy statement relating to its 2018 annual meeting of shareholders (the "2018 Proxy Statement") are incorporated by reference into Part III of this Annual Report on Form 10-K where indicated. The 2018 Proxy Statement will be filed with the U.S. Securities and Exchange Commission within 120 days after the end of the fiscal year to which this report relates.

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K, or Annual Report, contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 27E of the Securities and Exchange Act of 1934, as amended (the "Exchange Act"). Forward-looking statements provide our current views, expectations, or forecasts, of future events and performance and include statements about our expectations, beliefs, plans, objectives, intentions, assumptions and other statements that are not historical facts. Words or phrases such as "anticipate," "believe," "continue," "ongoing," "estimate," "expect," "intend," "may," "plan," "potential," "predict," "project" or phrases, or the negatives of those words or phrases, may identify forward-looking statements, but the absence of these words does not necessarily mean that a statement is not forward-looking.

Forward-looking statements are subject to known and unknown risks and uncertainties, including but not limited to those noted below and described in Part I, Item 1A — "Risk Factors" of this Annual Report, and are based on assumptions and estimates. If one or more of these risks or uncertainties materialize, or if one or more of our assumptions or estimates prove incorrect, our actual results could differ materially from those expected or implied by the forward-looking statements. Accordingly, you should not unduly rely on any forward-looking statements. The forward-looking statements in this Annual Report, speak only as of the date of this Annual Report. There may be additional risks, uncertainties and factors that we do not currently view as material or that are not known. We undertake no obligation to publicly revise any forward-looking statements to reflect circumstances or events after the date of this Annual Report, or to reflect the occurrence of unanticipated events. You should, however, review the factors and risks we describe in the reports we will file from time to time with the Securities and Exchange Commission, or SEC, after the date of this Annual Report.

Forward-looking statements include, but are not limited to, statements about:

- our ability to respond to global economic, market, business and geopolitical conditions;
- our anticipated future results of operations and operating cash flows;
- our successful formulation and execution of business strategies and investment policies;
- our financing plans and the availability of short- or long-term borrowing, or equity financing;
- our competitive position and the effects of competition on our business;
- our ability to identify and capture potential growth opportunities available to us;
- the recruitment and retention of our employees;
- our expected levels of compensation for our employees;
- our potential operating performance, achievements, efficiency and cost reduction efforts;
- our expected tax rate;
- changes in interest rates;
- our expectation with respect to the economy, capital markets, the market for asset management services and other industry trends; and
- the impact of future legislation and regulation, and changes in existing legislation and regulation, on our business.

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Preliminary Notes

In this Annual Report, “we,” “our,” “us,” and “the Company” refer to Pzena Investment Management, Inc. and its consolidated subsidiaries.

Each Russell Index referred to in this Annual Report is a registered trademark or trade name of Frank Russell Company®. Frank Russell Company® is the owner of all copyrights relating to these indices and is the source of the performance statistics of these indices that are referred to herein.

Information with respect to Morgan Stanley Capital International, which we refer to as MSCI, requires a license from MSCI. All MSCI brands and product names are the trademarks, service marks, or registered trademarks of MSCI or its subsidiaries in the United States and other jurisdictions. MSCI is the owner of all copyrights relating to these indices and is the source of the performance statistics of these indices that are referred to in this Annual Report.

The S&P 500 Index is licensed from Standard & Poor's Financial Services LLC, which is the source of the performance statistics of this index.

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PART I.

ITEM 1. BUSINESS

Overview

Pzena Investment Management, Inc. was formed in 2007 and is the sole managing member of Pzena Investment Management, LLC, which is our operating company. Founded in 1995, Pzena Investment Management, LLC is a value-oriented investment management company. We believe that we have established a positive, team-oriented culture that enables us to attract and retain highly qualified people. Since our inception, over twenty years ago, we have built a diverse, global client base of respected and sophisticated institutional investors, select third-party distributed mutual funds for which we act as sub-investment adviser, and funds for which we act as investment adviser.

Pzena Investment Management, LLC is comprised of Class A and Class B membership units, each of which have an identical economic interest in the operating company. As a holding company, we hold all the Class A membership units and recognize income generated from our economic interest in our operating company's net income. The Class B membership units of the operating company are held by employees and certain outside members. For each Class A membership unit held, we have issued one corresponding share of Class A common stock, par value \$0.01 per share, which entitles the holder to one vote per share. For each Class B membership unit, we have issued one corresponding share of Class B common stock, par value \$0.000001 per share, which entitles the holder to five votes per share without dividend rights, as described below in the graphic illustration. As of December 31, 2017, we owned approximately 26.3% of the economic interest in our operating company and our Class A shareholders hold approximately 6.7% of our voting interests.

Pzena Investment Management, Inc. also serves as the general partner of Pzena Investment Management, LP, a partnership formed with the objective of aggregating employee ownership in one entity.

The graphic below illustrates our holding company structure and ownership as of December 31, 2017.

(1) As of December 31, 2017, the members of Pzena Investment Management, LLC, other than us, consisted of:

• Our named executive officers and their estate planning vehicles, who collectively held, through direct and indirect interests, approximately 49.4% of the economic interests in Pzena Investment Management, LLC.

• 38 of our other employee members and their estate planning vehicles, who collectively held, through direct and indirect interests, approximately 4.7% of the economic interests in Pzena Investment Management, LLC.

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Certain other members of our operating company, including one of our directors and his related entities, and former employees, who collectively held, through direct and indirect interests, approximately 19.6% of the economic interests in Pzena Investment Management, LLC.

(2) Each share of Class A common stock is entitled to one vote per share.

Each share of Class B common stock is entitled to five votes per share for so long as the number of shares of Class B common stock outstanding represents at least 20% of all shares of common stock outstanding. Holders of Class B common stock have the right to receive the par value of the Class B common stock held by them upon our liquidation, dissolution or winding up, but do not share in dividends.

(4) As of December 31, 2017, we held 18,096,554 Class A units of Pzena Investment Management, LLC, which represented the right to receive 26.3% of the distributions made by Pzena Investment Management, LLC.

(5) As of December 31, 2017, the principals collectively held 50,774,559 Class B units of Pzena Investment Management, LLC, which represented the right to receive 73.7% of the distributions made by Pzena Investment Management, LLC.

Pursuant to the operating agreement of our operating company, each vested Class B unit is exchangeable for a share of the Company's Class A common stock, subject to certain timing and volume restrictions. When a vested Class B unit is exchanged for a share of Class A common stock, or is forfeited, a corresponding share of the Company's Class B common stock will automatically be redeemed and cancelled. When a share of Class A common stock or Class B unit is repurchased and retired, a corresponding membership unit or share of Class B common stock is redeemed and cancelled, respectively. Conversely, to the extent that we issue shares of Class A common stock, or additional Class B units pursuant to our equity incentive plans, the corresponding Class A membership units or shares of Class B common stock will be issued, respectively.

We utilize a classic value approach to investing and seek to make investments in good businesses at low prices, which requires:

•willingness to invest in companies before their stock prices reflect signs of business improvement, and

•significant patience, based upon our understanding of the business' fundamentals, and our long-term investment horizon.

Our approach and process aim to achieve attractive returns over the long term. We manage assets in value-oriented investment strategies reflecting varying degrees of portfolio concentrations across a wide range of market capitalizations in both U.S. and non-U.S. capital markets.

Our assets under management, or AUM, was \$38.5 billion at December 31, 2017, and we managed money on behalf of institutions, acted as sub-investment adviser to a variety of SEC-registered mutual funds and non-U.S. funds as well as investment adviser to certain Pzena SEC-registered mutual funds, certain private placement funds, and non-U.S. funds.

Our operating company is led by a committee, consisting of our Chief Executive Officer (CEO), Mr. Richard S. Pzena; each of our Presidents, Messrs. John P. Goetz and William L. Lipsey; and our Chief Operating Officer (COO), Mr. Gary J. Bachman (the "Executive Committee").

Our Competitive Strengths

We believe that the following are our competitive strengths:

Focus on Investment Excellence. We recognize that we must achieve investment excellence in order to attain long-term business success. All of our business decisions, including the design of our investment process and our

willingness to limit AUM in our investment strategies, are focused on producing attractive long-term investment results. We believe that our long-term investment performance, together with our willingness to close our strategies to new investors in order to optimize the prospects for future performance, has contributed to our positive reputation among our clients and the institutional consultants who advise them.

Consistency of Investment Process. Since our inception over twenty years ago, we have utilized a classic value investment approach and a systematic, disciplined investment process to construct portfolios for our

- investment strategies in U.S. and non-U.S. markets across all market capitalizations. The consistency of our process has allowed us to leverage the same investment team to launch new strategies. We believe that our consistent investment process has resulted in our strong brand recognition in the investment community.

Diverse and High Quality Client Base. We believe that we have developed a favorable reputation in the institutional investment community. This is evidenced by our strong relationships with institutional investors, investment consultants, and mutual fund providers, as well as the diversity and sophistication of our investors. For more information concerning our client base, see “Our Client Relationships and Distribution Approach” below.

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Experienced Investment Professionals and a Team-Oriented Approach. We believe that our greatest asset is the experience of the individuals on our team. For more information on our investment team, see “Our Investment Team” below.

Employee Retention. We have focused on building an environment that we believe is attractive to talented investment professionals. Important among our practices are our team-oriented approach to investment decisions, rotation of coverage areas among individuals, and our culture of employee ownership.

Culture of Ownership. We believe the key contributors to our success should have significant ownership of our business. Since our inception, we have communicated to all our employees that they have the opportunity to become members of our operating company. As of December 31, 2017, we had 43 employee members positioned within all of our functional areas. We believe this ownership model results in a shared sense of purpose with our clients and their advisers. We intend to continue fostering a culture of ownership through our equity incentive plans, which are designed to align our team’s interests with those of our stockholders and clients. We believe this culture of ownership contributes to our team orientation and connection with clients.

Our Business Strategy

The key to our success is continued long-term investment performance. In conjunction with this, we believe the following strategies will enable us to grow our business over time:

- **Unwavering Focus on Classic Value Investing.** We view our unwavering focus on long-term classic value investment excellence to be the key driver of our business success.

Capitalize on Growth Opportunities Created By Our Global Strategies. Among both institutional and retail investors industry-wide, over the past few years, there have been increasing levels of investments in portfolios including non-U.S. equities. As of December 31, 2017, the total AUM in our Global Value strategies, International Value strategies, Emerging Markets Value strategy, European Value strategy, and other Global & non-U.S. strategies was \$20.6 billion, or 53.5% of our overall AUM. Our global capability provides opportunity for implementation of our strategies around the world.

Work with Our Strong Consultant Relationships. We believe that we have built strong relationships with the leading investment consulting firms who advise potential institutional clients. Historically, new accounts sourced through consultant-led searches have been a large driver of our inflows and are expected to be a major component of our future inflows. We estimate that approximately 70% of all retirement plan assets are advised by investment consultants, with a relatively small number of these consultants representing a significant majority of these relationships. As a result of a consistent servicing effort over our history, we have built strong relationships with consulting firms that we believe are the most important. New accounts sourced through consultant-led searches have been a large driver of our historical growth and are expected to be a major component of our future growth. As of December 31, 2017, our largest consultant relationship represented approximately 12% of our AUM.

Expand Our Non-U.S. Client Base. In recent years, we have increased our efforts to develop our non-U.S. client base. Through our strong relationships with global consultants, we have been able to accelerate the development of our relationships with their non-U.S. branches. Over time, we aim to achieve growth of this client base through these relationships and by directly calling on the world’s largest institutional investors. We have also sought to expand our non-U.S. base through our relationships with non-U.S. mutual funds and other investment fund advisers. In addition to our headquarters in the United States, we have a business development and client service office in London as well as a representative office in Melbourne. To date, our marketing efforts have resulted in client relationships in twelve non-U.S. countries, including Australia, the United Kingdom, Luxembourg, Canada, and Ireland. As of December 31,

2017, we managed \$12.9 billion on behalf of non-U.S. clients.

Provide Access To Our Strategies Through a Range of Investment Vehicles and Distribution Channels. Our clients access our investment strategies through a range of investment vehicles and distribution channels, including separately managed accounts, mutual funds that we sub-advise, and certain private placement vehicles and non-U.S. funds. During 2014 we launched three SEC-registered Pzena mutual funds for which we act as investment adviser in an effort to expand the access investors have to our strategies. During 2016 we launched a fourth SEC-registered Pzena mutual fund and continue to develop intermediary relationships to grow retail distribution channels. During 2017, we launched three new private placement vehicles for which we act as the sole investment adviser. For more information concerning access to our strategies and our distribution approach, see “Our Client Relationships and Distribution Approach” below.

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Employ Global Team to Serve Clients and Prospects. Our business development and client service professionals are critical to our business, as noted below under "Business Development and Client Service Teams," and are generally focused geographically. In addition to our headquarters in the United States and representative office in Melbourne, we have four dedicated professionals located in our London office. During 2015 we demonstrated our commitment to the retail market with an expanded effort focusing on the growth of our distribution capabilities and intermediary business across channels. We concluded after several years of market experience that our target segment in the retail market should be participants operating similarly to our institutional client base. In 2017, we combined our institutional and retail sales efforts to more effectively reach our target client base and service our current clients.

Corporate Environmental and Social Responsibility. As a global investment management organization, we are committed to adopting and implementing responsible investment principles in a manner that is consistent with our fiduciary responsibilities to our clients. We recognize the importance of considering environmental, social and governance (ESG) issues as part of a robust investment process. In the beginning of 2018, we became a signatory to the Principles for Responsible Investment (PRI), which is a leading global responsible investment network of investment managers, service providers and asset owners.

Our Investment Team

We have built an investment team that is well-suited to implement our classic value investment strategy. The members of our investment team have a diverse set of backgrounds, including former corporate management, private equity, management consulting, accounting, and Wall Street professionals. Their diverse business backgrounds are instrumental in enabling us to make investments in companies where we would be comfortable owning the entire business for a three- to five-year period. We look beyond temporary earnings shortfalls that result in stock price declines, which may lead others to forego investment opportunities, if we believe the long-term fundamentals of a company remain attractive.

As of December 31, 2017, we had a 26-member investment team. Each member serves as a research analyst, and certain members of the team also have portfolio management responsibilities. There are generally three portfolio managers for each investment strategy. These three managers have joint decision-making responsibility, and each has "veto authority" over all decisions regarding the relevant portfolio. Research analysts have sector and company-level research responsibilities which span all of our investment strategies, including those with a non-U.S. focus. In order to facilitate the professional development of our team, and to keep a fresh perspective on the companies in our investment portfolios, our research analysts generally rotate industry coverage every three to four years.

We follow a collaborative, consensus-oriented approach to making investment decisions, such that all members of our investment team, irrespective of their seniority, can play a significant role in this decision making process. We hold weekly research review meetings attended by all portfolio managers and relevant research analysts, and that are open to other employees, at which we openly discuss and debate our findings regarding the normalized earnings power of potential portfolio companies. In addition, we hold daily morning meetings, attended by our portfolio managers, research analysts, portfolio implementation, and client service personnel, in order to review developments in our holdings and set a trading strategy for the day. These meetings are critical for sharing relevant developments and analysis of the companies in our portfolios. We believe that our collaborative culture is attractive to our investment professionals.

Our Investment Strategies

As of December 31, 2017, our approximately \$38.5 billion in AUM was invested in a variety of value-oriented investment strategies, representing differing degrees of concentration, and capitalization segments of U.S. and

non-U.S. markets. See "Item 7 — Management's Discussion and Analysis of Financial Condition & Results of Operations — Operating Results — Assets Under Management and Flows" for additional details about our strategies.

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The following table identifies our current U.S. and non-U.S. investment strategies, and the allocation of our AUM among them, as of December 31, 2017, 2016, and 2015:

Strategy	As of December 31,		
	2017	2016	2015
U.S. Value Strategies	(in billions)		
Large Cap Value	\$11.2	\$9.4	\$9.9
Mid Cap Value	2.8	2.5	1.8
Value	2.2	2.0	1.6
Small Cap Value	1.6	1.6	1.1
Other U.S. Strategies	0.1	0.1	0.1
Global and Non-U.S. Strategies			
Global Value	6.7	4.6	4.2
International Value	6.3	4.9	4.2
Emerging Markets Value	4.3	2.6	1.8
European Value	3.2	2.1	1.1
Other Global and Non-U.S. Strategies	0.1	0.2	0.2
Total	\$38.5	\$30.0	\$26.0

We follow the same investment process for each of these strategies. Our investment strategies are distinguished by the market capitalization ranges from which we select securities for their portfolios, which we refer to as each strategy's investment universe, as well as the regions in which we invest. In addition, the number of holdings typically found in the portfolios of each of our investment strategies may vary depending on the degree of concentration in the portfolio, with our Focused Value strategies generally reflecting fewer holdings than our Value strategies.

Our largest investment strategies as of December 31, 2017 are further described below. This strategy detail is representative of our Value and Focused Value strategies, and variations thereof.

U.S. Strategies

Large Cap Value. This strategy reflects a portfolio composed of approximately 30 to 80 stocks drawn generally from a universe of 500 of the largest U.S. listed companies, based on market capitalization.

Mid Cap Value. This strategy reflects a portfolio composed of approximately 30 to 80 stocks drawn generally from a universe of U.S. listed companies ranked from the 201st to 1,200th largest, based on market capitalization.

Value. This strategy reflects a portfolio composed of a portfolio of approximately 30 to 40 stocks drawn generally from a universe of 1,000 of the largest U.S. listed companies, based on market capitalization.

Small Cap Value. This strategy reflects a portfolio composed of approximately 40 to 50 stocks drawn generally from a universe of U.S. listed companies ranked from the 1,001st to 3,000th largest, based on market capitalization.

Global and Non-U.S. Strategies

Global Value. This strategy reflects a portfolio composed of approximately 40 to 95 stocks drawn generally from a universe of 2,000 of the largest companies across the world, based on market capitalization.

International Value. This strategy reflects a portfolio composed of approximately 30 to 80 stocks drawn generally from a universe of 1,500 of the largest companies across the world, excluding the United States, based on market capitalization.

Emerging Markets Value. This strategy reflects a portfolio composed of approximately 40 to 80 stocks drawn generally from a universe of 1,500 of the largest emerging market companies, based on market capitalization.

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European Value. This strategy reflects a portfolio composed of approximately 40 to 50 stocks drawn generally from a universe of 750 of the largest European companies, based on market capitalization.

We believe that our ability to retain and grow assets has been, and will continue to be, driven primarily by delivering attractive long-term investment results to our clients. We have therefore prioritized, and will continue to prioritize, investment performance over asset accumulation. Where we have deemed it necessary, we have, at times, closed certain products to new investors in order to preserve capacity to effectively implement our concentrated investment strategies for the benefit of existing clients. Currently, all of our investment strategies are open to new investors.

Our Strategy Development Approach

Historically, a component of our growth has been the development of new strategies. Prior to incubating a new strategy, we perform in-depth research on the potential market for the product, as well as its overall compatibility with our investment expertise. This process involves analysis by our client team, as well as by our investment professionals. We will only launch a new product if we believe that it can add value to a client's investment portfolio. Prior to marketing a new strategy, we generally incubate the product for a period of one to five years, so that we can test and refine our investment strategy and process before actively marketing the product to our clients.

Our Investment Performance

Since we are long-term fundamental investors, we believe that our investment strategies yield the most benefits and are best evaluated, over a long-term timeframe. For more information on our performance, see "Item 7 — Management's Discussion and Analysis of Financial Condition and Results of Operations — Operating Results — Assets Under Management and Flows."

Our Client Relationships and Distribution Approach

We believe that strong relationships with our clients are critical to our ability to succeed and to grow our AUM. In building these relationships, we have focused our efforts where we can efficiently access and service large pools of sophisticated clients with our team of dedicated business development and client service professionals.

We distribute our products primarily through the efforts of our business development and client service team, who communicate directly with our clients and with the consultants who serve them, as well as through the marketing programs of our sub-investment advisory partners and intermediary distribution partners. Since our objective is to attract long-term investors with an investment horizon in excess of three years, our business development and client service efforts focus on educating our investors and intermediary distribution partners regarding our disciplined classic value investment process and philosophy.

Our business development and client service team is responsible for:

- identifying, developing relationships with, and marketing to prospective clients;
- providing ongoing service to existing accounts;
- responding to requests for investment management proposals;
- developing and maintaining relationships with independent consultants;
- developing and maintaining relationships with intermediary partners to grow retail distribution capabilities;

- addressing all ongoing client needs, including periodic updates and reporting requirements; and

• developing direct relationships with clients sourced through consultant-led searches.

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Our business development and client service team is actively engaged with our research team to ensure our clients receive content-based information. We introduce members of our research and portfolio management team into client portfolio reviews to ensure that our clients are exposed to the full breadth of our investment resources. We also provide quarterly reports to our clients in order to share our investment perspectives. We additionally meet and hold conference calls regularly with clients to share perspectives on the portfolio and the current investment environment.

Distribution Channels

We manage assets in three principal distribution channels. A summary of selected financial data attributable to our operations for each distribution channel is included in “Item 7 — Management’s Discussion and Analysis of Financial Condition and Results of Operations.” The following table provides information regarding the composition of our total assets under management by distribution channel:

	As of December		
	31,		
Assets Under Management	2017	2016	2015
	(in billions)		
Separately Managed Accounts	\$15.0	\$12.5	\$11.0
Sub-Advised Accounts	21.8	16.3	14.1
Pzena Funds	1.7	1.2	0.9
Total	\$38.5	\$30.0	\$26.0

In December 2017, we changed the classification of our AUM to better reflect the composition of our client base. We now group our assets into three new categories: separately managed accounts, sub-advised accounts, and Pzena funds, which better illustrate the characteristics inherent in our client relationships. Historical data has been reclassified for all periods presented and did not impact reported totals of AUM.

Separately Managed Accounts

Since our inception, we have directly offered institutional investment products to public and corporate pension funds, endowments, foundations, high net worth individuals and their investment vehicles. We continue to develop direct relationships with the largest institutional investors and consultants around the world.

Sub-Advised Accounts

We have established relationships with mutual fund and fund providers globally, that offer us opportunities to efficiently access market segments through sub-investment advisory roles. The funds that we sub-advise are either multi-manager funds, in which we manage only a portion of the fund's portfolio, or funds for which we are the sole sub-adviser.

Pzena Funds

U.S. investors that do not meet our minimum account size for a separate account, or who otherwise prefer to invest through a mutual fund, can invest in certain of our strategies through our Pzena mutual funds, which were launched during 2014. In 2016, we launched a fourth Pzena mutual fund. We act as the investment adviser to four Pzena mutual funds that offer no-load, open-end share classes designed to meet the needs of a range of investor types.

In addition, we offer investors outside of the U.S. the ability to invest in our strategies through Pzena Value Funds plc and its respective sub-funds, a family of Irish-based UCITS funds for which we serve as investment manager and promoter. Pzena Value Funds plc began operations in 2005 and offers shares to non-U.S. investors. We currently offer

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a sub-fund corresponding to our Emerging Markets Focused Value, Global Value, Global Focused Value, and Large Cap Value strategies.

In the U.S., we offer access to our International Value All Country (ex-U.S.), Emerging Markets Focused Value, Global Focused Value, Emerging Markets Select Value, U.S. Best Ideas, and International Focused Value strategies through private placement vehicles and collective investment trusts.

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Advisory Fees

We earn advisory fees on our separately managed and sub-advised accounts, as well as funds for which we act as the sole investment adviser.

On our separately managed accounts, we are paid fees according to a schedule which varies by investment strategy. The substantial majority of these accounts pay us management fees pursuant to a schedule in which the rate we earn on the AUM declines as the amount of AUM increases.

With respect to our sub-advised accounts, as of December 31, 2017, we sub-advised seventeen SEC-registered mutual funds that each have an initial two-year term and are thereafter subject to annual renewal by each fund's board of directors pursuant to the Investment Company Act of 1940, as amended (the "Investment Company Act"). Fourteen of these seventeen sub-investment advisory agreements are beyond their initial two-year terms as of December 31, 2017. In addition, we sub-advise twenty-six non-U.S. funds. Under these agreements, we are generally paid a management fee according to a schedule, pursuant to which the rate we earn on the AUM declines as the amount of AUM increases. Certain of these funds pay us fixed-rate management fees. Due to the substantially larger account size of certain of these accounts, the average advisory fees we earn on them, as a percentage of AUM, are lower than the advisory fees we earn on our separately managed accounts.

Advisory fees we earn on separately managed accounts and Pzena funds are generally based on the value of AUM at a specific date on a quarterly basis. Certain of our separately managed accounts, sub-advised accounts, and Pzena funds are calculated based on the average of the monthly or daily market value of the account. Advisory fees are also generally adjusted for any cash flows into or out of a portfolio, where the cash flow represents greater than 10% of the value of the portfolio. While a specific group of accounts may use the same fee rate, the calculation methodology may differ, as described above.

Certain of our clients pay us performance fees according to the performance of their accounts relative to certain agreed-upon benchmarks, which results in a lower base fee, but allows for us to earn higher fees if the relevant investment strategy outperforms the agreed-upon benchmark. Some performance-based fee arrangements include high-water mark provisions, which generally provide that if a client account underperforms relative to its performance target, it must gain back such underperformance before we can collect future performance-based fees. Fulcrum fee arrangements related to one client relationship require a reduction in the base fee, or allow for a performance fee if the relevant investment strategy underperforms or outperforms, respectively, the agreed-upon benchmark.

Competition

We compete in all aspects of our business with a large number of investment management firms, commercial banks, broker-dealers, insurance companies, and other financial institutions.

In order to grow our business, we must be able to compete effectively to maintain existing AUM and attract additional AUM. Historically, we have competed for AUM principally on the basis of:

- the performance of our investment strategies;
- our clients' perceptions of our drive, focus, and alignment of our interests with theirs;
- the quality of the service we provide to our clients and the duration of our relationships with them;
- our brand recognition and reputation within the investing community;

the range of strategies and investment vehicles we offer; and

the level of advisory fees we charge for our investment management services.

Our ability to continue to compete effectively will also depend upon our ability to attract highly qualified investment professionals and retain our existing employees.

Employees

At December 31, 2017, we had 105 full-time employees, including 26 investment professionals and 14 business development and client service professionals.

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Regulatory Environment and Compliance

Our business is subject to extensive regulation in the United States at both the federal and state level, as well as by self-regulatory organizations. Under these laws and regulations, agencies that regulate investment advisers have broad administrative powers, including the power to limit, restrict, or prohibit an investment adviser from carrying on its business in the event that it fails to comply with such laws and regulations. Possible sanctions that may be imposed include the suspension of individual employees, limitations on engaging in certain lines of business for specified periods of time, revocation of investment adviser and other registrations, censures and fines. Our business is also subject to foreign regulation, as discussed below.

SEC Regulation

Our operating company, Pzena Investment Management, LLC, is registered as an investment adviser with the SEC. As a registered investment adviser, it is subject to the requirements of the Investment Advisers Act of 1940, as amended, which we refer to as the Investment Advisers Act, and the SEC's regulations thereunder, as well as to examination by the SEC's staff. The Investment Advisers Act imposes substantive regulation on virtually all aspects of Pzena Investment Management, LLC's business and its relationships with its clients. As an investment adviser, Pzena Investment Management, LLC owes fiduciary duties to its clients, which relate to conflicts of interest, client recommendations and other fundamental matters. Applicable requirements relate to, among other things, engaging in transactions with clients, maintaining an effective compliance program, performance fees, solicitation arrangements, advertising, recordkeeping, reporting, and disclosure requirements.

The U.S. funds for which Pzena Investment Management, LLC acts as the sub-investment adviser and four of the U.S. funds for which Pzena Investment Management, LLC acts as investment adviser, are registered with the SEC under the Investment Company Act. The Investment Company Act imposes additional obligations, including detailed operational requirements for both the funds and their advisers. Moreover, the Investment Company Act requires that an investment adviser's contract with a registered fund may be terminated by the fund on not more than 60 days' notice, and is subject to annual renewal by the fund's board after an initial two-year term.

Both the Investment Advisers Act and the Investment Company Act regulate the "assignment" of advisory contracts by the investment adviser. The SEC is authorized to institute proceedings and impose sanctions for violations of the Investment Advisers Act and the Investment Company Act, ranging from fines and censures to termination of an investment adviser's registration.

Pzena Financial Services, LLC, our SEC registered broker-dealer subsidiary, is subject to the SEC's Uniform Net Capital Rule, which requires that at least a minimum part of a registered broker-dealer's assets be kept in relatively liquid form. At December 31, 2017, Pzena Financial Services, LLC had net capital of \$273,417, which was \$262,438 in excess of its net capital requirement of \$10,979.

ERISA-Related Regulation

With respect to our benefit plan clients, Pzena Investment Management, LLC is a "fiduciary" under the Employment Retirement Act of 1974, or ERISA, and is therefore subject to ERISA, and to regulations promulgated thereunder. ERISA and applicable provisions of the Internal Revenue Code impose certain duties on persons who are fiduciaries under ERISA, prohibit certain transactions involving ERISA plan clients, and provide monetary penalties for violations of these prohibitions.

Foreign Regulation

Pzena Investment Management, LLC maintains a representative office in Melbourne, Australia, and maintains an exemption from the Australian Financial Services license requirement under the Corporations Act 2001 of the Commonwealth of Australia.

Pzena Investment Management, Ltd, our United Kingdom subsidiary, is an appointed representative of Mirabella Advisers LLP which is authorized and regulated by the Financial Conduct Authority ("FCA") in the United Kingdom. In Europe outside of the United Kingdom, Pzena Investment Management, Ltd is an appointed representative and tied agent of Argenthal & Company Limited which is authorized and regulated by the FCA.

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Pzena Investment Management, LLC currently avails itself of the international adviser exemption in Ontario, Canada. In addition, Pzena Investment Management, LLC is registered as an exempt market dealer in Ontario, Canada. As an exempt adviser, Pzena Investment Management, LLC is only permitted to provide advice in Ontario to certain institutional and high net worth individual clients. As an exempt market dealer, Pzena Investment Management, LLC is permitted to act as a market intermediary for only certain types of trades, and is permitted to market, sell and distribute prospectus-exempt securities to accredited investors. An exempt adviser and market dealer must, upon the request of the Ontario Securities Commission, or OSC, produce all books, papers, documents, records and correspondence relating to its activities in Ontario, and inform the OSC if it becomes the subject of an investigation or disciplinary action by any financial services or securities regulatory authority or self-regulatory authority.

We operate in various other foreign jurisdictions without registration in reliance upon applicable exemptions under the laws of those jurisdictions.

Available Information

We make available free of charge through our website, www.pzena.com, our annual reports on Form 10-K, our quarterly reports on Form 10-Q and our current reports on Form 8-K, as well as amendments to those reports, and other filings required under the Securities Act or the Exchange Act as soon as reasonably practicable after they are electronically filed with the Securities and Exchange Commission ("SEC"). To retrieve these reports, and any amendments thereto, visit the Investor Relations section of our website. The SEC maintains a website at www.sec.gov. All of the materials we filed with the SEC may be accessed free of charge on the SEC's website through its EDGAR page. The SEC also has a Public Reference Room at 100 F Street, NE Washington, D.C., where our materials may be read and/or copied. Information about the operation of the Public Reference Room can be obtained by calling 1-800-SEC-0330.

Our Corporate Governance Guidelines, Code of Business Conduct and Ethics, Code of Ethics for Senior Financial Officers, and Board of Directors committee charters (including the charters of the Audit Committee, Compensation Committee, and Nominating and Corporate Governance Committee) are also available free of charge through our website under "Investor Relations — Corporate Governance."

The information on the Company's website is not part of, or incorporated by reference into, this Annual Report, or any other report we file with, or furnish to the SEC.

ITEM 1A. RISK FACTORS

We face a variety of significant and diverse risks, many of which are inherent in our business. Described below are the risks we currently believe could materially and adversely affect our business, financial condition, results of operations or cash flow.

Risks Related to Our Business

Our primary source of revenue is derived from management fees, which are directly tied to our assets under management. Fluctuations in AUM therefore will directly impact our revenue.

Substantially all of our revenue is derived from management fees paid by our clients, based on a percentage of the market value of our AUM. Any decline and/or significant impairment in AUM would greatly affect our revenue, and could occur due to a variety of factors, including:

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Poor performance of our strategies: Poor performance of our investment strategies may result in decreased market value of AUM. In addition, underperformance could impact our ability to maintain our existing client base and develop new relationships, both of which could negatively impact AUM.

Poor market environment: We expect our business may generate lower revenue in a depressed equities market or general economic downturn as a result of depreciation of our AUM. Any decline in the market value of securities held in client portfolios due to such adverse conditions would reduce AUM and lead to a decrease in revenue. Investor sentiment in a poor equities market environment could also decrease inflows and increase outflows from our investment strategies in favor of investments perceived as more attractive.

Global market, economic, geo-political and other conditions: As a company that invests in both U.S. and non-U.S. markets, and with a global client base, our business is subject to changing conditions in the global financial markets,

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and may also be affected by domestic and international political, social and economic conditions, any of which could negatively impact our investment performance, growth strategy and AUM. See "Our global and non-U.S. strategies consist primarily of investments in the securities of issuers located outside of the United States, which may involve foreign currency exchange, political, social and economic uncertainties and risks" below.

Termination of significant relationships: Our clients can generally terminate our advisory agreements or reduce assets under management upon short notice and for any reason. Investors in the pooled funds that we manage may also redeem their investments in the funds at any time without prior notice. As of December 31, 2017, five client relationships represented 47% and 31% of our AUM and revenue, respectively, including one client relationship which represents approximately 23% and 11% of our AUM and revenue respectively. The termination of any of these relationships and outflow of money from our pooled funds could significantly reduce our revenue, and we may not be able to establish relationships with other clients in order to replace the lost revenue. There can also be no assurance that our agreements with respect to these relationships will remain in place going forward.

Defined benefit plans are declining: Defined benefit plans are declining as corporate plan sponsors are decreasing their liabilities and shifting employee enrollment to defined contribution plans. Given the reduction in funding and shift to defined contribution plans there is no guarantee that we will be successful in increasing our penetration of the defined contribution market, which could limit our ability to grow our AUM.

Intermediary dependence: New accounts sourced through consultant-led searches have been a large driver of our inflows in the past, and are expected to be a major component of our inflows going forward. We have also established relationships with certain mutual fund providers who have offered us opportunities to access certain market segments through sub-investment advisory roles. Such consultants and mutual fund providers routinely review and evaluate our organization and the services we offer, and poor evaluations may result in client outflows and impact our ability to attract new assets through such intermediaries. See "Item 1 — Our Business Strategy — Work with Our Strong Consultant Relationships" and "Item 1 — Our Client Relationships and Distribution Approach — Distribution Channels."

Passive strategies, such as index and exchange-traded funds have grown substantially in relation to active strategies: During the past decade investors have exhibited a desire for passive investment products given their relative performance and lower fee structure compared to active strategies managed by investment managers such as ourselves. If this market preference continues, existing and prospective clients may choose to invest in passive investment products, our AUM may be negatively impacted.

We may face capacity constraints in certain of our strategies which may prevent us from accepting new investors in those strategies.

Our ability to retain and grow assets as a firm has been, and will be, driven primarily by delivering attractive investment results to our clients. As a consequence, we have prioritized, and will continue to prioritize, investment performance over asset accumulation. Where we deemed it necessary, we have, in the past, closed certain strategies to new investors in order to preserve capacity to effectively implement our concentrated investment strategies for the benefit of existing clients. We may in the future close certain of our strategies to new investors or to new inflows from existing investors. Any such closures may limit our future AUM growth and hence our revenue growth.

Market and competitive pressures to lower our advisory fees could lead to a decline in our profit and earnings.

Market and competitive pressures in recent years have created a trend towards lower management fees in the asset management industry and there can be no assurance that we will be able to maintain our current fee structure going forward. As a result, a shift in the composition of our AUM from higher to lower fee-generating client relationships would result in a decrease in revenue, even if our aggregate level of AUM remains unchanged or increases.

A portion of our investment advisory revenue is also derived from performance fees. We generally earn performance fees under certain client agreements according to the performance relative to an agreed-upon benchmark. This fee structure results in a lower base fee but allows for us to earn higher fees if the investment strategy outperforms the benchmark. Some performance-based fee arrangements include high-water mark provisions, which generally provide that if a client account underperforms relative to its performance target, it must gain back such underperformance before we can collect future performance-based fees. Therefore, if we fail to achieve the performance target for a particular period, we may not earn a performance fee for that period and for accounts with a high-water mark provision, our ability to earn future performance fees

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may be impaired. During fiscal years 2017 and 2016, we earned \$3.2 million and \$0.2 million in performance fees, respectively. An increase in performance-based fee arrangements with clients could create greater fluctuations in our revenue and earnings.

In addition, certain accounts related to one retail client relationship have fulcrum fee arrangements. These fee arrangements require a reduction in the base fee, or allow for a performance fee if the relevant investment strategy underperforms or outperforms, respectively, the agreed-upon benchmark over the contract's measurement period, which extends to three years. We recognized a \$1.0 million reduction in base fees related to these fee arrangements for the year ended December 31, 2016, which does not reflect the minimum base fees of accounts with fulcrum fee arrangements. For the year ended December 31, 2017, we did not recognize a reduction in base fees related to fulcrum fee arrangements. To the extent the three-year performance records of these accounts fluctuate relative to their relevant benchmarks, the amount of base fees recognized may vary.

Increases in our expenses could lead to a decline in our profit margin and increase the volatility of our earnings.

Our expenses are subject to increase based on a variety of factors such as higher operating expenses resulting from business expansion, product development and increased marketing efforts; higher compensation expense due to increased competition for talent, headcount and seniority level; and related expenses to meet business and regulatory needs. Some or all of these expenses may remain at higher levels for the foreseeable future, leading to higher costs for our business. Fluctuations in expenses could impact our profit margins and contribute to earnings volatility.

Loss of key employees, and difficulties in attracting qualified investment professionals, could have a material adverse effect on our business.

The success of our business largely depends on the participation of Richard S. Pzena and the other members of our Executive Committee. Their professional reputations, expertise in investing, and relationships with our clients and within the investing community in the U.S. and abroad are critical to executing our business strategy and attracting and retaining clients. The retention of these individuals is crucial to our future success. There is no guarantee that they will not resign, join our competitors or form a competing company. The terms of the current operating agreement of our operating company restrict each of these individuals from competing with us or soliciting our clients or employees during the term of their employment with us and, in certain circumstances, for a certain period thereafter. The penalty for breach of these restrictive covenants may be the forfeiture of a number of Class B units held by the individual, and his permitted transferees, as of the earlier of the date of his breach or the termination of his employment. Although we may seek specific performance of these restrictive covenants, there can be no assurance that we would be successful in obtaining this relief. After this post-employment restrictive period, we may not be able to prohibit them from competing with us or soliciting our clients or employees. Furthermore, we do not carry any "key man" insurance that would provide us with proceeds in the event of the death or disability of any of the above mentioned employees.

In addition to the participants mentioned above, our success also depends on our ability to retain the senior members of our investment team and to recruit additional qualified investment professionals. We may not be successful in our efforts to retain and recruit such individuals as the market for investment professionals is extremely competitive. Our portfolio managers possess substantial experience and expertise in classic value investing and maintain significant relationships with our clients. The loss of any of our senior investment professionals could limit our ability to successfully execute our investment approach and to sustain the performance of our investment strategies, which, in turn, could have a material adverse effect on our reputation, client relationships and our revenue and earnings.

Future growth of our business may place significant demands on our resources and employees and may increase our expenses, risks and regulatory oversight.

Future growth of our business may place significant demands on our infrastructure, our investment team and other employees, which may increase our expenses. In addition, we are required to continuously develop our infrastructure in response to the increasing sophistication of the investment management market, as well as compliance with legal and regulatory developments. We may face significant challenges in: maintaining and developing adequate financial and operational controls; implementing new or updated information and financial systems, and procedures and training; and managing and appropriately sizing our work force, and other components of our business on a timely and cost-effective basis. There can be no assurance that we will be able to manage the growth of our business effectively, or that we will be able to continue to grow, and any failure to do so could adversely affect our ability to generate revenue and control expenses.

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The potential inability of our systems to accommodate an increasing volume of transactions could also constrain our ability to expand our businesses and potentially raise regulatory issues. In recent years, we have substantially upgraded and expanded the capabilities of our data processing systems and other operating technology, and we expect that we may need to continue to upgrade and expand these capabilities in the future to avoid disruption of, or constraints on, our operations.

We face risks, and corresponding potential costs and expenses, associated with conducting operations and growing our business in numerous countries.

We offer investment management services in different regulatory jurisdictions around the world, and intend to continue to expand our operations internationally. In order to remain competitive, we must be proactive and prepared to deploy necessary resources when and where growth opportunities present themselves. If we lack the necessary resources and/or personnel, we may be unable to take full advantage of strategic opportunities when they appear and our strategic decisions may not be efficiently implemented. Meeting local requirements and complying with local industry standards may also place additional demands on sales and compliance personnel and resources that we may not be able to meet. Finding and hiring additional, well-qualified personnel and crafting and adopting policies, procedures and controls to address local or regional requirements remain a challenge as we expand our operations internationally. Moreover, regulators could also change their policies or laws in a manner that might restrict or otherwise impede our ability to offer our investment products in their respective markets. Any of these requirements, activities, or needs could increase the costs and expenses we incur in a specific jurisdiction without any corresponding increase in revenue and income from operating in such jurisdiction.

The investment management business is intensely competitive.

Competition in the investment management business is based on a variety of factors, including investment performance; investor perception of an investment manager's drive, focus and alignment of interests; quality of service provided to clients and duration of client relationships; business reputation; and level of fees charged for services. We compete in all aspects of our business with a large number of investment management firms, commercial banks, broker-dealers, insurance companies and other financial institutions. Our competitive risks are heightened by the fact that some of our competitors may implement investment styles that are viewed more favorably than ours or they may invest in alternative asset classes which the markets may perceive as more attractive than the public equity markets. If we are unable to compete effectively, our revenue could be reduced, and our business could be materially affected.

We may not be successful in expanding into new investment strategies, markets and businesses.

We actively consider the opportunistic expansion of our businesses, but we may not be successful in any such attempted expansion. Attempts to expand our businesses involve a number of risks, including entry into markets in which we may have limited or no experience, increasing the demands on our operational systems, the broadening of our geographic footprint, increasing the risks associated with conducting operations in non-U.S. jurisdictions and the diversion of management's attention from our core businesses.

We also may not be successful in identifying new investment strategies or geographic markets that increase our profitability. Because we have not yet identified all of these potential new investment strategies, geographic markets or businesses, we cannot identify all the risks we may face and the potential adverse consequences. We also do not know how long it may take for us to expand, if we do so at all.

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A change of control could result in termination of our investment advisory or sub-investment advisory agreements.

Pursuant to the Investment Company Act, each of the investment advisory or sub-investment advisory agreements for the SEC-registered mutual funds that we advise will automatically terminate upon their deemed “assignment,” and a fund’s board and shareholders must approve a new agreement in order for us to continue to act as its investment adviser or sub-investment adviser. In addition, pursuant to the Investment Advisers Act, each of our investment advisory agreements for the separate accounts we manage contains a provision that states that the agreement may not be “assigned” without the consent of the client. An "assignment," pursuant to both the Investment Company Act and the Investment Advisers Act, could be deemed to occur upon a sale or transfer of a controlling block of our voting securities. Such an assignment may be deemed to occur in the event that the holders of the Class B units of our operating company exchange enough of their Class B units for shares of our Class A common stock such that they no longer own a controlling interest in us. If such a deemed assignment occurs, there can be no assurance that we will be able to obtain the necessary consents from clients whose assets are managed pursuant to separate accounts, or the necessary approvals from the boards and shareholders of the SEC-registered funds that we sub-advise. An assignment, actual or constructive, would trigger these termination and consent provisions and, unless the necessary approvals and consents are obtained, could adversely affect our ability to continue managing client accounts, resulting in the loss of AUM and a corresponding loss of revenue.

Extensive regulation of our business has been and will be expensive and time consuming, and exposes us to the potential for significant penalties, including fines or limitations on our ability to conduct our business.

We are subject to extensive regulation of our investment management business and operations. As a registered investment adviser, the SEC oversees our activities pursuant to its regulatory authority under the Investment Advisers Act. In addition, we must comply with certain requirements under the Investment Company Act with respect to the SEC-registered funds for which we act as investment adviser or sub-investment adviser. Pzena Financial Services, LLC, our SEC registered broker dealer subsidiary is regulated by the Financial Industry Regulatory Authority ("FINRA"). Each of the regulatory bodies with jurisdiction over us has the authority to regulate various aspects of financial services, including the authority to grant, and, in specific circumstances to cancel, permissions to carry on particular businesses. Our failure to comply with applicable laws or regulations could result in fines, censure, suspensions of personnel or other sanctions, including revocation of our registration as an investment adviser. Even if a sanction imposed against us is small in monetary amount, the adverse publicity arising from the imposition of such sanctions by regulators could harm our reputation, result in withdrawal by our clients and/or impede our ability to retain clients and develop new client relationships. As we continue to expand into the international market, we may also be under the regulatory scope of local regulatory authorities and non-compliance with any of these authorities may result in fines, sanctions and inability to operate in that local market.

The SEC and its staff continue to engage in various initiatives and reviews that seek to improve and modernize the regulatory structure governing the asset management industry, and registered investment companies in particular. During the past few years, the SEC proposed, among other things, enhanced reporting by investment advisors, enhanced reporting on registered mutual funds and cyber security and new vendor concerns. While these proposals have yet to be finalized into new rules, any new rules, guidance or regulatory initiatives resulting from these efforts could expose us to additional compliance and reporting costs and may require us to change how we operate our business or manages funds.

The United Kingdom (U.K.) and other European jurisdictions in which we operate have implemented the Markets in Financial Instruments Directive (MiFID) rules into national legislation. MiFID II, which became effective on January 3, 2018, builds upon many initiatives introduced through MiFID which primarily focused on equity trading activity to migrate onto open and transparent markets. MiFID II will be implemented through a number of more detailed directives, regulations and standards made by the European Commission and by the European Securities Markets

Authority (ESMA). It is expected that MiFID II will have significant and wide-ranging impacts on the European Union (EU) securities market, including (i) enhanced investor protection and governance standards, (ii) rules regarding the ability of portfolio management firms to receive and pay for investment research relating to all asset classes, (iii) an enhanced role for ESMA in supervising EU securities, (iv) new requirements regarding non-EU investment firms' access to EU financial markets, as well as many other requirements for derivatives and trading activities. In particular, compliance with MiFID II will increase costs and affect the manner in which our businesses obtain investment research services.

The ultimate impact of the U.K.'s exit from the European Union ("Brexit") on our business operation in the U.K. and Europe is still unknown and will vary depending on the terms of the impending separation agreement and any agreements the U.K. makes to retain access to EU markets either during a transitional period or more permanently. Ongoing changes in the EU's regulatory framework applicable to our operations, including Brexit as well as any other changes in composition of the EU's member states, may lead to regulatory changes and uncertainty and result in additional legal and compliance costs. We

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continue to actively work to ensure our operations are structured effectively and efficiently to service U.K. and European clients.

In May 2018, the European Union's General Data Protection Regulation (GDPR) will become effective. The primary objectives of GDPR are to give citizens control of their personal data and to simplify the regulatory environment for international business by unifying data protection regulation in the European Union. Compliance with the stringent rules under GDPR will require an extensive review of all of our global data processing systems. Failure to comply with GDPR could result in fines up to the higher of 20 million Euros or 4% of annual global revenues.

We also face the risk of significant intervention by regulatory authorities, including extended investigation and surveillance activity, adoption of costly or restrictive new regulations, and judicial or administrative proceedings that may result in substantial penalties. The requirements imposed by our regulators are designed to ensure the integrity of the financial markets and to protect customers and other third parties who deal with us, and are not designed to protect our stockholders. Any regulatory and legislative actions and reforms affecting the investment advisory industry may negatively impact earnings by increasing our costs of operations.

In addition, the regulatory environment in which we operate is subject to ongoing modification and further regulation. The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 ("the Dodd-Frank Act"), and regulations to be promulgated pursuant to it, is one such example. Certain provisions of the Dodd-Frank Act may have unintended consequences on the financial market as a whole that could negatively affect our business.

Specific regulatory changes also may have a direct impact on the revenue of our business. In addition to regulatory scrutiny and potential fines and sanctions, regulators continue to examine different aspects of the asset management industry. For example, the use of "soft dollars," where a portion of commissions paid to broker-dealers in connection with the execution of trades also pays for research and other services provided to advisors, has been reexamined by different regulatory bodies and may in the future be limited or modified. Although a substantial portion of the research relied on by our business in the investment decision-making process is generated internally by our investment analysts, external research, including external research paid for with soft dollars, is important to the process. This external research generally is used for information gathering or verification purposes, and includes broker-provided research, as well as third-party provided databases and research services. If the use of soft dollars were to be limited, we would have to bear additional costs.

The U.S. Department of Labor's fiduciary rule could adversely affect our financial condition and results of operations.

In 2016, the DOL issued rules expanding the "investment advice fiduciary" definition under the Employee Retirement Income Security Act of 1974 (ERISA) which originally were to become applicable in April of 2017. Full implementation has been delayed, and may be further delayed, during which time additional revisions may be made to the definitions and rules relating to fiduciaries. If adopted as currently proposed, the rule significantly expands the circumstances under which investment advisers are treated as fiduciaries to ERISA plans and individual retirement accounts and are therefore precluded from receiving compensation that varies with the investment choices made or from recommending proprietary investment products absent an exemption. If the rule is enacted as written, it will require many investment managers to revise a number of their distribution relationships, create compliance and operational challenges for distribution partners and may limit abilities to provide services and education to its clients. Although this rule may not directly impact our operations, our business sourced from distribution partners who could be subject to such rules may be adversely impacted and the assets from such sources may be difficult to maintain or grow as a result of the rule and its implementation.

Changes in tax laws or exposure to additional income tax liabilities could have a material impact on our financial condition, results of operations and liquidity.

We are subject to income- as well as non-income-based taxes, in both the U.S. and non-U.S. jurisdictions. In the U.S., the Tax Cuts and Jobs Act was enacted on December 22, 2017 resulting in, among other things, a reduced statutory corporate tax rate of 21% beginning in fiscal year 2018. As a result of these changes, in the fourth quarter of 2017, we remeasured our deferred tax assets using enacted tax rates that will be in effect when such items are expected to reverse. Furthermore, additional guidance and changes may be issued that may have a direct effect on our financial condition, results of operations and liquidity. We are also subject to potential tax audits in various jurisdictions and in such event, tax authorities may disagree with certain positions we have taken and assess penalties or additional taxes. We regularly assess the likely outcomes of these potential audits in order to determine the appropriateness of our tax provision; however, there can be no assurance that we will accurately predict the outcomes of these potential audits. The actual outcomes of these potential audits could have a material impact on our net income or financial condition and any changes in tax laws or tax rulings could materially impact our effective tax rate and earnings.

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Certain changes in accounting and/or financial reporting standards issued by the Financial Accounting Standards Board (“FASB”), the SEC or other standard-setting bodies could have a material impact on our reported financial position or results of our operations.

We are subject to the application of accounting principles generally accepted in the United States of America (“U.S. GAAP”), which are periodically revised and/or expanded. As such, we are required to adopt new or revised accounting and/or financial reporting standards issued by recognized accounting standard setters or regulators, such as the FASB and the SEC. Changes associated with the adoption of revised financial reporting standards could have a material impact on our reported financial position or results of our operations.

Inadequate business continuity plans, including those of our significant third-party vendors, could lead to material financial loss, reputational harm and inability to continue business.

We rely heavily on our financial, accounting, trading, compliance and other data processing systems. Any failure or interruption of these systems, whether caused by natural disaster, power or telecommunications failure, act of terrorism or war or otherwise, could result in a disruption of our business, liability to clients, regulatory intervention or reputational damage, and thus materially adversely affect our business. The back-up systems that we have in place and other protective measures that we have taken may not be adequate in the event of a failure or interruption.

We depend on our headquarters in New York City for the continued operation of our business. A disaster or a disruption in the infrastructure that supports our business, or directly affecting our headquarters, may have a material adverse impact on our ability to continue to operate our business without interruption.

We have a detailed business continuity plan in place that is tested on a quarterly basis. We strive to understand the protective measures of our third-party vendors, however there can be no assurance that these measures will be sufficient to mitigate the harm that may result from such a disaster or disruption.

Any significant security breach of our software applications, technology or other systems critical to our operations, may disrupt our business or cause us to lose sensitive and confidential information which in turn may cause reputational and financial harm.

We are dependent on the effectiveness of our, and our third-party vendors', information and cyber security infrastructure, policies, procedures and capabilities to protect our computer and telecommunications systems and the data that resides in or is transmitted through them. As part of our normal operations, we maintain and transmit confidential information about our clients as well as proprietary information relating to our business operations. We maintain a system of internal controls designed to provide reasonable assurance that fraudulent activity, including misappropriation of assets, fraudulent financial reporting, and unauthorized access to sensitive or confidential data is either prevented or detected in a timely manner. We are continuously working to install new, and upgrade existing, information technology systems and provide employee awareness training around phishing, malware, and other cyber risks to ensure that we are protected, to the greatest extent possible, against cyber risks and security breaches.

We also strive to understand the protective measures of our third-party vendors and ensure that we have complementary user controls in place to mitigate risk, however our information technology systems may still be vulnerable to unauthorized access or may be corrupted by cyber-attacks, computer viruses or other malicious software code, or authorized persons could inadvertently or intentionally release confidential or proprietary information. Although we take precautions to password protect and/or encrypt our electronic hardware, if such hardware is stolen, misplaced or left unattended, it may become vulnerable to hacking or other unauthorized use, creating a possible security risk and resulting in potentially costly consequences to us. A breach of our technology systems could result in

the loss of valuable information, liability for stolen assets or information, remediation costs to repair damage caused by the breach, additional security costs to mitigate against future incidents and legal costs resulting from the incident. Moreover, loss of confidential customer information could harm our reputation, result in the termination of contracts by our existing customers and subject us to liability under laws that protect confidential data, resulting in loss of revenue.

The individuals, counterparties or issuers on whom we rely to perform services for us may be unable or unwilling to honor their contractual obligations to us.

We rely on various third parties and other vendors to fulfill their obligations to us, whether specified by contract, course of dealing or otherwise. Disruptions in the financial markets and other economic challenges may cause our counterparties and

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other vendors to experience significant cash flow problems or even render them insolvent, which may expose us to credit, operational or other risk.

Operational risk, such as trade errors or system limitations or failures, may create significant financial impact to us, hamper future growth and cause potential reputational harm.

We face potential operational risk from our management of client assets and daily business. Risks include errors that may occur during the execution, confirmation or settlement phase of transactions and such errors may cause material financial loss, which in turn may cause material financial and reputational harm to us. We also face the potential of inaccurate recording of transactions in our internal systems, caused by human error, system limitations or system malfunctions. Such errors may involve client and public reporting, execution, confirmation and settlement of trades, and billing. The potential for operational risk could have significant regulatory, financial or reputational impact. There can be no assurance that all risks and errors can be prevented.

We are exposed to legal risks which could materially adversely affect our business, financial condition or results of operations or cause significant reputational harm to us. Additionally, litigation may result in higher insurance premiums and increased insurance coverage risks which could increase our costs and reduce our profitability.

We depend to a large extent on our relationships with our clients and our reputation for integrity and high-caliber professional services to attract and retain clients. As a result, dissatisfaction with our services could be more damaging to our business than to other types of businesses. If our clients suffer significant losses, or are otherwise dissatisfied with our services, such as for breach of trading guidelines and/or perceived conflicts of interest, we could be subject to the risk of legal liabilities or actions alleging negligent misconduct, breach of fiduciary duty, or breach of contract. These risks are often difficult to assess or quantify and their existence and magnitude often remain unknown for substantial periods of time.

While we strive to conduct our business in accordance with the highest ethical standards, we are always open to the risk of litigation by parties in addition to our clients, for instance by our shareholders, employees and regulators. We may incur significant legal expenses in defending against litigation. Substantial legal liability or significant regulatory action against us could materially adversely affect our business, financial condition or results of operations, or cause significant reputational harm to us.

Potential regulatory and governmental inquiries, civil litigation or employment-related claims could involve substantial financial penalties. Certain insurance coverage may not be available or may be prohibitively expensive in future periods. As our insurance policies come up for renewal, we may need to assume higher deductibles or co-insurance liabilities, or pay higher premiums, which could increase our expenses and could have a material adverse effect on our results of operations.

Insurance coverage may not protect us from all of the liabilities that could arise from the risks inherent in our business.

We maintain insurance coverage focused on reducing potential losses related to our operations. We purchase insurance in amounts, and against risks, that we consider appropriate. There can be no assurance, however, that a claim or claims will be completely covered by insurance or, if covered at all, will not exceed the limits of our existing insurance coverage. If a loss occurs that is partially or completely uninsured, we may be exposed to substantial liability. Insurance costs are impacted by market conditions and our risk profile, and may increase significantly over relatively short periods. Renewals of insurance policies may result in additional costs through higher premiums or the assumption of higher deductibles or co-insurance liability. In addition, insurance and other safeguards might only partially reimburse us for our losses in the event our business continuity plan fails and our operations are significantly

disrupted.

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Our global and non-U.S. strategies may consist of investments in the securities of issuers located outside of the United States, which may involve foreign currency exchange, political, social and economic uncertainties and risks.

Our global and non-U.S. strategies, which together represented \$20.6 billion and \$14.4 billion of our AUM as of December 31, 2017 and 2016, respectively, are primarily invested in securities of companies located outside the United States. As of December 31, 2017, approximately 42% of our assets under management were invested in securities denominated in currencies other than the U.S. dollar. Investments in non-U.S. issuers may be affected by political, social and economic uncertainty affecting a country or region in which we are invested. Many emerging financial markets are not as developed, or as efficient, as the U.S. financial market, and, as a result, liquidity may be reduced and price volatility may increase. The legal and regulatory environments, including financial accounting standards and practices, may also be different, and there may be less publicly available information in respect of such companies. These risks could adversely impact the performance of our strategies that are invested in securities of non-U.S. issuers. In addition, fluctuations in foreign currency exchange rates may affect investment return and AUM since we do not engage in currency hedging for these portfolios. Due to these factors, our AUM may fluctuate from one reporting period to another causing volatility in earnings.

Risks Related to Our Investment Strategies and Process

Our classic value investment style subjects us to the risk that the companies in which we invest may not achieve the level of earnings recovery that we initially expect, or at all.

We generally invest in companies after they have experienced, or are expected by the market to soon experience, a shortfall in their historic earnings, due to an adverse business development, management error, accounting scandal or other disruption, and before there is clear evidence of earnings recovery or business momentum. While investors are generally less willing to invest when companies lack earnings visibility, our classic value investment approach seeks to capture the return that can be obtained by investing in a company before the market has confidence in its ability to achieve earnings recovery. However, our investment approach entails the risk that the companies included in our portfolios are not able to execute as we had expected when we originally invested in them, thereby reducing the performance of our strategies. Since our positions in these investments are often substantial, even partial sales of a substantial position into the market may cause the market price of our investment to decline and there is the risk that we may be unable to find willing purchasers for our investments when we decide to sell them.

Since we apply the same investment process across all of our investment strategies, utilizing one analyst team, and given the overlapping universes of many of our investment strategies, we could have common positions and industry or sector concentrations across many of our investment strategies at the same time. As such, factors leading one of our investment strategies to underperform may lead other strategies to underperform simultaneously.

Our investment approach may underperform other investment approaches during certain market conditions.

Our products are best suited for investors with long-term investment horizons. In accordance with our classic value investment approach, we typically hold securities for an average of three to five years. Our strategies may not perform well during points in the economic cycle when value-oriented stocks are relatively less attractive. For instance, during the late stages of an economic cycle, investors may purchase relatively expensive stocks in order to obtain access to above average growth. Value-oriented strategies may also experience weakness during periods when the markets are focused on one investment thesis or sector.

Even when securities prices are rising generally, portfolio performance can be affected by our investment approach. The classic value approach has outperformed the market in some economic and market environments and underperformed it in others. In particular, a prolonged period in which the growth-style of investing outperforms the

value-style may cause our investment strategy to go out of favor with clients, consultants and sub-advised relationships. Our investment strategy may be less favored during certain time periods for other reasons as well, including due to perceived riskiness or volatility of our approach. Poor performance relative to peers, coupled with changes in personnel, extensive periods in particular market environments, or other difficulties may result in a decline in our AUM.

Our investment process requires us to conduct extensive fundamental research on any company before investing, which may result in missed investment opportunities and reduce the performance of our investment strategies.

We take a considerable amount of time to complete the in-depth research projects that our investment process requires before adding any security to our portfolio. Our process requires that we take this time to understand the company and the business well enough to make an informed decision as to whether we are willing to own a significant position in a company

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that does not yet have clear earnings visibility. However, the time we take to make this judgment may cause us to miss the opportunity to invest in a company that has a sharp and rapid earnings recovery. Any such missed investment opportunities could adversely impact the performance of our investment strategies.

Risks Related to Our Structure

We are dependent upon distributions from Pzena Investment Management, LLC to make distributions to our Class A stockholders, and to pay taxes and other expenses.

We are a holding company and have no material assets other than our ownership of membership units of our operating company. We have no independent means of generating revenue and cash flow. Our operating company is treated as a partnership for U.S. federal income tax purposes and, as such, is not itself subject to U.S. federal income tax. Instead, its taxable income is allocated to its members, including us, pro-rata according to the number of membership units each member owns. Accordingly, we incur income taxes on our proportionate share of any taxable income of our operating company. We also incur expenses related to our operations. We intend to have our operating company distribute cash to its members in an amount at least equal to that necessary to cover their tax liabilities, if any, with respect to the earnings of our operating company. To the extent we need funds to pay our tax or other liabilities or to fund our operations, and our operating company is restricted from making distributions to us under applicable laws or regulations, or contractual restrictions, or does not have sufficient earnings to make these distributions, we may have to borrow funds to meet these obligations and run our business and, thus, our liquidity and financial condition could be materially adversely affected. There can be no assurance that funds will be available to borrow under such circumstances on terms acceptable to us, or at all.

We are required to pay most of the tax benefit of any amortization deductions we may claim as a result of the tax basis step up we receive in connection with the sales of membership units and any exchanges of Class B units and this tax treatment could be challenged by tax authorities.

As part of the reorganization we implemented with our initial public offering ("IPO"), we purchased membership units of our operating company from three of its members (the "Selling Members"). In addition, holders of Class B units may, at least once each year, exchange their Class B units of our operating company for shares of our Class A common stock. These purchases and subsequent exchanges have resulted, and are expected to continue to result, in increases in our share of the tax basis in the tangible and intangible assets of our operating company that otherwise would not have been available. These increases in tax basis have reduced, and are expected to continue to reduce, the amount of tax that we would otherwise be required to pay in the future, although the Internal Revenue Service ("IRS") might challenge all or part of this tax basis increase, and a court might sustain such a challenge.

Pursuant to a tax receivable agreement dated October 30, 2007, among us, the Selling Members, and all holders of Class B units after our IPO, we are required to pay the Selling Members, and certain holders of Class B units who elect to exchange their Class B units for shares of our Class A common stock, 85% of the amount of the cash savings, if any, in U.S. federal, state and local income tax that we realize as a result of the increases in amortizable tax basis due to the sale to us of their membership units. The actual increase in tax basis, as well as the amount and timing of any payments under this agreement, may vary depending upon a number of factors, including the timing of exchanges, the price of our Class A common stock at the time of the exchange, the extent to which such exchanges are taxable, the amount and timing of our income, and the tax rates and related laws then applicable. Payments under the tax receivable agreement are expected to give rise to certain additional tax benefits attributable to further increases in basis. Any such benefits are covered by the tax receivable agreement and may increase the amounts due thereunder. We expect that, as a result of the size and increases in our share of the tax basis in the tangible and intangible assets of our operating company attributable to our interest therein, the payments that we may make to these members likely may be substantial.

If we exercise our right to terminate the tax receivable agreement early, we may be obligated to make an early termination payment to the selling and converting shareholders, based upon the net present value of all payments that would be required to be paid by us. If certain change of control events were to occur, we would also be obligated to make an early termination payment.

Were the IRS to successfully challenge the tax basis increases described above, we would not be reimbursed for any payments made under the tax receivable agreement. As a result, in certain circumstances, we could be required to make payments under the tax receivable agreement in excess of our cash tax savings.

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Risks Related to Our Class A Common Stock

The market price and trading volume of our Class A common stock may be volatile, which could result in rapid and substantial losses for our stockholders.

The market price of our Class A common stock has been, and may continue to be, highly volatile and subject to wide fluctuations. In addition, the trading volume of our Class A common stock may fluctuate and cause significant price variations to occur. If the market price of our Class A common stock declines significantly, you may be unable to resell your shares of our Class A common stock at or above your purchase price, if at all. We cannot assure you that the market price of our Class A common stock may not fluctuate or decline significantly in the future.

The market price of our Class A common stock could decline due to the large number of shares of our Class A common stock eligible for future sale upon the exchange of Class B units of our operating company or future issuance of shares of Class A common stock.

Pursuant to the operating agreement of our operating company, on at least one date designated by us each year, certain holders of Class B units may exchange up to 15% of certain of their Class B units for an equivalent number of shares of our Class A common stock, subject to certain restrictions and conditions set forth in the operating agreement. Also, since 2011, the non-employee members of our operating company may exchange all of their vested Class B units, in accordance with the timing restrictions set forth in the operating agreement.

Pursuant to the resale and registration rights agreement, dated October 30, 2007, among the holders of Class B units and us, these holders may resell the shares of Class A common stock issued to them upon the exchange of their Class B units as discussed above.

During 2017, we established December 21, 2017 as an exchange date. Certain employee members, non-employee members and permitted transferees, elected to exchange an aggregate of 855,535 of their Class B units for an equivalent number of shares of our Class A common stock, which are freely tradable. As of December 31, 2017, there remained 50,744,559 shares of our Class A common stock that have previously been registered in various registration statements filed with the SEC, which may be issued upon the exchange of currently outstanding Class B units as discussed above. An additional 12,453,984 shares of Class A common stock are registered relating to Class B units that have not been issued.

Anti-takeover provisions in our amended and restated certificate of incorporation and bylaws could discourage a change of control that our stockholders may favor, which could also adversely affect the market price of our Class A common stock.

Provisions in our amended and restated certificate of incorporation and bylaws may make it more difficult and expensive for a third party to acquire control of us, even if a change of control would be beneficial to our stockholders. For example, our amended and restated certificate of incorporation authorizes our Board of Directors to issue up to 200,000,000 shares of our preferred stock and to designate the rights, preferences, privileges and restrictions of unissued series of our preferred stock, each without any vote or action by our stockholders. We could issue a series of preferred stock to impede the consummation of a merger, tender offer or other takeover attempt. The anti-takeover provisions in our amended and restated certificate of incorporation and bylaws may impede takeover attempts, or other transactions, that may be in the best interests of our stockholders and, in particular, our Class A stockholders. In addition, the market price of our Class A common stock could be adversely affected to the extent that provisions of our amended and restated certificate of incorporation and bylaws discourage potential takeover attempts, or other transactions, that our stockholders may favor.

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The disparity in the voting rights among the classes of our common stock may have a potential adverse effect on the price of our Class A common stock and may give rise to conflicts of interest.

Our Class B stockholders collectively hold approximately 93% of the combined voting power of our common stock. These stockholders consist of our named executive officers, 38 of our other employees (directly or through their interests in Pzena Investment Management, LP), the estate planning vehicles of our named executive officers and certain of our other employees, certain other members of our operating company, including one of our directors and his related entities, and former employees (directly or through their interests in Pzena Investment Management, LP). Holders of shares of our Class B common stock have entered into a Class B Stockholders' Agreement with respect to all shares of Class B common stock then held by them and any additional shares of Class B common stock they may acquire in the future. Pursuant to this agreement, they may vote these shares of Class B common stock together on all matters submitted to a vote of our common stockholders. To the extent that we cause our operating company to issue additional Class B units, which may be granted, subject to vesting, to our employees pursuant to the PIM LLC 2006 Equity Incentive Plan, these employees will be entitled to receive an equivalent number of shares of our Class B common stock, subject to the condition that they agree to enter into this Class B Stockholders' Agreement. Each share of our Class B common stock entitles its holder to five votes per share for so long as the Class B stockholders collectively hold 20% of the total number of shares of our common stock outstanding. When a Class B unit is exchanged for a share of our Class A common stock, an unvested Class B unit is forfeited due to the employee holder's failure to satisfy the conditions of the award agreement pursuant to which it was granted, or any Class B unit is forfeited as a result of a breach of any restrictive covenants contained in our operating company's amended and restated operating agreement, a corresponding share of our Class B common stock will automatically be redeemed by us.

For so long as our Class B stockholders hold at least 20% of the total number of shares of our common stock outstanding, they will be able to elect all of the members of our Board of Directors and thereby control our management and affairs, including determinations with respect to acquisitions, dispositions, borrowings, issuances of securities, and the declaration and payment of dividends. In addition, they will be able to determine the outcome of all matters requiring approval of stockholders, and will be able to cause or prevent a change of control of our Company or a change in the composition of our Board of Directors, and could preclude any unsolicited acquisition of our Company. Our Class B stockholders have the ability to prevent the consummation of mergers, takeovers or other transactions that may be in the best interests of our Class A stockholders. In particular, this concentration of voting power could deprive Class A stockholders of an opportunity to receive a premium for their shares of Class A common stock as part of a sale of our company, and could ultimately affect the market price of our Class A common stock.

Each share of our Class A common stock entitles its holder to one vote on all matters to be voted on by stockholders. This difference in voting rights could adversely affect the value of our Class A common stock to the extent that investors view, or any potential future purchaser of our company views, the superior voting rights of the Class B common stock to have more value.

Our ability to pay dividends is subject to the discretion of our Board of Directors and may be limited by our holding company structure and applicable provisions of Delaware law.

We currently intend to pay cash dividends on a quarterly basis and our Board of Directors has targeted a cash dividend payout ratio of approximately 60% to 70% of annual non-GAAP earnings per share, subject to growth initiatives and other funding needs. However, our Board of Directors may, in its discretion, decrease the level of dividends, or discontinue the payment of dividends entirely. Furthermore, we are a holding company, and depend upon the ability of Pzena Investment Management, LLC, our operating company, to generate earnings and cash flows and distribute them to us so that we may pay our obligations and expenses and pay dividends to our stockholders. We expect to cause Pzena Investment Management, LLC to make distributions to its members, including us. However, the ability of

Pzena Investment Management, LLC to make such distributions is subject to its operating results, cash requirements and financial condition, and applicable Delaware laws (which may limit the amount of funds available for distribution to its members), as well as any contractual restrictions. If, as a consequence of these various limitations and restrictions, we do not receive distributions from our operating company, we may not be able to make, or may have to reduce or eliminate, the payment of dividends on our Class A common stock. Because of these various limitations and restrictions, we have, in the past, had to suspend our quarterly dividend payment. See “Item 5 — Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities — Our Dividend Policy.”

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

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ITEM 2. PROPERTIES

As of the date of this Annual Report, our corporate headquarters and principal offices are located at 320 Park Avenue, 8th Floor, New York, New York 10022, where we occupy approximately 32,250 square feet out of approximately 37,000 square feet of space under a non-cancellable operating lease, the term of which expires on December 31, 2025. During the year ended December 31, 2016, the Company terminated its five-year sublease agreement which commenced on May 1, 2015. The Company entered into a new four-year sublease agreement commencing on October 1, 2016 that is cancelable by either the Company or sublessee given appropriate notice after the thirty-first month following the commencement of the sublease agreement.

ITEM 3. LEGAL PROCEEDINGS

In the normal course of business, we may be subject to various legal and administrative proceedings.

Currently, there are no material legal proceedings pending against us that we believe may have a material effect on our business, cash flow or results of operations.

ITEM 4. MINE SAFETY DISCLOSURES

Not Applicable.

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PART II.

ITEM MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND
5. ISSUER PURCHASES OF EQUITY SECURITIES

Our Class A common stock is listed for trading on the New York Stock Exchange (the "NYSE") under the symbol "PZN." As of March 8, 2018, there were approximately 35 record holders of our Class A common stock and 36 record holders of our Class B common stock. These numbers do not include shareholders who hold their shares through one or more intermediaries, such as banks, brokers or depositories.

The following table sets forth the quarterly high and low sales prices of our Class A common stock on the NYSE for the periods indicated and dividends declared during such periods.

Quarter	2017		Dividends Declared Per Share	2016		Dividends Declared Per Share
	High	Low		High	Low	
Quarter Ended March 31	\$11.85	\$9.02	\$ 0.28	\$8.50	\$5.91	\$ 0.32
Quarter Ended June 30	\$11.56	\$8.25	\$ 0.03	\$9.60	\$7.16	\$ 0.03
Quarter Ended September 30	\$11.59	\$9.13	\$ 0.03	\$8.50	\$7.06	\$ 0.03
Quarter Ended December 31	\$12.70	\$10.12	\$ 0.03	\$11.48	\$7.11	\$ 0.03

Our Dividend Policy

On January 30, 2018, our Board of Directors determined that it intends to reduce the targeted cash dividend payout ratio from 70% to 80% of non-GAAP diluted net income to 60% to 70% of non-GAAP diluted net income. Barring any changes in our financial condition, with the beneficial impact of the lower future effective tax rate due to the corporate tax rates enacted in the Tax Cuts and Jobs Act of 2017, we should expect to maintain the absolute level of the dividend despite the reduction in payout ratio. The Board regularly reviews our long-term capital allocation strategy and determined that it is prudent to have additional financial flexibility to allow for investment in future business initiatives, while still returning a meaningful cash dividend to shareholders.

We use annual non-GAAP earnings measures, discussed in further detail in "Item 7 — Management's Discussion and Analysis of Financial Condition and Results of Operation — Net Income" in Part II of this Annual Report, to assess the strength of the underlying operations of the business. Included in our annual results are certain tax related and non-recurring adjustments that we feel add a measure of non-operational complexity to our results as reported under GAAP and obscure the underlying performance of the business. Management therefore does not consider these adjustments when evaluating operating results or financial information in any given period, and instead uses non-GAAP measures of earnings, which exclude these items, to analyze our operations between periods, and over time, and to evaluate the financial condition and results of operations. Investors should consider the non-GAAP measures in addition to, and not as a substitute for, financial measures prepared in accordance with GAAP.

As a holding company, we have no material assets other than our ownership of membership interests in our operating company. As a result, we depend upon distributions from our operating company to pay any dividends that our Board of Directors may declare to be paid to our Class A common stockholders, if any. When and if our Board of Directors declares any such dividends, we then cause our operating company to make distributions to us in an amount sufficient to cover the dividends declared. We may not pay dividends to our Class A common stockholders in amounts that have been paid to them in the past, or at all, if, among other things, we do not have the cash necessary to pay our intended dividends, or any of our financing facilities or other agreements restrict us from doing so. To the extent we do not have cash on hand sufficient to pay dividends in the future, we may decide not to pay dividends.

Our ability to pay dividends is subject to Board of Director discretion and may be limited by our holding company structure and applicable provisions of Delaware law. See “Item 1A — Risk Factors — Risks Related to Our Class A Common Stock — Our ability to pay dividends is subject to the discretion of our Board of Directors and may be limited by our holding company structure and applicable provisions of Delaware law.”

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Recent Issuances of Unregistered Securities

In 2017, in connection with new employee member grants, employee equity purchases and year-end compensation, we issued an aggregate of 692,326 Class B units of our operating company, and the related 692,326 shares of Class B common stock to employee members. Certain of these Class B units, referred to as Delayed Exchange Class B units, vest immediately upon the date of grant and have the right to receive dividend payments; however, they cannot be exchanged for shares of the Company's Class A common stock until seven years after the date of grant, and do not carry rights associated with the tax receivable agreement. See Note 3 to our consolidated financial statements beginning on page F-17 of this Annual Report for a more detailed description of the Delayed Exchange.

Further, in connection with the vesting of certain employee members' mandatory deferred compensation, in 2017 we issued 97,544 Class B units of the operating company and the related 97,544 shares of Class B common stock. Certain of these units were issued as Delayed Exchange Class B units.

The exercise of options to acquire an aggregate of 298,910 Class B units of our operating company by certain employee members, resulted in the issuance of 41,781 Class B units after the redemption of 257,129 Class B units for the cashless exercise of the options.

In 2017, a total of 329,503 Class B units were issued to various employee members in connection with the vesting of their Phantom Class B units granted in prior years.

The issuances were made in reliance upon the exemption from registration provided by Section 4(a)(2) of the Securities Act.

Performance Graph

The following graph compares the cumulative total stockholder return on our Class A common stock over the five-year period ending December 31, 2017, with the cumulative total return of the S&P 500[®] and the SNL Asset Manager Index*. The graph assumes the investment of \$100 in our common stock, and in each of the two indices, on December 31, 2012 and the reinvestment of all dividends, if any.

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Index	Period Ended					
	2012	2013	2014	2015	2016	2017
Pzena Investment Management, Inc.	\$100.00	\$225.88	\$187.41	\$177.74	\$241.44	\$238.92
SNL Asset Manager Index*	\$100.00	\$152.88	\$161.29	\$137.55	\$140.59	\$181.22
S&P 500 Index	\$100.00	\$132.38	\$150.27	\$152.34	\$166.87	\$195.74

*The SNL Asset Manager Index is comprised of the securities of 41 publicly traded asset management companies.

Issuer Purchases of Equity Securities

On April 24, 2012, our Board of Directors authorized us to repurchase an aggregate of \$10.0 million of our outstanding Class A common stock in the open market and Class B units of the operating company in private transactions in accordance with applicable securities laws. On February 5, 2014, the Board of Directors authorized us to repurchase an additional \$20.0 million of our outstanding Class A common stock and Class B units of the operating company. The timing, number, and value of common shares and units repurchased are subject to our discretion. Our share repurchase program is not subject to an expiration date and may be suspended, discontinued, or modified at any time, or for any reason. Shares repurchased under the repurchase program during the fourth quarter of 2017 are as follows:

Period	(a) Total Number of Shares of Class A Common Stock Purchased	(b) Average Price Paid per Share of Class A Common Stock	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs ⁽¹⁾ (in millions)
October 1, 2017 through October 31, 2017	—	\$ —	—	\$ 6.7
November 1, 2017 through November 30, 2017	—	—	—	6.7
December 1, 2017 through December 31, 2017	71,010	11.01	71,010	5.9
Total	71,010	\$ 11.01	71,010	\$ 5.9

The dollar amount in the column entitled "Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs," reflects the remainder of the program and also reflects the repurchase of 30,818 of the (1) operating company's Class B units during December 2017 for an average price of \$10.87 per unit. Class B units are repurchased at fair value determined by reference to our Class A common stock on the date of the transaction since Class B units are exchangeable for shares of our Class A common stock on a one-for-one basis.

ITEM 6. SELECTED FINANCIAL DATA

The following tables set forth selected historical consolidated financial data of Pzena Investment Management, Inc. The selected consolidated statements of operations data for the years ended December 31, 2017, 2016, and 2015 and the selected consolidated statements of financial condition data as of December 31, 2017 and 2016, have been derived from Pzena Investment Management, Inc.'s audited consolidated financial statements included in this Annual Report.

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The selected consolidated statement of operations data for the years ended December 31, 2014 and 2013, and the selected consolidated statements of financial condition as of December 31, 2015, 2014 and 2013, have been derived from Pzena Investment Management, Inc.'s audited consolidated financial statements not included in this report.

You should read the following selected historical consolidated financial data together with “Item 7 — Management’s Discussion and Analysis of Financial Condition and Results of Operations” and the historical consolidated financial statements and the related notes inc