

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
WASHINGTON, D.C. 20549  
**FORM 10-K**

**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

**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:**

<u>Title of Each Class</u>	<u>Name of Each Exchange on Which Registered</u>
Class A Common Stock, par value \$.01 per share	New York Stock Exchange

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  No

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  No

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  No

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  No

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.

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  Accelerated filer  Non-accelerated filer   
(Do not check if a smaller reporting company) Smaller reporting company  Emerging growth company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act) Yes  No

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 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 similar words 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.

**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<sup>®</sup>. Frank Russell Company<sup>®</sup> 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.

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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.

**PART I.**

**ITEM 1. BUSINESS**

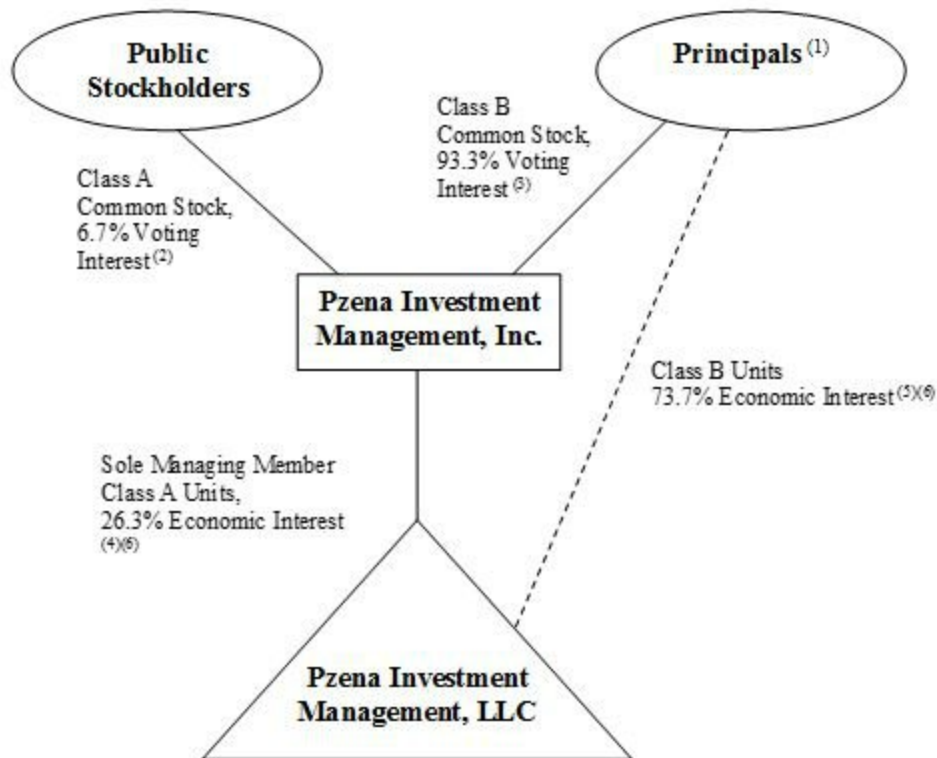
**Overview**

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.

- 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.
  - (3) 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.
  - (6) 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.

- ***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.

- ***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.



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
(in billions)			
<i>U.S. Value Strategies</i>			
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
<i>Global and Non-U.S. Strategies</i>			
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
<b>Total</b>	<b>\$ 38.5</b>	<b>\$ 30.0</b>	<b>\$ 26.0</b>

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 201<sup>st</sup> to 1,200<sup>th</sup> 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 1,001<sup>st</sup> to 3,000<sup>th</sup> 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.

*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.

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:

Assets Under Management	As of December 31,		
	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	<u>\$ 38.5</u>	<u>\$ 30.0</u>	<u>\$ 26.0</u>

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 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.

## **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-advice 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.

## **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.

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](http://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](http://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:

- ***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,

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

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.



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.

***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

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.

***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

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.

***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

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.

## **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.



***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.

## **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.

## PART II.

## ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND 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			2016		
	High	Low	Dividends Declared Per Share	High	Low	Dividends Declared Per Share
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."

**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.

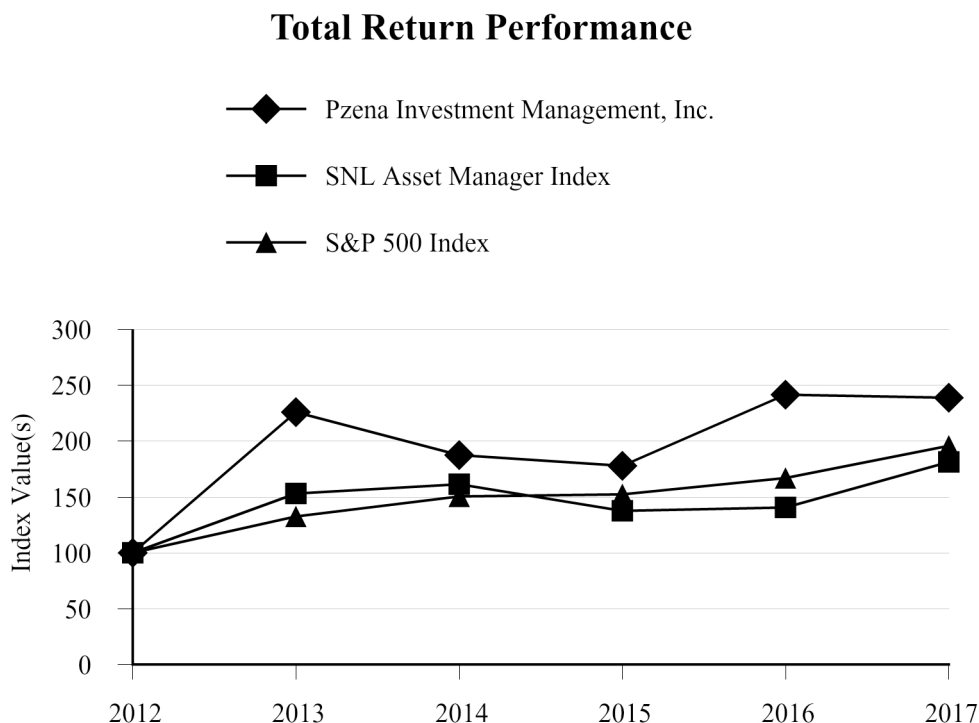
The exercise of options to acquire an aggregate of 298,910 Class B units of our operating company by certain employee members, resulted in the issuance of 41,781 Class B units after the redemption of 257,129 Class B units for the cashless exercise of the options.

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<sup>®</sup> 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.



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 <sup>(1)</sup>
				(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	<u>71,010</u>	<u>\$ 11.01</u>	<u>71,010</u>	<u>\$ 5.9</u>

(1) 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 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.

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 included in this Annual Report.

	For the Years Ended December 31,				
	2017	2016	2015	2014	2013
	(in thousands, except share and per share amounts)				
<b>Statements of Operations Data:</b>					
<b>REVENUE</b>					
Management Fees	\$ 138,136	\$ 108,129	\$ 112,102	\$ 108,675	\$ 91,866
Performance Fees	3,159	207	4,505	3,836	3,903
Total Revenue	141,295	108,336	116,607	112,511	95,769
<b>EXPENSES</b>					
Cash Compensation and Benefits	48,722	41,397	35,431	32,396	31,374
Other Non-Cash Compensation	10,182	6,933	11,092	8,877	5,448
Total Compensation and Benefits Expense	58,904	48,330	46,523	41,273	36,822
General and Administrative Expenses	13,337	12,788	14,667	10,285	8,099
TOTAL OPERATING EXPENSES	72,241	61,118	61,190	51,558	44,921
Operating Income	69,054	47,218	55,417	60,953	50,848
Other Income/ (Expense)	25,608	(48,042)	(3,300)	(4,036)	(1,821)
<b>INCOME BEFORE INCOME TAXES</b>	94,662	(824)	52,117	56,917	49,027
Income Tax Provision	34,512	(54,475)	5,114	1,883	589
Consolidated Net Income	60,150	53,651	47,003	55,034	48,438
Less: Net Income Attributable to Non-Controlling Interests	53,242	37,472	39,324	46,934	41,768
<b>NET INCOME Attributable to Pzena Investment Management, Inc.</b>	\$ 6,908	\$ 16,179	\$ 7,679	\$ 8,100	\$ 6,670
<b>Per Share Data<sup>1</sup>:</b>					
Net Income for Basic Earnings per Share	\$ 6,908	\$ 16,179	\$ 7,679	\$ 8,100	\$ 6,670
Basic Earnings per Share	\$ 0.40	\$ 1.01	\$ 0.55	\$ 0.64	\$ 0.56
Basic Weighted Average Shares Outstanding	17,338,348	15,962,902	14,014,219	12,628,676	11,990,757
Net Income for Diluted Earnings per Share	\$ 40,064	\$ 39,600	\$ 33,809	\$ 35,685	\$ 30,317
Diluted Earnings per Share <sup>2</sup>	\$ 0.40	\$ 0.58	\$ 0.50	\$ 0.53	\$ 0.45
Diluted Weighted Average Shares Outstanding	70,934,362	68,849,172	68,126,786	67,797,524	66,759,840
Cash Dividends Declared Per Share	\$ 0.37	\$ 0.41	\$ 0.41	\$ 0.35	\$ 0.25

- 1 The operating company issues shares of Class A common stock and Class B units that have non-forfeitable dividend rights. Under the “two-class method,” these shares and units are considered participating securities and are required to be included in the computation of basic and diluted earnings per share.
- 2 During the year-ended December 31, 2017, the calculation of diluted earnings per share resulted in an increase in earnings per share. Therefore, diluted earnings per share is assumed to be equal to basic earnings per share. See Note 5 to our consolidated financial statements beginning on page F-22 of this Annual Report for further details.

	As of December 31,				
	2017	2016	2015	2014	2013
	(in thousands)				
<b>Statements of Financial Condition Data:</b>					
Cash	\$ 63,414	\$ 43,522	\$ 35,417	\$ 39,109	\$ 33,878
TOTAL ASSETS	169,047	179,121	114,309	111,886	80,213
TOTAL LIABILITIES	69,758	97,787	28,847	26,853	21,664
Non-Controlling Interests	66,985	52,841	67,040	66,632	42,187
EQUITY	32,304	28,493	18,422	18,401	16,362

## **ITEM 7. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

### **Overview**

We are an investment management firm that utilizes a classic value investment approach across all of our investment strategies. We currently manage assets in a variety of value-oriented investment strategies across a wide range of market capitalizations in both U.S. and non-U.S. capital markets. At December 31, 2017, our assets under management, or AUM, was approximately \$38.5 billion. We manage separate accounts on behalf of institutions, act as sub-investment adviser for a variety of SEC-registered mutual funds and non-U.S. funds, and act as investment adviser for the Pzena mutual funds, certain private placement funds and non-U.S. funds.

We function as the sole managing member of our operating company, Pzena Investment Management, LLC (the “operating company”). As a result, we: (i) consolidate the financial results of our operating company with our own, and reflect the membership interest in it that we do not own as a non-controlling interest in our consolidated financial statements; and (ii) recognize income generated from our economic interest in our operating company’s net income. As of December 31, 2017, the holders of our Class A common stock and the holders of Class B units of our operating company held approximately 26.3% and 73.7%, respectively, of the economic interests in the operations of our business.

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

Certain of our named executive officers and employees have interests in Pzena Investment Management, LP and certain estate planning vehicles through which they indirectly own Class B units of our operating company. As of December 31, 2017, through direct and indirect interests, our five named executive officers; 38 other employee members; and certain other members of our operating company, including one of our directors, his related entities, and certain former employees, collectively held 49.4%, 4.7%, and 19.6% of the economic interests in our operating company, respectively.

### **Net Income**

GAAP diluted net income and GAAP diluted earnings per share were \$40.1 million and \$0.40, respectively, for the year ended December 31, 2017, \$39.6 million and \$0.58, respectively, for the year ended December 31, 2016, and \$33.8 million and \$0.50, respectively, for the year ended December 31, 2015. During the year-ended December 31, 2017, the calculation of diluted earnings per share resulted in an increase in earnings per share. Therefore, diluted earnings per share is assumed to be equal to basic earnings per share.

In evaluating the results of operations, we also review non-GAAP measures of earnings, which are adjusted to exclude changes in the deferred tax asset and corresponding liability to the Company’s selling and converting shareholders associated with a change in the calculation of historical 754 step-ups, the release of the valuation allowance in the fourth quarter of 2016, the impact of the Tax Cuts and Jobs Act enacted in the fourth quarter of 2017, as well as certain non-recurring charges recognized in operating expenses during 2015. We believe that these GAAP adjustments add a measure of non-operational complexity that partially obscures a clear understanding of the underlying performance of our business. We use these non-GAAP measures to assess the strength of the underlying operations of the business. We believe that these adjustments, and the non-GAAP measures derived from them, provide information to better analyze our operations between periods, and over time. Investors should consider these non-GAAP measures in addition to, and not as a substitute for, financial measures prepared in accordance with GAAP.

As adjusted, non-GAAP diluted net income and non-GAAP diluted earnings per share were \$44.7 million and \$0.63, respectively, for the year ended December 31, 2017, and \$31.4 million and \$0.46, respectively, for the year ended December 31, 2016, \$34.5 million and \$0.51, respectively, for the year ended December 31, 2015. GAAP and non-GAAP net income for diluted earnings per share generally assumes all operating company membership units are converted into Company stock at the beginning of the reporting period, and the resulting change to our GAAP and non-GAAP net income associated with our increased interest in the operating company is taxed at our historical effective tax rate, exclusive of the adjustments related to our tax receivable agreement and the associated liability to selling and converting shareholders, the adjustments related to the non-recurring charges recognized in operating expenses, and other adjustments as noted above. Our effective tax rate, exclusive of these adjustments, was 36.7% for the year ended December 31, 2017 and approximately 36.8% and 37.1% for the years ended December 31, 2016 and 2015, respectively. See “Operating Results — Income Tax Expense/ (Benefit)” below.

A reconciliation of the non-GAAP measures to the most comparable GAAP measures is included below:

	For the Years Ended December 31,		
	2017	2016	2015
	(in thousands, except share and per share amounts)		
GAAP Net Income	\$ 6,908	\$ 16,179	\$ 7,679
Net Expense as a result of Tax Cuts and Jobs Act	5,649	—	—
Impact of Change in Historical 754 Step-Up Calculations <sup>1</sup>	(1,006)	—	—
Net Effect of Tax Receivable Agreement	—	(8,221)	(424)
Net Effect of Non-Recurring Lease Expenses	—	—	183
Non-GAAP Net Income	<u>\$ 11,551</u>	<u>\$ 7,958</u>	<u>\$ 7,438</u>
Basic Weighted Average Shares Outstanding	17,338,348	15,962,902	14,014,219
GAAP Basic Earnings per Share	\$ 0.40	\$ 1.01	\$ 0.55
Net Expense as a result of Tax Cuts and Jobs Act	0.33	—	—
Impact of Change in Historical 754 Step-Up Calculations <sup>1</sup>	(0.06)	—	—
Net Effect of Tax Receivable Agreement	—	(0.51)	(0.03)
Net Effect of Non-Recurring Lease Expenses	—	—	0.01
Non-GAAP Basic Earnings per Share	<u>\$ 0.67</u>	<u>\$ 0.50</u>	<u>\$ 0.53</u>
GAAP Net Income for Diluted Earnings per Share	\$ 40,063	\$ 39,600	\$ 33,809
Net Expense as a result of Tax Cuts and Jobs Act	5,649	—	—
Impact of Change in Historical 754 Step-Up Calculations <sup>1</sup>	(1,006)	—	—
Net Effect of Tax Receivable Agreement	—	(8,221)	(1,148)
Net Effect of Non-Recurring Lease Expenses	—	—	1,834
Non-GAAP Net Income for Diluted Earnings per Share	<u>\$ 44,706</u>	<u>\$ 31,379</u>	<u>\$ 34,495</u>
Basic Weighted Average Shares Outstanding	70,934,362	68,849,172	68,126,786
GAAP Diluted Earnings per Share	\$ 0.56	\$ 0.58	\$ 0.50
Net Expense as a result of Tax Cuts and Jobs Act	0.08	—	—
Impact of Change in Historical 754 Step-Up Calculations <sup>1</sup>	(0.01)	—	—
Net Effect of Tax Receivable Agreement	—	(0.12)	(0.02)
Net Effect of Non-Recurring Lease Expenses	—	—	0.03
Non-GAAP Diluted Earnings per Share	<u>\$ 0.63</u>	<u>\$ 0.46</u>	<u>\$ 0.51</u>

<sup>1</sup> Reflects the net impact of a change in the calculation of historical 754 step-ups and related deferred tax asset and corresponding liability to selling and converting shareholders recognized during the year-ended December 31, 2017 as noted in the income tax expense/(benefit) discussion below.

## Revenue

We generate revenue primarily from management fees and performance fees, which we collectively refer to as our advisory fees, by managing assets on behalf of our separately managed and sub-advised accounts, as well as our Pzena funds. Our advisory fee income is primarily based on our AUM, as discussed below, and is recognized over the period in which investment management services are provided. Following the preferred method identified in the *Revenue Recognition Topic* of the Financial Accounting Standards Board Accounting Standards Codification (“FASB ASC”), income from performance fees is recorded at the conclusion of the contractual performance period, when all contingencies are resolved.

Our advisory fees are primarily driven by the level of our AUM. Our AUM increases or decreases with the net inflows or outflows of funds into our various investment strategies and with the investment performance thereof. In order to increase our AUM and expand our business, we must develop and market investment strategies that suit the investment needs of our target clients, and provide attractive returns over the long-term. The value and composition of our AUM, and our ability to continue



to attract clients will depend on a variety of factors as described in “Item 1 — Risk Factors — 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.”

For our separately managed accounts, we are paid management 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.

Pursuant to our sub-investment advisory agreements with our clients and advisory agreements with Pzena-branded funds, we are generally paid a management fee according to a schedule in 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 sub-advised 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 are generally based on the value of AUM at a specific date on a quarterly basis. Certain of our separately managed accounts, and all of our sub-advised accounts, are calculated based on the average of the monthly or daily market value. 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.

Our advisory fees may fluctuate based on a number of factors, including the following:

- changes in AUM due to appreciation or depreciation of our investment portfolios, and the levels of the contribution and withdrawal of assets by new and existing clients;
- distribution of AUM among our investment strategies, which have differing fee schedules;
- distribution of AUM between separately managed accounts and sub-advised accounts, for which we generally earn lower overall advisory fees; and
- the level of our performance with respect to accounts on which we are paid performance fees or have fulcrum fee arrangements.

## **Expenses**

Our expenses consist primarily of Compensation and Benefits Expense, as well as General and Administrative Expense. Our largest expense is Compensation and Benefits, which includes the salaries, bonuses, equity-based compensation, and related benefits and payroll costs attributable to our employee members and employees. Compensation and benefits packages are benchmarked against relevant industry and geographic peer groups in order to attract and retain qualified personnel. General and Administrative Expense includes lease expenses, professional and outside services fees, depreciation, costs associated with operating and maintaining our research, trading and portfolio accounting systems, and other expenses. Our occupancy-related costs and professional services expenses, in particular, generally increase or decrease in relative proportion to the overall size and scale of our business operations.

We incur additional expenses associated with being a public company for, among other things, director and officer insurance, director fees, SEC reporting and compliance (including Sarbanes-Oxley and Dodd-Frank compliance), professional fees, transfer agent fees, and other similar expenses.

Our expenses may fluctuate due to a number of factors, including the following:

- variations in the level of total compensation expense due to, among other things, bonuses, awards of equity to our employees and employee members of our operating company, changes in our employee count and mix, and competitive factors; and
- general and administrative expenses, such as rent, professional service fees and data-related costs, incurred, as necessary, to run our business.

### **Other Income/ (Expense)**

Other income/ (expense) is derived primarily from investment income or loss arising from our consolidated subsidiaries and interest income generated on our cash balances. Other income/ (expense) is also affected by changes in our estimates of the liability due to our selling and converting shareholders associated with payments owed to them under the tax receivable agreement which was executed in connection with our reorganization and initial public offering on October 30, 2007. As discussed further below under "Tax Receivable Agreement," this liability represents 85% of the amount of cash savings, if any, in U.S. federal, state, and local income tax that we realize as a result of the amortization of the increases in tax basis generated from our acquisitions of our operating company's units from our selling and converting shareholders. We expect the interest and investment components of other income/ (expense), in the aggregate, to fluctuate based on market conditions and the performance of our consolidated subsidiaries and other investments.

### **Non-Controlling Interests**

We are the sole managing member of our operating company and control its business and affairs and, therefore, consolidate its financial results with ours. In light of our employees' and outside investors' direct and indirect interests in our operating company (as noted in "Item 1 — Business — Overview"), we have reflected their membership interests as a non-controlling interest in our consolidated financial statements. As of December 31, 2017, the holders of our Class A common stock and the holders of Class B units of our operating company held approximately 26.3% and 73.7%, respectively, of the economic interests in the operations of our business. In addition, our operating company consolidates the results of operations of the private investment partnerships and Pzena-branded mutual funds over which we exercise a controlling influence. Non-controlling interests recorded in our consolidated financial statements include the non-controlling interests of the outside investors in these consolidated subsidiaries.

### **Operating Results**

#### ***Assets Under Management and Flows***

As of December 31, 2017, our approximately \$38.5 billion of AUM was invested in a variety of value-oriented investment strategies, representing distinct capitalization segments of U.S. and non-U.S. equity markets. The performance of our largest investment strategies as of December 31, 2017 is further described below. 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 and the degree to which we concentrate on a limited number of holdings. While our investment process includes ongoing review of companies in the investment universes described below, our actual investments may include companies outside of the relevant market capitalization range at the time of our investment. In addition, the number of holdings typically found in the portfolios of each of our investment strategies may vary, as described below.

The following tables describe the allocation of our AUM among our investment strategies and the domicile of our accounts, as of December 31, 2017, 2016 and 2015:

Strategy	AUM at December 31,		
	2017	2016	2015
	(in billions)		
<i>U.S. Value Strategies</i>			
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
Total U.S. Value Strategies	17.9	15.6	14.5
<i>Global and Non-U.S. Value Strategies</i>			
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 Global and Non-U.S. Value Strategies	20.6	14.4	11.5
Total	\$ 38.5	\$ 30.0	\$ 26.0

Account Domicile	AUM at December 31,		
	2017	2016	2015
	(in billions)		
U.S.	\$ 25.6	\$ 21.1	\$ 19.1
Non-U.S.	12.9	8.9	6.9
Total	\$ 38.5	\$ 30.0	\$ 26.0

The following table indicates the annualized returns, gross and net (which represents annualized returns prior to, and after, payment of advisory fees, respectively), of our largest investment strategies from their inception to December 31, 2017, and in the five-year, three-year, and one-year periods ended December 31, 2017, relative to the performance of the market index which is often used by our clients to compare the performance of the relevant investment strategy.

Investment Strategy (Inception Date)	Period Ended December 31, 2017 <sup>1</sup>			
	Since Inception	5 Years	3 Years	1 Year
<b>Large Cap Value (July 2012)</b>				
Annualized Gross Returns	16.7%	16.6%	10.7%	17.9%
Annualized Net Returns	16.5%	16.4%	10.5%	17.7%
Russell 1000 <sup>®</sup> Value Index	14.3%	14.0%	8.7%	13.7%
<b>International Value (November 2008)</b>				
Annualized Gross Returns	12.1%	10.0%	9.4%	25.5%
Annualized Net Returns	11.8%	9.7%	9.1%	25.1%
MSCI EAFE <sup>®</sup> Index – Net/U.S.\$ <sup>2</sup>	8.7%	7.9%	7.8%	25.0%
<b>Large Cap Focused Value (October 2000)</b>				
Annualized Gross Returns	8.0%	16.7%	11.0%	18.2%
Annualized Net Returns	7.6%	16.3%	10.6%	17.8%
Russell 1000 <sup>®</sup> Value Index	7.1%	14.0%	8.7%	13.7%

<b>Emerging Markets Focused Value (January 2008)</b>				
Annualized Gross Returns	4.0%	6.3%	11.0%	31.7%
Annualized Net Returns	3.2%	5.5%	10.2%	30.8%
MSCI <sup>®</sup> Emerging Markets Index – Net/U.S.\$ <sup>2</sup>	1.7%	4.4%	9.1%	37.3%
<b>European Focused Value (August 2008)</b>				
Annualized Gross Returns	7.0%	10.2%	10.3%	30.1%
Annualized Net Returns	6.6%	9.8%	9.9%	29.7%
MSCI <sup>®</sup> Europe Index – Net/U.S.\$ <sup>2</sup>	3.2%	7.4%	6.7%	25.5%
<b>Global Value (January 2010)</b>				
Annualized Gross Returns	10.3%	13.0%	10.0%	24.1%
Annualized Net Returns	10.0%	12.6%	9.6%	23.7%
MSCI <sup>®</sup> World Index – Net/U.S.\$ <sup>2</sup>	9.9%	11.6%	9.3%	22.4%
<b>Global Focused Value (January 2004)</b>				
Annualized Gross Returns	6.6%	13.3%	10.0%	25.1%
Annualized Net Returns	5.9%	12.6%	9.3%	24.4%
MSCI <sup>®</sup> All Country World Index – Net/U.S.\$ <sup>2</sup>	7.4%	10.8%	9.3%	24.0%
<b>Mid Cap Value (April 2014)</b>				
Annualized Gross Returns	11.3%	N/A	12.4%	14.2%
Annualized Net Returns	11.0%	N/A	12.1%	13.9%
Russell Mid Cap <sup>®</sup> Value Index	9.6%	N/A	9.0%	13.3%
<b>Focused Value (January 1996)</b>				
Annualized Gross Returns	11.4%	17.1%	11.3%	17.0%
Annualized Net Returns	10.6%	16.5%	10.6%	16.4%
Russell 1000 <sup>®</sup> Value Index	9.1%	14.0%	8.7%	13.7%
<b>Small Cap Focused Value (January 1996)</b>				
Annualized Gross Returns	14.1%	16.8%	11.3%	4.8%
Annualized Net Returns	12.9%	15.6%	10.2%	3.8%
Russell 2000 <sup>®</sup> Value Index	10.1%	13.0%	9.6%	7.8%
<b>International Focused Value (January 2004)</b>				
Annualized Gross Returns	7.5%	10.7%	10.7%	27.8%
Annualized Net Returns	6.6%	10.1%	10.1%	27.2%
MSCI <sup>®</sup> All Country World ex-U.S. Index – Net/U.S.\$ <sup>2</sup>	6.8%	6.8%	7.8%	27.2%
<b>Mid Cap Focused Value (September 1998)</b>				
Annualized Gross Returns	13.5%	17.7%	12.9%	15.8%
Annualized Net Returns	12.7%	17.0%	12.2%	15.1%
Russell Mid Cap <sup>®</sup> Value Index	10.8%	14.7%	9.0%	13.3%

1 The historical returns of these investment strategies are not necessarily indicative of their future performance, or the future performance of any of our other current or future investment strategies.

2 Net of applicable withholding taxes and presented in U.S.\$.

*Large Cap Value.* This strategy reflects a portfolio composed of approximately 50 to 80 stocks drawn generally from a universe of 500 of the largest U.S. listed companies, based on market capitalization. This strategy was launched in July 2012. At December 31, 2017, the Large Cap Value strategy generated a one-year annualized gross return of 17.9%, outperforming its benchmark. The outperformance was primarily driven by our stock selection in the producer durables and energy sectors.

*International Value.* This strategy reflects a portfolio composed of approximately 60 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. This strategy was launched in November 2008. At December 31, 2017, the International Value strategy generated a one-year

annualized gross return of 25.5%, outperforming its benchmark. Although no individual factors had a significant influence on our performance, the largest positive contributors were our stock selection in the financial services sector as well as the performance of certain Korean stocks. These positive contributors were partially offset by our overexposure to the energy sector.

*Large Cap Focused Value.* This strategy reflects a portfolio composed of approximately 30 to 40 stocks drawn generally from a universe of 500 of the largest U.S. listed companies, based on market capitalization. This strategy was launched in October 2000. At December 31, 2017, the Large Cap Focused Value strategy generated a one-year annualized gross return of 18.2%, outperforming its benchmark. The outperformance was primarily driven by our stock selection in the producer durables and healthcare sectors.

*Emerging Markets Focused 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. This strategy was launched in January 2008. At December 31, 2017, the Emerging Markets Focused Value strategy generated a one-year annualized gross return of 31.7%, underperforming its benchmark. The main contributors to this underperformance include our stock selection in the information technology sector as well as the performance of certain Chinese and Russian stocks. This underperformance was partially offset by our stock selection in the materials sector and the performance of certain Korean stocks.

*European Focused 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. This strategy was launched in August 2008. At December 31, 2017, the European Focused Value strategy generated a one-year annualized gross return of 30.1%, outperforming its benchmark. This outperformance was broad based and primarily driven by our stock selection in the materials sector and the performance of certain German and U.K. stocks, partially offset by our stock selection in the energy sector.

*Global Value.* This strategy reflects a portfolio composed of approximately 60 to 95 stocks drawn generally from a universe of 2,000 of the largest companies across the world, based on market capitalization. This strategy was launched in January 2010. At December 31, 2017, the Global Value strategy generated a one-year annualized gross return of 24.1%, outperforming its benchmark. This outperformance was primarily driven by our stock selection in the financial services sector as well as the performance of certain Korea stocks, partially offset by our stock selection in the information technology sector.

*Global Focused Value.* This strategy reflects a portfolio composed of approximately 40 to 60 stocks drawn generally from a universe of 2,000 of the largest companies across the world, based on market capitalization. This strategy was launched in January 2004. At December 31, 2017, the Global Focused Value strategy generated a one-year annualized gross return of 25.1%, outperforming its benchmark. This outperformance primarily driven by our stock selection in the materials sector, overexposure to the financial services sector, and the performance of certain Japanese stocks. This outperformance is partially offset by our stock selection in the information technology sector.

*Mid Cap Value.* This strategy reflects a portfolio composed of approximately 50 to 80 stocks drawn generally from a universe of U.S. listed companies ranked from the 201<sup>st</sup> to 1,200<sup>th</sup> largest, based on market capitalization. This strategy was launched in April 2014. At December 31, 2017, the Mid Cap Value strategy generated a one-year annualized gross return of 14.2%, outperforming its benchmark. This outperformance was primarily driven by our stock selection in the financial services and producer durables sectors.

*Focused 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. This strategy was launched in January 1996. At December 31, 2017, the Focused Value strategy generated a one-year annualized gross return of 17.0%, outperforming its benchmark. The outperformance was driven primarily by our stock selection in the producer durables and healthcare sectors.

*Small Cap Focused 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 1,001<sup>st</sup> to 3,000<sup>th</sup> largest, based on market capitalization. This strategy was launched in January 1996. At December 31, 2017, the Small Cap Focused Value strategy generated a one-year annualized gross return of 4.8%, underperforming its benchmark. This underperformance was primarily driven by our stock selection in the healthcare sector and our overexposure to the producer durables and technology sectors. This underperformance was partially offset by our stock selection in the materials sector.

*International Focused Value.* This strategy reflects a portfolio composed of approximately 30 to 50 stocks drawn generally from a universe of 1,500 of the largest companies across the world excluding the United States, based on market capitalization. This strategy was launched in January 2004. At December 31, 2017, the International Focused Value strategy generated a one-year annualized gross return of 27.8%, outperforming its benchmark. The largest positive contributors were our stock selection in the financial services and materials sectors, partially offset by our stock selection in the information technology sector.

*Mid Cap Focused Value.* This strategy reflects a portfolio composed of approximately 30 to 40 stocks drawn generally from a universe of U.S. listed companies ranked from the 201<sup>st</sup> to 1,200<sup>th</sup> largest, based on market capitalization. This strategy was launched in September 1998. At December 31, 2017, the Mid Cap Focused Value strategy generated a one-year annualized gross return of 15.8%, outperforming its benchmark. The outperformance was driven primarily by our stock selection in the financial services sector and over exposure to the producer durables sector, partially offset by our stock selection in the energy sector.

Our earnings and cash flows are heavily dependent upon prevailing financial market conditions. Significant increases or decreases in the various securities markets, particularly the equities markets, can have a material impact on our results of operations, financial condition, and cash flows.

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.

The change in AUM in our separately managed accounts, sub-advised accounts and Pzena funds for the years ended December 31, 2017, 2016, and 2015 is described below. Inflows are composed of the investment of new or additional assets by new or existing clients. Outflows consist of redemptions of assets by existing clients.

Assets Under Management <sup>1</sup>	For the Years Ended December 31,		
	2017	2016	2015
	(in billions)		
<b>Separately Managed Accounts</b>			
Assets			
Beginning of Period	\$ 12.5	\$ 11.0	\$ 11.7
<i>Inflows</i>	1.4	1.7	2.3
<i>Outflows</i>	(1.6)	(2.0)	(2.4)
Net Flows	(0.2)	(0.3)	(0.1)
Market Appreciation/(Depreciation)	2.7	1.8	(0.6)
End of Period	\$ 15.0	\$ 12.5	\$ 11.0
<b>Sub-Advised Accounts</b>			
Assets			
Beginning of Period	\$ 16.3	\$ 14.1	\$ 15.0
<i>Inflows</i>	3.5	2.6	1.9
<i>Outflows</i>	(1.8)	(2.9)	(2.1)
Net Flows	1.7	(0.3)	(0.2)
Market Appreciation/(Depreciation)	3.8	2.5	(0.7)
End of Period	\$ 21.8	\$ 16.3	\$ 14.1
<b>Pzena Funds</b>			
Assets			
Beginning of Period Assets	\$ 1.2	\$ 0.9	\$ 1.0
<i>Inflows</i>	0.5	0.3	0.2
<i>Outflows</i>	(0.3)	(0.2)	(0.2)
Net Flows	0.2	0.1	—
Market Appreciation/(Depreciation)	0.3	0.2	(0.1)
End of Period	\$ 1.7	\$ 1.2	\$ 0.9
<b>Total</b>			
Assets			
Beginning of Period	\$ 30.0	\$ 26.0	\$ 27.7
<i>Inflows</i>	5.4	4.6	4.4
<i>Outflows</i>	(3.7)	(5.1)	(4.7)
Net Flows	1.7	(0.5)	(0.3)
Market Appreciation/(Depreciation)	6.8	4.5	(1.4)
End of Period	\$ 38.5	\$ 30.0	\$ 26.0

During the year ended December 31, 2017, our AUM increased \$8.5 billion, or 28.3%, from \$30.0 billion at December 31, 2016. This increase is primarily due to market appreciation and net inflows during the year ended December 31, 2017.

At December 31, 2017, we managed \$15.0 billion in separately managed accounts, \$21.8 billion in sub-advised accounts, and \$1.7 billion in Pzena funds, for a total of \$38.5 billion in assets. For the year ended December 31, 2017, we experienced \$6.8 billion in market appreciation and total gross inflows of \$5.4 billion, which were partially offset by total gross outflows of

\$3.7 billion. Assets in separately managed accounts increased by \$2.5 billion, or 20.0%, from \$12.5 billion at December 31, 2016, due to \$2.7 billion in market appreciation and \$1.4 billion in gross inflows, partially offset by \$1.6 billion in gross outflows. Assets in sub-advised accounts increased by \$5.5 billion, or 33.7%, from \$16.3 billion at December 31, 2016, due to \$3.8 billion in market appreciation and \$3.5 billion in gross inflows, partially offset by \$1.8 billion in gross outflows. Assets in Pzena funds increased by \$0.5 billion, or 41.7%, from \$1.2 billion at December 31, 2016 as a result of \$0.5 billion in gross inflows and \$0.3 billion in market appreciation, partially offset by \$0.3 billion in gross outflows.

At December 31, 2016, we managed \$12.5 billion in separately managed accounts, \$16.3 billion in sub-advised accounts, and \$1.2 billion in Pzena funds, for a total of \$30.0 billion in assets. For the year ended December 31, 2016, we experienced total gross inflows of \$4.6 billion and \$4.5 billion in market appreciation, which were partially offset by total gross outflows of \$5.1 billion. Assets in separately managed accounts increased by \$1.5 billion, or 13.6%, from \$11.0 billion at December 31, 2015, due to \$1.8 billion in market appreciation and \$1.7 billion in gross inflows, partially offset by \$2.0 billion in gross outflows. Assets in sub-advised accounts increased \$2.2 billion, or 15.6%, from \$14.1 billion at December 31, 2015, due to \$2.6 billion in gross inflows and \$2.5 billion in market appreciation, partially offset by \$2.9 billion in gross outflows. Assets in Pzena funds increased by \$0.3 billion, or 33.3%, from \$0.9 billion at December 31, 2015 as a result of \$0.3 billion in gross inflows and \$0.2 billion in market appreciation, partially offset by \$0.2 billion in gross outflows.

At December 31, 2015, we managed \$11.0 billion in separately managed accounts, \$14.1 billion in sub-advised accounts, and \$0.9 billion in Pzena funds, for a total of \$26.0 billion in assets. For the year ended December 31, 2015, we experienced total gross outflows of \$4.7 billion and market depreciation of \$1.4 billion, which were partially offset by total gross inflows of \$4.4 billion. Assets in separately managed accounts decreased by \$0.7 billion, or 6.0%, from \$11.7 billion at December 31, 2014 due to \$2.4 billion in gross outflows and \$0.6 billion in market depreciation, partially offset by \$2.3 billion in gross inflows. Assets in sub-advised accounts decreased \$0.9 billion, or 6.0%, from \$15.0 billion at December 31, 2014, due to \$2.1 billion in gross outflows and \$0.7 billion in market depreciation, partially offset by \$1.9 billion in gross inflows. Assets in Pzena funds decreased by \$0.1 billion, or 10.0%, from \$1.0 billion at December 31, 2014, as a result of \$0.2 billion in gross outflows and \$0.1 billion in market depreciation, partially offset by \$0.2 billion in gross inflows.

**Revenue**

Our revenue from advisory fees earned on our separately managed accounts, sub-advised accounts and Pzena funds for the three years ended December 31, 2017 is described below:

Revenue	For the Years Ended December 31,		
	2017	2016	2015
	(in thousands)		
Separately Managed Accounts	\$ 76,419	\$ 61,165	\$ 68,213
Sub-Advised Accounts	55,003	40,018	41,980
Pzena Funds	9,873	7,153	6,414
Total	<u>\$ 141,295</u>	<u>\$ 108,336</u>	<u>\$ 116,607</u>

*Year Ended December 31, 2017 versus December 31, 2016*

Our total revenue increased \$33.0 million, or 30.4%, to \$141.3 million for the year ended December 31, 2017 from \$108.3 million for the year ended December 31, 2016. This change was driven by an increase in average assets during 2017, as well as an increase in performance fees recognized during 2017. We recognized \$3.2 million in performance fees during 2017 as compared to \$0.2 million in performance fees recognized in 2016. In addition, we recognized a \$1.0 million reduction in base fees related to fulcrum fee arrangements for the year ended December 31, 2016. For the year ended December 31, 2017, we did not recognize a reduction in base fees related to fulcrum fee arrangements. Average AUM increased 26.6% to \$33.8 billion as of December 31, 2017 from \$26.7 billion as of December 31, 2016.

Our weighted average fee rates were 0.418% and 0.406% for the years ended December 31, 2017 and 2016, respectively. Average assets in separately managed accounts increased 24.5% to \$13.7 billion for the year ended December 31, 2017, from \$11.0 billion for the year ended December 31, 2016, and had weighted average fees of 0.556% and 0.555% for the years ended December 31, 2017 and 2016, respectively. Average assets in sub-advised accounts increased 27.4% to \$18.6 billion for the year ended December 31, 2017, from \$14.6 billion for the year ended December 31, 2016, and had weighted average fees of 0.295% and 0.273% for the years ended December 31, 2017 and 2016, respectively. The increase in weighted average fees in sub-advised accounts was due primarily to a increase in performance fees recognized in 2017 and the reduction of base fees related to the fulcrum fee arrangements of certain accounts related to one client relationship recognized in 2016. A reduction in



base fees was not recognized during 2017. Average assets in Pzena funds increased 50.0% to \$1.5 billion for the year ended December 31, 2017, from \$1.0 billion for the year ended December 31, 2016, and had weighted average fees of 0.679% and 0.687% for the years ended December 31, 2017 and 2016, respectively.

*Year Ended December 31, 2016 versus December 31, 2015*

Our total revenue decreased \$8.3 million, or 7.1%, to \$108.3 million for the year ended December 31, 2016, from \$116.6 million for the year ended December 31, 2015. This change was driven by a decrease in performance fees recognized during 2016, a decrease in average assets, as well as a reduction in base fees associated with fulcrum fee arrangements. We recognized \$0.2 million in performance fees during 2016 as compared to \$4.5 million in performance fees recognized in 2015. We recognized a \$1.0 million reduction in base fees related to fulcrum fee arrangements for the year ended December 31, 2016. For the year ended December 31, 2015, we did not recognize a reduction in base fees related to fulcrum fee arrangements. Average AUM decreased 2.6% to \$26.7 billion as of December 31, 2016 from \$27.4 billion as of December 31, 2015.

Our weighted average fee rates were 0.406% and 0.426% for the years ended December 31, 2016 and 2015, respectively. Average assets in separately managed accounts decreased 6.0%, to \$11.0 billion for the year ended December 31, 2016, from \$11.7 billion for the year ended December 31, 2015, and had weighted average fees of 0.555% and 0.582% for the years ended December 31, 2016 and 2015, respectively. The decrease in weighted average fees in separately managed accounts was due primarily to a decrease in performance fees recognized in 2016. Average assets in sub-advised accounts was \$14.7 billion for the year ended December 31, 2016, in-line with \$14.7 billion for the year ended December 31, 2015, and had weighted average fees of 0.273% and 0.285% for the years ended December 31, 2016 and 2015, respectively. The decrease in weighted average fees in sub-advised accounts was due primarily to a decrease in performance fees recognized in 2016 and the reduction of base fees related to the fulcrum fee arrangements of certain accounts related to one client relationship. Average assets in Pzena funds was \$1.0 billion for the year ended December 31, 2016, in-line with \$1.0 billion for the year ended December 31, 2015, and had weighted average fees of 0.687% and 0.674% for the years ended December 31, 2016 and 2015, respectively. The increase in weighted average fees in Pzena funds was due to the opening of non-U.S. funds during 2016 that generally carry higher fee rates.

**Expenses**

Our operating expense is driven primarily by our compensation costs. The table below describes the components of our operating expense for the years ended December 31, 2017, 2016, and 2015.

	<b>For the Years Ended December 31,</b>		
	<b>2017</b>	<b>2016</b>	<b>2015</b>
	<b>(in thousands)</b>		
Cash Compensation and Other Benefits	\$ 48,722	\$ 41,397	\$ 35,431
Other Non-Cash Compensation	10,182	6,933	11,092
<b>Total Compensation and Benefits Expense</b>	<b>58,904</b>	<b>48,330</b>	<b>46,523</b>
General and Administrative Expense	13,337	12,788	14,667
<b>Total Operating Expenses</b>	<b>\$ 72,241</b>	<b>\$ 61,118</b>	<b>\$ 61,190</b>

*Year Ended December 31, 2017 versus December 31, 2016*

Total operating expenses increased by \$11.1 million, or 18.2%, to \$72.2 million for the year ended December 31, 2017, from \$61.1 million for the year ended December 31, 2016.

Compensation and benefits expense increased by \$10.6 million, or 21.9%, to \$58.9 million for the year ended December 31, 2017, from \$48.3 million for the year ended December 31, 2016. This increase reflects an increase in compensation rates, certain awards issued in the beginning of 2017, and an increase in obligations under our deferred compensation plan driven by an increase in the performance of the strategies in which employees elected to invest deferred compensation. We would expect non-cash compensation expense in subsequent years to depend on the size and composition of awards granted under our equity incentive plans as well as levels of deferred compensation.

General and administrative expense increased by \$0.5 million, or 4.3%, to \$13.3 million for the year ended December 31, 2017, from \$12.8 million for the year ended December 31, 2016. This increase primarily reflects an increase in professional fees and travel expenses.

*Year Ended December 31, 2016 versus December 31, 2015*

Total operating expense decreased by \$0.1 million, or 0.1%, to \$61.1 million for the year ended December 31, 2016, from \$61.2 million for the year ended December 31, 2015.

Compensation and benefits expense increased by \$1.8 million, or 3.9%, to \$48.3 million for the year ended December 31, 2016, from \$46.5 million for the year ended December 31, 2015. This increase reflects an increase in compensation and headcount, as well as an increase in obligations under our deferred compensation plan driven by an increase in the performance of the strategies in which employees elected to invest deferred compensation. We would expect non-cash compensation expense in subsequent years to depend on the size and composition of awards granted under our equity incentive plans. The fluctuation between cash and non-cash compensation expense from December 31, 2015 to December 31, 2016 reflects \$4.5 million of cash compensation paid in the form Delayed Exchange Class B units and Class B units which were issued and vested immediately on January 1, 2017. For the year ended December 31, 2015 such elections were issued and vested immediately in December 2015 and were reflected in non-cash compensation expenses.

General and administrative expense decreased by \$1.9 million, or 12.8%, to \$12.8 million for the year ended December 31, 2016, from \$14.7 million for the year ended December 31, 2015. This decrease primarily reflects \$1.8 million in non-recurring losses and lease expenses associated with the exit from our former corporate headquarters in the first half of 2015 and certain other operational expenses that did not recur during 2016, partially offset by an increase in expenses during 2016 associated with new business initiatives.

***Other Income/ (Expense)***

*Year Ended December 31, 2017 versus December 31, 2016*

Other income/ (expense) was \$25.6 million for the year ended December 31, 2017, and consisted primarily of \$20.8 million in income related to adjustments to our liability to our selling and converting shareholders, \$2.6 million in net realized and unrealized gains from investments, \$1.5 million in equity in the earnings of affiliates, and \$0.6 million in interest and dividend income. Other income/ (expense) was an expense of \$48.0 million for the year ended December 31, 2016, and consisted primarily of \$51.4 million in expense related to adjustments to our liability to our selling and converting shareholders, partially offset by \$1.8 million in net realized and unrealized gains from investments, \$1.2 million in equity in the earnings of affiliates, and \$0.4 million in interest and dividend income. As discussed further below, the liability to our selling and converting shareholders represents 85% of the amount of cash savings, if any, in U.S. federal, state and local income tax that we realize as a result of the amortization of the increases in tax basis generated from our purchase of operating company units from our selling shareholders. The decrease in the liability to our selling and converting shareholders primarily resulted from the re-measurement of the deferred tax asset upon enactment of the Tax Cuts and Jobs Act in the fourth quarter of 2017 described in income tax expense/ (benefit) below.

*Year Ended December 31, 2016 versus December 31, 2015*

Other income/ (expense) was an expense of \$48.0 million for the year ended December 31, 2016, and consisted primarily of \$51.4 million in expense related to adjustments to our liability to our selling and converting shareholders, partially offset by \$1.8 million in net realized and unrealized gains from investments, \$1.2 million in equity in the earnings of affiliates, and \$0.4 million in interest and dividend income. Other income/ (expense) was an expense of \$3.3 million for the year ended December 31, 2015, and consisted primarily of \$3.2 million in net realized and unrealized losses from investments and \$0.4 million in expense related to adjustments to our liability to our selling and converting shareholders, partially offset by \$0.8 million in interest and dividend income. As discussed further below, the liability to our selling and converting shareholders represents 85% of the amount of cash savings, if any, in U.S. federal, state and local income tax that we realize as a result of the amortization of the increases in tax basis generated from our purchase of operating company units from our selling shareholders. The increase in the liability to our selling and converting shareholders resulted from the release of the valuation allowance recorded against the deferred tax assets described in income tax expense/ (benefit) below. The \$6.4 million year-over-year change in gains and other investment income was due to performance of our direct investments, the majority of which are held to satisfy obligations under its deferred compensation plan, as well as gains recognized by external investors on their investments in our consolidated subsidiaries.

**Income Tax Expense/ (Benefit)**

For the years ended December 31, 2017, 2016, and 2015, components of income tax expense/ (benefit) are as follows:

	For the Years Ended December 31,		
	2017	2016	2015
	(in thousands)		
Unincorporated and Other Business Tax Expenses	\$ 2,862	\$ 1,588	\$ 2,228
Corporate Tax Expense/ (Benefit):			
Corporate Income Tax Expense	6,188	3,935	4,160
Impact of Tax Cuts and Jobs Act <sup>1</sup>	26,468	—	—
Change in the Valuation Allowance	—	(61,942)	(1,274)
Impact of Change in Historical 754 Step-Up Calculations <sup>2</sup>	(1,006)	—	—
Net Adjustment to Deferred Tax Asset	—	1,944	—
Total Corporate Tax Expense/ (Benefit)	31,650	(56,063)	2,886
Total Income Tax Expense/ (Benefit)	\$ 34,512	\$ (54,475)	\$ 5,114

1 Reflects income tax expense resulting from the re-measurement of the deferred tax asset related to the Tax Cuts and Jobs Act enacted in the United States during the fourth quarter of 2017.

2 Reflects the net impact of a change in the calculation of historical 754 step-ups and related deferred tax asset and corresponding liability to selling and converting shareholders recognized during the year-ended December 31, 2017.

Our results for the years ended December 31, 2017, 2016, and 2015 included the effects of adjustments related to the Tax Cuts and Jobs Act, our tax receivable agreement and the associated liability, as well as non-recurring lease expenses discussed in “Expenses,” above. Details of corporate tax expenses excluding these items and reconciliations between our GAAP and non-GAAP corporate tax items are as follows:

	For the Years Ended December 31,		
	2017	2016	2015
	(in thousands)		
Corporate Tax Expense/ (Benefit)	\$ 31,650	\$ (56,063)	\$ 2,886
Less: Impact of Tax Cuts and Jobs Act	(26,468)	—	—
Less: Effects of One Time Adjustments	—	—	132
Less: Change in the Valuation Allowance Associated with the Tax Receivable Agreement	—	61,607	847
Less: Impact of Change in Historical 754 Step-Up Calculations	1,006	—	—
Less: Net Adjustment to Deferred Tax Assets Associated with the Tax Receivable Agreement	—	(1,944)	—
Non-GAAP Corporate Income Tax Expense	\$ 6,188	\$ 3,600	\$ 3,865

Our effective tax rate, exclusive of adjustments related to our tax receivable agreement and the associated liability to selling and converting shareholders and adjustments related to non-recurring expenses recognized in operating expense in the fourth quarter of 2015, was 34.9%, 31.1%, and 34.2% for the years ended December 31, 2017, 2016, and 2015, respectively, and was determined as follows:

	For the Years Ended December 31,					
	2017		2016		2015	
	Tax (in thousands)	% of Non-GAAP Pre-tax Income	Tax (in thousands)	% of Non-GAAP Pre-tax Income	Tax (in thousands)	% of Non-GAAP Pre-tax Income
Federal Corporate Tax	\$ 6,031	34.0 %	\$ 3,930	34.0 %	\$ 3,843	34.0 %
State and Local Taxes, Net of Federal Benefit	479	2.7 %	325	2.8 %	350	3.1 %
Prior Period and Other Adjustments	(322)	(1.8)%	(655)	(5.7)%	(328)	(2.9)%
Non-GAAP Effective Taxes	\$ 6,188	34.9 %	\$ 3,600	31.1 %	\$ 3,865	34.2 %

A comparison of the GAAP effective tax rates for the years ended December 31, 2017, 2016, and 2015 is not meaningful due to the Tax Cuts and Jobs Act and valuation allowance adjustments.

*Year Ended December 31, 2017 versus December 31, 2016*

Income tax expense/ (benefit) was an expense of \$34.5 million for the year ended December 31, 2017, compared to \$54.5 million in income tax benefit for the year ended December 31, 2016. The 2017 income tax expense included \$26.5 million of expense related to the re-measurement of the deferred tax asset upon enactment of the Tax Cuts and Jobs Act in the United States during the fourth quarter of 2017. Additionally, we identified an adjustment related to the historical calculation of the 754 step-ups in tax basis impacting the deferred tax assets and corresponding liability to selling and converting shareholders. The adjustment was made during the year-ended December 31, 2017, resulting in a \$4.6 million decrease to the deferred tax assets and a \$5.6 million decrease to the corresponding liability to selling and converting shareholders. The cumulative impact of the adjustment is a net tax benefit of approximately \$1.0 million which was recognized as a component of income tax expense/(benefit) for the year ended December 31, 2017.

The 2016 income tax benefit included \$61.9 million of benefit associated with the release of the valuation allowance recorded against our deferred tax asset during the fourth quarter of 2016. The 2016 income tax benefit also reflects a \$1.9 million adjustment associated with the net impact of the changes in the deferred tax asset and valuation allowance assessed against the deferred tax asset associated with the changes in expected future tax benefits. Exclusive of these adjustments, the remaining income tax expense for the year ended December 31, 2017 consisted of \$2.9 million in operating company unincorporated and other business tax expenses and \$6.2 million of corporate income tax expenses. On a similar basis, the remaining income tax expense for the year ended December 31, 2016 consisted of \$1.6 million of operating company unincorporated business tax expenses and \$3.9 million of corporate income tax expenses. The increase in operating company unincorporated and other business tax expenses reflects a \$0.7 million benefit associated with the reversal of uncertain tax position liabilities and interest due to the settlement of prior year audits during 2016.

*Year Ended December 31, 2016 versus December 31, 2015*

Income tax expense/ (benefit) was a benefit of \$54.5 million for the year ended December 31, 2016, compared to \$5.1 million in income tax expense for the year ended December 31, 2015. The 2016 and 2015 income tax expense/ (benefit) included \$61.9 million and \$1.3 million, respectively, of benefit associated with adjustments to the valuation allowance recorded against our deferred tax asset. The increase in the benefit associated with the change in the valuation allowance reflects the release of the valuation allowance during 2016 resulting from increased levels of assets under management and the associated future taxable income used to analyze the realizability of the deferred tax asset. As of December 31, 2016, the Company concluded it is more-likely-than-not that it will generate sufficient taxable income in the future to realize its deferred tax asset. The 2016 income tax benefit also reflects a \$1.9 million adjustment associated with the net impact of the changes in the deferred tax asset and valuation allowance assessed against the deferred tax asset associated with the changes in expected future tax benefits. Exclusive of these adjustments, the remaining income tax expense/ (benefit) for the year ended December 31, 2016 consisted of \$1.6 million in operating company unincorporated and other business tax expenses and \$3.9 million of corporate income tax expenses. On a similar basis, the remaining income tax expense/ (benefit) for the year ended December 31, 2015 consisted of \$2.2 million of operating company unincorporated business tax expenses and \$4.2 million of corporate income tax expenses. The decrease in operating company unincorporated and other business tax expenses reflects a \$0.7 million benefit associated with the reversal of uncertain tax position liabilities and interest due to the settlement of prior year audits.

## ***Net Income Attributable to Non-Controlling Interests***

*Year Ended December 31, 2017 versus December 31, 2016*

Net income attributable to non-controlling interests was \$53.2 million for the year ended December 31, 2017, and consisted of \$52.4 million associated with our employees' and outside investors' approximately 74.7% weighted-average interest in the income of the operating company, and approximately \$0.9 million associated with our consolidated subsidiaries' interest in the income of our consolidated subsidiaries. Net income attributable to non-controlling interests was \$37.5 million for the year ended December 31, 2016, and consisted of \$37.1 million associated with our employees' and outside investors' approximately 76.3% weighted-average interest in the income of the operating company, and approximately \$0.4 million associated with our consolidated subsidiaries' interest in the income of our consolidated subsidiaries. The change in net income attributable to non-controlling interests primarily reflects the increase in net income of the operating company for the year ended December 31, 2017, partially offset by a decrease in our employees' and outside investors' weighted average interest in the income of the operating company. We expect the interests in our operating company in subsequent periods to depend on changes in our shareholder's equity and the size and composition of Class B units awarded by our operating company's compensation plans.

*Year Ended December 31, 2016 versus December 31, 2015*

Net income attributable to non-controlling interests was \$37.5 million for the year ended December 31, 2016, and consisted of \$37.1 million associated with our employees' and outside investors' approximately 76.3% weighted-average interest in the income of the operating company, and approximately \$0.4 million associated with our consolidated subsidiaries' interest in the income of our consolidated subsidiaries. Net income attributable to non-controlling interests was \$39.3 million for the year ended December 31, 2015, and consisted of \$41.6 million associated with our employees' and outside investors' approximately 78.8% weighted-average interest in the income of the operating company, partially offset by \$2.2 million associated with our consolidated subsidiaries' interest in the losses of our consolidated subsidiaries. The change in net income attributable to non-controlling interests primarily reflects the decrease in net income of the operating company for the year ended December 31, 2016, and the decrease in our employees' and outside investors' weighted average interest in the income of the operating company. We expect the interests in our operating company in subsequent periods to depend on changes in our shareholder's equity and the size and composition of Class B units awarded by our operating company's compensation plans.

## **Liquidity and Capital Resources**

Historically, the working capital needs of our business have primarily been met through the cash generated by our operations. Distributions to members of our operating company are our largest use of cash. Other activities include purchases and sales of investments to fund our deferred compensation program, capital expenditures, and strategic growth initiatives such as providing the seed investments in our mutual funds.

We expect to fund the liquidity needs of our business in the next twelve months, and over the long-term, primarily through cash generated from operations. As an investment management company, our business is materially affected by conditions in the global financial markets and economic conditions throughout the world. Our liquidity is highly dependent on the revenue and income from our operations, which is directly related to our levels of AUM. For the year ended December 31, 2017, our average AUM and revenues increased by 26.6% and 30.4%, respectively, compared to our average AUM and revenues for the year ended December 31, 2016. At December 31, 2017, our cash was \$63.4 million, inclusive of \$6.4 million in cash held by our consolidated subsidiaries. Advisory fees receivable was \$32.5 million. We also had approximately \$11.2 million in investments set aside to satisfy our obligations under our deferred compensation program.

In determining the sufficiency of liquidity and capital resources to fund our business, we regularly monitor our liquidity position, including, among other things, cash, working capital, investments, long-term liabilities, lease commitments, debt obligations, and operating company distributions. Compensation is our largest expense. To the extent we deem necessary and appropriate to run our business, recognizing the need to retain our key personnel, we have the ability to change the absolute levels of our compensation packages, as well as change the mix of their cash and non-cash components. Historically, we have not tied our level of compensation directly to revenue, as many Wall Street firms do. Correspondingly, there is not a linear relationship between our compensation and the revenues we generate. This generally has the effect of increasing operating margins in periods of increased revenues, but can reduce operating margins when revenue declines.

We continuously evaluate our staffing requirements and compensation levels with reference to our own liquidity position and external peer benchmarking data. The result of this review directly influences management's recommendations to our Board of Directors with respect to such staffing and compensation levels.

We anticipate that tax allocations and dividend equivalent payments to the members of our operating company, which consists of certain of our employees, unaffiliated persons, former employees, and us, will continue to be a material financing activity. Cash distributions to operating company members for partnership tax allocations would increase should the taxable income of the operating company increase. Dividend equivalent payments will depend on our dividend policy and the discretion of our Board of Directors, as discussed below.

We believe that our lack of long-term debt, and ability to vary cash compensation levels, have provided us with an appropriate degree of flexibility in providing for our liquidity needs.

### **Dividend Policy**

As we are a holding company and have no material assets other than our ownership of membership interests in our operating company, 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. 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. Our dividend policy has certain risks and limitations, particularly with respect to liquidity. We may not pay dividends to our Class A common shareholders 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. To the extent we do not have cash on hand sufficient to pay dividends in the future, we may decide not to pay dividends. By paying cash dividends rather than investing that cash in our future growth, we risk slowing the pace of our growth, or not having a sufficient amount of cash to fund our operations or unanticipated capital expenditures, should the need arise.

On January 30, 2018, the Company's 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 the Company's 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 the Company's 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.

Our ability to pay dividends is subject to the Board of Directors' discretion and may be limited by our holding company structure and applicable provisions of Delaware law. See "Item 1A — Risk Factors — Risks Relating 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."

### **Tax Receivable Agreement**

Our purchase of membership units of our operating company concurrent with our IPO, and the subsequent and future exchanges by holders of Class B units of our operating company for shares of our Class A common stock (pursuant to the exchange rights provided for in the operating company's operating agreement), has resulted in, and is expected to continue to result in, increases in our share of the tax basis of the tangible and intangible assets of our operating company, which will increase the tax depreciation and amortization deductions that otherwise would not have been available to us. These increases in tax basis and tax depreciation and amortization deductions have reduced, and are expected to continue to reduce, the amount of cash taxes that we would otherwise be required to pay in the future. We have entered into a tax receivable agreement with the current members of our operating company, the one member of our operating company immediately prior to our initial public offering who sold all of its membership units to us in connection with our initial public offering, and any future holders of Class B units, that requires us to pay them 85% of the amount of cash savings, if any, in U.S. federal, state and local income tax that we actually realize (or are deemed to realize in the case of an early termination payment by us, or a change in control, as described in the tax receivable agreement) as a result of the increases in tax basis described above and certain other tax benefits related to entering into the tax receivable agreement, including tax benefits attributable to payments under the tax receivable agreement.

**Cash Flows**

*Year Ended December 31, 2017 versus December 31, 2016*

Cash increased \$19.9 million to \$63.4 million in 2017 compared to \$43.5 million in 2016. Net cash provided by operating activities increased \$12.7 million in 2017 to \$67.7 million from \$58.6 million in 2016. The increase primarily reflects an increase in net income, changes in the levels of non-cash compensation, equity in the earnings of affiliates, net realized and unrealized gains from investments, as well as changes in operating assets and liabilities and working capital.

Net cash provided by investing activities was \$0.5 million in 2017 compared to \$0.2 million in 2016. The \$0.3 million increase was primarily due to a \$1.1 million increase in proceeds from net sales of investments, partially offset by a \$0.5 million increase in payments to related parties related primarily to loans made to employees.

Net cash used in financing activities decreased \$2.4 million in 2017 to \$48.0 million from \$50.4 million in 2016. This decrease is primarily due to a \$1.6 million decrease in the repurchase and retirement of shares of Class A common stock and Class B units during 2017 and a \$2.0 million decrease in net distributions from non-controlling interests, partially offset by a \$0.9 million decrease in cash provided by option exercises.

*Year Ended December 31, 2016 versus December 31, 2015*

Cash increased \$8.1 million to \$43.5 million in 2016 compared to \$35.4 million in 2015. Net cash provided by operating activities increased \$1.2 million in 2016 to \$58.6 million from \$57.4 million in 2015. The increase primarily reflects a change in the timing of year-end bonus payments to January of the subsequent year as well as an increase in net income driven by taxes, changes in the liability to selling and converting shareholders, and gains/ losses and other investment income. These increases were partially offset by changes in operating assets and liabilities and working capital.

Net cash provided by investing activities was \$0.2 million in 2016 compared to \$6.2 million used in 2015. The \$6.4 million increase was primarily due to a \$6.2 million decrease in cash used in the purchases of property and equipment and a \$1.0 million decrease in payments to related parties related primarily to loans made to employees in December of 2015, partially offset by \$0.8 million decrease in proceeds from net sales of investments.

Net cash used in financing activities decreased \$4.5 million in 2016 to \$50.4 million from \$54.9 million in 2015. This decrease is primarily due to a \$4.4 million decrease in the repurchase and retirement of shares of Class A common stock and Class B units during 2016.

**Contractual Obligations**

The following table sets forth information regarding our consolidated contractual obligations as of December 31, 2017.

	Payments Due by Period				
	Total	Less Than 1 Year	1 – 3 Years	3 – 5 Years	More Than 5 Years
(in thousands)					
Operating Lease Expenses, Net of Sublease Rental Income	\$ 15,353	\$ 1,618	\$ 3,838	\$ 5,938	\$ 3,959
Total	\$ 15,353	\$ 1,618	\$ 3,838	\$ 5,938	\$ 3,959

**Off-Balance Sheet Arrangements**

We did not have any off-balance sheet arrangements as of December 31, 2017.

## **Critical Accounting Policies and Estimates**

The preparation of our consolidated financial statements in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"), requires management to make estimates and judgments that affect our reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under current circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily available from other sources. We evaluate our estimates on an ongoing basis. Actual results may differ from these estimates under different assumptions or conditions.

Accounting policies are an integral part of our financial statements. A thorough understanding of these accounting policies is essential when reviewing our reported results of operations and our financial condition. Management believes that the critical accounting policies discussed below involve additional management judgment due to the sensitivity of the methods and assumptions used.

### ***Consolidation***

Our policy is to consolidate all majority-owned subsidiaries in which we have a controlling financial interest and variable-interest entities of which we are deemed to be the primary beneficiary. We assess our consolidation practices regularly, as circumstances dictate. All significant inter-company transactions and balances have been eliminated.

### ***Income Taxes***

We are a "C" corporation under the Internal Revenue Code, and thus liable for federal, state and local taxes on the income derived from our economic interest in our operating company. The operating company is a limited liability company that has elected to be treated as a partnership for tax purposes. Our operating company has not made a provision for federal or state income taxes because it is the responsibility of each of the operating company's members (including us) to separately report their proportionate share of the operating company's taxable income or loss. Similarly, the income of our consolidated investment partnerships is not subject to income taxes, as such income is allocated to each partnership's individual partners. The operating company has made a provision for New York City Unincorporated Business Tax (UBT) and its consolidated subsidiary Pzena Investment Management, LTD has made a provision for U.K. income taxes.

We recognize deferred tax assets and liabilities for the future tax consequences attributable to differences between the carrying amounts of existing assets and liabilities and their respective tax bases, net operating loss carryforwards and tax credits. A valuation allowance is recorded on our deferred tax assets when it is more-likely-than-not that all or a portion of such assets will not be realized. When evaluating the realizability of our deferred tax assets, all evidence, both positive and negative, is evaluated, which requires management to make significant judgments and assumptions. Items considered when evaluating the need for a valuation allowance include our forecast of future taxable income, future reversals of existing temporary differences, tax planning strategies and other relevant considerations.

We believe that the accounting estimate related to the valuation allowance is a critical accounting estimate because the underlying assumptions can change from period to period. For example, tax law changes, or variances in future projected operating performance, could result in a change in the valuation allowance. Each quarter, we re-evaluate our estimate related to the valuation allowance, including our assumptions about future taxable income. If we are not able to realize all or part of our net deferred tax assets in the future, a valuation allowance would be recorded against our deferred tax asset and charged to income tax expense in the period such determination was made.

In March 2016, the FASB issued ASU No. 2016-09, "*Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting.*" The Company adopted ASU No. 2016-09 as of January 1, 2017. This standard requires excess tax benefits and tax deficiencies to be recorded in the consolidated statements of operations as a component of Income Tax Expense when equity awards vest or are settled. The Company is no longer required to delay recognition of an excess tax benefit until it reduces current taxes payable. The standard also requires excess tax benefits to be classified as operating activities along with other income tax cash flows within the consolidated statements of cash flows. In addition, ASU No. 2016-09 allows entities to make an accounting policy election to either estimate the number of forfeitures expected to occur, as was previously required, or to account for actual forfeitures as they occur. The Company has elected to account for forfeitures as they occur, rather than estimate expected forfeitures.



The adoption of ASU No. 2016-09 resulted in a net cumulative effect adjustment reflecting a \$1.4 million increase to retained earnings and the deferred tax asset as of January 1, 2017, related to the recognition of the previously unrecognized excess tax benefits using the modified retrospective method. Estimates of forfeitures in prior periods were immaterial, and therefore are not included in the cumulative effect adjustment. The amendments related to the classification of the excess tax benefits in the consolidated statements of cash flows were adopted on a prospective basis, which did not require the restatement of prior periods.

Management judgment is required in determining our provision for income taxes, evaluating our tax positions and establishing deferred tax assets and liabilities. The calculation of our tax liabilities involves dealing with uncertainties in the application of complex tax regulations. If the ultimate resolution of uncertainties is different from currently estimated, it could affect income tax expense and the effective tax rate.

### **Recently Issued Accounting Pronouncements Not Yet Adopted**

See Note 2, "Significant Accounting Policies — Recently Issued Accounting Pronouncements Not Yet Adopted" to the consolidated financial statements beginning on page F-10 of this Annual Report.

## **ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

### ***Market Risk***

Our exposure to market risk is directly related to our role as investment adviser for separate accounts we manage, funds we offer, and accounts for which we act as sub-investment adviser.

Our revenue for the three years ended December 31, 2017 was generally derived from advisory fees, which are typically based on the market value of our AUM, which can be affected by adverse changes in interest rates, foreign currency exchange rates and equity prices. Accordingly, a decline in the prices of securities would cause our revenue and income to decline, due to a decrease in the value of the assets we manage. In addition, such a decline could cause our clients to withdraw their funds in favor of investments offering higher returns or lower risk, which would cause our revenue and income to decline further.

The value of our AUM was \$38.5 billion as of December 31, 2017. A 10% increase or decrease in the value of our AUM, if proportionately distributed over all of our investment strategies, products, and client relationships, would cause an annualized increase or decrease in our revenues of approximately \$15.7 million at our current weighted average fee rate excluding the impact of performance fees and fulcrum fee arrangements of 0.408%. There are differences in our fee rates across distribution channels, investment strategies and the size of client relationships. As such, a change in the composition of our AUM, in particular an increase in the proportion of our total assets under management attributable to strategies, clients or relationships with lower effective fee rates, could have a material negative impact on our overall weighted average fee rates and thus different impact to revenues on the same 10% increase or decrease in the value of our AUM.

We are also subject to market risk due to a decline in the value of our holdings and the holdings of our consolidated subsidiaries, which as of December 31, 2017 consist primarily of marketable securities and investments in equity method investees. At December 31, 2017, the aggregate value of our assets subject to market risk was \$21.7 million. At December 31, 2017, none of our liabilities were subject to market risk. Assuming a 10% increase or decrease, the fair value of these assets would increase or decrease by \$2.2 million, at December 31, 2017.

### ***Exchange Rate Risk***

A substantial portion of the accounts that we advise, or sub-advise, hold investments that are denominated in currencies other than the U.S. dollar. Movements in the rate of exchange between the U.S. dollar and the underlying foreign currency affect the values of assets held in accounts that we manage, thereby affecting the amount of revenues we earn. The value of our AUM was \$38.5 billion as of December 31, 2017 and approximately 36% of our assets under management across our investment strategies were invested in strategies that primarily invest in securities of non-U.S. companies and approximately 42% of our assets under management were invested in securities denominated in currencies other than the U.S. dollar. To the extent our assets under management are denominated in currencies other than the U.S. dollar, the value of those assets under management will decrease with an increase in the value of the U.S. dollar, or increase with a decrease in the value of the U.S. dollar. Because we believe that many of our clients invest in those strategies in order to gain exposure to non-U.S. currencies, or may implement their own hedging programs, we do not hedge an investment portfolio's exposure to a non-U.S. currency.

We have not adopted a corporate-level risk management policy to manage this exchange rate risk. Assuming that 42% of our assets under management is invested in securities denominated in currencies other than the U.S. dollar and excluding the impact of any hedging arrangements, a 10% increase or decrease in the value of the U.S. dollar would decrease or increase the fair value of our assets under management by \$1.7 billion, which would cause an annualized increase or decrease in revenues of approximately \$7.0 million at our current weighted average fee rate excluding the impact of performance fees and fulcrum fee arrangements of 0.408%.

We operate in several foreign countries, but mainly in the United Kingdom. We incur operating expenses and have foreign currency-denominated assets and liabilities associated with these operations, although our revenues are predominately realized in U.S. dollar. We do not believe that foreign currency fluctuations materially affect our results of operations.

### ***Interest Rate Risk***

As of December 31, 2017, our \$63.4 million in cash was primarily held in demand deposit accounts. As such, interest rate changes would not have a material impact on the income we earn from these deposits. In addition, the Company does not have any debt, and as a result does not have any direct exposure to interest rate risk at December 31, 2017.

## **ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

Our consolidated financial statements and notes thereto begin on page F-5 of this Annual Report and are incorporated herein by reference.

## **ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

None.

## **ITEM 9A. CONTROLS AND PROCEDURES**

### **Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures**

During the course of their review of our consolidated financial statements as of December 31, 2017, our management, including our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures pursuant to Rule 13a-15 under the Exchange Act. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of December 31, 2017, our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) were effective to ensure that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

### **Management's Report on Internal Control Over Financial Reporting**

Our management is responsible for establishing and maintaining adequate internal control over our financial reporting, as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. Our internal control system is designed to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of our financial statements for external purposes in accordance accounting principles generally accepted in the United States of America. There are inherent limitations in the effectiveness of any internal controls, including the possibility of human error and the circumvention or overriding of controls. Accordingly, even effective internal controls can provide only reasonable assurances with respect to financial statement preparation. Further, because of changes in conditions, the effectiveness of internal controls may vary over time.

Our management, with the participation of our Chief Executive Officer and our Chief Financial Officer, has assessed the effectiveness of our internal control over financial reporting as of December 31, 2017. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control — Integrated Framework (2013)*.

Based on the assessment using those criteria, management concluded that, as of December 31, 2017, our internal control over financial reporting was effective.

PricewaterhouseCoopers LLP, the independent registered public accounting firm that audited the financial statements included in this Annual Report have issued an audit report on our internal control over financial reporting. This report appears on page F-2 of this Annual Report.

**Changes in Internal Control Over Financial Reporting**

There have not been any changes in our internal control over financial reporting during the quarter ended December 31, 2017 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**ITEM 9B. OTHER INFORMATION**

None.

**PART III.**

**ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

The information required by this Item is set forth under the proposal "Election of Directors" and under the subheading "Section 16(a) Beneficial Ownership Reporting Compliance" under the heading "Other Matters" in the Company's 2018 Proxy Statement to be filed with the U.S. Securities and Exchange Commission ("SEC") within 120 days after December 31, 2017 in connection with the solicitation of proxies for the Company's 2018 annual meeting of shareholders and is incorporated herein by reference ("Company's 2018 Proxy Statement").

The Company has a code of ethics, "Code of Business Conduct and Ethics," that applies to all employees, including the Company's principal executive officer and principal financial officer and principal accounting officer, as well as to the members of the Board of Directors of the Company. The code is available at [www.pzena.com](http://www.pzena.com). The Company intends to disclose any changes in, or waivers from, this code by posting such information on the same website or by filing a Form 8-K, in each case to the extent such disclosure is required by rules of the SEC or the New York Stock Exchange.

**ITEM 11. EXECUTIVE COMPENSATION**

The information required by this Item is set forth under the headings "Executive Compensation" and "2017 Non-Employee Director Compensation" in the Company's 2018 Proxy Statement.

**ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

The information required by this Item is set forth under the headings "Security Ownership of Principal Stockholders and Management," "Equity Compensation Plan Information," "Pzena Investment Management LLC 2006 Equity Incentive Plan," and "Pzena Investment Management, Inc. 2007 Equity Incentive Plan" in the Company's 2018 Proxy Statement.

**ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE**

The information required by this Item is set forth under the heading "Related Party Transactions" and under the subheading "Director Independence" under the proposal "Election of Directors" in the Company's 2018 Proxy Statement.

**ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

The information required by this Item is set forth under the proposal "Ratification of Independent Auditors" in the Company's 2018 Proxy Statement.

**PART IV**

**ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES**

The following documents are filed as part of this Annual Report:

1. Financial Statements

<b>Pzena Investment Management, Inc.</b>	<b>Page</b>
<a href="#">Report of PricewaterhouseCoopers LLP, Independent Registered Public Accounting Firm</a>	<a href="#">F-2</a>
<a href="#">Report of KPMG LLP, Independent Registered Public Accounting Firm</a>	<a href="#">F-4</a>
<a href="#">Consolidated Statements of Financial Condition as of December 31, 2017 and 2016</a>	<a href="#">F-5</a>
<a href="#">Consolidated Statements of Operations for the Years Ended December 31, 2017, 2016 and 2015</a>	<a href="#">F-6</a>
<a href="#">Consolidated Statements of Comprehensive Income for the Years Ended December 31, 2017, 2016, and 2015</a>	<a href="#">F-7</a>
<a href="#">Consolidated Statements of Changes in Equity for the Years Ended December 31, 2017, 2016 and 2015</a>	<a href="#">F-8</a>
<a href="#">Consolidated Statements of Cash Flows for the Years Ended December 31, 2017, 2016 and 2015</a>	<a href="#">F-9</a>
<a href="#">Notes to Consolidated Financial Statements</a>	<a href="#">F-10</a>

2. Financial Statement Schedules

There are no Financial Statement Schedules filed as part of this Annual Report, since the required information is included in our consolidated financial statements and in the notes thereto.

3. Exhibit List

We have incorporated by reference herein certain exhibits as specified below pursuant to Rule 12b-32 of the Exchange Act. If specific material facts exist which contradict the representations and warranties contained in the documents filed or incorporated by reference in this Annual Report, corrective disclosure has been provided.

Additional information about us may be found elsewhere in this Annual Report, and our other public filings, which are available without charge through the SEC’s website at <http://www.sec.gov>, as well as through our website at [www.pzena.com](http://www.pzena.com).

<b>Exhibit</b>	<b>Description of Exhibit</b>
3.1	<a href="#">Second Amended and Restated Certificate of Incorporation of Pzena Investment Management, Inc., effective as of May 23, 2017<sup>(1)</sup></a>
3.2	<a href="#">Second Amended and Restated Bylaws of Pzena Investment Management, Inc., effective as of January 15, 2016<sup>(2)</sup></a>
4.1	<a href="#">Form of Pzena Investment Management, Inc. Class A Common Stock Certificate<sup>(3)</sup></a>
4.2	<a href="#">Form of Exchange Rights of Class B Members<sup>(3)</sup></a>
4.3	<a href="#">Resale and Registration Rights Agreement, dated as of October 30, 2007, by and among Pzena Investment Management, Inc. and the Holders named on the signature pages thereto<sup>(4)</sup></a>
4.4	<a href="#">Class B Stockholders’ Agreement, dated as of October 30, 2007, by and among Pzena Investment Management, Inc. and the Class B Stockholders named on the signature pages thereto<sup>(4)</sup></a>
10.1	<a href="#">Amended and Restated Operating Agreement of Pzena Investment Management, LLC, dated as of October 30, 2007, by and among Pzena Investment Management, Inc. and the Class B Members named on the signature pages thereto<sup>(4)</sup></a>
10.2	<a href="#">Tax Receivable Agreement, dated as of October 30, 2007, by and among Pzena Investment Management, Inc., Pzena Investment Management, LLC and the Continuing Members and Exiting Members named on the signature pages thereto<sup>(4)</sup></a>
10.3	<a href="#">Pzena Investment Management, LLC Amended and Restated 2006 Equity Incentive Plan<sup>(5)</sup></a>
10.4	<a href="#">Pzena Investment Management, LLC Amended and Restated Bonus Plan, as amended, dated as of October 21, 2008<sup>(6)</sup></a>
10.5	<a href="#">Pzena Investment Management, Inc. 2007 Equity Incentive Plan, as amended, dated as of January 31, 2017<sup>(5)</sup></a>
10.6	<a href="#">Executive Employment Agreement for Richard S. Pzena, dated as of October 30, 2007, by and among Pzena Investment Management, Inc., Pzena Investment Management, LLC and Richard S. Pzena<sup>(4)</sup></a>
10.7	<a href="#">Executive Employment Agreement for John P. Goetz, dated as of October 30, 2007, by and among Pzena Investment Management, Inc., Pzena Investment Management, LLC and John P. Goetz<sup>(4)</sup></a>

Exhibit	Description of Exhibit
10.8	<a href="#"><u>Amended and Restated Executive Employment Agreement for William L. Lipsey, dated as of October 30, 2007, by and among Pzena Investment Management, Inc., Pzena Investment Management, LLC and William L. Lipsey<sup>(4)</sup></u></a>
10.9	<a href="#"><u>Indemnification Agreement for Richard S. Pzena, dated as of October 30, 2007, by and among Pzena Investment Management, Inc. and Richard S. Pzena<sup>(4)</sup></u></a>
10.10	<a href="#"><u>Indemnification Agreement for Steven M. Galbraith, dated as of October 30, 2007, by and among Pzena Investment Management, Inc. and Steven M. Galbraith<sup>(4)</sup></u></a>
10.11	<a href="#"><u>Indemnification Agreement for Joel M. Greenblatt, dated as of October 30, 2007, by and among Pzena Investment Management, Inc. and Joel M. Greenblatt<sup>(4)</sup></u></a>
10.12	<a href="#"><u>Indemnification Agreement for Richard P. Meyerowich, dated as of October 30, 2007, by and among Pzena Investment Management, Inc. and Richard P. Meyerowich<sup>(4)</sup></u></a>
10.13	<a href="#"><u>Indemnification Agreement for Myron E. Ullman, III, dated as of October 30, 2007, by and among Pzena Investment Management, Inc. and Myron E. Ullman, III<sup>(4)</sup></u></a>
10.14	<a href="#"><u>Indemnification Agreement for Ronald W. Tysoe, dated as of December 11, 2008, by and among Pzena Investment Management, Inc. and Ronald W. Tysoe<sup>(7)</sup></u></a>
10.15	<a href="#"><u>Indemnification Agreement for John P. Goetz, dated as of May 17, 2011, by and among Pzena Investment Management, Inc. and John P. Goetz<sup>(8)</sup></u></a>
10.16	<a href="#"><u>Indemnification Agreement for William L. Lipsey, dated as of May 17, 2011, by and among Pzena Investment Management, Inc. and William L. Lipsey<sup>(8)</sup></u></a>
10.17	<a href="#"><u>Pzena Investment Management, Inc. Non-Employee Director Deferred Compensation Plan, dated as of July 21, 2009<sup>(9)</sup></u></a>
10.18	<a href="#"><u>Amendment, effective March 24, 2010, to Amended and Restated Operating Agreement of Pzena Investment Management, LLC, dated as of October 30, 2007, by and among Pzena Investment Management, Inc. as the Managing Member of Pzena Investment Management, LLC and those Class B members whose signatures are affixed thereto<sup>(10)</sup></u></a>
10.19	<a href="#"><u>Amendment, dated as of March 5, 2012, to Amended and Restated Operating Agreement of Pzena Investment Management, LLC, dated as of October 30, 2007, by and among Pzena Investment Management, Inc. as the Managing Member of Pzena Investment Management, LLC and those Class B members whose signatures are affixed thereto<sup>(8)</sup></u></a>
10.20	<a href="#"><u>Amendment to Executive Employment Agreement for Richard S. Pzena, dated as of November 1, 2012, by and among Pzena Investment Management, Inc., Pzena Investment Management, LLC, and Richard S. Pzena<sup>(11)</sup></u></a>
10.21	<a href="#"><u>Amendment to Executive Employment Agreement for John P. Goetz, dated as of November 1, 2012, by and among Pzena Investment Management, Inc., Pzena Investment Management, LLC, and John P. Goetz<sup>(11)</sup></u></a>
10.22	<a href="#"><u>Amendment to Amended and Restated Executive Employment Agreement for William L. Lipsey, dated as of November 1, 2012, by and among Pzena Investment Management, Inc., Pzena Investment Management, LLC, and William L. Lipsey<sup>(11)</sup></u></a>
10.23	<a href="#"><u>Amendment, dated as of November 12, 2012, to Tax Receivable Agreement, dated as of October 30, 2007, by and among Pzena Investment Management, Inc., Pzena Investment Management, LLC and the Continuing Members and Exiting Members named on the signature pages thereto<sup>(12)</sup></u></a>
10.24	<a href="#"><u>Indemnification Agreement for Charles D. Johnston, dated as of February 5, 2014, by and among Pzena Investment Management, Inc. and Charles D. Johnston<sup>(13)</sup></u></a>
10.25	<a href="#"><u>Lease, dated as of June 13, 2014, between Mutual of America Life Insurance Company, as Landlord and Pzena Investment Management, LLC, as Tenant<sup>(14)</sup></u></a>
10.26	<a href="#"><u>Amendment No. 3 to Pzena Investment Management, LLC Amended and Restated Operating Agreement, dated November 1, 2014<sup>(15)</sup></u></a>
10.28	<a href="#"><u>Amendment to the Pzena Investment Management, LLC Amended and Restated Bonus Plan, dated December 2, 2014<sup>(15)</sup></u></a>
10.29	<a href="#"><u>Form of Unit-Based Award Agreement for Phantom Class B Units<sup>(15)</sup></u></a>
10.30	<a href="#"><u>Form of Class B Unit Agreement - Delayed Exchange<sup>(15)</sup></u></a>
10.31	<a href="#"><u>Form of Class B Unit-Based Agreement for Phantom Class B Units - Revised December, 2015<sup>(16)</sup></u></a>
10.32	<a href="#"><u>Form of Class B Unit Agreement - Delayed Exchange - Revised December, 2015<sup>(16)</sup></u></a>
10.33	<a href="#"><u>Amended and Restated Agreement of Limited Partnership of Pzena Investment Management, LP, dated as of January 1, 2016<sup>(17)</sup></u></a>
10.34	<a href="#"><u>Form of Class B Unit Option Agreement - Delayed Exchange (filed herewith)</u></a>

Exhibit	Description of Exhibit
10.35	<a href="#">Amendment, dated as of December 18, 2017, to Tax Receivable Agreement, dated as of October 30, 2007, as amended by and among Pzena Investment Management, Inc., Pzena Investment Management, LLC and the Continuing Members and Exiting Members named on the signature pages thereto (filed herewith)</a>
14.1	<a href="#">Code of Business Conduct and Ethics, effective as of October 25, 2007, amended as of December 2017 (filed herewith)</a>
14.2	<a href="#">Code of Ethics for Senior Financial Officers<sup>(18)</sup></a>
21.1	<a href="#">List of Subsidiaries of Pzena Investment Management, Inc. (filed herewith)</a>
23.1	<a href="#">Consent of PricewaterhouseCoopers LLP, Independent Registered Public Accounting Firm (filed herewith)</a>
23.2	<a href="#">Consent of KPMG LLP, Independent Registered Public Accounting Firm (filed herewith)</a>
31.1	<a href="#">Certification of Chief Executive Officer pursuant to Exchange Act Rule 13a-14(a) (filed herewith)</a>
31.2	<a href="#">Certification of Chief Financial Officer pursuant to Exchange Act Rule 13a-14(a) (filed herewith)</a>
32.1	<a href="#">Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith)</a>
32.2	<a href="#">Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith)</a>
101	Materials from the Pzena Investment Management, Inc. Annual Report on Form 10-K for the year ended December 31, 2017, formatted in Extensible Business Reporting Language (XBRL): (i) Consolidated Statements of Financial Condition, (ii) Consolidated Statements of Operations, (iii) Consolidated Statement of Changes in Equity, (iv) Consolidated Statements of Cash Flows, and (vi) related Unaudited Notes to the Consolidated Financial Statements, tagged in detail (furnished herewith)

- 
- (1) Previously filed as an exhibit to our current report on Form 8-K filed with the Securities and Exchange Commission on May 24, 2017 (SEC File No. 001-33761).
  - (2) Previously filed as an exhibit to our current report on Form 8-K filed with the Securities and Exchange Commission on January 19, 2016 (SEC File No. 001-33761).
  - (3) Previously filed as an exhibit to Amendment No. 4 of the Registration Statement on Form S-1 (No. 333-143660) of Pzena Investment Management, Inc., which was filed with the Securities and Exchange Commission on October 22, 2007.
  - (4) Previously filed as an exhibit to our quarterly report on Form 10-Q filed with the Securities and Exchange Commission on December 5, 2007 (SEC File No. 001-33761).
  - (5) Previously filed as an exhibit to our quarterly report on Form 10-Q filed with the Securities and Exchange Commission on August 8, 2017 (SEC File No. 001-33761).
  - (6) Previously filed as an exhibit to our quarterly report on Form 10-Q filed with the Securities and Exchange Commission on November 13, 2008 (SEC File No. 001-33761).
  - (7) Previously filed as an exhibit to our current report on Form 8-K filed with the Securities and Exchange Commission on December 12, 2008 (SEC File No. 001-33761).
  - (8) Previously filed as an exhibit to our annual report on Form 10-K filed with the Securities and Exchange Commission on March 14, 2012 (SEC File No. 001-33761).
  - (9) Previously filed as an exhibit to our quarterly report on Form 10-Q filed with the Securities and Exchange Commission on November 9, 2009 (SEC File No. 001-33761).
  - (10) Previously filed as an exhibit to our quarterly report on Form 10-Q filed with the Securities and Exchange Commission on May 7, 2010 (SEC File No. 001-33761).
  - (11) Previously filed as an exhibit to our current report on Form 8-K filed with the Securities and Exchange Commission on November 2, 2012 (SEC File No. 001-33761).
  - (12) Previously filed as an exhibit to our annual report on Form 10-K filed with the Securities and Exchange Commission on March 13, 2013 (SEC File No. 001-33761).
  - (13) Previously filed as an exhibit to our current report on Form 8-K filed with the Securities and Exchange Commission on January 30, 2014 (SEC File No. 001-33761).
  - (14) Previously filed as an exhibit to our quarterly report on Form 10-Q filed with the Securities and Exchange Commission on August 7, 2014 (SEC File No. 001-33761).

- (15) Previously filed as an exhibit to our annual report on Form 10-K filed with the Securities and Exchange Commission on March 16, 2015 (SEC File No. 001-33761)
- (16) Previously filed as an exhibit to our annual report on Form 10-K filed with the Securities and Exchange Commission on March 14, 2016 (SEC File No. 001-33761).
- (17) Previously filed as an exhibit to our quarterly report on Form 10-Q filed with the Securities and Exchange Commission on May 6, 2016 (SEC File No. 001-33761).
- (18) Previously filed as an exhibit to our annual report on Form 10-K filed with the Securities and Exchange Commission on March 31, 2008 (SEC File No. 001-33761).

**ITEM 16. FORM OF 10-K SUMMARY**

None.



**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, Pzena Investment Management, Inc. has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: March 9, 2018

**Pzena Investment Management, Inc.**

By: /s/ Richard S. Pzena

Name: Richard S. Pzena  
Title: Chief Executive Officer

Each person whose signature appears below constitutes and appoints Jessica R. Doran and Joan F. Berger, and each of them, his or her true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for him or her and in his or her name, place and stead, in any and all capacities, to sign any and all amendments to this Annual Report, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done to effectuate the intent and purpose of this paragraph, as fully as he or she might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents or any of them, or their or his or her substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of Pzena Investment Management, Inc. and in the capacities and on the dates indicated.

<u>SIGNATURE</u>	<u>TITLE</u>	<u>DATE</u>
<u>/s/ Richard S. Pzena</u> Richard S. Pzena	Chairman, Chief Executive Officer, Co-Chief Investment Officer (principal executive officer)	March 9, 2018
<u>/s/ Jessica R. Doran</u> Jessica R. Doran	Chief Financial Officer (principal financial and accounting officer)	March 9, 2018
<u>/s/ John P. Goetz</u> John P. Goetz	President, Co-Chief Investment Officer, Director	March 9, 2018
<u>/s/ William L. Lipsey</u> William L. Lipsey	President, Head of Business Development and Client Service, Director	March 9, 2018
<u>/s/ Steven M. Galbraith</u> Steven M. Galbraith	Director	March 9, 2018
<u>/s/ Joel M. Greenblatt</u> Joel M. Greenblatt	Director	March 9, 2018
<u>/s/ Richard P. Meyerowich</u> Richard P. Meyerowich	Director	March 9, 2018
<u>/s/ Charles D. Johnston</u> Charles D. Johnston	Director	March 9, 2018

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PZENA INVESTMENT MANAGEMENT, INC.**

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## **Report of Independent Registered Public Accounting Firm**

To the Board of Directors and Shareholders of Pzena Investment Management, Inc.,

### ***Opinions on the Financial Statements and Internal Control over Financial Reporting***

We have audited the accompanying consolidated statement of financial condition of Pzena Investment Management, Inc. and its subsidiaries as of December 31, 2017, and the related consolidated statements of operations, comprehensive income, changes in equity and cash flows for the period ended December 31, 2017, including the related notes (collectively referred to as the “consolidated financial statements”). We also have audited the Company's internal control over financial reporting as of December 31, 2017, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2017, and the results of their operations and their cash flows for the period ended December 31, 2017 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2017, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the COSO.

### ***Basis for Opinions***

The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express opinions on the Company's consolidated financial statements and on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

### ***Definition and Limitations of Internal Control over Financial Reporting***

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/PricewaterhouseCoopers LLP

New York, New York  
March 9, 2018

We have served as the Company's auditor since 2017.

## **Report of Independent Registered Public Accounting Firm**

The Board of Directors and Stockholders  
Pzena Investment Management, Inc.:

We have audited the accompanying consolidated statement of financial condition of Pzena Investment Management, Inc. (the Company) as of December 31, 2016, and the related consolidated statements of operations, comprehensive income, changes in equity, and cash flows for the years ended December 31, 2016 and 2015. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Pzena Investment Management, Inc. as of December 31, 2016, and the results of its operations and its cash flows for the years ended December 31, 2016 and 2015, in conformity with U.S. generally accepted accounting principles.

/s/KPMG LLP

New York, New York  
March 10, 2017

**PZENA INVESTMENT MANAGEMENT, INC.**  
**CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION**  
(in thousands, except share and per-share amounts)

	As of	
	December 31, 2017	December 31, 2016
<b>ASSETS</b>		
Cash (\$3,717 and \$3,258) <sup>1</sup>	\$ 63,414	\$ 43,522
Restricted Cash	1,017	3,636
Due from Broker (\$1,485 and \$0) <sup>1</sup>	1,875	842
Advisory Fees Receivable	32,531	26,326
Investments in Marketable Securities, at Fair Value (\$3,589 and \$3,174) <sup>1</sup>	5,452	14,323
Equity Method Investments (\$338 and \$0) <sup>1</sup>	16,285	7,987
Receivable from Related Parties	1,453	1,008
Other Receivables (\$15 and \$9) <sup>1</sup>	132	302
Prepaid Expenses and Other Assets	990	769
Deferred Tax Assets	39,639	73,441
Property and Equipment, Net of Accumulated Depreciation of \$3,063 and \$2,260, respectively	6,259	6,965
<b>TOTAL ASSETS</b>	<b>\$ 169,047</b>	<b>\$ 179,121</b>
<b>LIABILITIES AND EQUITY</b>		
Liabilities:		
Accounts Payable and Accrued Expenses (\$14 and \$18) <sup>1</sup>	\$ 31,983	\$ 24,648
Due to Broker (\$0 and \$3) <sup>1</sup>	144	17
Securities Sold Short, at Fair Value	—	2,622
Liability to Selling and Converting Shareholders	36,441	65,485
Deferred Compensation Liability	918	4,157
Other Liabilities	272	858
<b>TOTAL LIABILITIES</b>	<b>69,758</b>	<b>97,787</b>
Commitments and Contingencies (see Note 12)		
Equity:		
Preferred Stock (Par Value \$0.01; 200,000,000 Shares Authorized; None Outstanding)	—	—
Class A Common Stock (Par Value \$0.01; 750,000,000 Shares Authorized; 18,096,554 and 17,340,090 Shares Issued and Outstanding in 2017 and 2016, respectively)	180	173
Class B Common Stock (Par Value \$0.000001; 750,000,000 Shares Authorized; 50,709,673 and 50,461,598 Shares Issued and Outstanding in 2017 and 2016 respectively)	—	—
Additional Paid-In Capital	7,915	5,996
Retained Earnings	24,214	22,349
Accumulated Other Comprehensive Loss	(5)	(25)
<b>Total Pzena Investment Management, Inc.'s Equity</b>	<b>32,304</b>	<b>28,493</b>
Non-Controlling Interests	66,985	52,841
<b>TOTAL EQUITY</b>	<b>99,289</b>	<b>81,334</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>\$ 169,047</b>	<b>\$ 179,121</b>

<sup>1</sup> Asset and liability amounts in parentheses represent the aggregated balances at December 31, 2017 and December 31, 2016 attributable to Pzena International Value Service (a series of Pzena Investment Management International, LLC) and Pzena Investment Management Special Situations, LLC, which were variable interest entities as of December 31, 2017 and December 31, 2016, respectively. Aggregated balances of variable interest entities at December 31, 2017 also reflect Pzena U.S. Best Ideas (GP), LLC.

See accompanying notes to consolidated financial statements.

**PZENA INVESTMENT MANAGEMENT, INC.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
(in thousands, except share and per-share amounts)

	For the Years Ended December 31,		
	2017	2016	2015
<b>REVENUE</b>	\$ 141,295	\$ 108,336	\$ 116,607
<b>EXPENSES</b>			
Compensation and Benefits Expenses	58,904	48,330	46,523
General and Administrative Expenses	13,337	12,788	14,667
<b>TOTAL OPERATING EXPENSES</b>	<b>72,241</b>	<b>61,118</b>	<b>61,190</b>
Operating Income	69,054	47,218	55,417
<b>OTHER INCOME/ (EXPENSE)</b>			
Interest Income	213	80	40
Interest Expense	(29)	(24)	(21)
Dividend Income	368	313	734
Net Realized and Unrealized Gains/ (Losses) from Investments	2,600	1,776	(3,235)
Equity in the Earnings/ (Losses) of Affiliates	1,517	1,243	(109)
Change in Liability to Selling and Converting Shareholders	20,819	(51,442)	(423)
Other Income/ (Expense)	120	12	(286)
Total Other Income/ (Expense)	25,608	(48,042)	(3,300)
Income Before Income Taxes	94,662	(824)	52,117
Income Tax Expense/ (Benefit)	34,512	(54,475)	5,114
Net Income	60,150	53,651	47,003
Less: Net Income Attributable to Non-Controlling Interests	53,242	37,472	39,324
Net Income Attributable to Pzena Investment Management, Inc.	<u>\$ 6,908</u>	<u>\$ 16,179</u>	<u>\$ 7,679</u>
Net Income for Basic Earnings per Share	\$ 6,908	\$ 16,179	\$ 7,679
Basic Earnings per Share	\$ 0.40	\$ 1.01	\$ 0.55
Basic Weighted Average Shares Outstanding	17,338,348	15,962,902	14,014,219
Net Income for Diluted Earnings per Share	\$ 40,064	\$ 39,600	\$ 33,809
Diluted Earnings per Share <sup>1</sup>	\$ 0.40	\$ 0.58	\$ 0.50
Diluted Weighted Average Shares Outstanding <sup>2</sup>	70,934,362	68,849,172	68,126,786
Cash Dividends per Share of Class A Common Stock	\$ 0.37	\$ 0.41	\$ 0.41

1 During the year-ended ended December 31, 2017, the calculation of diluted earnings per share resulted in an increase in earnings per share. Therefore, diluted earnings per share is assumed to be equal to basic earnings per share. Please refer to Note 5, "Earnings per Share," for further details.

2 The Company issues restricted share of Class A common stock and restricted Class B units that have non-forfeitable dividend rights. Under the "two-class method," these shares and units are considered participating securities and are required to be included in the computation of diluted earnings per share.

See accompanying notes to consolidated financial statements.

**PZENA INVESTMENT MANAGEMENT, INC.**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
**(in thousands)**

	<b>For the Years Ended December 31,</b>		
	<b>2017</b>	<b>2016</b>	<b>2015</b>
<b>NET INCOME</b>	\$ 60,150	\$ 53,651	\$ 47,003
<b>OTHER COMPREHENSIVE INCOME/ (LOSS)</b>			
Foreign Currency Translation Adjustment	122	(93)	(10)
Total Other Comprehensive Income/ (Loss)	122	(93)	(10)
Comprehensive Income	60,272	53,558	46,993
Less: Comprehensive Income Attributable to Non-Controlling Interests	53,344	37,402	39,316
Total Comprehensive Income Attributable to Pzena Investment Management, Inc.	\$ 6,928	\$ 16,156	\$ 7,677

See accompanying notes to consolidated financial statements.



**PZENA INVESTMENT MANAGEMENT, INC.**  
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
(in thousands, except share and per-share amounts)

	Shares of Class A Common Stock	Shares of Class B Common Stock	Class A Common Stock	Additional Paid-In Capital	Accumulated Other Comprehensive Loss	Retained Earnings	Non-Controlling Interests	Total
<b>Balance at December 31, 2014</b>	<b>13,044,719</b>	<b>52,891,939</b>	<b>\$ 130</b>	<b>\$ 8,007</b>	<b>\$ —</b>	<b>\$ 10,264</b>	<b>\$ 66,632</b>	<b>\$ 85,033</b>
Unit Conversion	2,772,171	(2,772,171)	28	2,745	—	—	(2,278)	495
Amortization of Non-Cash Compensation	29,677	1,510,626	—	1,848	—	—	6,344	8,192
Sale of Shares Under Equity Incentive Plan	—	78,093	—	87	—	—	285	372
Non-Cash Compensation Modification	—	(142,315)	—	(141)	—	—	(572)	(713)
Directors' Shares	—	—	—	82	—	—	310	392
Net Income	—	—	—	—	—	7,679	39,324	47,003
Foreign Currency Translation Adjustments	—	—	—	—	(2)	—	(8)	(10)
Options Exercised	962	715,706	—	333	—	—	1,355	1,688
Repurchase and Retirement of Class A Common Stock	(629,174)	—	(6)	(5,770)	—	—	—	(5,776)
Repurchase and Retirement of Class B Units	—	(192,406)	—	(407)	—	—	(1,619)	(2,026)
Contributions from Non-Controlling Interests	—	—	—	—	—	—	597	597
Distributions to Non-Controlling Interests	—	—	—	—	—	—	(44,295)	(44,295)
Class A Cash Dividends Declared and Paid (\$0.41 per share)	—	—	—	—	—	(5,490)	—	(5,490)
Other	—	—	—	(965)	—	—	965	—
<b>Balance at December 31, 2015</b>	<b>15,218,355</b>	<b>52,089,472</b>	<b>\$ 152</b>	<b>\$ 5,819</b>	<b>\$ (2)</b>	<b>\$ 12,453</b>	<b>\$ 67,040</b>	<b>\$ 85,462</b>
Adjustment for the Cumulative Effect of Applying ASU 2015-02	—	—	—	—	—	—	(10,835)	(10,835)
Adjusted Balance at January 1, 2016	15,218,355	52,089,472	152	5,819	(2)	12,453	56,205	74,627
Unit Conversion	2,426,740	(2,426,740)	24	2,382	—	—	(2,050)	356
Amortization of Non-Cash Compensation	34,934	501,644	—	693	—	—	2,065	2,758
Sale of Shares Under Equity Incentive Plan	—	87,563	—	97	—	—	304	401
Directors' Shares	—	—	—	111	—	—	364	475
Net Income	—	—	—	—	—	16,179	37,472	53,651
Foreign Currency Translation Adjustments	—	—	—	—	(23)	—	(70)	(93)
Options Exercised	—	282,519	—	220	—	—	675	895
Repurchase and Retirement of Class A Common Stock	(339,939)	—	(3)	(2,676)	—	—	—	(2,679)
Repurchase and Retirement of Class B Units	—	(72,860)	—	(190)	—	—	(584)	(774)
Contributions from Non-Controlling Interests	—	—	—	—	—	—	1,139	1,139
Distributions to Non-Controlling Interests	—	—	—	—	—	—	(43,059)	(43,059)
Class A Cash Dividends Declared and Paid (\$0.41 per share)	—	—	—	—	—	(6,283)	—	(6,283)
Effect of Deconsolidation	—	—	—	—	—	—	(80)	(80)
Other	—	—	—	(460)	—	—	460	—
<b>Balance at December 31, 2016</b>	<b>17,340,090</b>	<b>50,461,598</b>	<b>\$ 173</b>	<b>\$ 5,996</b>	<b>\$ (25)</b>	<b>\$ 22,349</b>	<b>\$ 52,841</b>	<b>\$ 81,334</b>
Adjustment for the Cumulative Effect of Applying ASU 2016-09	—	—	—	—	—	1,377	—	1,377
Adjusted Balance at January 1, 2017	17,340,090	50,461,598	173	5,996	(25)	23,726	52,841	82,711
Unit Conversion	855,535	(855,535)	9	1,600	—	—	(1,059)	550
Amortization of Non-Cash Compensation	34,934	443,198	—	1,070	—	—	3,092	4,162
Issuance of Shares under Equity Incentive Plan	—	620,543	—	1,118	—	—	3,295	4,413
Sale of Shares Under Equity Incentive Plan	—	31,803	—	51	—	—	153	204
Directors' Shares	—	—	—	121	—	—	360	481
Net Income	—	—	—	—	—	6,908	53,242	60,150
Foreign Currency Translation Adjustments	—	—	—	—	20	—	102	122
Options Exercised	16,722	41,781	—	—	—	—	—	—
Repurchase and Retirement of Class A Common Stock	(150,727)	—	(2)	(1,488)	—	—	—	(1,490)
Repurchase and Retirement of Class B Units	—	(33,715)	—	(96)	—	—	(278)	(374)
Contributions from Non-Controlling Interests	—	—	—	—	—	—	4,166	4,166
Distributions to Non-Controlling Interests	—	—	—	—	—	—	(44,095)	(44,095)
Class A Cash Dividends Declared and Paid (\$0.37 per share)	—	—	—	—	—	(6,420)	—	(6,420)
Effect of Deconsolidation	—	—	—	—	—	—	(5,291)	(5,291)
Other	—	—	—	(457)	—	—	457	—
<b>Balance at December 31, 2017</b>	<b>18,096,554</b>	<b>50,709,673</b>	<b>\$ 180</b>	<b>\$ 7,915</b>	<b>\$ (5)</b>	<b>\$ 24,214</b>	<b>\$ 66,985</b>	<b>\$ 99,289</b>

See accompanying notes to consolidated financial statements.

**PZENA INVESTMENT MANAGEMENT, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(in thousands)

	For the Years Ended December 31,		
	2017	2016	2015
<b>OPERATING ACTIVITIES</b>			
Net Income	\$ 60,150	\$ 53,651	\$ 47,003
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:			
Depreciation	1,024	1,058	789
Loss on Disposal of Fixed Assets	6	—	428
Non-Cash Compensation	10,182	6,933	11,092
Directors' Share Grants	481	475	392
Net Realized and Unrealized (Gains)/ Losses from Investments	(2,600)	(1,776)	3,235
Equity in the (Earnings)/ Losses of Affiliates	(1,517)	(1,243)	109
Non-Cash Performance Fees	(237)	—	—
Foreign Currency Translation Adjustment	122	(93)	(10)
Lease Liability	—	—	862
Change in Liability to Selling and Converting Shareholders	(26,427)	51,442	423
Deferred Income Taxes	37,269	(56,058)	2,910
Changes in Operating Assets and Liabilities:			
Advisory Fees Receivable	(6,205)	(4,079)	691
Due from Broker	(1,026)	(581)	(198)
Restricted Cash	(1,222)	(84)	(742)
Prepaid Expenses and Other Assets	(60)	235	69
Non-Cash Compensation Modification	—	—	(713)
Due to Broker	127	(20)	(668)
Accounts Payable, Accrued Expenses, and Other Liabilities	2,566	14,064	(214)
Tax Receivable Agreement Payments	(4,155)	(3,050)	(3,512)
Change in Lease Liability	—	—	(1,216)
Purchases of Investments	(41,077)	(28,831)	(40,493)
Proceeds from Sale of Investments	40,329	26,529	37,193
<b>Net Cash Provided by Operating Activities</b>	<b>67,730</b>	<b>58,572</b>	<b>57,430</b>
<b>INVESTING ACTIVITIES</b>			
Purchases of Investments	(869)	(2,159)	(8,669)
Proceeds from Sale of Investments	2,180	2,428	9,772
Payments (to)/ from Related Parties	(445)	46	(947)
Purchase of Property and Equipment	(324)	(120)	(6,348)
<b>Net Cash Provided by/ (Used in) Investing Activities</b>	<b>542</b>	<b>195</b>	<b>(6,192)</b>
<b>FINANCING ACTIVITIES</b>			
Repurchase and Retirement of Class A Common Stock	(1,490)	(2,679)	(5,776)
Repurchase and Retirement of Class B Units	(374)	(774)	(2,026)
Option Exercise	—	895	1,688
Sale of Shares under Equity Incentive Plan	204	401	372
Distributions to Non-Controlling Interests	(44,095)	(43,059)	(44,295)
Contributions from Non-Controlling Interests	4,166	1,139	597
Dividends	(6,420)	(6,283)	(5,490)
<b>Net Cash Used in Financing Activities</b>	<b>(48,009)</b>	<b>(50,360)</b>	<b>(54,930)</b>
<b>NET CHANGE IN CASH</b>	<b>\$ 20,263</b>	<b>\$ 8,407</b>	<b>\$ (3,692)</b>
<b>CASH — Beginning of Year</b>	<b>\$ 43,522</b>	<b>\$ 35,417</b>	<b>\$ 39,109</b>
Adjustment for the Cumulative Effect of Applying ASU 2015-02 for the Deconsolidation of a Legal Entity	—	(227)	—
Effect of Deconsolidation of Affiliates	(371)	(75)	—
Net Change in Cash	20,263	8,407	(3,692)
<b>CASH — End of Year</b>	<b>\$ 63,414</b>	<b>\$ 43,522</b>	<b>\$ 35,417</b>
Supplementary Cash Flow Information:			
Unit Conversion	\$ 550	\$ 356	\$ 495
Issuance of Shares under Equity Incentive Plan	\$ 4,413	\$ —	\$ —
Income Taxes Paid	\$ 797	\$ 665	\$ 1,031

See accompanying notes to consolidated financial statements.

**Pzena Investment Management, Inc.**  
**Notes to Consolidated Financial Statements**

**Note 1 — Organization**

Pzena Investment Management, Inc. (the “Company”) functions as the sole managing member of its operating company, Pzena Investment Management, LLC (the “operating company”). As a result, the Company: (i) consolidates the financial results of the operating company and reflects the membership interests that it does not own as a non-controlling interest in its consolidated financial statements; and (ii) recognizes income generated from its economic interest in the operating company’s net income.

The operating company is an investment adviser which is registered under the Investment Advisers Act of 1940 and is headquartered in New York, New York. As of December 31, 2017, the operating company managed assets in a variety of value-oriented investment strategies across a wide range of market capitalizations in both U.S. and non-U.S. capital markets.

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

The Company has consolidated the results of operations and financial condition of the following entities as of December 31, 2017:

Legal Entity	Type of Entity (Date of Formation)	Ownership at December 31, 2017
Pzena Investment Management, Pty	Australian Proprietary Limited Company (12/16/2009)	100.0%
Pzena Financial Services, LLC	Delaware Limited Liability Company (10/15/2013)	100.0%
Pzena Investment Management, LTD	England and Wales Private Limited Company (1/08/2015)	100.0%
Pzena U.S. Best Ideas (GP), LLC	Delaware Limited Liability Company (11/16/2017)	100.0%
Pzena Investment Management Special Situations, LLC	Delaware Limited Liability Company (12/01/2010)	99.9%
Pzena International Value Service, a series of the Pzena Investment Management International, LLC	Delaware Limited Liability Company (12/22/2003)	67.2%

**Note 2 — Significant Accounting Policies**

***Basis of Presentation:***

The consolidated financial statements are prepared in conformity with accounting principles generally accepted in the United States of America (“U.S. GAAP”) and related Securities and Exchange Commission (“SEC”) rules and regulations.

***Principles of Consolidation:***

The Company’s policy is to consolidate those entities in which it has a direct or indirect controlling financial interest based on either the voting interest model or the variable interest model. As such, the Company consolidates majority-owned subsidiaries in which it has a controlling financial interest, and certain investment vehicles the operating company sponsors for which it is the investment adviser that are considered to be variable-interest entities (“VIEs”), and for which the Company is deemed to be the primary beneficiary.

Pursuant to the *Consolidation Topic* of the FASB Accounting Standards Codification (“FASB ASC”), for legal entities evaluated for consolidation, the Company determines whether interests it holds and fees paid to it qualify as a variable interest. If it is determined that the Company does not have a variable interest in the entity, no further analysis is required and the Company does not consolidate the entity. If it is determined that the Company has a variable interest, it considers its direct economic interests and the proportionate indirect interests through related parties to determine if it is the primary beneficiary of the VIE.

For equity investments where the Company does not control the investee, and where it is not the primary beneficiary of a VIE, but can exert significant influence over the financial and operating policies of the investee, the Company follows the equity method of accounting. The evaluation of whether the Company exerts control or significant influence over the financial and operating policies of the investee requires significant judgment based on the facts and circumstances surrounding each investment. Factors considered in these evaluations may include the type of investment, the legal structure of the investee, the terms of the investment agreement, or other agreements with the investee.

**Pzena Investment Management, Inc.**  
**Notes to Consolidated Financial Statements (Continued)**

**Note 2 — Significant Accounting Policies (Continued)**

The Company analyzes entities structured as series funds which comply with the requirements included in the Investment Company Act of 1940 for registered mutual funds as voting interest entities because the shareholders are deemed to have the ability to direct the activities of the fund that most significantly impact the fund's economic performance.

*Consolidated Entities*

The Company consolidates the financial results of the operating company and records in its own equity its pro-rata share of transactions that impact the operating company's net equity, including unit and option issuances, repurchases, and retirements. The operating company's pro-rata share of such transactions are recorded as an adjustment to additional paid-in capital or non-controlling interests, as applicable, on the consolidated statements of financial condition.

The majority-owned subsidiaries in which the Company, through its interest in the operating company, has a controlling financial interest and the VIEs for which the Company is deemed to be the primary beneficiary are collectively referred to as "consolidated subsidiaries." Non-controlling interests recorded on the consolidated financial statements of the Company include the non-controlling interests of the outside investors in each of these entities, as well as those of the operating company. All significant inter-company transactions and balances have been eliminated through consolidation.

During 2014, the Company provided the initial cash investment for three Pzena mutual funds in an effort to generate an investment performance track record to attract third-party investors. During 2016, the Company provided the initial cash investment for the launch of a fourth Pzena mutual fund: the Pzena Small Cap Value Fund. Due to their series fund structure, registration, and compliance with the requirements of the Investment Company Act of 1940, these funds are analyzed for consolidation under the voting interest model. As a result of the Company's initial interests, it consolidated the Pzena Mid Cap Value Fund, Pzena Long/Short Value Fund, and Pzena Small Cap Value Fund. On July 11, 2016, due to additional subscriptions into the Pzena Small Cap Value Fund, the Company's ownership decreased to 36.1%. On November 9, 2017 and December 21, 2017 due to additional subscriptions into the Pzena Mid Cap Value Fund and Pzena Long/Short Value Fund, respectively, the Company's ownership decreased to 41.7% and 35.5%, respectively. As the Company was no longer deemed to control the funds, it deconsolidated the entities, removed the related assets, liabilities and non-controlling interest from its balance sheet and classified the Company's remaining investments as an equity method investments.

The operating company is the managing member of Pzena International Value Service, a series of Pzena Investment Management International, LLC. The operating company is considered the primary beneficiary of this entity. At December 31, 2017, Pzena International Value Service's \$5.2 million in net assets were included in the Company's consolidated statements of financial condition.

These consolidated investment partnerships are investment companies and apply specialized industry accounting for investment companies. The Company has retained this specialized accounting for these investment partnerships pursuant to U.S. GAAP.

*Non-Consolidated Variable Interest Entities*

VIEs that are not consolidated continue to receive investment management services from the operating company and are generally private investment partnerships sponsored by the operating company. The total net assets of these VIEs was approximately \$165.5 million and \$44.3 million at December 31, 2017 and December 31, 2016, respectively.

As of December 31, 2017 and December 31, 2016, in order to satisfy certain of the Company's obligations under its deferred compensation programs, the operating company had \$3.0 million and \$3.2 million in investments, respectively, in certain of these firm-sponsored vehicles, for which the Company was not deemed to be the primary beneficiary. The Company's exposure to risk in the non-consolidated VIEs is generally limited to any equity investment and any uncollected management fees. As of December 31, 2017 and December 31, 2016, the Company's maximum exposure to loss as a result of its involvement with the non-consolidated VIEs was \$3.2 million and \$3.3 million, respectively.

**Pzena Investment Management, Inc.**  
**Notes to Consolidated Financial Statements (Continued)**

**Note 2 — Significant Accounting Policies (Continued)*****Accounting Pronouncements Adopted in 2017:***

In March 2016, the FASB issued ASU No. 2016-09, "*Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting.*" The Company adopted ASU No. 2016-09 as of January 1, 2017. This standard requires excess tax benefits and tax deficiencies to be recorded in the consolidated statements of operations as a component of Income Tax Expense when equity awards vest or are settled. The Company is no longer required to delay recognition of an excess tax benefit until it reduces current taxes payable. The standard also requires excess tax benefits to be classified as operating activities along with other income tax cash flows within the consolidated statements of cash flows. In addition, ASU No. 2016-09 allows entities to make an accounting policy election to either estimate the number of forfeitures expected to occur, as was previously required, or to account for actual forfeitures as they occur. The Company has elected to account for forfeitures as they occur, rather than estimate expected forfeitures. The adoption of ASU No. 2016-09 resulted in a net cumulative effect adjustment reflecting a \$1.4 million increase to retained earnings and the deferred tax asset as of January 1, 2017, related to the recognition of the previously unrecognized excess tax benefits using the modified retrospective method. Estimates of forfeitures in prior periods were immaterial, and therefore are not included in the cumulative effect adjustment. The amendments related to the classification of the excess tax benefits in the consolidated statements of cash flows were adopted on a prospective basis, which did not require the restatement of prior periods.

***Management's Use of Estimates:***

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses for the period. Actual results could materially differ from those estimates.

***Revenue Recognition:***

Revenue, comprised of advisory fee income, is recognized over the period in which advisory services are provided. Advisory fee income includes management fees that are calculated based on percentages of assets under management ("AUM"), generally billed quarterly, either in arrears or advance, depending on their contractual terms. Advisory fee income also includes performance fees that may be earned by the Company depending on the investment return of AUM, as well as fulcrum fee arrangements. Performance fee arrangements generally entitle the Company to participate, on a fixed-percentage basis, in any returns generated in excess of an agreed-upon benchmark. The Company's participation percentage in such return differentials is then multiplied by AUM to determine the performance fees earned. In general, returns are calculated on an annualized basis over the contract's measurement period, which usually extends to three years. Performance fees are generally payable annually or quarterly. Fulcrum 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. Fulcrum fees are generally payable quarterly. Following the preferred method identified in the *Revenue Recognition Topic* of the FASB ASC, fee income is recorded at the conclusion of the contractual performance period, when all contingencies are resolved. For the years ended December 31, 2017, 2016, and 2015, the Company recognized approximately \$3.2 million, \$0.2 million and \$4.5 million, respectively, in performance fee income. For the year ended December 31, 2016, the Company recognized a \$1.0 million reduction in base fees related to fulcrum fee arrangements. For the years ended December 31, 2017 and 2015, the Company did not recognize a reduction in base fees related to fulcrum fee arrangements.

***Cash:***

At December 31, 2017 and 2016, cash was \$63.4 million and \$43.5 million, respectively. The Company maintains its cash in bank deposit and other accounts whose balances often exceed federally insured limits. Cash is stated at cost, which approximates fair value.

Interest on cash is recorded as Interest Income on an accrual basis in the consolidated statements of operations.

***Restricted Cash:***

The Company maintained \$1.0 million and \$3.6 million at December 31, 2017, and 2016, respectively, of compensating balances recorded in Restricted Cash in the consolidated statements of financial condition.

**Pzena Investment Management, Inc.**  
**Notes to Consolidated Financial Statements (Continued)**

**Note 2 — Significant Accounting Policies (Continued)**

Included in this balance at December 31, 2017 and 2016 is a \$1.0 million letter of credit issued by a third party in lieu of a cash security deposit, as required by the Company's lease for its current and former corporate headquarters.

Also included in these balances at December 31, 2016, were amounts of cash collateral for margin accounts established by the Pzena Long/Short Value Fund required to maintain to support securities sold short, not yet purchased of \$2.6 million. On December 21, 2017, the Pzena Long/Short Value Fund was deconsolidated from the Company's consolidated statement of financial condition.

***Due to/from Broker:***

Due to/from Broker consists primarily of amounts payable/receivable for unsettled securities transactions held/initiated at the clearing brokers of the Company and its consolidated subsidiaries.

***Non-Cash Compensation:***

All non-cash compensation awards granted have varying vesting schedules and are issued at prices equal to the assessed fair market value at the time of issuance. Expenses associated with these awards are recognized over the period during which employees are required to provide service. The Company accounts for forfeitures as they occur.

***Investments:***

*Investment securities, trading*

Investments classified as trading securities consist of equity securities held by the Company and its consolidated subsidiaries. Certain of the Company's investments are held to satisfy the Company's obligations under its deferred compensation program. Dividends associated with the Company's investments and the investments of the Company's consolidated subsidiaries are recognized as dividend income on an ex-dividend basis in the consolidated statements of operations.

Securities Sold Short represents securities sold short, not yet purchased by the Pzena Long/Short Value Fund, which was consolidated with the Company's financial statements through December 21, 2017. On December 21, 2017, the Pzena Long/Short Value Fund was deconsolidated from the Company's consolidated statement of financial condition due to additional subscriptions into the fund. Dividend expense associated with these investments is reflected in Other Income/ (Expense) on an ex-dividend basis in the consolidated statements of operations.

All such investments are recorded at fair value, with net realized and unrealized gains and losses recognized as a component of Net Realized and Unrealized Gains/ (Losses) from Investments in the consolidated statements of operations.

*Investments in equity method investees*

The Company accounts for its investments in certain private investment partnerships in which the Company has non-controlling interests and exercises significant influence, using the equity method. These investments are included in Equity Method Investments in the Company's consolidated statements of financial condition. The carrying value of these investments are recorded at the amount of capital reported by the private investment partnership or mutual fund. The capital account reflects any contributions paid to, distributions received from, and equity earnings of, the entities. The earnings of these investments are recognized in Equity in Earnings/ (Losses) of Affiliates in the consolidated statements of operations.

Investments in equity method investees are evaluated for impairment as events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. If the carrying amounts of the assets exceed their respective fair values, additional impairment tests are performed to measure the amounts of impairment losses, if any. For the years ended December 31, 2017, 2016, and 2015, no impairment losses were recognized.

**Pzena Investment Management, Inc.**  
**Notes to Consolidated Financial Statements (Continued)**

**Note 2 — Significant Accounting Policies (Continued)**

***Securities Valuation:***

Investments in equity securities and securities sold short for which market quotations are available are valued at the last reported price or closing price on the primary market or exchange on which they trade. If no reported equity sales occurred on the valuation date, equity investments are valued at the bid price. Transactions are recorded on a trade date basis.

The net realized gain or loss on sales of equity securities and securities sold short is determined on a specific identification basis and is included in Net Realized and Unrealized Gains/ (Losses) from Investments in the consolidated statements of operations.

***Concentrations of Credit Risk:***

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash, amounts due from brokers, and advisory fees receivable. The Company maintains its cash in bank deposits and other accounts whose balances often exceed federally insured limits.

The concentration of credit risk with respect to advisory fees receivable is generally limited due to the short payment terms extended to clients by the Company. On a periodic basis, the Company evaluates its advisory fees receivable and establishes an allowance for doubtful accounts, if necessary, based on a history of past write-offs, collections, and current credit conditions. For the year ended December 31, 2017 and 2016, approximately 11.3% and 10.1%, respectively, of the Company's advisory fees were generated from advisory agreements with one client relationship. At December 31, 2017 and 2016, no allowance for doubtful accounts has been deemed necessary.

***Property and Equipment:***

Property and equipment is carried at cost, less accumulated depreciation and amortization. Depreciation is provided on a straight-line basis over the estimated useful lives of the respective assets, which range from three to seven years. Leasehold improvements are amortized on a straight-line basis over the shorter of the useful life of the improvements or the remaining lease term.

***Business Segments:***

The Company views its operations as comprising one operating segment.

***Income Taxes:***

The Company is a "C" corporation under the Internal Revenue Code, and is thus liable for federal, state, and local taxes on the income derived from its economic interest in its operating company. The operating company is a limited liability company that has elected to be treated as a partnership for tax purposes. It has not made a provision for federal or state income taxes because it is the individual responsibility of each of the operating company's members (including the Company) to separately report their proportionate share of the operating company's taxable income or loss. The operating company has made a provision for New York City Unincorporated Business Tax ("UBT") and its consolidated subsidiary Pzena Investment Management, LTD has made a provision for U.K. income taxes.

Judgment is required in evaluating the Company's uncertain tax positions and determining its provision for income taxes. The Company establishes reserves for tax-related uncertainties based on estimates of whether, and the extent to which, additional taxes will be due. These liabilities are established when the Company believes that certain positions might be challenged despite its belief that its tax return positions are in accordance with applicable tax laws. The Company adjusts these liabilities in light of changing facts and circumstances, such as the closing of a tax audit, new tax legislation, or the change of an estimate. To the extent that the final tax outcome of these matters is different than the amounts recorded, such differences will affect the provision for income taxes in the period in which such determination is made. The provision for income taxes includes the effect of reserve provisions and changes to reserves that are considered appropriate. It is also the Company's policy to recognize accrued interest, and penalties associated with uncertain tax positions in Income Tax Expense/ (Benefit) on the consolidated statements of operations.

**Pzena Investment Management, Inc.**  
**Notes to Consolidated Financial Statements (Continued)**

**Note 2 — Significant Accounting Policies (Continued)**

The Company and its consolidated subsidiaries account for all U.S. federal, state, local and U.K. taxation pursuant to the asset and liability method, which requires deferred income tax assets and liabilities to be recorded for temporary differences between the carrying amount and tax bases of assets and liabilities that will result in taxable or deductible amounts in the future, based on enacted tax laws and rates applicable to the periods in which the temporary differences are expected to affect taxable income.

The Company's purchase of membership units of the operating company concurrent with the initial public offering, and the subsequent and future exchanges by holders of Class B units of the operating company for shares of Class A common stock (pursuant to the exchange rights provided for in the operating company's operating agreement), has resulted in, and is expected to continue to result in, increases in the Company's share of the tax basis of the tangible and intangible assets of the operating company, which will increase the tax depreciation and amortization deductions that otherwise would not have been available to the Company. These increases in tax basis and tax depreciation and amortization deductions have reduced, and are expected to continue to reduce, the amount of cash taxes that the Company would otherwise be required to pay in the future. The Company has entered into a tax receivable agreement with past, current, and future members of the operating company that requires the Company to pay to any member involved in any exchange transaction 85% of the amount of cash tax savings, if any, in U.S. federal, state and local income tax or foreign or franchise tax that it realizes as a result of these increases in tax basis and, in limited cases, transfers or prior increases in tax basis. The Company expects to benefit from the remaining 15% of cash tax savings, if any, in income tax it realizes. Payments under the tax receivable agreement will be based on the tax reporting positions that the Company will determine. The Company will not be reimbursed for any payments previously made under the tax receivable agreement if a tax basis increase is successfully challenged by the Internal Revenue Service.

The Company records an increase in deferred tax assets for the estimated income tax effects of the increases in tax basis based on enacted federal and state tax rates at the date of the exchange. The Company records 85% of the estimated realizable tax benefit (which is the recorded deferred tax asset less any recorded valuation allowance) as an increase to the liability due under the tax receivable agreement, which is reflected as the liability to selling and converting shareholders in the accompanying consolidated financial statements. The remaining 15% of the estimated realizable tax benefit is initially recorded as an increase to the Company's additional paid-in capital. All of the effects to the deferred tax asset of changes in any of the estimates after the tax year of the exchange will be reflected in the provision for income taxes. Similarly, the effect of subsequent changes in the enacted tax rates will be reflected in the provision for income taxes.

Valuation allowances are established, when necessary, to reduce deferred tax assets to the amount that is more-likely-than-not to be realized. At December 31, 2017 and 2016, the Company did not have a valuation allowance recorded against its deferred tax assets.

The income tax expense, or benefit, is the tax payable or refundable for the period, plus or minus the change during the period in deferred tax assets and liabilities. The Company records its deferred tax liabilities as a component of other liabilities in the consolidated statements of financial condition.

Upon adoption of ASU No. 2016-09 as of January 1, 2017, all excess tax benefits or tax deficiencies related to stock- and unit-transactions are reflected in the consolidated statements of operations as a component of the provision for income taxes. Previously, these excess tax benefits were not recognized until they resulted in a reduction of cash taxes payable, and were subsequently recorded in equity when they reduced cash taxes payable. The Company only recognized a tax benefit from stock- and unit-based awards in Additional Paid-In Capital if an incremental tax benefit was realized after all other tax benefits available had been utilized. The adoption of ASU No. 2016-09 resulted in a net cumulative effect adjustment reflecting a \$1.4 million increase to retained earnings and the deferred tax asset as of January 1, 2017, related to the recognition of the previously unrecognized excess tax benefits using the modified retrospective method.

***Foreign Currency:***

The functional currency of the Company is the U.S. Dollar. Assets and liabilities of foreign operations whose functional currency is not the U.S. Dollar are translated at the exchange rate in effect at the applicable reporting date, and the consolidated statements of operations are translated at the average exchange rates in effect during the applicable period. A charge or credit is recorded to other comprehensive income/ (loss) to reflect the translation of these amounts to the extent the non-U.S. currency is designated the functional currency of the subsidiary. Non-functional currency related transaction gains and losses are immediately recorded in the consolidated statements of operations. For the year ended December 31, 2017, the Company recorded \$0.1 million of other comprehensive income associated with foreign currency translation adjustments. For both the



**Pzena Investment Management, Inc.**  
**Notes to Consolidated Financial Statements (Continued)**

**Note 2 — Significant Accounting Policies (Continued)**

years ended December 31, 2016 and 2015, the Company recorded approximately \$0.1 million of other comprehensive loss associated with foreign currency translation adjustments.

Investment securities and other assets and liabilities denominated in foreign currencies are remeasured into U.S. Dollar amounts at the date of valuation. Purchases and sales of investment securities, and income and expense items denominated in foreign currencies, are remeasured into U.S. Dollar amounts on the respective dates of such transactions.

The Company does not isolate the portion of the results of its operations resulting from the impact of fluctuations in foreign exchange rates on its non-U.S. investments. Such fluctuations are included in Net Realized and Unrealized Gains/ (Losses) from Investments in the consolidated statements of operations.

Reported net realized foreign exchange gains or losses arise from sales of foreign currencies, currency gains or losses realized between the trade and settlement dates on securities transactions, and the difference between the amounts of dividends, interest, foreign withholding taxes, and other receivables and payables recorded on the Company's consolidated statements of financial condition and the U.S. Dollar equivalent of the amounts actually received or paid. Net unrealized foreign exchange gains and losses arise from changes in the fair values of assets and liabilities resulting from changes in exchange rates.

**Recently Issued Accounting Pronouncements Not Yet Adopted:**

In November 2016, the FASB issued ASU No. 2016-18, "*Statement of Cash Flows (Topic 230): Restricted Cash.*" This update requires entities to show the changes in the total cash, cash equivalents, restricted cash, and restricted cash equivalents in the statement of cash flows. This guidance is effective for the fiscal years and interim periods within those years beginning after December 15, 2017. The guidance should be applied using a retrospective approach. Upon adoption, the net change in cash presented in the consolidated statement of cash flows will reflect the total of cash, cash equivalents, and restricted cash.

In August 2016, the FASB issued ASU No. 2016-15, "*Statement of Cash Flows (Topic 230).*" This update provides specific guidance on cash flow classification issues, which is intended to reduce the diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The guidance is effective for the fiscal years and interim periods within those years beginning after December 15, 2017. The guidance should be applied using a modified retrospective approach. The Company does not expect the standard to have a material impact on the consolidated financial statements.

In June 2016, the FASB issued ASU No. 2016-13, "*Financial Instruments - Credit Losses (Topic 326).*" This new guidance requires the use of an "expected loss" model, rather than an "incurred loss" model, for financial instruments measured at amortized cost and also requires companies to record allowances for available-for-sale debt securities rather than reduce the carrying amount. The guidance is effective for the fiscal years and interim periods within those years beginning after December 15, 2019. The guidance should be applied using a retrospective approach. The Company is currently assessing the impact of this standard, however, does not expect the standard to have a material impact on the consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, "*Leases (Topic 842).*" This amended standard was written to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. The new standard requires lessees to recognize a right-of-use asset and lease liability for all leases with terms of more than 12 months. Recognition, measurement and presentation of expenses will depend on classification as a finance or operating lease. The amendments also require certain quantitative and qualitative disclosure. Accounting guidance for lessors is largely unchanged. This guidance is effective for the fiscal years and interim periods within those years beginning after December 15, 2018, and requires a modified retrospective approach to adoption. The Company is currently evaluating the impact of adoption on its consolidated financial statements. The standard is expected to result in an increase in total assets and total liabilities, but will not have a significant impact on the consolidated statement of operations.

In May 2014, the FASB issued ASU No. 2014-09, "*Revenue from Contracts with Customers.*" The core principle of the standard is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for the goods or services. In July 2015, the FASB postponed the effective date of this new guidance from January 1, 2017 to January 1, 2018. The standard permits the use of either the retrospective or cumulative effect transition method. The Company will adopt ASU No. 2014-09 on January 1, 2018 using the modified retrospective method of transition, which requires a cumulative-effect adjustment as of the date of

**Pzena Investment Management, Inc.**  
**Notes to Consolidated Financial Statements (Continued)**

**Note 2 — Significant Accounting Policies (Continued)**

adoption. The Company has concluded the adoption will not have a material impact on its consolidated financial statements. The adoption will result in additional disclosures associated with the disaggregation of revenue and performance obligations.

**Note 3 — Compensation and Benefits**

Compensation and benefits expenses to employees and members is comprised of the following:

	For the Years Ended December 31,		
	2017	2016	2015
	(in thousands)		
Cash Compensation and Other Benefits	\$ 48,722	\$ 41,397	\$ 35,431
Non-Cash Compensation	10,182	6,933	11,092
<b>Total Compensation and Benefits Expense</b>	<b>\$ 58,904</b>	<b>\$ 48,330</b>	<b>\$ 46,523</b>

All non-cash compensation awards granted have varying vesting schedules and are issued at prices equal to the assessed fair market value at the time of issuance, as discussed below. Details of awards of Class B units of the operating company, Delayed Exchange Class B units, phantom Delayed Exchange Class B units, phantom Class B units of the operating company, options to purchase Class A common stock or Class B units, options to purchase Delayed Exchange Class B units, and shares of Class A common stock awarded for the three years ended December 31, 2017 are as follows:

	For the Years Ended December 31,					
	2017		2016		2015	
	Amount	Fair Value <sup>1</sup>	Amount	Fair Value <sup>1</sup>	Amount	Fair Value <sup>1</sup>
Restricted Class B Units	40,500	\$ 11.11	5,812	\$ 8.60	23,782	\$ 9.46
Delayed Exchange Class B Units <sup>2</sup>	620,023	\$ 7.11	—	\$ —	993,965	\$ 5.21
Deferred Compensation Phantom Delayed Exchange Class B Units <sup>3</sup>	232,667	\$ 7.04	367,214	\$ 6.30	—	\$ —
Phantom Class B Units <sup>4</sup>	5,200	\$ 9.61	—	\$ —	14,060	\$ 7.11
Options to Purchase Shares of Class A Common Stock <sup>5</sup>	50,000	\$ 3.04	—	\$ —	—	\$ —
Options to Purchase Class B Units <sup>5</sup>	320,000	\$ 3.04	—	\$ —	—	\$ —
Options to Purchase Delayed Exchange Class B Units <sup>6</sup>	2,630,000	\$ 2.30	—	\$ —	—	\$ —
Options to Purchase Shares of Class A Common Stock <sup>7</sup>	—	\$ —	—	\$ —	3,000,000	\$ 1.18
Participating Shares of Class A Common Stock	—	\$ —	—	\$ —	31,010	\$ 8.38
Restricted Shares of Class A Common Stock <sup>8</sup>	—	\$ —	—	\$ —	100,000	\$ 6.08

1 Represents the weighted average grant date estimated fair value per share, unit, or option.

2 Represents Class B units issued under the 2006 Equity Incentive Plan (as defined below). These units vest immediately upon grant, but may not be exchanged pursuant to the Amended and Restated Operating Agreement of the operating company until the seventh anniversary of the date of grant. These units are also not entitled to any benefits under the Tax Receivable Agreement between the Company and members of the operating company. For the year-ended December 31, 2017, the Delayed Exchange Class B units were issued to certain employee members that elected to have their 2016 year-end cash compensation paid in the form of equity which were issued and vested immediately on January 1, 2017.

3 Represents phantom Delayed Exchange Class B units issued under the 2006 Equity Incentive Plan (as defined below). These phantom units vest ratably over four years, but may not be exchanged pursuant to the Amended and Restated Operating Agreement of the operating company until seven years after the date they vest. These units are also not entitled to any benefits under the Tax Receivable Agreement between the Company and members of the operating company.

4 Represents phantom Class B units issued under the 2006 Equity Incentive Plan (as defined below). These phantom units vest ratably over ten years and are not entitled to receive dividends or dividend equivalents until vested.

5 Represents options to purchase shares of Class A common stock or Class B units under the 2006 Equity Incentive Plan and 2007 Equity Incentive Plan (as defined below), respectively. These options become exercisable five years from the date of grant.

**Pzena Investment Management, Inc.**  
**Notes to Consolidated Financial Statements (Continued)**

**Note 3 — Compensation and Benefits (Continued)**

- 6 Represents options to purchase Delayed Exchange Class B units issued under 2006 Equity Incentive Plan (as defined below). These options become exercisable five years from the date of grant. Upon exercise, the resulting Delayed Exchange Class B units may not be exchanged pursuant the Amended and Restated Operating Agreement until the seventh anniversary of the exercise date and are not entitled to any benefits under the Tax Receivable Agreement.
- 7 Represents options to purchase shares of Class A common stock issued whose vesting is contingent on meeting various performance goals. These options contingently vest over a period of seven years.
- 8 Represents restricted shares of Class A Common Stock that are not entitled to receive dividends or dividend equivalents until vested.

As part of the Company's year-end bonus structure, certain employee members may elect to have all or part of year-end cash compensation paid in the form of cash, or equity issued pursuant to Pzena Investment Management, LLC Amended and Restated 2006 Equity Incentive Plan (“the 2006 Equity Incentive Plan”). For the year ended December 31, 2017, \$4.2 million of cash compensation was elected to be paid in the form of equity, which was issued and vested immediately on January 1, 2018. Details of these awards issued on January 1, 2018 are as follows:

	January 1,	
	2018	
	Amount	Fair Value <sup>1</sup>
Options to Purchase Delayed Exchange Class B Units <sup>2</sup>	1,062,820	\$ 1.95
Delayed Exchange Class B Units <sup>3</sup>	300,931	\$ 7.04

- 1 Represents the weighted average grant date estimated fair value per share, unit, or option as of December 31, 2017.
- 2 Represents options to purchase Delayed Exchange Class B units issued under 2006 Equity Incentive Plan. These options are exercisable on the date of grant. Upon exercise, the resulting Delayed Exchange Class B units may not be exchanged pursuant the Amended and Restated Operating Agreement until the seventh anniversary of the exercise date and are not entitled to any benefits under the Tax Receivable Agreement.
- 3 Represents Class B units issued under the 2006 Equity Incentive Plan. These units vest immediately upon grant, but may not be exchanged pursuant to the Amended and Restated Operating Agreement of the operating company until the seventh anniversary of the date of grant. These units are also not entitled to any benefits under the Tax Receivable Agreement between the Company and members of the operating company.

Pursuant to the 2006 Equity Incentive Plan, the operating company issues Class B units, phantom Class B units, and options to purchase Class B units. The Company also issues Delayed Exchange Class B units pursuant to the 2006 Equity Incentive Plan. These Delayed Exchange Class B units may not be exchanged pursuant to the Amended and Restated Operating Agreement of the operating company until at least the seventh anniversary of the date they vest. These Delayed Exchange Class B units are also not entitled to any benefit under the Tax Receivable Agreement between the Company and current, future and past members of the operating company. The Company also issues phantom Delayed Exchange Class B units and options to purchase Delayed Exchange Class B units. Under the Pzena Investment Management, Inc. 2007 Equity Incentive Plan (“the 2007 Equity Incentive Plan”), the Company issues shares of restricted Class A common stock, options to purchase Class A common stock and contingently vesting options to acquire shares of Class A common stock. During the year ended December 31, 2017, 1,000,000 contingently vesting options were forfeited in connection with an employee departure. Sadly, the Company's Executive Vice President and Executive Committee member passed away on July 22, 2017. As a result, 549,888 phantom Class B units did not vest and were forfeited. During the year ended December 31, 2016 and 2015, 48,000 phantom Class B units and 5,775 restricted Class B units, respectively, were forfeited in connection with employee departures. During the years ended December 31, 2017, 2016 and 2015, no contingently vesting options vested. During the year ended December 31, 2015, 142,315 Delayed Exchange Class B units issued to one employee during 2014 were canceled. Additional compensation expense of less than \$0.1 million was recognized upon cancellation and replacement of the award for cash. No Class B units were canceled during the years ended December 31, 2017 or 2016.

Under the Pzena Investment Management, LLC Amended and Restated Bonus Plan (the “Bonus Plan”), eligible employees whose compensation is in excess of certain thresholds are required to defer a portion of that excess. These deferred amounts may be invested, at the employee’s discretion, in certain investment options as designated by the Compensation Committee of the Company's Board of Directors. Amounts deferred in any calendar year reduce that year’s compensation expense and are amortized and vest ratably over a four year period commencing the following year. The Company also issued to certain of its employees deferred compensation with certain investment options that also vest ratably over a four years period. As of December 31, 2017 and 2016, the liability associated with deferred compensation investment accounts was \$0.9 million and \$4.2 million, respectively. During the year ended December 31, 2017, the vesting of 5,739 deferred compensation phantom Class B units and \$1.5 million in deferred compensation investments was accelerated due to both the passing of the Company's

**Pzena Investment Management, Inc.**  
**Notes to Consolidated Financial Statements (Continued)**

**Note 3 — Compensation and Benefits (Continued)**

Executive Vice President and an employee departure. During the year ended December 31, 2016, approximately \$0.2 million in deferred compensation investments were forfeited in connection with employee departures. There were no deferred compensation investment forfeitures under the Bonus Plan during the year ended December 31, 2015.

Pursuant to the Pzena Investment Management, Inc. Non-Employee Director Deferred Compensation Plan (the “Director Plan”), non-employee directors may elect to have all or part of the compensation otherwise payable in cash, deferred in the form of phantom shares of Class A common stock of the Company issued under the 2007 Equity Incentive Plan. Elections to defer compensation under the Director Plan are made on a year-to-year basis. Elections of deferred stock units result in the issuance of phantom shares of Class A common stock. Distributions under the Director Plan shall be made in a single distribution of shares of our Class A common stock at such time as elected by the participant when the deferral was made. Since inception of the Director Plan in 2009, the Company’s directors have elected to defer 100% of their compensation in the form of phantom shares of Class A common stock. Amounts deferred in any calendar year are amortized over the calendar year and reflected as General and Administrative Expense. During the years ended December 31, 2017, 2016 and 2015, the directors were awarded 44,786, 58,645, and 42,196 phantom shares of Class A common stock, respectively, reflecting the annual deferral of compensation and additional phantom shares issued as of each date, and in the amount of dividends and/or special dividends and distributions that are paid with respect to Class A common stock of the Company. As of December 31, 2017 and 2016, there were 336,016 and 291,230 phantom shares of Class A common stock outstanding, respectively. There were no distributions made under the Director Plan during the years ended December 31, 2017 and 2016.

The Company uses a fair value method in recording the expense associated with the granting of Class B units, Delayed Exchange Class B units, phantom Class B units, options to purchase Class A common stock and Class B units, options to purchase Delayed Exchange Class B units, and shares of Class A common stock under the 2006 and 2007 Equity Incentive Plans, phantom Class B units and phantom Delayed Exchange Class B units under the Bonus Plan, and phantom shares of Class A common stock under the Director Plan.

The fair value of awarded restricted shares of Class A common stock under the 2007 Equity Incentive Plan and phantom shares of Class A common stock under the Director Plan is determined based on the closing market price of our Class A common stock on the date of grant. The fair value of awarded Class B units and phantom Class B units under the 2006 Equity Incentive Plan and phantom Class B units under the Bonus Plan is determined by reference to the market price of our Class A common stock on the date of grant, since Class B units are exchangeable for shares of our Class A common stock on a one-for-one basis and adjusted for the impact of award terms on the value of the award. Certain of the phantom Class B units and restricted shares of Class A common stock are not entitled to dividends or dividend equivalents while unvested. The fair value of these awards is determined based on the closing market price of our Class A common stock on the date of grant, net of the present value of the dividends using the applicable risk-free interest rate. The Delayed Exchange Class B Units have a seven years exchange limitation and are not entitled to any benefits under the tax receivable agreement. The fair value of these awards is determined based on the closing market price of our Class A common stock on the date of grant, net of the effects of the liquidity limitation and tax receivable agreement benefit exclusion. The Company also issued options to purchase Delayed Exchange Class B units. The fair value of these options is determined using an option pricing model where the strike price reflects the fair value of Delayed Exchange Class B units on the date of grant.

The fair value of options to purchase Class B units, shares of Class A common stock, and Delayed Exchange Class B units is determined by using an appropriate option pricing model on the grant date. No options were issued during the the year ended December 31, 2016. For each of the years ended December 31, 2017 and 2015 the Company issued options valued using the Black-Scholes option pricing model with the following weighted average assumptions:

	2017		2015	
	January 1,	March 2,	September 22,	
Weighted Average Time Until Exercise	7 years	7 years	7 years	
Expected Volatility	42%	35%	40%	
Risk-Free Rate	2.25%	1.89%	1.83%	
Dividend Yield	3.15%	4.83%	5.02%	

Weighted Average Time Until Exercise — The expected term is based on the Company’s historical experience and the particular terms of its option awards.

**Pzena Investment Management, Inc.**  
**Notes to Consolidated Financial Statements (Continued)**

**Note 3 — Compensation and Benefits (Continued)**

Expected Volatility — Due to the lack of sufficient historical data for the Company’s own shares, the Company based its expected volatility on a representative peer group.

Risk-Free Rate — The risk-free rate for periods within the expected term of the options is based on the interest rate of a traded zero-coupon U.S. Treasury bond with a term equal to the options’ expected term on the date of grant.

Dividend Yield — The dividend yield is based on the Company’s anticipated dividend payout over the expected term of the option awards.

The following is a summary of the option activity for the three years ended December 31, 2017:

	For the Years Ended December 31,					
	2017		2016		2015	
	Options Outstanding	Weighted Average Exercise Price	Options Outstanding	Weighted Average Exercise Price	Options Outstanding	Weighted Average Exercise Price
Beginning Balance	4,703,722	\$ 11.53	5,156,143	\$ 11.01	3,114,282	\$ 7.10
Options Granted <sup>1</sup>	3,000,000	7.95	—	—	3,000,000	13.00
Options Cancelled	(1,163,310)	13.07	(9,044)	7.93	—	—
Options Exercised	(348,910)	9.98	(443,377)	5.56	(958,139)	4.52
Ending Balance	<u>6,191,502</u>	<u>\$ 9.59</u>	<u>4,703,722</u>	<u>\$ 11.53</u>	<u>5,156,143</u>	<u>\$ 11.01</u>

<sup>1</sup> Options granted for the year-ended December 31, 2017 include 2,630,000 of options to purchase Delayed Exchange Class B units, 320,000 options to purchase Class B units, and 50,000 options to purchase Class A common stock.

The weighted average grant-date fair values per options issued in 2017 and 2015 were \$2.39 and \$1.18, respectively. No options were issued in 2016. The 348,910 options exercised in 2017 resulted in 41,781 net Class B units issued, as a result of the redemption of 257,129 Class B units for the cashless exercise of the options and 16,722 net Class A shares issued, as a result of the redemption of 33,278 Class A shares for the cashless exercise of options. The 443,377 options exercised in 2016 resulted in 282,519 net Class B units issued, as a result of the redemption of 160,858 Class B units for the cashless exercise of the options and \$0.9 million in cash. The 958,139 options to purchase Class B units that were exercised in 2015 resulted in 715,706 net Class B units issued, as a result of the redemption of 239,058 Class B units for the cashless exercise of the options and \$1.7 million in cash and 962 shares of Class A common stock, as a result of the redemption of 2,413 shares of Class A common stock for the cashless exercise of the options. The 1,163,310 and 9,044 options to purchase Class B units that were cancelled during 2017 and 2016, respectively, were in connection with employee departures and option expirations.

Exercise prices for options outstanding and exercisable as of December 31, 2017 are as follows:

	Options Outstanding			Options Exercisable		
	Number Outstanding as of December 31, 2017	Weighted-Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable as of December 31, 2017	Weighted-Average Remaining Contractual Life	Weighted Average Exercise Price
\$4.22 – \$5.00	131,334	2.4	\$ 4.48	131,334	2.4	\$ 4.48
\$5.00 – \$10.00	3,502,646	7.3	7.32	872,646	2.1	7.94
\$10.00 – \$15.00	2,557,522	5.0	12.98	187,522	2.4	10.93
\$4.22 – \$15.00	<u>6,191,502</u>	<u>6.2</u>	<u>\$ 9.59</u>	<u>1,191,502</u>	<u>2.2</u>	<u>\$ 8.03</u>

Based on the closing market price of the Company’s Class A common stock on December 31, 2017, the aggregate intrinsic value of the Company’s options was as follows:

	Options Outstanding	Options Exercisable
	(in thousands)	
Aggregate Intrinsic Value	\$ 12,593	\$ 3,230

**Pzena Investment Management, Inc.**  
**Notes to Consolidated Financial Statements (Continued)**

**Note 3 — Compensation and Benefits (Continued)**

Phantom Class B units and Phantom Delayed Exchange Class B units issued pursuant to the Bonus Plan, which vest ratably over four years, are summarized as follows:

	For the Years Ended December 31,					
	2017		2016		2015	
	Phantom Units Outstanding	Weighted Average Price	Phantom Units Outstanding	Weighted Average Price	Phantom Units Outstanding	Weighted Average Price
Beginning Balance	335,569	\$ 6.52	28,607	\$ 7.95	71,688	\$ 6.63
Phantom Delayed Exchange Class B Units Issued <sup>1</sup>	232,667	7.04	367,214	6.30	—	—
Vesting of Phantom Delayed Exchange Class B Units <sup>1</sup>	(91,805)	6.30	(37,384)	5.12	—	—
Vesting of Phantom Class B Units	(5,739)	11.76	(22,868)	7.00	(43,081)	5.75
Ending Balance	470,692	\$ 6.76	335,569	\$ 6.52	28,607	\$ 7.95

<sup>1</sup> Represents phantom Delayed Exchange Class B units issued under the 2006 Equity Incentive Plan. These phantom units vest ratably over four years, but may not be exchanged pursuant to the Amended and Restated Operating Agreement of the operating company until seven years after the date they vest. These units are also not entitled to any benefits under the Tax Receivable Agreement between the Company and members of the operating company.

Phantom Class B units issued pursuant to the 2006 Equity Incentive Plan, which vest ratably over 10 years and are not eligible to receive dividends or dividend equivalents until vested, are summarized as follows:

	For the Years Ended December 31,					
	2017		2016		2015	
	Phantom Units Outstanding	Weighted Average Price	Phantom Units Outstanding	Weighted Average Price	Phantom Units Outstanding	Weighted Average Price
Beginning Balance	2,599,656	\$ 4.92	3,066,325	\$ 4.94	3,476,934	\$ 4.92
Phantom Class B Units Issued	5,200	9.61	—	—	14,060	7.11
Vesting of Phantom Class B Units	(329,503)	4.89	(418,669)	4.79	(424,669)	4.83
Phantom Class B Units Forfeited	(549,888)	4.55	(48,000)	7.62	—	—
Ending Balance	1,725,465	\$ 5.05	2,599,656	\$ 4.92	3,066,325	\$ 4.94

As of December 31, 2017 and 2016, the Company had approximately \$32.6 million and \$30.0 million, respectively, in unrecorded compensation expense related to unvested awards issued pursuant to its Bonus Plan; Class B units, option grants, and phantom Class B units issued under the 2006 Equity Incentive Plan; and restricted Class A common stock issued under the 2007 Equity Incentive Plan. The Company anticipates that this unrecorded cost will amortize over the respective vesting periods of the awards.

As of December 31, 2017, the total units and shares remaining available for future issuance under the equity incentive plans are as follows:

Plan	Number of Securities Remaining Available For Future Issuance Under Equity Incentive Plans
Pzena Investment Management, LLC 2006 Equity Incentive Plan	15,254,833
Pzena Investment Management, Inc. 2007 Equity Incentive Plan	13,306,893
Total	28,561,726

**Pzena Investment Management, Inc.**  
**Notes to Consolidated Financial Statements (Continued)**

**Note 4 — Employee Benefit Plans**

The Profit Sharing and Savings Plan is a defined contribution profit sharing plan with a 401(k) deferral component. All full-time employees and certain part-time employees who have met the age and length of service requirements are eligible to participate in the plan. The plan allows participating employees to make elective deferrals of compensation up to the annual limits which are set by law. The plan provides for a discretionary annual contribution by the operating company which is determined by a formula based on the salaries of eligible employees as defined by the plan. During the years ended December 31, 2017, 2016, and 2015, the expense recognized in connection with this plan was \$0.9 million, \$0.8 million, and \$0.8 million, respectively.

**Note 5 — Earnings per Share**

Basic earnings per share is computed by dividing the Company's net income attributable to its common stockholders by the weighted average number of shares outstanding during the reporting period.

Under the two-class method of computing basic earnings per share, basic earnings per share is calculated by dividing net income for basic earnings per share by the weighted average number of common shares outstanding during the period. The two-class method includes an earnings allocation formula that determines earnings per share for each participating security according to dividends declared and undistributed earnings for the period. The Company's net income for basis earnings per share is reduced by the amount allocated to participating restricted shares of Class A common stock which participate for purposes of calculating earnings per share.

For the years ended December 31, 2017, 2016, and 2015, the Company's basic earnings per share was determined as follows:

	For the Years Ended December 31,		
	2017	2016	2015
	(in thousands, except share and per share amounts)		
Net Income Allocated to:			
Class A Common Stock	\$ 6,907	\$ 16,164	\$ 7,665
Participating Shares of Restricted Class A Common Stock	1	15	14
Net Income for Basic Earnings Per Share	<u>\$ 6,908</u>	<u>\$ 16,179</u>	<u>\$ 7,679</u>
Basic Weighted-Average Shares Outstanding	17,335,689	15,945,275	13,989,589
Add: Participating Shares of Restricted Class A Common Stock <sup>1</sup>	2,659	17,627	24,630
Total Basic Weighted-Average Shares Outstanding	<u>17,338,348</u>	<u>15,962,902</u>	<u>14,014,219</u>
Basic Earnings per Share	<u>\$ 0.40</u>	<u>\$ 1.01</u>	<u>\$ 0.55</u>

<sup>1</sup> Certain unvested shares of Class A common stock granted to employees have nonforfeitable rights to dividends and therefore participate fully in the results of the Company from the date they are granted. They are included in the computation of basic earnings per share using the two-class method for participating securities.

Diluted earnings per share adjusts this calculation to reflect the impact of all outstanding membership units of the operating company, phantom Class B units, phantom Class A common stock, outstanding Class B unit options, options to purchase Class A common stock, and restricted Class A common stock, to the extent they would have a dilutive effect on earnings per share for the reporting period. Net income for diluted earnings per share generally assumes all outstanding operating company membership units are converted into Company stock at the beginning of the reporting period and the resulting change to the Company's net income associated with its increased interest in the operating company is taxed at the Company's effective tax rate, exclusive of one-time charges and adjustments associated with both the valuation allowance and the liability to selling and converting shareholders. When this conversion results in an increase in earnings per share or a decrease in loss per share, diluted net income and diluted earnings per share are assumed to be equal to basic net income and basic earnings per share for the reporting period.

**Pzena Investment Management, Inc.**  
**Notes to Consolidated Financial Statements (Continued)**

**Note 5 — Earnings per Share (Continued)**

For the years ended December 31, 2017, 2016, and 2015, the Company's diluted net income was determined as follows:

	For the Years Ended December 31,		
	2017	2016	2015
	(in thousands)		
Net Income Attributable to Non-Controlling Interests of Pzena Investment Management, LLC	\$ 52,379	\$ 37,065	\$ 41,562
Less: Assumed Corporate Income Taxes	19,223	13,644	15,432
Assumed After-Tax Income of Pzena Investment Management, LLC	33,156	23,421	26,130
Net Income of Pzena Investment Management, Inc	6,908	16,179	7,679
Diluted Net Income	<u>\$ 40,064</u>	<u>\$ 39,600</u>	<u>\$ 33,809</u>

Under the two-class method, earnings per share is calculated by dividing net income for diluted earnings per share by the weighted average number of common shares outstanding during the period, plus the dilutive effect of any potential common shares outstanding during the period using the more dilutive of the treasury method or two-class method. The two-class method includes an earnings allocation formula that determines earnings per share for each participating security according to dividends declared and undistributed earnings for the period. The Company's net income for diluted earnings per share is reduced by the amount allocated to participating Class B units for purposes of calculating earnings per share. Dividends paid per share on the unvested Class B units are equal to the dividends paid per share of Class A common stock of the Company.

For the years ended December 31, 2017, 2016, and 2015, the Company's diluted earnings per share were determined as follows:

	For the Years Ended December 31,		
	2017	2016	2015
	(In thousands, except share and per share amounts)		
Diluted Net Income Allocated to:			
Class A Common Stock	\$ 40,025	\$ 39,561	33,751
Participating Shares of Restricted Class A Common Stock	1	15	14
Participating Class B Units	38	24	44
Total Diluted Net Income Attributable to Shareholders	<u>\$ 40,064</u>	<u>\$ 39,600</u>	<u>\$ 33,809</u>
Basic Weighted-Average Shares Outstanding	17,338,348	15,962,902	14,014,219
Dilutive Effect of Class B Units	51,108,030	51,289,167	52,072,070
Dilutive Effect of Options <sup>1</sup>	583,669	326,145	555,940
Dilutive Effect of Phantom Units	1,767,130	1,189,273	1,349,050
Dilutive Effect of Restricted Shares of Class A Common Stock <sup>2</sup>	72,299	40,628	51,760
Dilutive Weighted-Average Shares Outstanding	70,869,476	68,808,115	68,043,039
Add: Participating Class B Units <sup>3</sup>	64,886	41,057	83,747
Total Dilutive Weighted-Average Shares Outstanding	<u>70,934,362</u>	<u>68,849,172</u>	<u>68,126,786</u>
Diluted Earnings per Share <sup>4</sup>	<u>\$ 0.56</u>	<u>\$ 0.58</u>	<u>\$ 0.50</u>

1 Represents the dilutive effect of options to purchase Class B units and Class A common stock.

2 Certain restricted shares of Class A common stock granted to employees are not entitled to dividend or dividend equivalent payments until they are vested and are therefore non-participating securities and are not included in the computation of basic earnings per share. They are included in the computation of diluted earnings per share when the effect is dilutive using the treasury stock method.

3 Unvested Class B Units granted to employees have nonforfeitable rights to dividends and therefore participate fully in the results of the operating company's operations from the date they are granted. They are included in the computation of diluted earnings per share using the two-class method for participating securities.

4 Reflects the calculation of diluted earnings per share which results in an increase in earnings per share during the year ended December 31, 2017. Therefore, diluted earnings per share is presented on the statement of operations equal to basic earnings per share.



**Pzena Investment Management, Inc.**  
**Notes to Consolidated Financial Statements (Continued)**

**Note 5 — Earnings per Share (Continued)**

Approximately 0.6 million options to purchase Class B units, 0.1 million options to purchase shares of Class A common stock, and 2.0 million contingent options to purchase shares of Class A common stock were excluded from the calculation of diluted earnings per share for the year ended December 31, 2017, as their inclusion would have had an antidilutive effect based on current market prices or because the option had contingent vesting requirements that were not met. Approximately 0.6 million options to purchase Class B units and 3.0 million contingent options to purchase Class A common stock were excluded from the calculation of diluted earnings per share for both the years ended December 31, 2016 and 2015, as their inclusion would have had an antidilutive effect based on current market prices or because the option had contingent vesting requirements that were not met.

**Note 6 — Shareholders' Equity**

The Company functions as the sole managing member of the operating company. As a result, the Company: (i) consolidates the financial results of the operating company and reflects the membership interest in it that it does not own as a non-controlling interest in its consolidated financial statements; and (ii) recognizes income generated from its economic interest in the operating company's net income. Class A and Class B units of the operating company have the same economic rights per unit. As of December 31, 2017, the holders of Class A common stock (through the Company) and the holders of Class B units of the operating company held approximately 26.3% and 73.7%, respectively, of the economic interests in the operations of the business. As of December 31, 2016, the holders of Class A common stock (through the Company) and the holders of Class B units of the operating company held approximately 25.6% and 74.4%, respectively, of the economic interests in the operations of the business.

Each Class B unit of the operating company has a corresponding share of the Company's Class B common stock, par value \$0.000001 per share. Each share of the Company's Class B common stock entitles its holder to five votes, until the first time that the number of shares of Class B common stock outstanding constitutes less than 20% of the number of all shares of the Company's common stock outstanding. From this time and thereafter, each share of the Company's Class B common stock entitles its holder to one vote. When a Class B unit is exchanged for a share of the Company's Class A common stock or forfeited, a corresponding share of the Company's Class B common stock will automatically be redeemed and canceled. Conversely, to the extent that the Company causes the operating company to issue additional Class B units to employees pursuant to its equity incentive plan, these additional holders of Class B units would be entitled to receive a corresponding number of shares of the Company's Class B common stock (including if the Class B units awarded are subject to vesting).

All holders of the Company's Class B common stock have entered into a stockholders' agreement, pursuant to which they agreed to vote all shares of Class B common stock then held by them, with the majority of votes of Class B common stockholders taken in a preliminary vote of the Class B common stockholders.

The outstanding shares of the Company's Class A common stock represent 100% of the rights of the holders of all classes of the Company's capital stock to receive distributions, except that holders of Class B common stock will have the right to receive the class's par value upon the Company's liquidation, dissolution or winding up.

Pursuant to the operating agreement of the operating company, each vested Class B unit is exchangeable for a share of the Company's Class A common stock, subject to certain exchange timing and volume limitations.

On December 21, 2017, December 22, 2016, May 12, 2016, and July 27, 2015 certain of the operating company's members exchanged an aggregate of 855,535, 1,056,929, 1,369,811, and 2,772,171, respectively, of their Class B units for an equivalent number of shares of Class A common stock of the Company. These acquisitions of additional operating company membership interests were treated as reorganizations of entities under common control as required by the *Business Combinations Topic* of the FASB ASC.

**Pzena Investment Management, Inc.**  
**Notes to Consolidated Financial Statements (Continued)**

**Note 6 — Shareholders' Equity (Continued)**

The incremental assets and liabilities assumed in the exchanges were recorded on December 21, 2017, December 22, 2016, May 12, 2016, and July 27, 2015 as follows:

	December 21, 2017	December 22, 2016	May 12, 2016	July 27, 2015
	(in thousands)			
Pzena Investment Management, LLC Members' Capital	\$ 11,453	\$ 14,282	\$ 18,545	\$ 37,760
Pzena Investment Management, LLC Accumulated Deficit	(10,396)	(13,299)	(17,475)	(35,482)
Realizable Deferred Tax Asset	2,090	1,130	1,244	3,301
Net Tax Receivable Liability to Converting Unitholders	(1,538)	(961)	(1,058)	(2,806)
<b>Total</b>	<b>\$ 1,609</b>	<b>\$ 1,152</b>	<b>\$ 1,256</b>	<b>\$ 2,773</b>
Common Stock, at Par	\$ 9	\$ 10	\$ 13	\$ 28
Additional Paid-in Capital	1,600	1,142	1,243	2,745
<b>Total</b>	<b>\$ 1,609</b>	<b>\$ 1,152</b>	<b>\$ 1,256</b>	<b>\$ 2,773</b>

The Company announced a share repurchase program on April 24, 2012. The Board of Directors authorized the Company to repurchase an aggregate of \$10 million of the Company's outstanding Class A common stock and the operating company's Class B units on the open market and in private transactions in accordance with applicable securities laws. On February 5, 2014, the Board of Directors authorized the Company to repurchase an additional \$20 million of the Company's 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 the Company's discretion. The Company's share repurchase program is not subject to an expiration date and may be suspended, discontinued, or modified at any time, for any reason.

During the year ended December 31, 2017, the Company purchased and retired 150,727 shares of Class A common stock and 33,715 Class B units at an average price per share of \$9.88 and \$10.89, respectively. During the year ended December 31, 2016, the Company purchased and retired 339,939 shares of Class A common stock and 72,860 Class B units at an average price per share of \$7.88 and \$10.72, respectively. During the year ended December 31, 2015, the Company purchased and retired 629,174 shares of Class A common stock and 192,406 Class B units at an average price per share of \$9.18 and \$10.52, respectively. The Company records the repurchase of shares and units at cost based on the trade date of the transaction.

During the years ended December 31, 2017, 2016, and 2015, 31,803, 87,563 and 78,093 Delayed Exchange Class B units were issued for approximately \$0.2 million, \$0.4 million, and \$0.4 million in cash, respectively, to certain employee members pursuant to the 2006 Equity Incentive Plan.

**Note 7 — Non-Controlling Interests**

Non-Controlling Interests in the operations of the Company's operating company and consolidated subsidiaries are comprised of the following:

	For the Years Ended December 31,		
	2017	2016	2015
	(in thousands)		
Non-Controlling Interests of Pzena Investment Management, LLC	\$ 52,379	\$ 37,065	\$ 41,562
Non-Controlling Interests of Consolidated Subsidiaries	863	407	(2,238)
<b>Non-Controlling Interests</b>	<b>\$ 53,242</b>	<b>\$ 37,472</b>	<b>\$ 39,324</b>

Distributions to non-controlling interests represent tax allocations and dividend equivalents paid to the members of the operating company, as well as redemptions by investors in the Company's consolidated subsidiaries.

**Pzena Investment Management, Inc.**  
**Notes to Consolidated Financial Statements (Continued)**

**Note 8 — Investments**

The following is a summary of Investments:

	As of	
	December 31, 2017	December 31, 2016
(in thousands)		
Investment securities, trading		
Equity Securities	\$ 5,452	\$ 14,323
Total investment securities, trading	\$ 5,452	\$ 14,323
Investments in equity method investees	16,285	7,987
Total	\$ 21,737	\$ 22,310

**Investment Securities, Trading**

Investments, at Fair Value consisted of the following at December 31, 2017:

	Cost	Unrealized Gain/ (Loss)	Fair Value
	(in thousands)		
Equity Securities	\$ 4,399	\$ 1,053	\$ 5,452
Total	\$ 4,399	\$ 1,053	\$ 5,452

Investments, at Fair Value consisted of the following at December 31, 2016:

	Cost	Unrealized Gain/ (Loss)	Fair Value
	(in thousands)		
Equity Securities	\$ 13,105	\$ 1,218	\$ 14,323
Total	\$ 13,105	\$ 1,218	\$ 14,323

Securities Sold Short, at Fair Value consisted of the following at December 31, 2016:

	Cost	Unrealized (Gain)/Loss	Fair Value
	(in thousands)		
Securities Sold Short	\$ 2,646	\$ (24)	\$ 2,622
Total	\$ 2,646	\$ (24)	\$ 2,622

**Investments in Equity Method Investees**

The operating company sponsors and provides investment management services to certain private investment partnerships and Pzena mutual funds through which it offers its investment strategies. The Company has made investments in certain of these private investment partnerships and mutual funds to satisfy its obligations under the Company's deferred compensation program and provide the initial cash investment in our mutual funds. The Company holds a non-controlling interest and exercises significant influence in these entities, and accounts for its investments as equity method investments which are included in Equity Method Investments on the consolidated statements of financial condition. On November 9, 2017 and December 21, 2017 due to additional subscriptions into the Pzena Mid Cap Value Fund and Pzena Long/Short Value Fund, respectively, the Company's ownership decreased to 41.7% and 35.5%, respectively. As the Company was no longer deemed to control the funds, it deconsolidated the entities, removed the related assets, liabilities and non-controlling interest from its balance sheet and classified the Company's remaining investments as an equity method investments. As of December 31, 2017, the Company's investments range between 1% and 36% of the capital of these entities and have an aggregate carrying value of \$16.3 million.

**Pzena Investment Management, Inc.**  
**Notes to Consolidated Financial Statements (Continued)**

**Note 9 — Fair Value Measurements**

The *Fair Value Measurements and Disclosures Topic* of the FASB ASC defines fair value as the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date. The *Fair Value Measurements and Disclosures Topic* of the FASB ASC also establishes a framework for measuring fair value and a valuation hierarchy based upon the transparency of inputs used in the valuation of an asset or liability. Classification within the hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The valuation hierarchy contains three levels: (i) valuation inputs are unadjusted quoted market prices for identical assets or liabilities in active markets (Level 1); (ii) valuation inputs are quoted prices for identical assets or liabilities in markets that are not active, quoted market prices for similar assets and liabilities in active markets, and other observable inputs directly or indirectly related to the asset or liability being measured (Level 2); and (iii) valuation inputs are unobservable and significant to the fair value measurement (Level 3).

Included in the Company's consolidated statements of financial condition are investments in equity securities and securities sold short, both of which are exchange-traded securities with quoted prices in active markets. The fair value measurements of the equity securities, securities sold short, have been classified as Level 1. The investments in equity method investees are held at their carrying value.

The following tables present these instruments' fair value at December 31, 2017:

	Level 1	Level 2	Level 3	Total
	(in thousands)			
Assets:				
Equity Securities	\$ 5,452	\$ —	\$ —	\$ 5,452

The following tables present these instruments' fair value at December 31, 2016:

	Level 1	Level 2	Level 3	Total
	(in thousands)			
Assets:				
Equity Securities	\$ 14,323	\$ —	\$ —	\$ 14,323

	Level 1	Level 2	Level 3	Total
	(in thousands)			
Liabilities:				
Securities Sold Short	\$ 2,622	\$ —	\$ —	\$ 2,622

Transfers among levels, if any, are recorded as of the beginning of the reporting period. For the years ended December 31, 2017, and 2016, there were no transfers between levels. In addition, the Company did not hold any Level 2 or Level 3 securities during these periods.

**Pzena Investment Management, Inc.**  
**Notes to Consolidated Financial Statements (Continued)**

**Note 10 — Property and Equipment**

Property and equipment, net, is comprised of the following:

	As of	
	December 31, 2017	December 31, 2016
	(in thousands)	
Leasehold Improvements	\$ 6,832	\$ 6,832
Furniture and Fixtures	1,190	1,190
Computer Hardware	686	756
Computer Software	333	238
Office Equipment	281	209
Total	9,322	9,225
Less: Accumulated Depreciation and Amortization	(3,063)	(2,260)
Total	<u>\$ 6,259</u>	<u>\$ 6,965</u>

During the year ended December 31, 2015, the Company moved to its new corporate headquarters, as discussed further in Note 12—Commitments and Contingencies, and began depreciating approximately \$6.8 million in leasehold improvements and \$1.2 million in furniture and fixtures related to this new office space. The Company recognized a \$0.4 million loss on the disposal of fixed assets associated with the retirement of assets in our former corporate headquarters, which is included in general and administrative expense. No such losses were recognized during the years ended December 31, 2017 and 2016.

Depreciation is included in general and administrative expense and totaled \$1.0 million, \$1.1 million, and \$0.8 million for each of the years ended December 31, 2017, 2016, and 2015, respectively.

**Note 11 — Related Party Transactions**

For the years ended December 31, 2017, 2016, and 2015, the Company earned \$0.4 million, \$0.3 million, and \$3.2 million, respectively, in investment advisory fees from unconsolidated VIEs which receive investment management services from the Company.

During the year ended December 31, 2017 and 2016, the Company offered loans to employees, excluding executive officers, for the purpose of financing tax obligations associated with compensatory stock and unit vesting. Loans are generally written for a seven-year period, at an interest rate equivalent to the Applicable Federal Rate, payable in annual installments, and collateralized by units held by the employee. These loans are full recourse in nature and totaled \$1.4 million and \$0.9 million at December 31, 2017 and 2016, respectively.

The operating company, as the investment adviser for certain Pzena branded SEC-registered mutual funds, private placement funds, and non-U.S. funds, has contractually agreed to waive a portion or all of its management fees and pay fund expenses to ensure that the annual operating expenses of the funds stay below certain established total expense ratio thresholds. The Company recognized \$1.1 million of such expenses for the year ended December 31, 2017, and \$1.1 million for both the years ended December 31, 2016 and 2015.

The operating company manages the personal funds of certain of the Company’s employees, including the CEO and its two Presidents. The operating company also manages accounts beneficially owned by a private fund in which certain of the Company’s executive officers invest. Investments by employees in individual accounts are permitted only at the discretion of the executive committee of the operating company, but are generally not subject to the same minimum investment levels that are required of outside investors. The operating company also manages the personal funds of some of its employees’ family members. Pursuant to the respective investment management agreements, the operating company waives or reduces its regular advisory fees for these accounts and personal funds. In addition, the operating company pays custody and administrative fees for certain of these accounts and personal funds in order to incubate products or preserve performance history. The aggregate value of the fees that the Company waived related to the Company’s executive officers, other employees, and family members, was approximately \$0.8 million for the year ended December 31, 2017, and \$0.7 million in both of the years ended December

**Pzena Investment Management, Inc.**  
**Notes to Consolidated Financial Statements (Continued)**

**Note 11 — Related Party Transactions (Continued)**

31, 2016 and 2015. The aggregate value of the custody and administrative fees paid related to the Company’s executive offers, other employees, and family members was approximately \$0.1 million in each of the years 2017, 2016, and 2015.

Pursuant to a tax receivable agreement signed between the members of the operating company and the Company, 85% of the cash savings generated by tax elections discussed in Note 13 — Income Taxes, are distributed to the selling and converting shareholders upon the realization of this benefit. For the years ended December 31, 2017 and 2016, \$1.0 million and \$0.8 million, respectively, of such payments were made to certain directors, executive officers and employees of the Company.

**Note 12 — Commitments and Contingencies**

In the normal course of business, the Company enters into agreements that include indemnities in favor of third parties, such as engagement letters with advisers and consultants. In certain cases, the Company may have recourse against third parties with respect to these indemnities. The Company maintains insurance policies that may provide coverage against certain claims under these indemnities. The Company has had no claims or payments pursuant to these agreements, and it believes the likelihood of a claim being made is remote. Utilizing the methodology in the *Guarantees Topic* of the FASB ASC, the Company’s estimate of the value of such guarantees is de minimis, and, therefore, no accrual has been made in the consolidated financial statements.

During the year ended December 31, 2015, the Company moved to its new corporate headquarters. The new office space is leased under a non-cancellable operating lease agreement that expires on December 31, 2025. The Company reflects minimum lease expense for its headquarters on a straight-line basis over the lease term. During September 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 cancellable by either the Company or sublessee given appropriate notice after the thirty-first month following the commencement of the sublease agreement. Sublease income will continue to decrease annual lease expense by approximately \$0.4 million per year.

The Company's former headquarters were leased under a non-cancellable operating lease agreement which expired on October 31, 2015. The Company reflected minimum lease expense for its headquarters on a straight-line basis over the lease term. During the year ended December 31, 2011, the Company entered into a non-cancellable sublease agreement for certain excess office space associated with its operating lease agreement. The sublease agreement also expired on October 31, 2015. During the year ended December 31, 2015, \$1.0 million in losses for the remaining rent and expected disposal costs and \$0.4 million of non-recurring rent expense associated with exiting the former headquarters were recognized in general and administrative expense.

Lease expenses, including the losses and expenses recorded during 2015 which we do not expect to recur, were \$2.1 million, \$1.9 million, and \$3.2 million, respectively, for the years ended December 31, 2017, 2016, and 2015 and are included in general and administrative expense. Lease expense for each of the years ended December 31, 2017 and 2016, was net of \$0.4 million in sublease income. Future minimum lease payments are as follows:

<u>Year Ending December 31,</u>	<u>Minimum Payments<sup>(1)</sup></u>
	<u>(in thousands)</u>
2018	1,979
2019	1,979
2020	1,979
2021	1,979
2022	1,979
2023 and thereafter	5,938
Total	\$ 15,833

(1) Amounts have not been reduced by future minimum sublease payments of \$0.8 million due under the two years, seven months non-cancellable sublease agreement.

**Pzena Investment Management, Inc.**  
**Notes to Consolidated Financial Statements (Continued)**

**Note 13 — Income Taxes**

The operating company is a limited liability company that has elected to be treated as a partnership for tax purposes. Neither it nor the Company’s other consolidated subsidiaries have made a provision for federal or state income taxes because it is the individual responsibility of each of these entities’ members (including the Company) to separately report their proportionate share of the respective entity’s taxable income or loss. The operating company has made a provision for New York City UBT and its U.K. consolidated subsidiary has made a provision for U.K. corporate taxes. The Company, as a “C” corporation under the Internal Revenue Code, is liable for federal, state and local taxes on the income derived from its economic interest in its operating company, which is net of UBT and U.K. taxes. Correspondingly, in its consolidated financial statements, the Company reports both the operating company’s provision for UBT and U.K. taxes, as well as its provision for federal, state and local corporate taxes. The components of the income tax expense/ (benefit) are as follows:

	For the Year Ended December 31,		
	2017	2016 <sup>1</sup>	2015
	(in thousands)		
<b>Current Provision:</b>			
Unincorporated and Other Business Taxes	\$ 2,846	\$ 1,583	\$ 2,204
Local Corporate Tax	—	—	—
State Corporate Tax	—	—	—
Federal Corporate Tax	5	—	—
<b>Total Current Provision</b>	<b>\$ 2,851</b>	<b>\$ 1,583</b>	<b>\$ 2,204</b>
<b>Deferred Provision:</b>			
Unincorporated and Other Business Taxes	\$ 16	\$ 5	\$ 24
Local Corporate Tax	423	258	321
State Corporate Tax	263	199	200
Federal Corporate Tax	5,497	3,478	3,639
<b>Total Deferred Provision</b>	<b>\$ 6,199</b>	<b>\$ 3,940</b>	<b>\$ 4,184</b>
Impact of Tax Cuts and Jobs Act <sup>2</sup>	26,468	—	—
Impact of Change in Historical 754 Step-Up Calculations <sup>3</sup>	(1,006)	—	—
Change in Valuation Allowance	—	(61,942)	(1,274)
Net Adjustment to Deferred Tax Asset <sup>4</sup>	—	1,944	—
<b>Total Income Tax Expense/ (Benefit)</b>	<b>\$ 34,512</b>	<b>\$ (54,475)</b>	<b>\$ 5,114</b>

1 During the year ended December 31, 2016, the operating company recognized a \$0.7 million tax benefit associated with the reversal of uncertain tax position liabilities and interest related to unincorporated and other business tax expenses.

2 Reflects income tax expense resulting from the re-measurement of the deferred tax asset related to the Tax Cuts and Jobs Act enacted in the United States during the fourth quarter of 2017.

3 Reflects the net impact of a change in the historical calculation of the 754 step-ups and related deferred tax asset and corresponding liability to selling and converting shareholders recognized during the year-ended December 31, 2017.

4 During 2016, the Company recognized the net impact of the changes in the deferred tax asset and valuation allowance assessed against the deferred tax asset associated with the changes in expected future tax benefits.

**Pzena Investment Management, Inc.**  
**Notes to Consolidated Financial Statements (Continued)**

**Note 13 — Income Taxes (Continued)**

A reconciliation between the provision for income taxes reported for financial reporting purposes, and the application of the statutory U.S. Federal tax rate to the reported income before income taxes for the years ended December 31, 2017, 2016, and 2015, were as follows:

	For the Year Ended December 31,					
	2017		2016 <sup>1</sup>		2015 <sup>1</sup>	
	Amount	% of Pretax Income	Amount	% of Pretax Income	Amount	% of Pretax Income
	(in thousands, except % amounts)					
Federal Corporate Tax	\$ 32,185	34.0 %	\$ (280)	34.0 %	\$ 17,720	34.0 %
State and Local Corporate Tax, net of Federal Benefit	686	0.7 %	457	(55.5)%	1,631	3.1 %
Unincorporated and Other Business Tax <sup>2</sup>	1,889	2.0 %	1,048	(127.2)%	1,401	2.7 %
Non-Controlling Interests	(18,102)	(19.1)%	(12,740)	1,546.2 %	(14,601)	(28.0)%
Increase/(Decrease) in Liability to Selling and Converting Shareholders	(7,078)	(7.5)%	17,490	(2,122.6)%	144	0.3 %
Impact of Tax Cuts and Jobs Act <sup>3</sup>	26,468	28.0 %	—	— %	—	— %
Impact of Change in Historical 754 Step-Up Calculations <sup>4</sup>	(1,006)	(1.1)%	—	— %	—	— %
Deferred Income Tax Valuation Allowance	—	— %	(61,942)	7,517.2 %	(1,274)	(2.5)%
Net Adjustment to Deferred Tax Asset <sup>5</sup>	—	— %	1,944	(235.9)%	—	— %
Other	(530)	(0.5)%	(452)	54.8 %	93	0.2 %
<b>Income Tax Expense</b>	<b>\$ 34,512</b>	<b>36.5 %</b>	<b>\$ (54,475)</b>	<b>6,611.0 %</b>	<b>\$ 5,114</b>	<b>9.8 %</b>

- 1 The impact related to the use of net operating losses as presented in the 2016 and 2015 consolidated notes to financial statements have been reclassified to be included with Other tax rate items.
- 2 During the year ended December 31, 2016, the operating company recognized a \$0.7 million tax benefit associated with the reversal of uncertain tax position liabilities and interest related to unincorporated and other business tax expenses.
- 3 Reflects income tax expense resulting from the re-measurement of the deferred tax asset related to the Tax Cuts and Jobs Act enacted in the United States during the fourth quarter of 2017.
- 4 Reflects the net impact of a change in the calculation of historical 754 step-ups and related deferred tax assets and corresponding liability to selling and converting shareholders recognized during the year-ended December 31, 2017.
- 5 During 2016, the Company recognized adjustments to the deferred tax asset and valuation allowance assessed against the deferred tax asset associated with a change in the effective tax rate.

The *Income Taxes Topic* of the FASB ASC establishes the minimum threshold for recognizing, and a system for measuring, the benefits of tax return positions in financial statements.

A reconciliation of the beginning and ending amount of total unrecognized tax benefits for the years ended December 31, 2017 and 2016 are as follows:

	For the Year Ended December 31, 2017	
	(in thousands)	
Balance at December 31, 2016	\$	2,802
Increases Related to Current Year Tax Positions		1,870
<b>Balance at December 31, 2017</b>	<b>\$</b>	<b>4,672</b>



**Pzena Investment Management, Inc.**  
**Notes to Consolidated Financial Statements (Continued)**

**Note 13 — Income Taxes (Continued)**

	For the Year Ended December 31, 2016	
	(in thousands)	
Balance at December 31, 2015	\$	2,318
Decreases Related to Prior Year Tax Positions		(664)
Increases Related to Current Year Tax Positions		1,210
Decreases Related to Settlements with Taxing Authorities		(62)
Balance at December 31, 2016	\$	2,802

The Company recognizes accrued interest and penalties related to unrecognized tax benefits as a component of Income Tax Expense/ (Benefit) on the consolidated statements of operations. As of December 31, 2017 and 2016, the Company had \$4.7 million and \$2.8 million in unrecognized tax benefits, that, if recognized, would affect the provision for income taxes. As of December 31, 2017 and 2016, the Company had interest related to unrecognized tax benefits of \$0.5 million and \$0.3 million, respectively. As a result of legislative changes, changes in judgment related to recognition or measurement, or potential settlements with taxing authorities, it is reasonably possible that the company's gross unrecognized tax benefits balance may change within the next twelve months by a range of zero to \$3.4 million.

The Company and the operating company are generally no longer subject to U.S. Federal or state and local income tax examinations by tax authorities for any year prior to 2014. All tax years subsequent to, and including, 2014 are considered open and subject to examination by tax authorities.

As of both December 31, 2017 and 2016, the Company had available for U.S. Federal, state and local income tax reporting purposes, a net operating loss carryforward of \$5.3 million and \$10.2 million, respectively, which expires in varying amounts during the tax years 2029 through 2035.

The acquisition of the Class B units of the operating company, noted below, has allowed the Company to make an election under Section 754 of the Internal Revenue Code ("Section 754") to step up its tax basis in the net assets acquired. This step up is deductible for tax purposes over a 15-year period.

Pursuant to a tax receivable agreement signed between the members of the operating company and the Company, 85% of the cash savings generated by this election will be distributed to the selling and converting shareholders upon the realization of this benefit.

If the Company exercises its right to terminate the tax receivable agreement early, the Company will be obligated to make an early termination payment to the selling and converting shareholders, based upon the net present value (based upon certain assumptions and deemed events set forth in the tax receivable agreement) of all payments that would be required to be paid by the Company under the tax receivable agreement. If certain change of control events were to occur, the Company would be obligated to make an early termination payment.

As discussed in Note 6, *Shareholders' Equity*, on December 21, 2017, December 22, 2016, May 12, 2016, and July 27, 2015, certain of the operating company's members exchanged an aggregate of 855,535, 1,056,929, 1,369,811, and 2,772,171, respectively, of their Class B units for an equivalent number of shares of Class A common stock of the Company. The Company elected to step up its tax basis in the incremental assets acquired in accordance with Section 754. Based on the exchange-date fair values of the Company's common stock and the tax basis of the operating company, this election gave rise to a \$2.1 million deferred tax asset and corresponding \$1.5 million liability to converting shareholders on December 21, 2017, a \$5.5 million deferred tax asset and corresponding \$4.7 million liability to converting shareholders on December 22, 2016, a \$6.1 million deferred tax asset and corresponding \$5.2 million liability on May 12, 2016, and a \$14.3 million deferred tax asset and a corresponding \$12.2 million liability on July 27, 2015. The Company assessed the realizability of the deferred tax asset associated with the exchanges during the years ended 2016 and 2015 and determined that a portion of each of their benefits would go unutilized. Consequently, the Company established a \$4.4 million, a \$4.9 million, and a \$11.0 million valuation allowance on December 22, 2016, May 12, 2016, and July 27, 2015, respectively, to reduce the deferred tax asset to amounts more-likely-than-not to be realized. These deferred tax assets remain available to the Company and can be used to reduce taxable income in future years. The Company similarly reduced the associated liability to selling and converting shareholders by \$3.7 million, \$4.1 million, and \$9.4 million, at December 22, 2016, May 12, 2016, and July 27, 2015, respectively, to reflect

**Pzena Investment Management, Inc.**  
**Notes to Consolidated Financial Statements (Continued)**

**Note 13 — Income Taxes (Continued)**

this change in the estimated realization of these assets. As required by the *Income Taxes Topic* of the FASB ASC, the Company recorded the effects of these transactions in equity.

After giving effect to the exchanges discussed earlier, as of December 31, 2016, the Company evaluated the need for the valuation allowance associated with the Section 754 tax elections as assets under management ("AUM") returned to pre-financial crisis levels, and brought revenue projections to a point at which the Company would generate sufficient taxable income to realize its deferred tax asset. Other positive evidence reviewed included: (i) the general positive economic environment, which has been reflected in stock markets and had a corresponding impact on AUM and revenue levels; (ii) performance records of almost all of the Company's strategies with 1, 3, and 5 year records that outperformed vs. their relevant benchmarks; (iii) the accelerating positive trends affecting the asset management industry in particular; (iv) the Company's history of positive operating and taxable income since 2007; and (v) the Company has no history of tax benefits expiring unused. These factors were moderated by negative evidence reviewed which included: (i) a high concentration of AUM in the three top client relationships; (ii) the difficulty of projecting AUM in the current volatile environment; (iii) market and competitive pressures in recent years that have created a trend towards lower management fees in the asset management industry; and (iv) the size and expected timing of Section 754 amortization and NOL carryovers.

As of December 31, 2016, the Company concluded that, after weighing both the positive and negative evidence, it was more-likely-than-not that it will generate sufficient taxable income in the future to realize its deferred tax asset. The reversal of the valuation allowance was based primarily upon the Company's sustained profitability in certain tax jurisdictions as well as projections of future assets under management levels. To reflect this change in the estimated realization of the asset and its liability for future payments, the Company increased its liability to selling and converting shareholders by \$51.4 million for the year ended December 31, 2016. The effects of these changes to the deferred tax asset and liability to selling and converting shareholders were recorded as a component of the Income Tax Expense/ (Benefit) and Other Income/ (Expense), respectively, on the consolidated statements of operations for the year ended December 31, 2016. If evidence in future periods changes such that it is more-likely-than-not that part or all of the net deferred tax asset will not be realized, the Company will reestablish a valuation allowance at that time.

On December 22, 2017, President Trump signed the Tax Cuts and Jobs Act into legislation. The Company has recorded a deferred tax expense of \$26.5 million due to the re-measurement of the deferred tax assets due to a decrease in the federal corporate tax rate from 34% to 21% beginning in fiscal year 2018. The Company similarly reduced the associated liability to selling and converting shareholders by \$20.8 million.

The Company identified an adjustment related to a change in the calculation of the 754 step-up in tax basis impacting the deferred tax assets and corresponding liability to selling and converting shareholders. As a result, the adjustment was made during the year-ended December 31, 2017, resulting in a \$4.6 million decrease to the deferred tax assets and a \$5.6 million decrease to the corresponding liability to selling and converting shareholders. The cumulative impact of the adjustment is a net tax benefit of \$1.0 million which was recognized as a component of Income Tax Expense/(Benefit) in the consolidated statements of operations for the year-ended December 31, 2017 and did not affect the net cash provided by operating activities, net cash provided by/(used in) investing activities or net cash used in financing activities for the fiscal year ended December 31, 2017.

As of December 31, 2017 and 2016, the net values of all deferred tax assets were approximately \$39.6 million and \$73.4 million, respectively. These deferred tax assets primarily reflect the future tax benefits associated with the Company's initial public offering, and the subsequent and future exchanges by holders of Class B units of the operating company for shares of Class A common stock. At December 31, 2017 and 2016, the Company did not have a valuation allowance recorded against its deferred tax assets.

**Pzena Investment Management, Inc.**  
**Notes to Consolidated Financial Statements (Continued)**

**Note 13 — Income Taxes (Continued)**

The change in the Company’s deferred tax assets, net of valuation allowance, for the year ended December 31, 2017, is summarized as follows:

	Section 754	Other	Valuation Allowance	Total
	(in thousands)			
Balance at December 31, 2016	\$ 68,427	\$ 5,014	\$ —	\$ 73,441
Impact of Tax Cuts and Jobs Act	(24,114)	(2,354)	—	(26,468)
Adoption of ASU 2016-09	—	1,377	—	1,377
Deferred Tax (Expense)	(5,139)	756	—	(4,383)
Unit Exchange	1,810	280	—	2,090
Impact of Change in Historical 754 Step-Up Calculations	(6,271)	1,669	—	(4,602)
Operating Loss Carryforward	—	(1,816)	—	(1,816)
Balance at December 31, 2017	<u>\$ 34,713</u>	<u>\$ 4,926</u>	<u>\$ —</u>	<u>\$ 39,639</u>

The change in the Company’s deferred tax liabilities, which is included in other liabilities on the Company’s consolidated statements of financial condition, for the year ended December 31, 2017, is summarized as follows:

	Total
	(in thousands)
Balance at December 31, 2016	\$ (1)
Deferred Tax Expense	(1)
Balance at December 31, 2017	<u>\$ (2)</u>

The change in the Company’s deferred tax assets, net of valuation allowance, for the year ended December 31, 2016 is summarized as follows:

	Section 754	Other	Valuation Allowance	Total
	(in thousands)			
Balance at December 31, 2015	\$ 64,877	\$ 4,086	\$ (53,968)	\$ 14,995
Deferred Tax (Expense)	(4,854)	1,284	—	(3,570)
Unit Exchange	11,605	—	(9,231)	2,374
Change in Valuation Allowance	—	—	61,942	61,942
Operating Loss Carryforward	—	(356)	—	(356)
Net Adjustment to Deferred Tax Asset <sup>1</sup>	(3,201)	—	1,257	(1,944)
Balance at December 31, 2016	<u>\$ 68,427</u>	<u>\$ 5,014</u>	<u>\$ —</u>	<u>\$ 73,441</u>

<sup>1</sup> During 2016, the Company recognized adjustments to the deferred tax asset and valuation allowance assessed against the deferred tax asset associated with a change in the effective tax rate.

The change in the Company’s deferred tax liabilities for the year ended December 31, 2016 is summarized as follows:

	Total
	(in thousands)
Balance at December 31, 2015	\$ (4)
Deferred Tax Expense	3
Balance at December 31, 2016	<u>\$ (1)</u>

**Pzena Investment Management, Inc.**  
**Notes to Consolidated Financial Statements (Continued)**

**Note 13 — Income Taxes (Continued)**

As of December 31, 2017 and 2016, the net values of the liability to selling and converting shareholders were approximately \$36.4 million and \$65.5 million, respectively. The change in the Company's liability to selling and converting shareholders for the years ended December 31, 2017 and 2016, is summarized as follows:

	For the Year Ended December 31,	
	2017	2016
	(in thousands)	
Beginning Balance	\$ 65,485	\$ 15,075
Impact of Tax Cuts and Jobs Act	(20,819)	—
Impact of Change in Historical 754 Step-Up Calculations	(5,608)	—
Release of the Valuation Allowance	—	51,442
Unit Exchanges	1,538	2,018
Tax Receivable Agreement Payments	(4,155)	(3,050)
Ending Balance	<u>\$ 36,441</u>	<u>\$ 65,485</u>

**Note 14 — Quarterly Results of Operations (unaudited)**

Unaudited quarterly results of operations for the years ended December 31, 2017 and 2016 are summarized below:

	For the Quarter Ended 2017			
	Dec. 31	Sept. 30	June 30	March 31
	(in thousands, except per share amounts) (unaudited)			
Total Revenue	\$ 38,909	\$ 36,229	\$ 34,113	\$ 32,044
Operating Income	20,934	18,404	16,619	13,097
Net Income	\$ (1,046)	\$ 2,989	\$ 2,629	\$ 2,336
Basic Earnings Per Share	\$ (0.06)	\$ 0.17	\$ 0.15	\$ 0.13
Diluted Earnings Per Share <sup>1</sup>	\$ (0.06)	\$ 0.17	\$ 0.15	\$ 0.12

<sup>1</sup> During the three months ended December 31, 2017, the calculation of diluted earnings per share resulted in an increase in earnings per share. Therefore, diluted earnings per share are assumed to be equal to basic earnings per share.

	For the Quarter Ended 2016			
	Dec. 31	Sept. 30	June 30	March 31
	(in thousands, except per share amounts) (unaudited)			
Total Revenue	\$ 29,073	\$ 26,990	\$ 26,435	\$ 25,838
Operating Income	13,709	11,952	11,261	10,296
Net Income	\$ 10,986	\$ 2,165	\$ 1,406	\$ 1,622
Basic Earnings Per Share	\$ 0.67	\$ 0.13	\$ 0.09	\$ 0.11
Diluted Earnings Per Share	\$ 0.27	\$ 0.12	\$ 0.09	\$ 0.10

**Note 15 — Subsequent Events**

The Company evaluated the need for disclosures and/or adjustments resulting from subsequent events through the date the financial statements were issued.

On February 6, 2018, the Company declared a year-end dividend of \$0.42 per share of its Class A common stock which was paid on March 2, 2018 to holders of record on February 16, 2018.

## PZENA INVESTMENT MANAGEMENT, LLC

## Amended and Restated 2006 Equity Incentive Plan

Form of Unit Option Agreement - Delayed Exchange

**This Delayed Exchange Class B Unit Option Agreement** (“Agreement”) is made this 1st day of January, 2018 by and between Pzena Investment Management, LLC, a limited liability company organized under the laws of the State of Delaware (the "Company"), Pzena Investment Management, Inc., a corporation organized under the laws of the State of Delaware (the "Parent"), and [ ] (the “Optionee”).

**Whereas**, the Optionee's provision of services to the Company is considered by the Company and the Parent to be important for its growth; and

**Whereas**, the Pzena Investment Management, LLC Amended and Restated 2006 Equity Incentive Plan (the “Plan”) provides for the granting of options to purchase Class B Units of the Company to persons providing services to the Company and/or its subsidiaries, including members of the Company and employees and consultants of the Company and/or its subsidiaries; and

**Whereas**, the Committee wishes to provide a grant of Options to the Optionee pursuant to the Plan, according to the terms and conditions hereof;

**Now, Therefore**, in consideration of the promises and mutual covenants herein set forth, and for other good and valuable consideration, receipt of which is hereby acknowledged, the parties hereto hereby mutually covenant and agree as follows. All capitalized terms used but not defined herein shall have the respective meanings given such terms in the Plan.

**1. Grant of Option.** Pursuant and subject to the Plan as attached hereto, the Company grants the Optionee an Option to purchase from the Company all or any part of a total of the number of Class B Units with specific terms, which are described in the “Form of Class B Unit Agreement” attached as Appendix A hereto (the “Delayed Exchange Class B Units”), identified below (the “Optioned Units”) at the exercise price per Delayed Exchange Class B Unit set forth below.

<b>Optionee</b>	[ ]
<b>Number of Delayed Exchange Class B Units</b>	[ ]
<b>Exercise Price Per Delayed Exchange Class B Unit</b>	[\$[ ]]
<b>Date of Grant</b>	January 1, 2018
<b>Expiration Date</b>	January 1, 2028

**2. Character of Option.** This Option is not intended to be treated as an “incentive stock option” within the meaning of Section 422 of the Code.

**3. Expiration of Option.** This Option shall expire at 5:00 p.m. on the Expiration Date set forth in Section 1 hereof. Further, this Option shall be subject to earlier expiration if the Optionee’s employment with, or other provision of services to, the Company ends for any reason and without regard to the Optionee’s period of continuous employment with the Company, any outstanding Option of the Optionee shall cease to be exercisable in any respect and shall terminate not later than ninety (90) days following the event and, for the period it remains exercisable following that event, shall be exercisable only to the extent exercisable at the date of that event (and to the extent not then exercisable, shall terminate as of the date of such event without regard to Optionee’s period of continuous employment with the Company). Military or sick leave or other bona fide leave shall not be deemed a termination of employment or other association, *provided* that it does not exceed the longer of ninety (90) days or the period during which the absent Optionee’s reemployment rights, if any, are guaranteed by statute or by contract.

**4. Exercise of Option.**

(a) Until this Option expires, Optionee may exercise it as to the number of Optioned Units identified in the table below, in full or in part on or after the applicable exercise date or dates identified in the table subject to any acceleration event as otherwise Section 3 above.

<u>Number of Optioned Units in Each Installment</u>	<u>Initial Exercisability Date for Optioned Units in Installment</u>
<input type="text"/>	January 1, 2023

(b) Notwithstanding anything in this Section 4, while still employed by, or otherwise providing services to, the Company, an Optionee may only exercise the Option with respect to Optioned Units which have become exercisable pursuant to this Section 4 beginning on any day which occurs on or after the applicable exercisability date set forth in paragraph (a) and before the Expiration Date. An Optionee who is employed by, or otherwise providing services to, the Company will be permitted to exercise the Option with respect to such Optioned Units at any time prior to Expiration of Option as set forth in Section 3, above, only if the Company receives the Optionee's written notice of exercise together with (a) payment by cash or check acceptable to the Committee; or (b) by means of withholding of Delayed Exchange Class B Units, with an aggregate Fair Market Value equal to (A) the aggregate exercise price and (B) unless the Company is precluded or restricted from doing so under debt covenants, minimum statutory withholding taxes with respect to such exercise, or (c) by any combination of the foregoing permissible forms of payment. The delivery of Delayed Exchange Class B Units in payment of the exercise price under clause (b) above may be accomplished either by actual delivery or by constructive delivery through attestation of ownership, subject to such rules as the Committee may prescribe. An Optionee whose employment with, or other provision of services to, the Company has ended may exercise the Option in accordance with this Section 4 at any time following such Optionee's termination of employment with, or other provision of services to, the Company and prior to the expiration of the Option in accordance with Section 3.

(c) The date an Optionee exercises his or her Option shall be the Date of Grant for such Delayed Exchange Class B Unit resulting from such exercise of an Optioned Unit hereunder and shall be exchangeable in accordance with the terms and conditions described in the "Form of Class B Unit Agreement" attached as Appendix A hereto.

(d) Optioned Units may not be exercised during Blackout Periods, as such term is defined in the Company's "Restrictions on Transactions in the Company's Securities" policy of its Compliance Manual.

**5. Transfer of Option.** The Optionee may not transfer this Option except as provided under the Plan.

**6. Tax Consequences.**

The Company makes no representation or warranty as to the tax treatment to the Optionee with respect to Optionee's receipt of the Optioned Units or the vesting of the Optioned Units and the delivery of the underlying Delayed Exchange Class B Units.

**7. General Provisions.**

(a) This Agreement shall be governed and enforced in accordance with the laws of the State of New York, without regard to the conflict of laws principles thereof.

(b) The Options are granted pursuant to the Plan, and the Options and this Agreement are in all respects governed by the Plan and subject to all the terms and provisions thereof, including but not limited to the limitations on the Company's obligation to deliver Optioned Units upon exercise set forth in the Plan. By signing this Agreement, the Optionee acknowledges having received and read a copy of the Plan. This Agreement and the applicable terms of the Plan embody the complete agreement and understanding among the parties hereto with respect to the subject matter hereof and thereof, and supersede and preempt any prior understandings, agreements or representations by or among the parties, written or oral, which may have related to the subject matter hereof in any way. Except as set forth in the Plan, this Agreement may only be modified or amended in writing signed by the Company and the Optionee.

(c) The rights and obligations of each party under this Agreement shall inure to the benefit of and be binding upon such party's heirs, legal representatives, successors and permitted assigns. The rights and obligations of the Company under this Agreement shall be assignable by the Company to any one or more persons or entities without the consent of the Optionee or any other person. The rights and obligations of any person other than the Company under this Agreement may only be assigned in accordance with this Agreement and the Plan.

(d) No consent to or waiver of any breach or default in the performance of any obligations

hereunder shall be deemed or construed to be a consent to or waiver of any other breach or default in the performance of any of the same or any other obligations hereunder. Failure on the part of any party to complain of any act or failure to act of any other party or to declare any party in default, irrespective of the duration of such failure, shall not constitute a waiver of rights hereunder and no waiver hereunder shall be effective unless it is in writing, executed by the party waiving the breach or default hereunder.

(e) If any provision of this Agreement shall be held illegal, invalid or unenforceable, such illegality, invalidity or unenforceability shall attach only to such provision and shall not in any manner affect or render illegal, invalid or unenforceable any other severable provisions of this Agreement.

(f) The headings in this Agreement are for convenience of identification only, do not constitute a part hereof, and shall not affect the meaning or construction hereof.

(g) The Optionee agrees upon request to execute any further documents or instruments necessary or desirable to carry out the purposes or intent of this Agreement.

(h) All disputes relating to, arising from, or connected in any manner with this Agreement or the Optionee's employment with the Company shall be resolved exclusively through final and binding arbitration under the rules and auspices of JAMS pursuant to its Arbitration Rules & Procedures. The arbitration shall be held in the Borough of Manhattan, New York, New York and the costs of such arbitration shall be borne by the Company. The arbitrator shall have jurisdiction to determine any claim, including the arbitrability of any claim, submitted to him/her. The arbitrator may grant any relief authorized by law for any properly established claim. The interpretation and enforceability of this Section 7(h) shall be governed and construed in accordance with the United States Federal Arbitration Act, 9 U.S.C. § 1, et seq. The parties acknowledge that the purpose and effect of this Section 7(h) is solely to elect private mediation and arbitration in lieu of any judicial proceeding either party might otherwise have available in the event of a dispute, controversy or claim between the parties. Therefore, the parties hereby waive the right to have any such dispute heard by a court or jury, as the case may be, and agrees that the exclusive procedure to redress any and all disputes, controversies and claims will be mediation and arbitration. Nothing contained in this Section 7(h) shall be construed to limit or otherwise interfere in any respect with the authorities granted the Committee under the Plan, including without limitation, its sole and exclusive discretion to interpret the Plan and all awards granted thereunder (including pursuant to this Agreement).

(i) Nothing contained in this Agreement shall confer upon the Optionee any right with respect to the continuation of his employment with, or other provision of services to, the Company, or interfere in any way with the right of the Company, subject to the terms of the Optionee's separate employment or consulting agreement, if any, or provision of law or the Company's certificate of formation, as amended from time to time, at any time to terminate such employment or consulting agreement or otherwise modify the terms and conditions of the Optionee's employment with, or other provision of services to, the Company.

(j) This Agreement may be executed in one or more counterparts, each of which when executed shall be deemed an original and all of which, taken together, shall constitute one and the same instrument. In making proof of this Agreement it shall not be necessary to produce or account for more than one such counterpart.

(k) Where the context requires, pronouns and modifiers in the masculine, feminine or neuter gender shall be deemed to refer to or include the other genders.

**In Witness Whereof**, the parties have duly executed this Agreement as of the month, day and year first set forth above.

**PZENA INVESTMENT MANAGEMENT, LLC**

**By: Pzena Investment Management, Inc.,  
its Managing Member**

By: \_\_\_\_\_  
Name: Richard S. Pzena  
Title: Chief Executive Officer

**OPTIONEE**

\_\_\_\_\_  
Name: [ ]  
Address: [ ]



**PZENA INVESTMENT MANAGEMENT, LLC**  
**Amended and Restated 2006 Equity Incentive Plan**

**Option Exercise Form**

Pzena Investment Management, LLC  
320 Park Avenue, 8<sup>th</sup> Floor  
New York, New York 10022

Attention: General Counsel

Dear Sir or Madam:

In accordance with and subject to the terms and conditions of the Pzena Investment Management, LLC Amended and Restated 2006 Equity Incentive Plan, I hereby elect to exercise my option granted under the option agreement dated \_\_\_\_\_ to purchase \_\_\_\_\_ ( \_\_\_\_\_ ) Delayed Exchange Class B Units (“Units”) in Pzena Investment Management, LLC (the “Company”).

(Select one)

\_\_\_\_\_ Enclosed herewith is payment to the Company in the amount of \_\_\_\_\_ Dollars (\$) \_\_\_\_\_) in full payment of the exercise price for said Units;

\_\_\_\_\_ Please withhold Delayed Exchange Class B Units, with an aggregate Fair Market Value equal to the aggregate exercise price;

\_\_\_\_\_ Unless the Company is precluded or restricted from doing so under debt covenants, please withhold Delayed Exchange Class B Units, with an aggregate Fair Market Value equal to the minimum statutory withholding taxes with respect to this exercise; or

\_\_\_\_\_ Any combination of the foregoing forms of payment. (Please specify).

I hereby represent and warrant that I have executed the Amended and Restated Operating Agreement of the Company, dated as of October 30, 2007 and as may be amended from time to time, including Section 5.10 thereof.

Date: \_\_\_\_\_

Sincerely yours,

\_\_\_\_\_  
Name:

**APPENDIX A**

**FORM OF CLASS B UNIT AGREEMENT**

**PZENA INVESTMENT MANAGEMENT, LLC**

**Amended and Restated 2006 Equity Incentive Plan**

**Form of Class B Unit Agreement- Delayed Exchange**

**This DELAYED EXCHANGE CLASS B UNIT AGREEMENT** ("Agreement") is made this [\_\_\_\_\_] (the "Date of Grant") by and between Pzena Investment Management, LLC, a limited liability company organized under the laws of the State of Delaware (the "Company") and [\_\_\_\_\_] (the "Grantee").

**Whereas**, the Grantee's provision of services to the Company is considered by the Company to be important for its growth; and

**Whereas**, the Committee has approved a grant of Class B Units pursuant to the Pzena Investment Management, LLC Amended and Restated 2006 Equity Incentive Plan (the "Plan") to the Grantee, according to the terms and conditions hereof;

**Now, Therefore**, in consideration of the promises and mutual covenants herein set forth, and for other good and valuable consideration, receipt of which is hereby acknowledged, the parties hereto hereby mutually covenant and agree as follows. All capitalized terms used but not defined herein shall have the respective meanings given such terms in the Plan.

1. Issuance of Units

1.1 The Company hereby grants to the Grantee [\_\_\_\_\_] ([\_\_\_\_\_] ) Class B Units (the "Delayed Exchange Units"), subject to all the terms and conditions of this Agreement and all applicable terms and conditions of the Plan. For purposes of this Agreement, "Delayed Exchange Units" means all of such Class B Units, together with any units or other securities issued in respect of or in replacement for such units as a result of a corporate or other action such as a unit dividend, unit split, merger, consolidation, reorganization or recapitalization.

1.2 Upon receipt by the Company of a copy of this Agreement duly executed and completed by the Grantee, the Grantee shall be deemed to have duly executed the Operating Agreement and the Company shall recognize the Grantee as a beneficial owner of the Delayed Exchange Units on its books and records.

2. Forfeiture of Delayed Exchange Units

All Delayed Exchange Units shall be subject to a Risk of Forfeiture pursuant to Sections 5.07 and 6.02 of the Operating Agreement.

3. Transfer of Delayed Exchange Units

The Delayed Exchange Units and any beneficial interest therein, may not be sold, transferred, assigned, pledged, encumbered or otherwise disposed of by the Grantee in any way at any time (including, without limitation, by operation of law) prior to the Delayed Exchange Date (as defined below) and unless permitted pursuant to the terms and conditions of the Operating Agreement or as approved by the Managing Member.

4. Additional Award Terms

4.1. No Delayed Exchange Units may be exchanged pursuant to Exhibit B of the Operating Agreement until the first Exchange Date established pursuant to such Exhibit B on or after the seventh anniversary of the Date of Grant for the exchange of such Delayed Exchange Units or for exchanges of Class B Units by all Class B Members. All such Delayed Exchange Units shall be exchangeable on such Exchange Date and any subsequent Exchange Date established pursuant to such Exhibit B for the exchange of such Delayed Exchange Units or for exchanges of Class B Units by all Class B Members, irrespective of the 15% limitation referred to in paragraphs (a) and (b) of Section 2.02 of such Exhibit B.

4.2. Any and all Delayed Exchange Units, whether or not held by the Grantee or any subsequent transferee, shall not be entitled to any benefits under the Tax Receivable Agreement, dated October 30, 2007, by and among Pzena Investment Management, Inc., the Company and the Continuing Members and Exiting Members named on the signature pages thereto, and as amended on November 12, 2012. This Section 4.2 shall be treated as part of the Operating Agreement as described in Section 761(c) of the Code and Sections 1.704-1(b)(2)(ii)(h) and 1.761-1(c) of the Treasury Regulations.

4.3. Except as set forth in Section 4.2, the Delayed Exchange Units shall have the right to receive dividend payments, the right to receive any payments or benefits in connection with any undistributed earnings of the Company, and any payments or benefits in connection with a Change in Control of the Company.

4.5. The Delayed Exchange Units shall not be considered held by the Grantee for purposes of determining the total number of vested and unvested Class B units held by the Grantee under Section 2.02(a)(1) of Exhibit B of the Operating Agreement.

#### 5. Tax Consequences

The Company makes no representation or warranty as to the tax treatment to the Grantee with respect to the Grantee's receipt of or exchange of the Delayed Exchange Units.

#### 6. Compliance with Law

6.1. The Grantee represents and warrants that he is acquiring the Delayed Exchange Units of his own account for the purpose of investment and not with a view to, or for sale in connection with, the distribution of any such Delayed Exchange Units.

6.2. The Grantee acknowledges and agrees that neither the Company nor any agent of the Company shall be under any obligation to recognize any transfer of any of the Delayed Exchange Units if, in the opinion of counsel for the Company, such transfer is in violation of the terms of this Agreement or the Operating Agreement or would result in violation by the Company of any federal or state law with respect to the offering, issuance or sale of securities.

#### 7. General Provisions

7.1. This Agreement shall be governed and enforced in accordance with the laws of the State of New York, without regard to the conflict of laws principles thereof.

7.2. The Delayed Exchange Units are granted pursuant to the Plan, and the Delayed Exchange Units and this Agreement are in all respects governed by the Plan and subject to all the terms and provisions thereof. By signing this Agreement, the Grantee acknowledges having received and read a copy of the Plan. This Agreement and the applicable terms of the Plan embody the complete agreement and understanding among the parties hereto with respect to the subject matter hereof and thereof, and supersede and preempt any prior understandings, agreements or representations by or among the parties, written or oral, which may have related to the subject matter hereof in any way. Except as set forth in the Plan, this Agreement may only be modified or amended in writing signed by the Company and the Grantee.

7.3. The rights and obligations of each party under this Agreement shall inure to the benefit of and be binding upon such party's heirs, legal representatives, successors and permitted assigns. The rights and obligations of the Company under this Agreement shall be assignable by the Company to any one or more persons or entities without the consent of the Grantee or any other person. The rights and obligations of any person other than the Company under this Agreement may only be assigned in accordance with this Agreement and the Plan.

7.4. No consent to or waiver of any breach or default in the performance of any obligations hereunder shall be deemed or construed to be a consent to or waiver of any other breach or default in the performance of any of the same or any other obligations hereunder. Failure on the part of any party to complain of any act or failure to act of any other party or to declare any party in default, irrespective of the duration of such failure, shall not constitute a waiver of rights hereunder and no waiver hereunder shall be effective unless it is in writing, executed by the party waiving the breach or default hereunder.

7.5. If any provision of this Agreement shall be held illegal, invalid or unenforceable, such illegality, invalidity or unenforceability shall attach only to such provision and shall not in any manner affect or render illegal, invalid or unenforceable any other severable provisions of this Agreement.

7.6. The headings in this Agreement are for convenience of identification only, do not constitute a part hereof, and shall not affect the meaning or construction hereof.

7.7. The Grantee agrees upon request to execute any further documents or instruments necessary or desirable to carry out the purposes or intent of this Agreement.

7.8. All disputes relating to, arising from, or connected in any manner with this Agreement or the Grantee's employment with the Company shall be resolved exclusively through final and binding arbitration under the rules and auspices of JAMS pursuant to its Arbitration Rules & Procedures. The arbitration shall be held in the Borough of Manhattan, New York, New York and the costs of such arbitration shall be borne by the Company. The arbitrator shall have jurisdiction to determine any claim, including the arbitrability of any claim, submitted to him/her. The arbitrator may grant any relief authorized by law for any properly established claim. The interpretation and enforceability of this Section 7.8 shall be governed and construed in accordance with the United States Federal Arbitration Act, 9 U.S.C. § 1, et seq. The parties acknowledge that the purpose and effect of this Section 7.8 is solely to elect private mediation and arbitration in lieu of any judicial proceeding either party might otherwise have available in the event of a dispute, controversy or claim between the parties. Therefore, the parties hereby waive the right to have any such dispute heard by a court or jury, as the case may be, and agrees that the exclusive procedure to redress any and all disputes, controversies and claims will be mediation and arbitration. Nothing contained in this Section 7.8 shall be construed to limit or otherwise interfere in any respect with the authorities granted the Committee under the Plan, including without limitation, its sole and exclusive discretion to interpret the Plan and all awards granted thereunder (including pursuant to this Agreement).

7.9. Nothing contained in this Agreement shall confer upon the Grantee any right with respect to the continuation of his employment or other association with the Company, or interfere in any way with the right of the Company, subject to the terms of the Grantee's separate employment or consulting agreement, if any, or provision of law or the Company's certificate of formation, as amended from time to time, at any time to terminate such employment or consulting agreement or otherwise modify the terms and conditions of the Grantee's employment or association with the Company.

7.10. This Agreement may be executed in one or more counterparts, each of which when executed shall be deemed an original and all of which, taken together, shall constitute one and the same instrument. In making proof of this Agreement it shall not be necessary to produce or account for more than one such counterpart.

7.11. Where the context requires, pronouns and modifiers in the masculine, feminine or neuter gender shall be deemed to refer to or include the other genders.

**In Witness Whereof**, the parties have duly executed this Agreement as of the month, day and year first set forth above.

**PZENA INVESTMENT MANAGEMENT, LLC**

**By: Pzena Investment Management, Inc.,  
its Managing Member**

By:

Name: Richard S. Pzena

Title: Chief Executive Officer

**GRANTEE**

Address: [ ]  
[ ]

\_\_\_\_\_  
Name: [ ]

## SECOND AMENDMENT TO TAX RECEIVABLE AGREEMENT

This Second Amendment to the Tax Receivable Agreement dated as of October 30, 2007, as amended as of December 31, 2012 (the "Agreement"), is hereby entered into by and among Pzena Investment Management, Inc., a Delaware corporation (the "Corporation"), Pzena Investment Management, LLC, a Delaware limited liability company ("PIM") and each of the undersigned parties hereto identified as the "Members" Capitalized terms used but not defined herein have the meanings set forth in the Agreement.

Preliminary Statement

WHEREAS, the Corporation, PIM and certain Members wish to amend the Agreement to clarify certain tax benefits payment provisions therein (this "Second Amendment");

WHEREAS, pursuant to Section 7.06 of the Agreement, provisions therein may generally be modified or amended by written consent of the Corporation, PIM and Members who would be entitled to receive at least two-thirds of the Early Termination Payments payable to all Members thereunder if the Corporation had exercised its right of early termination on the date of the most recent Exchange prior to such amendment;

WHEREAS, Section 7.13 of the Agreement states that the Agreement shall be treated as part of the Pzena Investment Management, LLC Amended and Restated Operating Agreement, as further amended (the "LLC Agreement"); and

WHEREAS, pursuant to Section 11.01(a) of the LLC Agreement, terms and provisions therein may generally be modified or amended at any time and from time to time by written consent of the Corporation (as Managing Member as defined in the LLC Agreement), and a Majority in Interest of the Class B Members (as defined in the LLC Agreement).

NOW THEREFORE, pursuant to the above referenced sections, the Agreement is amended as follows:

1. The term "Advisory Firm Letter" shall be deleted from Article I "Definitions"
2. The words "and an Advisory Firm Letter supporting such Schedule" shall be deleted from Section 2.04(a)(x)
3. Except as set forth herein, the provisions of the Agreement remain in full force and effect.

This Amendment may be executed in one or more counterparts, and each of such counterparts shall for all purposes be deemed to be an original.

IN WITNESS WHEREOF, this Second Amendment has been duly executed to be effective as of December 18, 2017.

Pzena Investment Management, Inc.,  
The Corporation

/s/ Richard S. Pzena

By: Richard S. Pzena, Chief Executive Officer

Pzena Investment Management, LLC,  
PIM

/s/ Richard S. Pzena

By: Richard S. Pzena, Chief Executive Officer

Pzena Investment Management, LP  
By: Pzena Investment Management, Inc. its General Partner

/s/ Richard S. Pzena

By: Richard S. Pzena, Chief Executive Officer

IN WITNESS WHEREOF, this Second Amendment has been duly executed to be effective as of December 18, 2017.

MEMBERS who would be entitled to receive at least two-thirds of the Early Termination Payments:

/s/ William Greenblatt

The Aaron Pzena Family Trust  
By: William Greenblatt as Trustee

/s/ Jeffrey Pzena

The Daniel Pzena Family Trust  
By: Jeffrey Pzena as Trustee

/s/ Robin Pzena

The Eric Pzena Family Trust  
By: Robin Pzena as Trustee

/s/ Laura Pzena

The Michele Pzena Family Trust  
By: Laura Pzena as Trustee

/s/ Richard S. Pzena

Richard S. Pzena

/s/ John P. Goetz

John P. Goetz

/s/ Gary Bachman

The Carrie Esther Goetz Trust  
By: Gary Bachman as Trustee

/s/ Gary Bachman

The Rachel Theresa Goetz Trust  
By: Gary Bachman as Trustee

/s/ William L. Lipsey

William L. Lipsey

/s/ Amy Lipsey

The William L. Lipsey Dynasty Trust  
By: Amy Lipsey as Trustee

/s/ Benjamin S. Silver

Benjamin S. Silver

/s/ Caroline Cai

Caroline Cai

/s/ Jennifer Hay

Fidelity Investments Charitable Gift Fund  
By: Jennifer Hay as Director of Operations

/s/ Joel Greenblatt

Milestone Associates, LLC  
By: Joel Greenblatt as Manager

/s/ John Flynn

John Flynn

/s/ Allison Fisch

Allison Fisch

**INVESTMENT MANAGEMENT, INC.  
PZENA INVESTMENT MANAGEMENT, LLC**

**CODE OF BUSINESS CONDUCT AND ETHICS  
(Revised December 2017)**



Dear Colleagues/Associates:

The good name and reputation of Pzena Investment Management, Inc., Pzena Investment Management, LLC and their subsidiaries (collectively, the "Company") are a result of the dedication and hard work of all of us. Together, we are responsible for preserving and enhancing this reputation, a task that is fundamental to our continued well-being. Our goal is not just to comply with the laws and regulations that apply to our business; we also strive to abide by the highest standards of business conduct.

Set forth in the succeeding pages is the Company's Code of Business Conduct and Ethics ("the Code"). The purpose of the Code is to reinforce and enhance the Company's ethical way of doing business and, in particular, to provide regulations and procedures consistent with the Investment Company Act of 1940 and the Investment Advisers Act of 1940. The contents of the Code are not new, however. The policies set forth here are part of the Company's long-standing tradition of ethical business standards.

All employees, officers and directors are expected to comply with the policies set forth in the Code. Read the Code carefully and make sure that you understand it, the consequences of non-compliance, and the Code's importance to the success of the Company. If you have any questions, speak to the Chief Compliance Officer or any of the alternate Compliance Officers identified in the Code.

The Code should be viewed as the minimum requirements for conduct. The Code cannot and is not intended to cover every applicable law or provide answers to all questions that might arise; for that we must ultimately rely on each person's good sense of what is right, including a sense of when it is proper to seek guidance from others on the appropriate course of conduct. When in doubt about the advisability or propriety of a particular practice or matter, please confer with the Legal and Compliance group.

We at the Company are committed to providing the best and most competitive services to our clients. Adherence to the policies set forth in the Code will help us achieve that goal.

Sincerely,

Richard S. Pzena

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## **PUTTING THIS CODE OF BUSINESS CONDUCT AND ETHICS TO WORK**

### **About this Code of Business Conduct and Ethics**

We at the Company are committed to the highest standards of business conduct in our relationships with each other and with our clients, suppliers, shareholders and others. This requires that we conduct our business in accordance with all applicable laws and regulations and in accordance with the highest standards of business conduct. The Company's Code of Business Conduct and Ethics (this "Code") helps each of us in this endeavor by providing a statement of the fundamental principles and key policies and procedures that govern the conduct of our business. Furthermore, this Code sets out procedures for compliance by the Company, a registered investment adviser to separately managed advisory accounts including registered investment companies (the "Funds") as well as unregistered funds and other private accounts, with Rule 17j-1 under the Investment Company Act of 1940, as amended, Rule 204A-1 and Rule 204-2 under the Investment Advisers Act of 1940, as amended (hereinafter, the Investment Company Act of 1940 and the Investment Advisers Act of 1940 shall collectively be referred to as the "1940 Acts" and Rule 17j-1, Rule 204A-1 and Rule 204-2 shall be collectively referred to as the "Rules"). This Code is designed to establish standards and procedures for the detection and prevention of activities by which persons having knowledge of the investments and investment intentions of the Company's advisory accounts may breach their fiduciary duties, and to avoid and regulate situations that may give rise to conflicts of interest that the Rules address.

This Code is based on the principle that the Company owes a fiduciary duty to clients, to ensure that its employees conduct their Personal Security Transactions (as defined below) in a manner that does not interfere with clients' transactions or otherwise take unfair advantage of the Company's relationship to its clients. The fiduciary principles that govern personal investment activities reflect, at a minimum, the following: (1) the duty at all times to place the interests of the client first; (2) the requirement that all Personal Security Transactions be conducted consistent with this Code and in such a manner as to avoid any actual or potential conflict of interest or any abuse of an individual's position of trust and responsibility; (3) the fundamental standard that investment personnel should not take inappropriate advantage of their positions; and (4) the requirement that investment personnel comply with applicable Federal securities laws. Our business depends on the reputation of all of us for integrity and principled business conduct. Thus, in many instances, the policies referenced in this Code go beyond the requirements of the law.

Honesty and integrity are required of the Company and its employees, officers and directors at all times. The standards herein should be viewed as the minimum requirements for conduct. All employees, officers and directors of the Company are encouraged and expected to go above and beyond the standards outlined in this Code in order to provide clients with top level service while adhering to the highest ethical standards.

This Code is a statement of policies for individual and business conduct and does not, in any way, constitute an employment contract or an assurance of continued employment. Employees of the Company are employed at-will, except when covered by an express, written employment agreement. This means that employees may choose to resign their employment at any time, for any reason or for no reason at all. Similarly, the Company may choose to terminate employees' employment at any time, for any legal reason or for no reason at all, but not for an unlawful reason.

### **Purpose**

The purpose of this Code is to reinforce and enhance the Company's ethical way of doing business and, in particular, to provide regulations and procedures consistent with the 1940 Acts and the Rules. As required by Rule 204A-1, this Code sets forth standards of conduct, requires compliance with the Federal securities laws and addresses personal trading. In addition, this Code is designed to give effect to the general prohibitions set forth in Rule 17j-1(b), to wit:

"It is unlawful for any affiliated person of or principal underwriter for a Fund, or any affiliated person of an investment adviser of or principal underwriter for a Fund, in connection with the purchase or sale, directly or indirectly, by the person of a security held or to be acquired by the Fund:

- (i) To employ any device, scheme or artifice to defraud the Fund;
- (ii) To make any untrue statement of a material fact to the Fund or omit to state a material fact necessary in order to make the statements made to the Fund, in light of the circumstances under which they are made, not misleading;
- (iii) To engage in any act, practice, or course of business that operates or would operate as a fraud or deceit on the Fund; or
- (iv) To engage in any manipulative practice with respect to the Fund."

## Employee Provisions

All Access Persons are required to file reports of their Personal Security Transactions (as defined below), excluding exempted securities, as provided in the "Pre-Clearance Requirement" and "Reporting Requirements" sections below and, if they wish to trade in the Company's stock or in the same securities as any of the Company's advisory accounts, must comply with the specific procedures in effect for such transactions.

The reports of employees will be reviewed and compared with the activities of the Company's advisory accounts and, if a pattern emerges that indicates abusive trading or noncompliance with applicable procedures, the matter will be referred to the Company's Chief Compliance Officer (the "CCO"), who will make appropriate inquiries and decide what action, if any, is then appropriate, including escalation to the Company's management as needed.

## Implementation

In order to implement this Code, a CCO and one or more alternate Compliance Officers (each, an "Alternate") shall be designated from time to time for the Company. The current CCO is Joan F. Berger and the current Alternates are Steven Coffey, Geoff Bauer, Jacques Pompy, and Bill Zois.

The duties of the CCO and each Alternate shall include:

- (i) Continuous maintenance of a current list of Access Persons as defined herein;
- (ii) Furnishing all employees with a copy of this Code, and initially and periodically informing them of their duties and obligations thereunder;
- (iii) Training and educating employees regarding this Code and their responsibilities hereunder;
- (iv) Maintaining, or supervising the maintenance of, all records required by this Code;
- (v) Maintaining a list of the Funds that the Company advises or subadvises;
- (vi) Determining with the assistance of an Approving Officer (as defined below) whether any particular Personal Security Transaction should be exempted pursuant to the provisions of the sections titled "Conflicts of Interest" or "Prohibited Transactions" of this Code;
- (vii) Determining with the assistance of an Approving Officer whether special circumstances warrant that any particular security or Personal Security Transaction be temporarily or permanently restricted or prohibited;
- (viii) Maintaining, from time to time as appropriate, a current list of the securities that are restricted or prohibited pursuant to (vii) above;
- (ix) Issuing any interpretation of this Code that may appear consistent with the objectives of the Rules and this Code;
- (x) Conducting such inspections or investigations as shall reasonably be required to detect and report violations of this Code, as described in paragraphs (xi) and (xii) below, to the Company's management and the Board of Directors of Pzena Investment Management, Inc. (the "Board");
- (xi) Submitting periodic reports to the Company's management containing: (A) a description of any material violation by any non-executive employee of the Company and the sanction imposed; (B) a description of any violation by any director or executive officer of the Company and the sanction imposed; (C) interpretations issued by and any material exemptions or waivers found appropriate by the CCO; and (D) any other significant information concerning the appropriateness of this Code; and
- (xii) Submitting a report at least annually to the Board and the Executive Committee of Pzena Investment Management, LLC (the "Executive Committee") that: (A) summarizes existing procedures concerning personal investing and any changes in the procedures made during the past year; (B) identifies the violations described in clauses (A) and (B) of the preceding paragraph (xi); (C) identifies any recommended changes in existing restrictions or procedures based upon experience under this Code, evolving industry practices or developments in applicable laws or regulations; and (D) reports of efforts made with respect to the implementation of this Code through orientation and training programs and ongoing reminders.

Each of us is responsible for knowing and understanding the policies and guidelines contained in the following pages. If persons have questions, please ask them; if they have ethical concerns, please raise them. The CCO, who is responsible for overseeing and monitoring compliance with this Code, and the other resources set forth in this Code are available to answer questions and provide guidance and for persons to report suspected misconduct. Our conduct should reflect the Company's values, demonstrate ethical leadership, and promote a work environment that upholds the Company's reputation for integrity, ethical conduct and trust.

Copies of this Code are available from the CCO, the General Counsel and on the Company's website. A statement of compliance with this Code must be signed by all officers, directors and employees on an annual basis.

This Code cannot provide definitive answers to all questions. If employees have questions regarding any of the policies discussed in this Code or if employees are in doubt about the best course of action in a particular situation, employees should seek guidance from a supervisor, the CCO or the other resources identified in this Code.

This Code is a statement of the fundamental principles and key policies and procedures that govern the conduct of the Company's business. It is not intended to and does not create any obligations to or rights in any employee, director, client, supplier, competitor, shareholder or any other person or entity.

## Definitions

For purposes of this Code:

- (i) "Access Person(s)" means any employee, officer, or director (provided that directors may rebut the presumption of access established under Rule 17j-1(a)(1) by way of certification) of the Company. Contractors, interns, and other temporary staff are not generally included; however, we seek separate confidentiality representations from such persons.
- (ii) "Approving Officer" means Richard S. Pzena, John P. Goetz, Ben Silver, Allison Fisch, or designee.
- (iii) A security is "being considered for purchase or sale" when, subject to the Company's systematic buy/sell discipline as described in its Form ADV and client and prospect presentations, (i) a recommendation to purchase or sell that security has been made by the Company to an advisory account (e.g., the Portfolio Manager has instructed Portfolio Administration to begin preparing orders) or (ii) the Portfolio Manager is seriously considering making such a recommendation.
- (iv) "Beneficial Ownership" means any interest by which an employee or officer or any member of such person's "immediate family" (which, for purposes of this Code includes a spouse or civil partner (wherever they may live), dependent child or stepchild (wherever they may live), or parent, sibling or other relative by blood or marriage living in the same household as the employee) can directly or indirectly derive a monetary benefit from the purchase, sale or ownership of a Security. Thus, a person may be deemed to have Beneficial Ownership of Securities held in accounts in such person's own name, such person's spouse's name, and in all other accounts over which such person does or could be presumed to exercise investment decision-making powers, or other influence or control<sup>1</sup>, including trust accounts, partnership accounts, corporate accounts or other joint ownership or pooling arrangements; provided however, that with respect to spouses, a person shall no longer be deemed to have Beneficial Ownership of any accounts not held jointly with his or her spouse if the person and the spouse are legally separated or divorced and are not living in the same household.
- (v) "Exempt Transactions" means the transactions described in the section hereof titled "Exempt Transactions."
- (vi) "Personal Security Transaction" means, for any employee or officer, a purchase, sale, gifting or donation of a Security in which such person has, had, or will acquire a Beneficial Ownership.
- (vii) "Purchase and Sale of a Security" includes, *inter alia*, the writing of an option to purchase or sell a Security. In addition, the "sale of a Security" also includes the disposition by a person of that security by donation or gift. On the other hand, the acquisition by a person of a security by inheritance or gift is not treated as a "purchase" of that Security under this Code as it is an involuntary purchase that is an Exempt Transaction under clause (iii) of the section titled "Exempt Transactions" below.
- (viii) "Security" shall mean any common stock, preferred stock, treasury stock, single stock future, exchange traded fund or note, hedge fund, mutual fund, private placement, limited partnership interest, note, bond, debenture, evidence of indebtedness, certificate of interest or participation in any profit-sharing agreement, collateral-trust certificate, transferable share, voting-trust certificate, certificate of deposit for a Security, fractional undivided interest in oil, gas, or other mineral rights, any put, call, straddle, option, or privilege on any Security (including a certificate of deposit) or on any group of Securities (including any interest therein or based on the value thereof), or any put, call, straddle, option, or privilege entered into on a national securities exchange relating to foreign currency, or, in general, any interest or instrument commonly known as a "Security," or any certificate of interest or participation

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<sup>1</sup> In accordance with foreign regulations, this would include, without limitation, any Security with which the Access Person is linked as a result of: (i) directly or indirectly controlling the Security (in particular, but without limitation, by way of (i) having a majority of the voting rights in that Security; or (ii) by being a shareholder in that Security and having rights to appoint or remove a majority of the relevant Board, or to exercise a dominant influence over it under a shareholders' agreement); or (ii) having a participating interest in the Security, by holding, directly or indirectly, at least 20% or more of the voting rights or capital.

in, temporary or interim certificate for, receipt for, guarantee of, or warrant or right to subscribe to or purchase, any of the foregoing.

## **RESPONSIBILITY TO OUR ORGANIZATION**

Company employees, officers and directors are expected to dedicate their best efforts to advancing the Company's interests and to make decisions that affect the Company based on the Company's best interests, independent of outside influences.

### **Conflicts of Interest**

A conflict of interest occurs when employees' private interests interfere, or even appear to interfere, with the interests of the Company. A conflict situation may arise when employees take actions or have interests that make it difficult for employees to perform Company work objectively and effectively. Each employee's obligation to conduct the Company's business in an honest and ethical manner includes the ethical handling of actual, apparent and potential conflicts of interest between personal and business relationships. This includes full disclosure of any actual, apparent or potential conflicts of interest as set forth below.

As a fiduciary, the Company has an affirmative duty of care, loyalty, honesty, and good faith to act in the best interest of its clients. Compliance with this duty can be achieved by avoiding conflicts of interest or, when impracticable to do so, by fully disclosing all material facts concerning any conflict that does arise with respect to any client and following appropriate procedures designed to minimize any such conflict. Employees must try to avoid situations that have even the appearance of conflict or impropriety. Potential conflicts of interest should be brought to the attention of the CCO, who will determine whether further action is warranted (e.g., escalating such issues to the Risk Management Committee and/or Executive Committee, and/or recommending policy changes or additional disclosure).

- (i) Conflicts of interest may arise where the Company or its employees have reason to favor the interests of one client over another client. Favoritism of one client over another client constitutes a breach of fiduciary duty.
- (ii) Employees are prohibited from using knowledge about pending or currently considered securities transactions for clients to profit personally, directly or indirectly, as a result of such transactions, including by purchasing or selling such securities. Conflicts raised by Personal Security Transactions also are addressed more specifically below.
- (iii) If the Company determines that an employee's Beneficial Ownership of a Security presents a material conflict, the employee may be restricted from participating in any decision-making process regarding the Security. This may be particularly true in the case of proxy voting, and employees are expected to refer to and strictly adhere to the Company's proxy voting policies and procedures in this regard.
- (iv) Employees are required to act in the best interests of the Company's clients regarding execution and other costs paid by clients for brokerage services. Employees are expected to refer to and strictly adhere to the Company's Best Execution policies and procedures.
- (v) Access Persons are not permitted to knowingly sell to or purchase from a client any security or other property, except Securities issued by the client.

Employees, officers and directors are prohibited from trading, either personally or on behalf of others, while in possession of material, nonpublic information. The Company's Insider Trading Policy is hereby incorporated by reference and employees, officers and directors are required to comply with the provisions therein.

### **Prohibited Transactions with Respect to Non-Company Securities\***

- (i) No Access Person or any member of such Access Person's immediate family may enter into a Personal Security Transaction with actual knowledge that, at the same time, such Security is "being considered for purchase or sale" by advisory accounts of the Company, or that such Security is the subject of an outstanding purchase or sale order by advisory accounts of the Company except as provided below in the section titled "Employee Trading Exceptions with Respect to Non-Company Securities";
- (ii) Except under the circumstances described in the section below titled "Employee Trading Exceptions with Respect to Non-Company Securities," no Access Person or any member of such Access Person's immediate family shall purchase or sell any Security within one business day before or after the purchase or sale of that Security by advisory accounts of the Company;

- (iii) No Access Person or any member of such Access Person's immediate family shall be permitted to effect a short-term trade (*i.e.*, to purchase and subsequently sell within 60 calendar days, or to sell and subsequently purchase within 60 calendar days) involving the same or equivalent Securities;
- (iv) No Access Person or any member of such Access Person's immediate family is permitted to enter into a Personal Security Transaction for any Security that is named on a restricted list;
- (v) No Access Person or any member of such Access Person's immediate family shall purchase any Security in an Initial Public Offering (other than a Security issued by the Company);
- (vi) No Access Person or any member of such Access Person's immediate family shall, without the express prior approval of the CCO, acquire any Security in a private placement, and if a private placement Security is acquired, such employee must disclose that investment when he/she becomes aware of the Company's subsequent consideration of any investment in that issuer, and in such circumstances, an independent review shall be conducted by the CCO;

\*For any transactions by employees, directors and certain related persons in the Company's Securities, please refer to the separate policy titled "Restrictions on Transactions in the Company's Securities."

### **Employee Trading Exceptions with Respect to Non-Company Securities\***

Notwithstanding the prohibitions of the above section titled "Conflicts of Interest," an employee is permitted to purchase or sell any Security other than the Company's Securities within one business day of the purchase or sale of that Security by advisory accounts of the Company if the purchase or sale of the Security is approved or allocated only after the Company's advisory accounts have each received their full allocation of the Security purchased or sold on that day.

\*For any transactions by employees, directors and certain related persons in the Company's Securities, please refer to the separate policy titled "Restrictions on Transactions in the Company's Securities."

### **Exempt Transactions**

The following transactions are exempt from the pre-clearance, prohibitions, and reporting provisions of this Code:

- (i) Purchases or sales of Securities of an open-end mutual fund, index fund, money market fund or other registered investment company that is not advised or subadvised by the Company;
- (ii) Purchases or sales of Securities for an account over which an employee has no direct control and does not exercise indirect control (*e.g.*, an account managed on a fully discretionary basis by a third party);
- (iii) Involuntary purchases or sales made by an employee;
- (iv) Purchases that are part of an automatic dividend reinvestment plan;
- (v) Purchases that are part of an automatic investment plan, except that any transactions that override the preset schedule of allocations of the automatic investment plan must be reported in a quarterly transaction report;
- (vi) Purchases or sales of U.S. Treasury Securities (including purchases directly from the Treasury or a Federal Reserve Bank) and other direct obligations of the U.S. Government, as well as unsecured obligations of U.S. Government sponsored enterprises;
- (vii) Purchases or sales of money market instruments, such as bankers acceptances, bank certificates of deposit, commercial paper, repurchase agreements and other high quality short-term debt instruments;
- (viii) Purchases or sales of units in a unit investment trust if the unit investment trust is invested exclusively in unaffiliated mutual funds;
- (ix) Purchases resulting from the exercise of rights acquired from an issuer as part of a pro rata distribution to all holders of a class of securities of such issuer and the sale of such rights.
- (x) Purchases or sales of futures (except individual stock futures contracts) and commodity contracts; and

The following transactions are exempt from the pre-clearance and prohibitions provisions of this Code; **however the reporting requirements of this Code shall apply to:**

- (i) Purchases or sales of open-end mutual funds advised or subadvised by the Company;
- (ii) Purchases or sales of closed-end mutual funds, exchange traded funds or notes (ETF/ETN), and derivatives of such securities;
- (iii) Purchases or sales of municipal securities.



## Pre-Clearance Requirement

- (i) Unless an exception is granted by the CCO, each Access Person and each member of their immediate family must pre-clear all Personal Security Transactions by submitting a request through the Schwab Compliance Technology (“SCT”) system and awaiting approval. A pre-clearance request to trade in a security that is held in a client account, or a security that is being considered for client purchase or sale, must also be accompanied by a fully completed Securities Transaction Pre-Clearance Form, which includes the signature of an Approving Officer, the CCO (or Alternate), the relevant Portfolio Manager, and the Trading Desk. The SCT system will include a list of all such securities within a “Restricted List.” The Securities Transaction Pre-Clearance Form can be found in the SCT system under the “My Policies” link;
- (ii) All pre-cleared Personal Security Transactions, with the exception of private placements, must take place on the same day that the clearance is obtained. If the transaction is not completed on the date of clearance, a new clearance must be obtained, including one for any uncompleted portion. Post-approval is not permitted under this Code. If it is determined that a trade was completed before approval was obtained, it will be considered a violation of this Code; and
- (iii) In addition to the restrictions contained in the "Conflicts of Interest" section hereof, an Approving Officer or the CCO may refuse to grant clearance of a Personal Security Transaction in his or her sole discretion without being required to specify any reason for the refusal. Generally, an Approving Officer or the CCO will consider the following factors in determining whether or not to clear a proposed transaction:
  1. whether the amount or the nature of the transaction or person making it is likely to affect the price or market of the security; and
  2. whether the individual making the proposed purchase or sale is likely to receive a disproportionate benefit from purchases or sales being made or considered on behalf of any of the advisory clients of the Company.

The pre-clearance requirement does not apply to Exempt Transactions. In case of doubt, the employee may present a Securities Transaction Pre-clearance Request Form to the CCO for consideration.

## Reporting Requirements

- (i) No later than 10 days after becoming an employee, each individual shall provide a listing of all securities Beneficially Owned by the employee (an "Initial Holdings Report"). The information in the Initial Holdings Report must be current as of a date no more than 45 days prior to the date the person became an employee. The Initial Holdings Report should be furnished to the CCO, Alternate or any other person whom the Company designates and contain the following information:
  - (1) The title and type of security, and, as applicable, the exchange ticker symbol or CUSIP number, the number of shares or the principal amount of each reportable security in which the Access Person had any direct or indirect beneficial ownership when the person became an Access Person;
  - (2) The name of any broker, dealer or bank with whom the Access Person maintains an account in which any reportable securities were held for the direct or indirect benefit of the Access Person, the account number; and
  - (3) The date the report is submitted by the Access Person.
- (ii) All employees must direct their brokers and/or affiliated mutual fund custodians to supply the CCO on a timely basis with duplicate copies of monthly or quarterly statements for all personal securities accounts as are customarily provided by the firms maintaining such accounts. For all U.S.-based employees, unless otherwise approved by the CCO, brokerage accounts may only be maintained at the brokerage firms that provide the Company with a direct electronic feed through the SCT system. The list of approved brokerage firms is available from the CCO or designee. Accounts that are managed on a fully discretionary basis by an outside adviser (i.e. the employee has no direct control and does not exercise indirect control) are exempt from this requirement.
- (iii) Such duplicate statements must contain the following information (as applicable):

- (1) The date and nature of each transaction (purchase, sale or any other type of acquisition or disposition), if any;
  - (2) Title, and as applicable the exchange ticker symbol or CUSIP number (if any), interest rate and maturity date, number of shares and, principal amount of each security and the price at which the transaction was effected;
  - (3) The name of the broker, dealer or bank with or through whom the transaction was effected; and
  - (4) The date of issuance of the duplicate statements.
- (iv) No later than 30 days after each calendar quarter, all employees covered by this Code shall provide quarterly transaction reports confirming that they have disclosed or reported all Personal Security Transactions and holdings required to be disclosed or reported pursuant hereto for the previous quarter.
  - (v) Within forty-five days of the end of each calendar year, all employees shall provide annual holdings reports listing all securities Beneficially Owned by the employee (the "Annual Holdings Report"). The information contained in the Annual Holdings Report shall be current as of a date no more than 45 days prior to the date the report is submitted, and shall include:
    - (1) The title and type of security, and, as applicable, the exchange ticker symbol or CUSIP number, the number of shares or the principal amount of each security in which the Access Person had any direct or indirect beneficial ownership;
    - (2) The name of any broker, dealer or bank with whom the Access Person maintains an account in which any securities were held for the direct or indirect benefit of the Access Person, the account number; and
    - (3) The date the report is submitted by the Access Person.
  - (vi) Any statement or report submitted in accordance with this section may, at the request of the employee submitting the report, contain a statement that it is not to be construed as an admission that the person making it has or had any direct or indirect Beneficial Ownership in any Security to which the report relates.
  - (vii) All employees shall certify in writing, annually, that they have read and understand this Code and have complied with the requirements hereof and that they have disclosed or reported all Personal Security Transactions and holdings required to be disclosed or reported pursuant hereto.
  - (viii) The CCO shall retain a separate file for each employee that shall contain the monthly/quarterly account statements, quarterly and annual reports listed above and all Securities Transaction Pre-clearance Forms.
  - (ix) With respect to the receipt of gifts and entertainment, all employees shall promptly report on a form designated by the CCO the nature of such gift or entertainment, the date received, its approximate value, the giver and the giver's relationship to the Company.
  - (x) With respect to reports regarding accounting matters, the Company is committed to compliance with applicable securities laws, rules, and regulations, accounting standards and internal accounting controls. Employees are expected to report any complaints or concerns regarding accounting, internal accounting controls and auditing matters ("Accounting Matters") promptly. Reports may be made to the General Counsel or the CCO in person, or by calling the Helpline at 1-888-475-8376. Reports may be made anonymously to the Helpline; or in writing to the General Counsel or the CCO at their offices by inter-office or regular mail. All reports will be treated confidentially to the extent reasonably possible. No one will be subject to retaliation because of a good faith report of a complaint or concern regarding Accounting Matters.

## **Other Prohibitions**

### **Gifts**

No Access Person shall accept any gifts or anything else of more than a de minimis value from any person or entity that does business with or on behalf of the Company or any of the advisory accounts of the Company. For purposes hereof, "de minimis value" shall mean a value of less than \$100 per calendar year, or such higher amount as may be set forth in FINRA Conduct Rule 3220 from time to time. Furthermore, all gifts to consultants and other decision-makers for client accounts must be reasonable in value and must be pre-approved by the Managing Principal, Marketing and Client Services and the CCO before distribution. The Company has adopted a Business Gift and Entertainment Policy, which is located in the Company's Compliance Manual.

### **Political Contributions**

No Access Person may make political or charitable contributions for the purpose of obtaining or retaining advisory contracts with government entities. In addition, no Access Person may consider the Company's current or anticipated

business relationships as a factor in soliciting political or charitable contributions. The Company has adopted a Political Contributions Policy which is located in the Company's Compliance Manual.

### **Outside Business Activities**

No director or executive officer of the Company may serve on the board of directors (or similar governing body) of any corporation or business entity without the prior written approval of the Company's management. Non-executive employees of the Company may only serve on the board of directors (or similar governing body) of a corporation or business entity with the prior written approval of the CCO in consultation with the Company's management, and if necessary the Board. Prior written approval of the CCO is also required in the following two (2) additional scenarios:

- (1) Advisory Committee positions of any business, government or charitable entity where the members of the committee have the ability or authority to affect or influence the selection of investment managers or the selection of the investment of the entity's operating, endowment, pension or other funds.
- (2) Positions on the board of directors, trustees or any advisory committee of a Company client or any potential client who is actively considering engaging the Company's investment advisory services.

Access Persons, subject to prior written supervisory approval and departmental restrictions, are permitted to engage in outside employment or other business activity ("Outside Business Activity") if it is free of any actions that could be considered a conflict of interest. Outside Business Activity must not adversely affect an Access Person's job performance at the Company, and must not result in absenteeism, tardiness or an Access Person's inability to work overtime when requested or required. Access Persons may not engage in Outside Business Activity that requires or involves using Company time, materials or resources.

### **Company Disclosures**

It is Company policy to make full, fair, accurate, timely and understandable disclosure in compliance with all applicable laws and regulations in all reports and documents that the Company files with, or submits to, the SEC and in all other public communications made by the Company.

Employees must complete all Company documents accurately, truthfully, and in a timely manner, including all travel and expense reports. When applicable, documents must be properly authorized. Employees must record the Company's financial activities in compliance with all applicable laws and accounting practices. The making of false or misleading entries, records or documentation is strictly prohibited. Employees must never create a false or misleading report or make a payment or establish an account on behalf of the Company with the understanding that any part of the payment or account is to be used for a purpose other than as described by the supporting documents.

### **Review**

All pre-clearance requests, statements and reports of Personal Security Transactions and completed portfolio transactions of each of the Company's advisory clients shall be compared by or under the supervision of the CCO to determine whether a possible violation of this Code and/or other applicable trading procedures may have occurred. Before making any final determination that a violation has been committed by any person, the CCO shall give such person an opportunity to supply additional explanatory information.

If the CCO or Alternate determines that a material violation of this Code has or may have occurred, he or she shall, following consultation with counsel to the Company if needed, submit a written determination and any additional explanatory material provided by the individual to the Company's management, the Board and the Executive Committee as necessary.

No person shall review his or her own report. If a Personal Security Transaction of the CCO or the CCO's spouse is under consideration, an Alternate shall act in all respects in the manner prescribed herein for the CCO.

## Reporting Violations

Any violations of this Code including violations of applicable Federal securities laws, whether actual, known, apparent or suspected, should be reported promptly to the CCO or to any other person the Company may designate (as long as the CCO periodically receives reports of all violations). It is imperative that reporting persons not conduct their own preliminary investigations. Investigations of alleged violations may involve complex legal issues, and an employee acting on his own may compromise the integrity of an investigation and adversely affect both employees and the Company.

Any reports of violations will be treated confidentially to the extent permitted by law and reasonably possible, and investigated promptly and appropriately. Any such reports may also be submitted anonymously. Employees are encouraged to consult the CCO with respect to any transaction that may violate this Code and to refrain from any action or transaction that might lead to the appearance of a violation. Any retaliation against an individual who reports a violation is prohibited and constitutes a further violation of this Code.

The Company has a 24-hour Helpline, 1-888-475-8376, which employees can use to report violations of the Company's policies or to seek guidance on those policies. Employees may report suspected violations to or ask questions of the Helpline anonymously; however, providing such employee's name may expedite the time it takes the Company to respond to such employee's call, and it also allows the Company to contact an employee if necessary during any investigation. Either way, the Company should treat the information that employees provide as confidential.

## Background Checks

Employees are required to promptly report any criminal, regulatory or governmental investigations or convictions to which they become subject. Each employee is required to promptly complete and return any background questionnaires that the Company's Legal and Compliance group may circulate.

## Sanctions

The Company intends to use every reasonable effort to prevent the occurrence of conduct not in compliance with this Code and to halt any such conduct that may occur as soon as reasonably possible after its discovery. Any violation of this Code shall be subject to the imposition of such sanctions by the CCO as may be deemed appropriate under the circumstances to achieve the purposes of the Rules and this Code, and may include suspension or termination of employment or of trading privileges, the rescission of trades, a written censure, imposition of fines or of restrictions on the number or type of providers of personal accounts; and/or requiring equitable restitution.

## Required Records

Required Records (as listed in this section) must be kept in an easily accessible place. In addition, *no* records should be selectively destroyed and *all* records must be retained if they are connected with any litigation/government investigation. The CCO shall maintain and cause to be maintained in an easily accessible place, the following records:

- (a) A copy of any Code that has been in effect at any time during the past five years;
- (b) A record of any violation of this Code and any action taken as a result of such violation for five years from the end of the fiscal year in which the violation occurred;
- (c) A copy of each report made by the CCO within two years from the end of the fiscal year of the Company in which such report or interpretation is made or issued (and for an additional three years in a place that need not be easily accessible);
- (d) A list of the names of persons who are currently, or within the past five years were, employees;
- (e) A record of all written acknowledgements of receipt of this Code for each person who is currently, or within the past five years was, subject to this Code;
- (f) Holdings and transactions reports made pursuant to this Code, including any brokerage account statements made in lieu of these reports;

- (g) All pre-clearance forms shall be maintained for at least five years after the end of the fiscal year in which the approval was granted;
- (h) A record of any decision approving the acquisition of securities by employees in limited offerings for at least five years after the end of the fiscal year in which approval was granted;
- (i) Any exceptions reports prepared by Approving Officers or the Compliance Officer;
- (j) A record of persons responsible for reviewing employees' reports currently or during the last five years; and
- (k) A copy of reports provided to a Fund's board of directors regarding this Code.

For the first two years, the required records shall be maintained in the Company's New York offices.

### **Record Retention**

In the course of its business, the Company produces and receives large numbers of records. Numerous laws require the retention of certain Company records for various periods of time. The Company is committed to compliance with all applicable laws and regulations relating to the preservation of records. The Company's policy is to identify, maintain, safeguard and destroy or retain all records in the Company's possession on a systematic and regular basis. Under no circumstances are Company records to be destroyed selectively or to be maintained outside Company premises or designated storage facilities, except in those instances where Company records may be temporarily brought home by employees working from home in accordance with approvals from their supervisors or applicable policies about working from home or other remote locations.

If employees learn of a subpoena or a pending or contemplated litigation or government investigation, employees should immediately contact the General Counsel. Employees must retain and preserve ALL records that may be responsive to the subpoena or relevant to the litigation or that may pertain to the investigation until employees are advised by the Legal and Compliance group as to how to proceed. Employees must also affirmatively preserve from destruction all relevant records that without intervention would automatically be destroyed or erased (such as e-mails and voicemail messages). Destruction of such records, even if inadvertent, could seriously prejudice the Company. If employees have any questions regarding whether a particular record pertains to a pending or contemplated investigation or litigation or may be responsive to a subpoena or regarding how to preserve particular types of records, employees should preserve the records in question and ask the Legal and Compliance group for advice.

### **Waivers of this Code**

Waivers for directors and executive officers may be made by either the Board or the Audit Committee of the Board and must be promptly disclosed as required by law. Waivers for non-executive officers and employees may be made by the CCO.

### **Corporate Opportunities**

Employees and directors owe a duty to the Company to advance its legitimate interests when the opportunity to do so arises. If employees learn of a business or investment opportunity through the use of corporate property or information or an employee's position at the Company, such as from a competitor or actual or potential client, supplier or business associate of the Company, employees may not participate in the opportunity or make the investment without the prior written approval of the CCO. Directors must obtain the prior approval of the Board. Such an opportunity should be considered an investment opportunity for the Company in the first instance. Employees may not use corporate property or information or an employee's position at the Company for improper personal gain, and employees may not compete with the Company.

### **Protection and Proper Use of Company Assets**

We each have a duty to protect the Company's assets and ensure their efficient use. Theft, carelessness and waste have a direct impact on the Company's profitability. We should take measures to prevent damage to and theft or misuse of Company property. When employees leave the Company, all Company property must be returned to the Company. Except as specifically authorized, Company assets, including Company time, equipment, materials, resources and proprietary information, must be used for business purposes only.

## **Client Information**

Current Federal regulations are designed to protect the privacy of customers of financial institutions and financial services providers. In this regard, the Company has adopted privacy policies (the "Privacy Policies") by which each employee of the Company must agree to abide. The CCO will ensure that each employee of the Company acknowledges their adherence to the Privacy Policies. A copy of the Privacy Policies is found in the Company's Compliance Manual. The Company will keep a copy of the Privacy Policies and will make them available upon request.

## **Portfolio Company Information**

Certain limitations on trading and other activities may result from employees of the Company receiving access to material, nonpublic information regarding the plans, earnings, operations or financial condition of issuers ("Portfolio Companies"). If, in employee conversations, meetings or written communications with Portfolio Company management, employees are told (or have reason to believe) that the information employees have received is not public, employees should notify the CCO immediately. If employees are forewarned that the information employees are about to receive is confidential/not public, employees should ask the person not to disclose the information to employees until employees have a chance to check with the Legal and Compliance group. The Company's Insider Trading Policy more fully discusses material, nonpublic information.

## **Company Information**

Unless employees are doing so in connection with Company duties and responsibilities, employees should not discuss specific details about the Company's business with unauthorized persons, including family members. Even when representing the Company, employees need to be careful about disclosing certain information. Engaging in discussions with outside parties (who are not custodians and brokers or dealers implementing such strategies and transactions for us) about specific strategies or transactions in Portfolio Companies that the Company is or is considering implementing for clients may present a conflict of interest for the Company and may even subject the recipient of such information to this Code (including its personal trading policies). It is very important to remember this when having discussions with personal friends, social acquaintances and former business associates or colleagues who are active investment management professionals (*e.g.*, hedge fund managers, other investment advisers). It is equally important to remember this when employees are discussing the Company's business or clients with colleagues in public places (*e.g.*, elevators, lunch lines). Employees should be particularly careful not to use actual company or client names in any public settings.

Information that is proprietary to the Company should not be shared with others. With regard to what might constitute material that is proprietary and/or should not be shared, employees may use a simple guideline that if we paid for it or if we created it, it is likely proprietary and should not be shared. For example, the Company's proprietary stock analysis software should not be shared with others.

## **INSIDER TRADING**

Various Federal and state securities laws and the Investment Advisers Act of 1940 (Section 204A) require every investment adviser to establish, maintain and enforce written policies and procedures reasonably designed, taking into consideration the nature of such adviser's business, to prevent the misuse of material, nonpublic information in violation of the Investment Advisers Act of 1940 or other securities laws by the investment adviser or any person associated with the investment adviser.

The CCO has the primary responsibility for the implementation and monitoring of the Company's Insider Trading Policy, practices, disclosures and recordkeeping. The Company's Insider Trading Policy is designed to detect and prevent illegal insider trading. The Insider Trading Policy covers: (i) the Company, (ii) all persons controlled by, controlling or under common control with the Company (iii) consultants, subtenants, office occupants or other persons who are deemed to be Access Persons under this Code; and (iv) each and every employee, officer, director, general partner and member of the Company and any person described in clause (ii) (all persons described in this paragraph are referred to collectively as the "Covered Persons"). The Insider Trading Policy extends to activities both within and outside each Covered Person's relationship with the Company. The CCO will ensure that each employee of the Company acknowledges their adherence to the Insider Trading Policy. The Company will keep a copy of the Insider Trading Policy and will make it available upon request.

## **FAIR DEALING**

The Company depends on its reputation for quality, service and integrity. The way we deal with our clients, competitors and suppliers molds our reputation, builds long-term trust and ultimately determines our success. Employees should endeavor to deal fairly with the Company's clients, suppliers, competitors and other employees. We must never take unfair advantage of others

through manipulation, concealment, abuse of privileged information, misrepresentation of material facts or any other unfair dealing practice.

## **Antitrust Laws**

While the Company competes vigorously in all of its business activities, its efforts in the marketplace must be conducted in accordance with all applicable antitrust and competition laws. While it is impossible to describe antitrust and competition laws fully in any code of business conduct, this Code gives an overview of the types of conduct that are particularly likely to raise antitrust concerns. If employees are or become engaged in activities similar to those identified in this Code, employees should consult the Legal and Compliance group for further guidance.

## **Conspiracies and Collaborations Among Competitors**

One of the primary goals of the antitrust laws is to promote and preserve each competitor's independence when making decisions on price, output, and other competitively sensitive factors. Some of the most serious antitrust offenses are agreements between competitors that limit independent judgment and restrain trade, such as agreements to fix prices, restrict output or control the quality of products, or to divide a market for clients, territories, products or purchases. Employees should not agree with any competitor on any of these topics, as these agreements are virtually always unlawful. (In other words, no excuse will absolve employees or the Company of liability.)

Unlawful agreements need not take the form of a written contract or even express commitments or mutual assurances. Courts can -- and do -- infer agreements based on "loose talk," informal discussions, or the mere exchange between competitors of information from which pricing or other collusion could result. Any communication with a competitor's representative, no matter how innocuous it may seem at the time, may later be subject to legal scrutiny and form the basis for accusations of improper or illegal conduct. Employees should take care to avoid involving themselves in situations from which an unlawful agreement could be inferred.

By bringing competitors together, trade associations and standard-setting organizations may raise antitrust concerns, even though such groups serve many legitimate goals. The exchange of sensitive information with competitors regarding topics such as prices, profit margins, output levels, or billing or advertising practices may potentially violate antitrust and competition laws, as may creating a standard with the purpose and effect of harming competition. Employees must notify the Legal and Compliance group before joining any trade associations or standard-setting organizations. Further, if employees are attending a meeting at which potentially competitively sensitive topics are discussed without oversight by an antitrust lawyer, employees should object, leave the meeting, and notify the Legal and Compliance group immediately.

Joint ventures with competitors are not illegal under applicable antitrust and competition laws. However, like trade associations, joint ventures present potential antitrust concerns. The Legal and Compliance group should therefore be consulted before negotiating or entering into such a venture.

## **Distribution Issues**

Relationships with clients and suppliers may also be subject to a number of antitrust prohibitions if these relationships harm competition. For example, it may be illegal for a company to affect competition by agreeing with a supplier to limit that supplier's sales to any of the Company's competitors. Collective refusals to deal with a competitor, supplier or client may be unlawful as well. While the Company generally is allowed to decide independently that it does not wish to buy from or sell to a particular person, when such a decision is reached jointly with others, it may be unlawful, regardless of whether it seems commercially reasonable.

Other activities that may raise antitrust concerns are:

- (i) discriminating in terms and services offered to clients, where the Company treats one client or group of clients differently than another;
- (ii) exclusive dealing agreements, where the Company requires a client to buy only from a particular supplier, or the supplier to sell only to the Company or the client;
- (iii) tying arrangements, where a client or supplier is required, as a condition of purchasing or selling one product or service, also to purchase or sell a second, distinct product or service;

- (iv) "bundled discounts," in which discount or rebate programs link the level of discounts available on one product or service to purchases of separate but related products or services; and
- (v) "predatory pricing," where the Company offers a discount that results in the sales price of a product or service being below the product's or service's cost (the definition of cost varies depending on the court), with the intention of sustaining that price long enough to drive competitors out of the market.

Because these activities are prohibited under many circumstances, employees should consult the Legal and Compliance group before implementing any of them.

### **Penalties**

Failure to comply with the antitrust laws could result in jail terms for individuals and large criminal fines and other monetary penalties for both the Company and individuals. In addition, private parties may bring civil suits to recover three times their actual damages, plus attorney's fees and court costs.

The antitrust laws are extremely complex. Because antitrust lawsuits can be very costly (even when a company has not violated the antitrust laws and is cleared in the end), it is important to consult with the Legal and Compliance group before engaging in any conduct that even appears to create the basis for an allegation of wrongdoing. It is far easier to structure employee conduct to avoid erroneous impressions than to explain their conduct in the future when an antitrust investigation or action is in progress. For that reason, when in doubt, consult the Legal and Compliance group with any concerns.

### **Gathering Information About the Company's Competitors**

It is entirely proper for us to gather information about our marketplace, including information about our competitors and their products and services. However, there are limits to the ways that information should be acquired and used, especially information about competitors. In gathering competitive information, employees should abide by the following guidelines:

1. We may gather information about our competitors from sources such as published articles, advertisements, brochures, other non-proprietary materials, surveys by consultants and conversations with our clients, as long as those conversations are not likely to suggest that we are attempting to (a) conspire with our competitors, using the client as a messenger, or (b) gather information in breach of a client's nondisclosure agreement with a competitor or through other wrongful means. Employees should be able to identify the source of any information about competitors.
2. We must never attempt to acquire a competitor's trade secrets or other proprietary information through unlawful means, such as theft, spying, bribery or breach of a competitor's nondisclosure agreement.
3. If there is any indication that information that employees obtain was not lawfully received by the party in possession, employees should refuse to accept it. If employees receive any competitive information anonymously or that is marked confidential, employees should not review it and should contact the Legal and Compliance group immediately.

The improper gathering or use of competitive information could subject employees and the Company to criminal and civil liability. When in doubt as to whether a source of information is proper, employees should contact the Legal and Compliance group.

## **RESPONSIBILITY TO OUR PEOPLE**

### **Equal Employment Opportunity**

It is the policy of the Company to ensure equal employment opportunity without discrimination or harassment on the basis of race, color, national origin, religion, age, sexual orientation, gender, marital status, disability or any other characteristic protected by applicable Federal, state, or local law. Our employment practices and decisions adhere to the principles of non-discrimination and equal employment opportunity. All personnel involved in hiring, promotion, transfers, compensation, benefits, termination and all other terms and conditions of employment are made aware of their responsibilities in support of these corporate goals.



## **Non-Discrimination Policy**

The Company is committed to a work environment in which all individuals are treated with respect and dignity. Each employee has the right to work in a professional atmosphere that promotes equal employment opportunities and prohibits discriminatory practices, including harassment. Therefore, the Company expects that all relationships among persons in the office will be free of bias, prejudice and harassment.

## **Anti-Harassment Policy**

The Company is committed to maintaining a work environment that is free of discrimination. In keeping with this commitment, we will not tolerate unlawful harassment of our employees by anyone, including any supervisor, co-worker or third party. Harassment consists of unwelcome conduct, whether verbal, physical or visual, that is based on a person's race, color, national origin, religion, age, sexual orientation, gender, marital status, disability or other protected characteristic, that (1) has the purpose or effect of creating an intimidating, hostile or offensive work environment; (2) has the purpose or effect of unreasonably interfering with an individual's work performance; or (3) otherwise adversely affects an individual's employment opportunities. Harassment will not be tolerated.

Harassment may include derogatory remarks, epithets, offensive jokes, intimidating or hostile acts, the display of offensive printed, visual or electronic material, or offensive physical actions. Sexual harassment deserves special mention. Unwelcome sexual advances, requests for sexual favors, or other physical, verbal or visual conduct based on sex constitutes harassment when (1) submission to the conduct is required as a term or condition of employment or is the basis for employment action, or (2) the conduct unreasonably interferes with an individual's work performance or creates an intimidating, hostile or offensive workplace. Sexual harassment may include propositions, innuendo, suggestive comments or unwelcome physical contact.

## **Individuals and Conduct Covered**

These policies apply to all applicants and employees, and prohibit harassment, discrimination and retaliation whether engaged in by fellow employees, by a supervisor or manager or by someone not directly connected to the Company (*e.g.*, an outside vendor, consultant or client).

Conduct prohibited by these policies is unacceptable in the workplace and in any work-related setting outside the workplace, such as during business trips, business meetings and business related social events.

## **Retaliation**

The Company prohibits retaliation against any individual who reports discrimination or harassment or participates in an investigation of such reports. Retaliation against an employee for reporting discrimination or harassment or for participating in an investigation of a claim of harassment or discrimination is a serious violation of this policy and, like harassment or discrimination itself, will be subject to disciplinary action.

## **Reporting an Incident of Harassment, Discrimination or Retaliation**

The Company strongly urges the timely reporting of all incidents of harassment, discrimination or retaliation regardless of the offender's identity or position. Individuals should file their complaints with their immediate supervisor, the General Counsel, the Chief Human Resources Officer, or any member of senior management before the conduct becomes severe or pervasive. Individuals should not feel obligated to file their complaints with their immediate supervisor first before bringing the matter to the attention of one of the other designated representatives identified above. To the fullest extent practicable, the Company will maintain the confidentiality of those involved, consistent with the need to investigate alleged harassment and take appropriate action. Misconduct constituting harassment, discrimination or retaliation will be dealt with promptly and appropriately.

Each supervisor and manager is responsible for enforcing these policies against unlawful discrimination, harassment and retaliation, and maintaining a work environment free from sexual and other unlawful discrimination, harassment and retaliation. This includes understanding these policies; reporting any complaint of unlawful discrimination, harassment or retaliation received from an employee to the appropriate Company representative; cooperating with investigations into reported allegations, and taking the necessary and appropriate action where such allegations are substantiated.

Employees who have experienced conduct they believe is contrary to this policy have an obligation to take advantage of this complaint procedure.

## **Leave Policies**

The Company provides leaves of absences in accordance with applicable federal, state and local law. The Company's leave policies are outlined in the US Employee Handbook.

## **Safety in the Workplace**

The safety and security of employees is of primary importance. Employees are responsible for maintaining our facilities free from recognized hazards and obeying all Company safety rules. Working conditions should be maintained in a clean and orderly state to encourage efficient operations and promote good safety practices.

### ***Weapons and Workplace Violence***

No employee may bring firearms, explosives, incendiary devices or any other weapons into the workplace or any work-related setting, regardless of whether or not employees are licensed to carry such weapons. Similarly, the Company will not tolerate any level of violence in the workplace or in any work-related setting. Violations of this policy must be referred to an employee's supervisor, the Chief Human Resources Officer and the CCO immediately. Threats or assaults that require immediate attention should be reported to the police by calling 911.

### ***Drugs and Alcohol***

The Company intends to maintain a drug-free work environment. Except at approved Company functions, employees may not use, possess or be under the influence of alcohol on Company premises.

Employees cannot use, sell, attempt to use or sell, purchase, possess or be under the influence of any illegal drug on Company premises or while performing Company business on or off the premises.

## **INTERACTING WITH GOVERNMENT**

### **Prohibition on Gifts to Government Officials and Employees**

The various branches and levels of government have different laws restricting gifts, including meals, entertainment, transportation and lodging, which may be provided to government officials and government employees. Employees are prohibited from providing gifts, meals or anything of value to government officials or employees or members of their families without prior written approval from the CCO.

### **Political Contributions and Activities**

Laws of certain jurisdictions prohibit the use of Company funds, assets, services, or facilities on behalf of a political party or candidate. Payments of corporate funds to any political party, candidate or campaign may be made only if permitted under applicable law and approved in writing and in advance by the CCO.

This policy does not prohibit the Company from establishing and maintaining political action committees ("PACs"), such as the Company's PAC, which are permitted under applicable law, nor does this policy prohibit the Company's eligible employees from giving to such PACs. Employee participation in any of these activities is strictly voluntary and employees have the right to refuse to contribute without reprisal.

Employees' work time may be considered the equivalent of a contribution by the Company. Therefore, employees will not be paid by the Company for any time spent running for public office, serving as an elected official, or campaigning for a political candidate. The Company will not compensate or reimburse employees, in any form, for a political contribution that employees intend to make or have made.

### **Lobbying Activities**

Laws of some jurisdictions require registration and reporting by anyone who engages in a lobbying activity. Generally, lobbying includes: (1) communicating with any member or employee of a legislative branch of government for the purpose of influencing legislation; (2) communicating with certain government officials for the purpose of influencing government action; or (3) engaging in research or other activities to support or prepare for such communication.

So that the Company may comply with lobbying laws, employees must notify the Legal and Compliance group before engaging in any activity on behalf of the Company that might be considered "lobbying" as described above.

### **Bribery of Foreign Officials**

Company policy, the U.S. Foreign Corrupt Practices Act (the "FCPA"), and the laws of many other countries prohibit the Company and its officers, employees and agents from giving or offering to give money or anything of value to a foreign official, a foreign political party, a party official or a candidate for political office in order to influence official acts or decisions of that person or entity, to obtain or retain business, or to secure any improper advantage. A foreign official is an officer or employee of a government or any department, agency, or instrumentality thereof, or of certain international agencies, such as the World Bank or the United Nations, or any person acting in an official capacity on behalf of one of those entities. Officials of government-owned corporations are considered to be foreign officials.

Payments need not be in cash to be illegal. The FCPA prohibits giving or offering to give "anything of value." Over the years, many non-cash items have been the basis of bribery prosecutions, including travel expenses, golf outings, automobiles, and loans with favorable interest rates or repayment terms. Indirect payments made through agents, contractors, or other third parties are also prohibited. Employees may not avoid liability by "turning a blind eye" when circumstances indicate a potential violation of the FCPA.

The FCPA does allow for certain permissible payments to foreign officials. Specifically, the law permits "facilitating" payments, which are payments of small value to effect routine government actions such as obtaining permits, licenses, visas, mail, utilities hook-ups and the like. However, determining what is a permissible "facilitating" payment involves difficult legal judgments. Therefore, employees must obtain permission from the Legal and Compliance group before making any payment or gift thought to be exempt from the FCPA.

### **Amendments and Modifications.**

The CCO will periodically review the adequacy of this Code and the effectiveness of its implementation and shall make amendments or modifications as necessary. All material amendments and modifications shall be subject to the final approval of the Company's management, the Board and the Executive Committee as necessary.

### **Form ADV Disclosure.**

In connection with making amendments to this Code, the CCO will review and update disclosure relating to this Code set forth in the Company's Form ADV, Part 2A.

### **Employee Certification.**

Ultimate responsibility to ensure that we as a Company comply with the many laws, regulations and ethical standards affecting our business rests with each of us. Employees must become familiar with and conduct themselves strictly in compliance with those laws, regulations and standards and the Company's policies and guidelines pertaining to them. By signing the attached acknowledgment form, employees acknowledge that they have received and read the terms of this Code. Employees also certify that they recognize and understand the responsibilities and obligations incurred by them as a result of being subject to this Code and they hereby agree to abide by the terms hereof.

**Subsidiaries of Pzena Investment Management, Inc.**

Pzena Investment Management, LLC, a Delaware limited liability company.

Pzena Investment Management, Pty Ltd, is a proprietary limited company incorporated in Australia.

Pzena Investment Management, Ltd is a private limited company incorporated in England and Wales.

Pzena Financial Services, LLC, a Delaware limited liability company.

**Consent of Independent Registered Public Accounting Firm**

We hereby consent to the incorporation by reference in the Registration Statement on Forms S-3 (No. 333-221340, No. 33-205165, No. 333-194885, No. 333-186957, No. 333-172257 and No. 333-155354) and Forms S-8 (No. 333-221339, No. 333-163370 and No. 333-147027) of Pzena Investment Management, Inc. of our report dated March 9, 2018 relating to the financial statements and the effectiveness of internal control over financial reporting, which appears in the Annual Report to Shareholders, which is incorporated in this Annual Report on Form 10-K.

/s/ PricewaterhouseCoopers LLP

New York, New York

March 9, 2018

**Consent of Independent Registered Public Accounting Firm**

The Board of Directors

Pzena Investment Management, Inc.:

We consent to the incorporation by reference in the registration statements (No. 333-205165, No. 333-194885, No. 333-186957, No. 333-172257, No. 333-155354 and No. 333-221340) on Form S-3, and registration statements (No. 333-163370, No. 333-147027 and No. 333-221339) on Form S-8 of Pzena Investment Management, Inc. of our report dated March 10, 2017, with respect to the consolidated statement of financial condition of Pzena Investment Management, Inc. as of December 31, 2016, and the related consolidated statements of operations, comprehensive income, changes in equity, and cash flows for the years ended December 31, 2016 and 2015, which report appears in the December 31, 2017 annual report on Form 10-K of Pzena Investment Management, Inc.

/s/ KPMG LLP

New York, New York

March 9, 2018

## CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, Richard S. Pzena, certify that:

1. I have reviewed this annual report on Form 10-K of Pzena Investment Management, Inc.
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report.
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report.
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 9, 2018

/s/ Richard S. Pzena

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Richard S. Pzena  
Chief Executive Officer  
(principal executive officer)

## CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, Jessica R. Doran, certify that:

1. I have reviewed this annual report on Form 10-K of Pzena Investment Management, Inc.
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report.
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report.
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 9, 2018

/s/ Jessica R. Doran

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Jessica R. Doran  
Chief Financial Officer  
(principal financial and accounting officer)



**CERTIFICATION OF CHIEF EXECUTIVE OFFICER  
PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED  
PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report on Form 10-K of Pzena Investment Management, Inc. (the “Company”) for the fiscal year ended December 31, 2017, as filed with the Securities and Exchange Commission (the “Report”), I, Richard S. Pzena, as Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

A signed original of this written statement required by section 906 has been provided to Pzena Investment Management, Inc. and will be retained by Pzena Investment Management, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

Date: March 9, 2018

/s/ Richard S. Pzena

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Richard S. Pzena  
Chief Executive Officer  
(principal executive officer)

**CERTIFICATION OF CHIEF FINANCIAL OFFICER  
PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED  
PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report on Form 10-K of Pzena Investment Management, Inc. (the “Company”) for the fiscal year ended December 31, 2017, as filed with the Securities and Exchange Commission (the “Report”), I, Jessica R. Doran, as Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

A signed original of this written statement required by section 906 has been provided to Pzena Investment Management, Inc. and will be retained by Pzena Investment Management, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

Date: March 9, 2018

/s/ Jessica R. Doran

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Jessica R. Doran  
Chief Financial Officer  
(principal financial and accounting officer)