

**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, 2020
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

(State or Other Jurisdiction of Incorporation or Organization)

20-8999751

(I.R.S. Employer Identification No.)

320 Park Avenue

New York, New York 10022

(Address of Principal Executive Offices)

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

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

Title of Each Class	Trading Symbol(s)	Name of Each Exchange on Which Registered
Class A Common Stock, par value \$.01 per share	PZN	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 every Interactive Data File required to be submitted 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 such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth 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	<input type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

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, 2020, the last business day of its most recently completed second fiscal quarter, was approximately \$90.3 million based on the closing sale price of \$5.44 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 5, 2021, there were 17,132,884 outstanding shares of the registrant's Class A common stock, par value \$0.01 per share.

As of March 5, 2021, there were 55,457,077 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 2021 annual meeting of shareholders (the "2021 Proxy Statement") are incorporated by reference into Part III of this Annual Report on Form 10-K where indicated. The 2021 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.

TABLE OF CONTENTS

	<u>Page</u>
Cautionary Statement Regarding Forward-Looking Statements	ii
PART I	1
Item 1. Business	1
Item 1A. Risk Factors	13
Item 1B. Unresolved Staff Comments	26
Item 2. Properties	26
Item 3. Legal Proceedings	26
Item 4. Mine Safety Disclosure	26
PART II	27
Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	27
Item 6. Selected Financial Data	28
Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations	31
Item 7A. Quantitative and Qualitative Disclosures About Market Risk	47
Item 8. Financial Statements and Supplementary Data	48
Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	48
Item 9A. Controls and Procedures	49
Item 9B. Other Information	49
PART III	50
Item 10. Directors, Executive Officers and Corporate Governance	50
Item 11. Executive Compensation	50
Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	50
Item 13. Certain Relationships and Related Transactions, and Director Independence	50
Item 14. Principal Accountant Fees and Services	50
PART IV	51
Item 15. Exhibits and Financial Statement Schedules	51
Item 16. Form of 10-K Summary	54
SIGNATURES	55

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, (the "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, including changes in such conditions resulting from the COVID-19 pandemic and government responses thereto;
- 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 effective recruitment and retention of our executives and employees;
- our expected levels of compensation for our employees;
- expectations relating to dividend payments and our ability to make such payments;
- our potential operating performance, achievements, efficiency and cost reduction efforts;
- our expected tax rate;
- changes in interest rates;
- our expectations with respect to the economy, capital markets, the market for asset management services and other industry trends;
- the potential impact of disruptions as a result of natural disasters, pandemics, or other international health emergencies, including the COVID-19 pandemic as well as the conditions in the sectors in which we invest; 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.

All rights in the Russell 1000[®] Value Index, Russell Mid Cap[®] Value Index, Russell 2000[®] Value Index vest in the relevant London Stock Exchange Group plc (“LSE Group”) company which owns the relevant Index. “Russell[®]” is a trade mark of the relevant LSE Group company and is used by any other LSE Group company under license.

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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

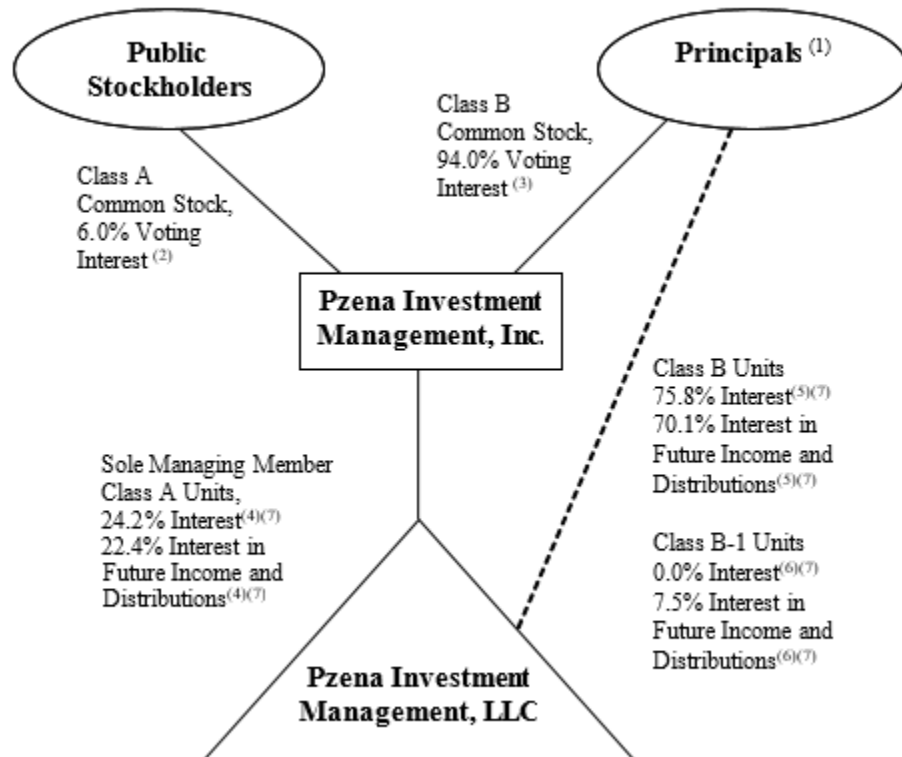
Overview

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, 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.

Equity interests in Pzena Investment Management, LLC are comprised of Class A, Class B, and Class B-1 membership units. Class A and Class B membership units each have an identical economic interest in the operating company. Class B-1 membership units, first issued on December 31, 2019, are entitled to receive distributions and will participate in additional value only to the extent there has been appreciation subsequent to the issuance of the Class B-1 membership unit. As a holding company, we hold all of 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. The Class B-1 membership units of the operating company are held by employees. 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. Class B-1 membership units have not been issued corresponding shares and do not have voting rights. As of December 31, 2020, we owned approximately 24.2% of the economic interest in the December 31, 2020 value of our operating company and our Class A shareholders held approximately 6.0% of our outstanding voting interests. As of December 31, 2020, we owned 22.4% of the right to the future income and distributions of the operating company. The percentages presented above are subject to continued changes including, but not limited to, issuances of awards, exercise of options and exchanges of Class B-1 membership units for Class A common stock.

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. Certain of the owners of shares of Class B common stock, Class B membership units, and Class B-1 membership units have contributed such interests to Pzena Investment Management, LP in exchange for membership interests therein. Pzena Investment Management, LP may only vote such shares of Class B common stock and Class B membership units in accordance with its operating agreement, which provides for a preliminary vote of the limited partners thereof to direct such voting. Class B-1 membership units of Pzena Investment Management, LP do not have voting rights.

The graphic below illustrates our holding company structure and ownership as of December 31, 2020.



- (1) As of December 31, 2020, the Class B and Class B-1 members of Pzena Investment Management, LLC, (collectively, the “Principals”) consisted of:
- Richard S. Pzena, John P. Goetz, and William L. Lipsey, our founders, and their estate planning vehicles, who collectively held, through direct and indirect interests, approximately 50.1% of the economic interests in the December 31, 2020 value of Pzena Investment Management, LLC and 46.3% of the future income and distributions.
 - 48 of our other employee members and their estate planning vehicles, who collectively held, through direct and indirect interests, approximately 6.1% of the economic interests in the December 31, 2020 value of Pzena Investment Management, LLC and 13.1% of the future income and distributions.
 - 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 the value of Pzena Investment Management, LLC and 18.2% of the future income and distributions.
- (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, 2020, we held 17,345,705 Class A units of Pzena Investment Management, LLC, which represented approximately 24.2% of the economic interest in the December 31, 2020 value of Pzena Investment Management, LLC and the right to receive 22.4% of the future income and distributions.
- (5) As of December 31, 2020, the principals collectively held 54,361,780 Class B units of Pzena Investment Management, LLC, which represented 75.8% of the economic interest in the December 31, 2020 value of the Pzena Investment Management, LLC and the right to receive 70.1% of the future income and distributions.

- (6) As of December 31, 2020, the principals collectively held 5,775,952 Class B-1 units of Pzena Investment Management, LLC, which represented the right to receive 7.5% of the future income and distributions. Based on the closing market price of the Company's Class A common stock at December 31, 2020, the aggregate intrinsic value of these units represented 0.0% of the economic interest in the December 31, 2020 value of the Pzena Investment Management, LLC.
- (7) 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. Class B-1 units, upon the end of the holder's employment, are exchanged for shares of Class A common stock in an amount based upon the appreciation in price of the Class A common stock from the date of grant to the date of exchange.

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, ("AUM"), was \$43.3 billion at December 31, 2020, 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 Pzena SEC-registered mutual funds, certain private placement funds, and non-U.S. funds.

Our operating company is led by a committee, consisting, as of December 31, 2020, of our Chief Executive Officer (CEO), Mr. Richard S. Pzena; each of our Presidents, Messrs. John P. Goetz and William L. Lipsey; our Executive Vice President, Ms. Caroline Cai; and our Chief Operating Officer (COO), Mr. Evan Fire (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, 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, 2020, we had 52 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, 2020, the total AUM in our Global Value strategies, International Value strategies, Emerging Markets Value strategies, European Value strategies, and other Global & non-U.S. strategies was \$28.5 billion, or 65.8% 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, 2020, our largest consultant relationship represented approximately 8.6% 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. 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 fifteen non-U.S. countries, including Australia, the United Kingdom, Luxembourg, Canada, Ireland, Japan, and South Africa. As of December 31, 2020, we managed \$16.8 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. We also offer four SEC-registered Pzena mutual funds for which we act as 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 covering both our institutional and intermediary distribution efforts. In addition to our headquarters in the United States and representative office in Melbourne, we have four dedicated professionals located in our London office.
- ***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. Throughout the firm's history, we have recognized the importance of considering environmental, social and governance (ESG) issues as part of a robust investment process. Assessing the potential impact of ESG issues on a company is therefore critical to our investment process. In addition, we believe our communication with the management of companies we invest in and the voting of proxies for those companies should be managed with the same care as all other elements of the investment process. Through our engagement with management, and our proxy voting, we seek to exert a constructive, long-term oriented influence on the trajectory of the company.

Our commitment to incorporating ESG into our investment approach drives us to enhance the way we look at ESG factors. For example, 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, 2020, we had a 25-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 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, 2020, our approximately \$43.3 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, 2020 and 2019:

Strategy	As of December 31,	
	2020	2019
(in billions)		
<i>U.S. Value Strategies</i>		
Large Cap Value	\$ 9.2	\$ 10.1
Mid Cap Value	2.6	3.7
Small Cap Value	2.2	1.8
Value	0.6	0.9
Other U.S. Strategies	0.2	0.2
<i>Global and Non-U.S. Strategies</i>		
Global Value	11.8	8.9
International Value	6.9	6.9
Emerging Markets Value	6.5	5.3
European Value	2.9	3.0
Other Global and Non-U.S. Strategies	0.4	0.4
Total	\$ 43.3	\$ 41.2

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, 2020 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. These strategies reflect 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. These strategies reflect a portfolio composed of approximately 30 to 80 stocks drawn generally from a universe of U.S. listed companies ranked from the 201st to 1,200th largest, based on market capitalization.

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

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.

Global and Non-U.S. Strategies

Global Value. These strategies reflect 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. These strategies reflect 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. These strategies reflect 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. These strategies reflect 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,	
	2020	2019
	(in billions)	
Separately Managed Accounts	\$ 17.3	\$ 16.4
Sub-Advised Accounts	23.3	22.4
Pzena Funds	2.7	2.4
Total	<u>\$ 43.3</u>	<u>\$ 41.2</u>

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. 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 undertakings for collective investment in transferable securities (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 many of our U.S., global and non-U.S. 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 our Pzena funds.

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, 2020, 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"). Fifteen of these seventeen sub-investment advisory agreements are beyond their initial two-year terms as of December 31, 2020. In addition, we sub-advise twenty-four 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 an increase in the base 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.

Human Capital

At Pzena, we believe that one of our greatest assets is the experience of the individuals on our team. We have focused on building an environment that we believe is attractive to talented investment professionals. We build strong teams with diverse cultural, professional, and academic backgrounds. Important among our practices are our team-oriented approach to investment decisions, opportunities for mentorship, and other programs to help employees grow. Furthermore, every employee at Pzena is eligible for ownership. 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.

At December 31, 2020, we had 121 full-time employees, up from 115 at the end of 2019. This includes 25 investment professionals, compared to 27 in 2019 and 17 business development and client service professionals, compared to 14 in 2019.

As of December 31, 2020, we had 52 employees who we recognize as partner members of our operating company and who are financially exposed to the performance of our operating company. Through their ownership interests in our operating company, our employees directly and indirectly owned approximately 56.2% of the economic interests in the December 31, 2020 value of Pzena Investment Management, LLC and 59.4% of the future income and distributions of Pzena Investment Management, LLC. Of this amount, our founders, Messrs. Pzena, Goetz and Lipsey owned approximately 50.1% and 46.3% of the economic interests and the future income and distributions respectively, of our operating company.

Cybersecurity

We maintain our information technology infrastructure with a focus on business efficiency, continuity, security and controls. The information technology environment is designed to oversee and maintain all aspects of information security risk to ensure the confidentiality and integrity of information assets. We regularly perform evaluations of our security program and continue to invest in our capabilities to keep clients, employees, and critical assets safe. The Chief Information Officer is ultimately responsible for our cybersecurity program which includes the implementation of controls aligned with industry guidelines and applicable statutes and regulations to identify threats, detect attacks and protect these information assets. We have implemented security monitoring capabilities designed to alert us to suspicious activity and developed an incident response program that includes periodic testing and is designed to restore business operations as quickly and as orderly as possible in the event of a breach. In addition, employees participate in ongoing mandatory trainings and receive communications regarding the cybersecurity environment to increase awareness throughout the firm.

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, (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.

Certain 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, 2020, Pzena Financial Services, LLC had net capital of \$419,230, which was \$409,502 in excess of its net capital requirement of \$9,728.

ERISA-Related Regulation

With respect to our benefit plan clients, Pzena Investment Management, LLC is a "fiduciary" under the Employment Retirement Act of 1974, ("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 DMS Capital Solutions (UK) Limited which is authorized and regulated by the FCA. Pzena Investment Management, LLC has a Category I Financial Service Provider License and is regulated in South Africa by the Financial Sector Conduct Authority.

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, ("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. In the Netherlands, Pzena Investment Management, LLC avails itself of the Section 10 Exemption, which allows U.S. investment managers to provide investment services to certain eligible Dutch clients. This exemption subjects Pzena Investment Management, LLC to certain conduct of business requirements under the Dutch regulations.

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

Available Information

We make available free of charge through our website, *www.pzena.com*, our annual reports on Form 10-K, our quarterly reports on Form 10-Q and our current reports on Form 8-K, as well as amendments to those reports, and other filings required under the Securities Act or the Exchange Act as soon as reasonably practicable after they are electronically filed with the SEC. To retrieve these reports, and any amendments thereto, visit the Investor Relations section of our website. The SEC maintains a website at *www.sec.gov*. All of the materials we filed with the SEC may be accessed free of charge on the SEC's website through its EDGAR page.

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 and revenue.
- **Poor market environment:** We expect our business may generate lower revenue in a depressed equities market or general economic downturn, including the global decline in the markets during the second quarter of 2020 resulting from the COVID-19 pandemic and governmental measures taken in response thereto, 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, 2020, five client relationships represented 41% and 21% of our AUM and revenue, respectively, including one client relationship which represents approximately 20% and 7% 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.

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.

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 an important factor in our business strategy and attracting and retaining clients. 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 or Class B-1 units held by the individual, and his or her permitted transferees, as of the earlier of the date of his breach or the termination of his or her 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, however there is no guarantee that our expansions will be sufficient to accommodate our needs nor that we can continue to upgrade and expand these capabilities successfully. Additionally, there may be additional costs and/or cybersecurity risk associated with remote working in response to the COVID pandemic. To the extent remote working continues after the pandemic, our systems may require additional expansions to accommodate a flexible work environment.

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. Such assignment, actual or constructive, 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. As a Category I License holder in South Africa, the Financial Sector Conduct Authority has regulatory oversight over our practices and activities in South Africa. 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. 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 manage 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 took effect 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 has been implemented through a number of more detailed directives, regulations and standards made by the European Commission and by the European Securities Markets Authority and, compliance with MiFID II may increase costs and affect the manner in which our businesses obtain investment research services.

The U.K. exited the E.U. effective January 31, 2020, subject to a transition period which ended December 31, 2020, (referred to as Brexit) and while we are enacting contingency plans to continue our business post-Brexit, we cannot guarantee that any of our Brexit contingency plans will succeed, in whole or in part. Additionally, our operating expenses may increase as we implement our Brexit contingency plans to continue our business in the U.K. and E.U. in the short and/or long term.

A growing focus on privacy regulations across jurisdictions, including, the European Union's General Data Protection Regulation ("GDPR"), South Africa's Protection of Personal Information Act ("POPIA") and in the U.S., federal and state laws, regulations, and guidance impacting consumer privacy, such as the California Consumer Privacy Act ("CCPA"), are increasing costs of operations and regulatory risks. The obligations and costs of complying with privacy laws and regulations including GDPR, POPIA and CCPA may impact our financial results. Noncompliance with our legal obligations relating to privacy and data protection across various jurisdictions could result in penalties, legal proceedings by governmental entities or affected individuals, and significant legal, reputational and financial exposure

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.

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.

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.

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. Additional guidance or changes to tax law 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.

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.

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. This may be especially true to the extent remote work continues after the pandemic and our employees, as well as those of our third-party vendors', may begin or continue to work remotely. 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.

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.

Risks Related to Our Investment Strategy Process and Performance Risk

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 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 \$28.5 billion and \$24.5 billion of our AUM as of December 31, 2020 and 2019, respectively, are primarily invested in securities of companies located outside the United States. As of December 31, 2020, approximately 49% 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.

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.

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 year 2020, we earned \$1.1 million in performance fees. During fiscal year 2019, we earned no performance fees. 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 an increase in the base 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. During the fiscal years 2020 and 2019, we recognized a net reduction in base fees in the amounts of \$4.0 million and \$0.8 million, respectively, 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.

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.

Our investment strategies subject us to the risks that the companies in which we invest may be exposed to catastrophic events, including natural disasters, pandemics (e.g., COVID) and other international health emergencies, weather-related events, terrorist attacks and other disruptions.

We invest in companies globally that may encounter disruptions involving power, communications, transportation, travel or other utilities or essential services on which they depend to conduct business. This could include disruptions as the result of natural disasters, pandemics, other international health emergencies, or weather-related or similar events (such as fires, hurricanes, earthquakes, floods, landslides and other natural conditions including the effects of climate change), political instability, labor strikes or turmoil, or terrorist attacks. In particular, the COVID-19 pandemic has caused disruption in financial markets across the world with governments enacting quarantines, restrictions on travel and other measures affecting supply chains and general economic activity. This disruption led to a decline in our assets under management in the middle of 2020 as a result of a decline in the performance of many of the companies in which we invest and weak market conditions. While the financial markets and our assets under management have generally recovered, the effects of the COVID pandemic on the companies in which we invest continues to be uncertain and depend on future developments that remain unpredictable. Successive waves or mutations or variants of the virus may lead to an acceleration of the spread or

worsening of the severity of thereof. The effectiveness of measures to combat the virus, including the development, production and distribution of vaccines and the public acceptance thereof remains uncertain. In recent years, several parts of the U.S. have sustained significant damage from natural disasters such as hurricanes, wildfires and/or landslides. Additionally, Australia sustained significant damage from wildfires in recent years. Although we continue to assess the potential impact of such events on the companies in which we invest, there can be no assurance that these events may not adversely affect our investment and may lead one or more of our investment strategies to underperform. Such disruptions may affect our investment process by limiting our ability to complete our fundamental research in a timely manner.

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 bases, 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 bases 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. Such variations may occur for a variety of reasons, which may be unrelated to the value of our business, including volatility resulting from broader macroeconomic and geopolitical conditions, as well as the impacts of market manipulation or irrational price activity resulting from a high volume of short-term trading. 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 generally 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. Pursuant to the operating agreement of our operating company, no later than the second exchange date after holders of our Class B-1 units cease to be employed by us, such Class B-1 holders are required to exchange all of their Class B-1 units for a number of shares of our Class A common stock that will be determined based on the market value of our Class A common stock at the time of the grant of the Class B-1 units and at the time of the exchange. 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 2020, we established December 22, 2020 as an exchange date. Certain employee members, non-employee members and permitted transferees, elected to exchange an aggregate of 494,316 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, 2020, there remained 54,361,780 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 6,748,521 shares of Class A common stock are registered relating to Class B units that have not been issued. There are also shares of our Class A common stock registered in various registration statements filed with the SEC, which may be issued upon the exchange of 5,775,952 currently outstanding Class B-1 units as discussed above. The number of such shares of our Class A common stock issuable upon exchange of currently outstanding Class B-1 units will depend on the market value of our Class A common stock at issuance of the relevant Class B-1 units and at the time of any such future exchange.

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.

As of December 31, 2020, our Class B stockholders collectively hold approximately 94% of the combined voting power of our common stock. These stockholders consist of our founders, 48 of our other employees (directly or through their interests in Pzena Investment Management, LP), the estate planning vehicles of our founders 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 as adjusted earnings per share, subject to growth initiatives and other funding needs. However, our Board of Directors may, in its discretion, modify 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.”

The dual class structure of our common stock may adversely affect the trading market for our Class A common stock.

S&P Dow Jones and FTSE Russell have announced changes to their eligibility criteria for inclusion of shares of public companies on certain indices, namely, to exclude companies with multiple classes of shares of common stock from being added to such indices. In addition, several shareholder advisory firms have announced their opposition to the use of multiple class structures. As a result, the dual class structure of our common stock may prevent the inclusion of our Class A common stock in such indices and may cause shareholder advisory firms to publish negative commentary about our corporate governance practices. Any such exclusion from indices could result in a less active trading market for our Class A common stock. Any actions or publications by shareholder advisory firms critical of our corporate governance practices or capital structure could also adversely affect the value of our Class A common stock.

General Risks

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 ability to conduct our business may be materially adversely impacted by catastrophic events, including natural disasters, pandemics (including COVID) and other international health emergencies, weather-related events, terrorist attacks, and other disruptions.

We may encounter disruptions involving power, communications, transportation, travel or other utilities or essential services depended on by us or by third parties with whom we conduct business. This could include disruptions as the result of natural disasters, pandemics, other international health emergencies, or weather-related or similar events (such as fires, hurricanes, earthquakes, floods, landslides and other natural conditions including the effects of climate change), political instability, labor strikes or turmoil, or terrorist attacks. In 2020, we, along with the rest of the world had to adapt our business in response to the COVID pandemic. In recent years, several parts of the U.S. also sustained significant damage from natural disasters such as hurricanes, wildfires and/or landslides. Additionally, Australia sustained significant damage from wildfires in recent years. Similar potential disruptions may occur in any of the locations in which we or our clients do business. We continue to assess the potential impact on our investments and clients of such events, and what impact, if any, these events could have on our businesses, financial condition, results of operations and prospects. While we have in place business continuity plans that address potential impacts of the COVID pandemic to our personnel and our facilities, and technologies that enable our personnel to work remotely, there is no guarantee that our plans will continue to be effective or appropriate. While our employees have to date been able to work remotely, operational challenges may arise in the future, which may reduce our organizational efficiency or effectiveness, and increase operational, compliance and cybersecurity risks. In addition, because most of our employees have not previously worked remotely for an extended period of time, we are unsure of the impact that the remote work environment and lack of in-person meetings with colleagues, clients and the companies we invest in will have on the growth of our business and the results of our operations.

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.

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.

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.

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. We occupy approximately 45,050 square feet of space under a non-cancellable operating lease, the term of which expires on December 31, 2025.

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 9, 2021, there were approximately 33 record holders of our Class A common stock and 34 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.

Our Dividend Policy

Our Board of Directors has targeted a cash dividend payout ratio of approximately 60% to 70% of our as adjusted diluted net income, subject to growth initiatives and other funding needs. However, our Board of Directors may, in its discretion, modify the level of dividends, or discontinue the payment of dividends entirely.

We use annual non-GAAP as adjusted 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 as adjusted 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 as adjusted measures in addition to, and not as a substitute for, financial measures prepared in accordance with GAAP. The adjusted measures that we present are not determined in accordance with GAAP. We have made adjustments that we have determined are appropriate, but such adjustments may differ from the adjustments made by other companies using similarly titled measures. Accordingly, such measures may not be comparable to the similarly titled measures presented by other companies.

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."

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. On April 19, 2018, the Company announced that its Board of Directors approved an additional increase of \$30.0 million in the aggregate amount authorized under the program. 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 2020 are as follows:

Period	(a) Total Number of Shares of Class A Common Stock Purchased	(b) Average Price Paid per Share of Class A Common Stock	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs ⁽¹⁾ (in millions)
October 1, 2020 through October 31, 2020	15,127	\$ 5.21	15,127	\$ 10.6
November 1, 2020 through November 30, 2020	4,401	5.39	4,401	10.6
December 1, 2020 through December 31, 2020	—	—	—	10.5
Total	19,528	\$ 5.25	19,528	\$ 10.5

- (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 12,374 of the operating company's Class B units during December 2020 for an average price of \$6.05 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 and adjusted for the impact of award terms on the value of the award.

Securities Authorized for Issuance under Equity Compensation Plans

See Part III, Item 12 – *Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters* in this annual report for disclosure relating to our equity compensation plans. The information required to be reported in such item will be included in the Company's 2021 Proxy Statement and is incorporated by reference herein.

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, 2020 and 2019 and the selected consolidated statements of financial condition data as of December 31, 2020 and 2019, 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, 2018, 2017 and 2016, and the selected consolidated statements of financial condition as of December 31, 2018, 2017 and 2016, 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,				
	2020	2019	2018	2017	2016
(in thousands, except share and per share amounts)					
Statements of Operations Data:					
REVENUE					
Management Fees	\$ 137,541	\$ 149,691	\$ 150,700	\$ 138,136	\$ 108,129
Performance Fees	1,078	1,055	2,879	3,159	207
Total Revenue	138,619	150,746	153,579	141,295	108,336
EXPENSES					
Cash Compensation and Benefits	55,288	58,016	51,600	48,722	41,397
Other Non-Cash Compensation	13,199	30,093	9,819	10,182	6,933
Total Compensation and Benefits Expense	68,487	88,109	61,419	58,904	48,330
General and Administrative Expenses	14,859	16,973	13,405	13,337	12,788
TOTAL OPERATING EXPENSES	83,346	105,082	74,824	72,241	61,118
Operating Income	55,273	45,664	78,755	69,054	47,218
Other Income/ (Expense)	552	5,607	(2,658)	25,608	(48,042)
INCOME BEFORE INCOME TAXES	55,825	51,271	76,097	94,662	(824)
Income Tax Provision	4,287	5,795	7,778	34,512	(54,475)
Consolidated Net Income	51,538	45,476	68,319	60,150	53,651
Less: Net Income Attributable to Non-Controlling Interests	42,664	37,014	54,525	53,242	37,472
NET INCOME Attributable to Pzena Investment Management, Inc.	<u>\$ 8,874</u>	<u>\$ 8,462</u>	<u>\$ 13,794</u>	<u>\$ 6,908</u>	<u>\$ 16,179</u>
Per Share Data ¹ :					
Net Income for Basic Earnings per Share	\$ 8,874	\$ 8,462	\$ 13,794	\$ 6,908	\$ 16,179
Basic Earnings per Share	\$ 0.52	\$ 0.47	\$ 0.78	\$ 0.40	\$ 1.01
Basic Weighted Average Shares Outstanding	17,208,174	17,945,686	17,678,874	17,338,348	15,962,902
Net Income for Diluted Earnings per Share	\$ 40,766	\$ 34,046	\$ 55,347	\$ 40,064	\$ 39,600
Diluted Earnings per Share ²	\$ 0.52	\$ 0.46	\$ 0.77	\$ 0.40	\$ 0.58
Diluted Weighted Average Shares Outstanding	79,143,710	74,199,308	71,934,144	70,934,362	68,849,172
Cash Dividends Declared Per Share	\$ 0.55	\$ 0.58	\$ 0.51	\$ 0.37	\$ 0.41

- (1) Pursuant to our equity incentive plans, the Company issues shares of Class A common stock, the operating company issues Class B units that have non-forfeitable dividend rights, and the operating company issues Class B-1 units that are entitled to receive distributions during the holders’ employment. 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.

	As of December 31,				
	2020	2019	2018	2017	2016
	(in thousands)				
Statements of Financial Condition Data:					
Cash and Cash Equivalents	\$ 65,534	\$ 52,480	\$ 38,099	\$ 63,414	\$ 43,522
TOTAL ASSETS	188,687	199,452	170,976	169,047	179,121
TOTAL LIABILITIES	79,732	91,242	71,968	69,758	97,787
Non-Controlling Interests	77,849	76,766	66,006	66,985	52,841
EQUITY	31,106	31,444	33,002	32,304	28,493

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, 2020, our AUM was approximately \$43.3 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 interest in our operating company’s net income. As of December 31, 2020, the holders of our Class A common stock and the holders of Class B units of our operating company held approximately 24.2% and 75.8%, respectively, of the economic interests in the December 31, 2020 value of our operating company. As of December 31, 2020, the holders of our Class A common stock and the holders of Class B and Class B-1 units of our operating company held approximately 22.4%, 70.1%, and 7.5%, respectively, of the future income and distributions. For the year ended December 31, 2020, the weighted-average non-controlling interest of our operating company was 77.7%.

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.

Our founders and certain of our employees have interests in Pzena Investment Management, LP and certain estate planning vehicles through which they indirectly own Class B and B-1 units of our operating company. As of December 31, 2020, through direct and indirect interests, our three founders; 48 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 50.1%, 6.1%, and 19.6% of the economic interests in the December 31, 2020 value of our operating company, respectively. As of December 31, 2020, through direct and indirect interests, our three founders; 48 other employee members; and certain former employees, collectively held 46.3%, 13.1%, and 18.2% of the future income and distributions of our operating company.

Net Income

GAAP diluted net income and GAAP diluted earnings per share were \$40.8 million and \$0.52, respectively, for the year ended December 31, 2020, and \$34.0 million and \$0.46, respectively, for the year ended December 31, 2019.

In evaluating the results of operations, management also reviews non-GAAP as adjusted measures of earnings, which are adjusted to exclude accounting items that add a measure of non-operational complexity which obscures the underlying performance of the business. For the twelve months ended December 31, 2020, no adjustments were made to GAAP earnings. For the twelve months ended December 31, 2019, earnings were adjusted to exclude non-recurring Compensation and Benefits expenses, the vast majority of which were related to the issuance of certain unit-based and other awards to a number of the firm’s key contributors pursuant to the terms of our equity incentive plans, in addition to costs related to certain employee departures. We believe that these adjustments, and the as adjusted measures derived from them, provide information to better analyze our operations between periods, and over time. Investors should consider these as adjusted measures in addition to, and not as a substitute for, financial measures prepared in accordance with GAAP.

As adjusted diluted net income and as adjusted diluted earnings per share were \$40.8 million and \$0.52, respectively, for the year ended December 31, 2020, and \$54.1 million and \$0.73, respectively, for the year ended December 31, 2019. GAAP and as adjusted 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 as adjusted 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 and other adjustments. The as adjusted historical tax rate used to calculate the as adjusted diluted net income for the year ended December 31, 2019 also excludes the impact of the non-recurring charges recognized in operating expenses. Our GAAP effective tax rate, exclusive of these adjustments, was 24.8% for the year ended December 31, 2020 and 30.0% for the year ended December 31, 2019. Our as adjusted effective tax rate, exclusive of these adjustments, was 24.8% for the year ended December 31, 2020 and 24.4% for the year ended December 31, 2019. See “Operating Results — Income Tax Expense” below.

A reconciliation of the as adjusted measures to the most comparable GAAP measures is included below:

	For the Years Ended	
	December 31,	
	2020	2019
	(in thousands, except share and per share amounts)	
GAAP Net Income Attributable to Pzena Investment Management, Inc.	\$ 8,874	\$ 8,462
Change due to Non-Recurring Compensation and Benefits Expense ¹	—	5,764
Tax Impact due to Non-Recurring Compensation and Benefits Expense ¹	—	(481)
As Adjusted Net Income Attributable to Pzena Investment Management, Inc.	<u>\$ 8,874</u>	<u>\$ 13,745</u>
Basic Weighted Average Shares Outstanding	17,208,174	17,945,686
GAAP Basic Earnings per Share	\$ 0.52	\$ 0.47
Change due to Non-Recurring Compensation and Benefits Expense ¹	—	0.32
Tax Impact due to Non-Recurring Compensation and Benefits Expense ¹	—	(0.02)
As Adjusted Basic Earnings per Share	<u>\$ 0.52</u>	<u>\$ 0.77</u>
GAAP Net Income for Diluted Earnings per Share	\$ 40,766	\$ 34,046
Change due to Non-Recurring Compensation and Benefits Expense ¹	—	22,719
Tax Impact due to Non-Recurring Compensation and Benefits Expense ¹	—	(2,662)
As Adjusted Net Income for Diluted Earnings per Share	<u>\$ 40,766</u>	<u>\$ 54,103</u>
Diluted Weighted Average Shares Outstanding	79,143,710	74,199,308
GAAP Diluted Earnings per Share	\$ 0.52	\$ 0.46
Change due to Non-Recurring Compensation and Benefits Expense ¹	—	0.31
Tax Impact due to Non-Recurring Compensation and Benefits Expense ¹	—	(0.04)
As Adjusted Diluted Earnings per Share	<u>\$ 0.52</u>	<u>\$ 0.73</u>

¹ Reflects the impact of non-recurring compensation and benefits expenses incurred in the fourth quarter of 2019, primarily driven by the one-time issuance of certain unit-based and other awards to a number of the firm’s key contributors pursuant to the terms of our equity incentive plans in addition to costs related to certain employee departures.

2 Certain prior year amounts have been reclassified to conform to the current year presentation.

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. In accordance with *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 it is probable that significant reversal of the performance fee will not occur. Advisory fee income is presented net of fund expense cap reimbursements.

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, 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 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. 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 an increase in the base 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;

- the level of our performance with respect to accounts on which we are paid performance fees or have fulcrum fee arrangements; and
- changes in the amount of expense cap reimbursements paid.

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 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 professional service fees, rent, 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 IPO 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, 2020, the holders of our Class A common stock and the holders of Class B units of our operating company held approximately 24.2% and 75.8%, respectively, of the economic interests in the December 31, 2020 value of the operating company. As of December 31, 2020, the holders of our Class A common stock and the holders of Class B and B-1 units of our operating company held approximately 22.4% and 77.6%, respectively, of the future income and distributions of our operating company. 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, 2020, our approximately \$43.3 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, 2020 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, 2020 and 2019:

Strategy	AUM at December 31,	
	2020	2019
	(in billions)	
<i>U.S. Value Strategies</i>		
Large Cap Value	\$ 9.2	\$ 10.1
Mid Cap Value	2.6	3.7
Small Cap Value	2.2	1.8
Value	0.6	0.9
Other U.S. Strategies	0.2	0.2
Total U.S. Value Strategies	14.8	16.7
<i>Global and Non-U.S. Value Strategies</i>		
Global Value	11.8	8.9
International Value	6.9	6.9
Emerging Markets Value	6.5	5.3
European Value	2.9	3.0
Other Global and Non-U.S. Strategies	0.4	0.4
Total Global and Non-U.S. Value Strategies	28.5	24.5
Total	<u>\$ 43.3</u>	<u>\$ 41.2</u>
	AUM at December 31,	
Account Domicile	2020	2019
	(in billions)	
U.S.	\$ 26.5	\$ 27.0
Non-U.S.	16.8	14.2
Total	<u>\$ 43.3</u>	<u>\$ 41.2</u>

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, 2020, and in the five-year, three-year, and one-year periods ended December 31, 2020, 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, 2020 ¹			
	Since Inception	5 Years	3 Years	1 Year
Large Cap Value (July 2012)				
Annualized Gross Returns	11.4%	8.9%	2.5%	-1.4%
Annualized Net Returns	11.3%	8.8%	2.3%	-1.5%
Russell 1000 [®] Value Index	11.3%	9.7%	6.1%	2.8%
International Value (November 2008)				
Annualized Gross Returns	9.5%	7.1%	1.9%	5.8%
Annualized Net Returns	9.1%	6.7%	1.5%	5.4%
MSCI EAFE [®] Index – Net/U.S.\$ ²	7.6%	7.4%	4.3%	7.8%
Emerging Markets Focused Value (January 2008)				
Annualized Gross Returns	4.1%	12.9%	4.2%	10.0%
Annualized Net Returns	3.2%	12.1%	3.5%	9.2%
MSCI [®] Emerging Markets Index – Net/U.S.\$ ²	2.7%	12.8%	6.2%	18.3%
Large Cap Focused Value (October 2000)				
Annualized Gross Returns	7.0%	8.8%	1.5%	-1.5%
Annualized Net Returns	6.6%	8.4%	1.1%	-1.8%
Russell 1000 [®] Value Index	6.9%	9.7%	6.1%	2.8%
Global Value (January 2010)				
Annualized Gross Returns	8.3%	8.7%	3.1%	4.4%
Annualized Net Returns	7.9%	8.3%	2.7%	4.1%
MSCI [®] World Index – Net/U.S.\$ ²	10.0%	12.2%	10.5%	15.9%
European Focused Value (August 2008)				
Annualized Gross Returns	4.7%	5.5%	-2.1%	0.3%
Annualized Net Returns	4.4%	5.1%	-2.5%	-0.2%
MSCI [®] Europe Index – Net/U.S.\$ ²	3.3%	6.8%	3.6%	5.4%
Global Focused Value (January 2004)				
Annualized Gross Returns	5.8%	8.5%	2.2%	3.7%
Annualized Net Returns	5.1%	7.9%	1.7%	3.2%
MSCI [®] All Country World Index – Net/U.S.\$ ²	7.9%	12.3%	10.1%	16.3%
Mid Cap Value (April 2014)				
Annualized Gross Returns	7.0%	8.9%	1.9%	4.6%
Annualized Net Returns	6.8%	8.7%	1.7%	4.5%
Russell Mid Cap [®] Value Index	7.7%	9.7%	5.4%	5.0%
Focused Value (January 1996)				
Annualized Gross Returns	10.0%	8.1%	0.4%	-0.1%
Annualized Net Returns	9.3%	7.6%	-0.1%	-0.8%
Russell 1000 [®] Value Index	8.8%	9.7%	6.1%	2.8%
Small Cap Focused Value (January 1996)				
Annualized Gross Returns	12.8%	9.0%	3.7%	1.4%
Annualized Net Returns	11.6%	8.0%	2.7%	0.5%
Russell 2000 [®] Value Index	9.3%	9.7%	3.7%	4.6%
International Focused Value (January 2004)				
Annualized Gross Returns	6.4%	8.0%	1.9%	5.7%
Annualized Net Returns	5.7%	7.4%	1.4%	5.1%
MSCI [®] All Country World ex-U.S. Index – Net/U.S.\$ ²	6.4%	8.9%	4.9%	10.7%
Mid Cap Focused Value (September 1998)				
Annualized Gross Returns	12.1%	10.3%	3.4%	7.8%
Annualized Net Returns	11.3%	9.6%	2.7%	7.1%
Russell Mid Cap [®] Value Index	10.0%	9.7%	5.4%	5.0%

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, 2020, the Large Cap Value strategy generated a one-year annualized gross return of (1.4)%, underperforming its benchmark. The top detracting sectors were the energy and health 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, 2020, the International Value strategy generated a one-year annualized gross return of 5.8%, underperforming its benchmark. The top detracting sectors were the energy, financial services, and consumer discretionary sectors, partially offset by the performance of the industrials and materials 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, 2020, the Emerging Markets Focused Value strategy generated a one-year annualized gross return of 10.0%, underperforming its benchmark. The top detracting sectors included the utilities, financial services, and industrials sectors, partially offset by the performance of the consumer staples 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, 2020, the Large Cap Focused Value strategy generated a one-year annualized gross return of (1.5)%, underperforming its benchmark. The top detracting sectors included the technology, energy, and industrials sectors.

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, 2020, the Global Value strategy generated a one-year annualized gross return of 4.4%, underperforming its benchmark. The top detracting sectors included the information technology, financial services, and consumer discretionary sectors, partially offset by the performance of the industrials and materials sectors.

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, 2020, the European Focused Value strategy generated a one-year annualized gross return of 0.3%, underperforming its benchmark. The top detracting sectors included the financial services, consumer staples, and energy sectors, partially offset by the performance of the materials 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, 2020, the Global Focused Value strategy generated a one-year annualized gross return of 3.7%, underperforming its benchmark. The top detracting sectors included the information technology, financial services, and consumer discretionary sectors, partially offset by the performance of the industrials 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 201st to 1,200th largest, based on market capitalization. This strategy was launched in April 2014. At December 31, 2020, the Mid Cap Value strategy generated a one-year annualized gross return of 4.6%, underperforming its benchmark. The top detracting sectors included the energy, technology, and health care sectors, partially offset by the performance of the financial services, real estate, and consumer discretionary 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, 2020, the Focused Value strategy generated a one-year

annualized gross return of (0.1)%, underperforming its benchmark. The top detracting sectors included the health care and technology sectors, partially offset by the performance of the financial services sector.

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 1,001st to 3,000th largest, based on market capitalization. This strategy was launched in January 1996. At December 31, 2020, the Small Cap Focused Value strategy generated a one-year annualized gross return of 1.4%, underperforming its benchmark. The top detracting sectors included the health care, energy, and technology sectors, partially offset by the performance of the real estate 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, 2020, the International Focused Value strategy generated a one-year annualized gross return of 5.7%, underperforming its benchmark. The top detracting sectors were the financial services, information technology, and consumer discretionary sectors, partially offset by the performance of the industrials 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 201st to 1,200th largest, based on market capitalization. This strategy was launched in September 1998. At December 31, 2020, the Mid Cap Focused Value strategy generated a one-year annualized gross return of 7.8%, outperforming its benchmark. The top contributing sectors included the financial services, real estate, and consumer discretionary sectors, partially offset by the underperformance of the technology, energy, and health care sectors.

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.

The change in AUM in our separately managed accounts, sub-advised accounts and Pzena funds for the years ended December 31, 2020 and 2019 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.

<u>Assets Under Management</u>	<u>For the Years Ended</u>	
	<u>December 31,</u>	
	<u>2020</u>	<u>2019</u>
	<u>(in billions)</u>	
Separately Managed Accounts		
Assets		
Beginning of Period	\$ 16.4	\$ 12.6
<i>Inflows</i>	1.8	3.2
<i>Outflows</i>	(1.7)	(2.0)
Net Flows	0.1	1.2
Market Appreciation/(Depreciation)	0.3	2.5
Foreign Exchange ¹	0.5	0.1
End of Period	<u>\$ 17.3</u>	<u>\$ 16.4</u>
Sub-Advised Accounts		
Assets		
Beginning of Period	\$ 22.4	\$ 18.8
<i>Inflows</i>	5.0	3.0
<i>Outflows</i>	(4.6)	(3.4)
Net Flows	0.4	(0.4)
Market Appreciation/(Depreciation)	0.2	4.0
Foreign Exchange ¹	0.3	—
End of Period	<u>\$ 23.3</u>	<u>\$ 22.4</u>
Pzena Funds		
Assets		
Beginning of Period Assets	\$ 2.4	\$ 2.0
<i>Inflows</i>	0.5	0.4
<i>Outflows</i>	(0.5)	(0.4)
Net Flows	-	-
Market Appreciation/(Depreciation)	0.2	0.4
Foreign Exchange ¹	0.1	—
End of Period	<u>\$ 2.7</u>	<u>\$ 2.4</u>
Total		
Assets		
Beginning of Period	\$ 41.2	\$ 33.4
<i>Inflows</i>	7.3	6.6
<i>Outflows</i>	(6.8)	(5.8)
Net Flows	0.5	0.8
Market Appreciation/(Depreciation)	0.7	6.9
Foreign Exchange ¹	0.9	0.1
End of Period	<u>\$ 43.3</u>	<u>\$ 41.2</u>

1 Foreign exchange reflects the impact of translating non-U.S. dollar denominated AUM into U.S. dollars for reporting purposes.

During the year ended December 31, 2020, our AUM increased \$2.1 billion, or 5.1%, from \$41.2 billion at December 31, 2019. This increase is due to foreign exchange movements, market appreciation and net inflows during the year ended December 31, 2020.

At December 31, 2020, we managed \$17.3 billion in separately managed accounts, \$23.3 billion in sub-advised accounts, and \$2.7 billion in Pzena funds, for a total of \$43.3 billion in assets. For the year ended December 31, 2020, we experienced \$0.7 billion in market appreciation and total gross inflows of \$7.3 billion, which were

partially offset by total gross outflows of \$6.8 billion. Assets in separately managed accounts increased by \$0.9 billion, or 5.5%, from \$16.4 billion at December 31, 2019, due to an increase associated with foreign exchange movements of \$0.5 billion, \$0.3 billion in market appreciation and \$1.8 billion in gross inflows, partially offset by \$1.7 billion in gross outflows. Assets in sub-advised accounts increased by \$0.9 billion, or 4.0%, from \$22.4 billion at December 31, 2019, due to an increase associated with foreign exchange movements of \$0.3 billion, \$0.2 billion in market appreciation and \$5.0 billion in gross inflows, partially offset by \$4.6 billion in gross outflows. Assets in Pzena funds increased by \$0.3 billion, or 12.5%, from \$2.4 billion at December 31, 2019 as a result of \$0.2 billion in market appreciation and an increase of \$0.1 billion associated with foreign exchange movements.

At December 31, 2019, we managed \$16.4 billion in separately managed accounts, \$22.4 billion in sub-advised accounts, and \$2.4 billion in Pzena funds, for a total of \$41.2 billion in assets. For the year ended December 31, 2019, we experienced \$7.0 billion in market appreciation and total gross inflows of \$6.6 billion, which were partially offset by total gross outflows of \$5.8 billion. Assets in separately managed accounts increased by \$3.8 billion, or 30.2%, from \$12.6 billion at December 31, 2018, due to \$2.5 billion in market appreciation, an increase of \$0.1 billion associated with foreign exchange movements, and \$3.2 billion in gross inflows, partially offset by \$2.0 billion in gross outflows. Assets in sub-advised accounts increased by \$3.6 billion, or 19.1%, from \$18.8 billion at December 31, 2018, due to \$4.0 billion in market appreciation and \$3.0 billion in gross inflows, partially offset by \$3.4 billion in gross outflows. Assets in Pzena funds increased by \$0.4 billion, or 20.0%, from \$2.0 billion at December 31, 2018 as a result of \$0.4 billion in gross inflows and \$0.4 billion in market appreciation, partially offset by \$0.4 billion in gross outflows.

Revenue

Our revenue from advisory fees earned on our separately managed accounts, sub-advised accounts and Pzena funds for the two years ended December 31, 2020 is described below:

Revenue	For the Years Ended December 31,	
	2020	2019
	(in thousands)	
Separately Managed Accounts	\$ 74,725	\$ 76,210
Sub-Advised Accounts	48,714	58,911
Pzena Funds	15,180	15,625
Total	<u>\$ 138,619</u>	<u>\$ 150,746</u>

Year Ended December 31, 2020 versus December 31, 2019

Our total revenue decreased \$12.1 million, or 8.0%, to \$138.6 million for the year ended December 31, 2020 from \$150.7 million for the year ended December 31, 2019. This change was primarily driven by the variance in AUM levels in 2020 compared to 2019. For the years ended December 31, 2020 and 2019, we recognized a net reduction of base fees in the amount of \$4.0 million and \$0.8 million, respectively, related to fulcrum fee arrangements. We recognized \$1.1 million in performance fees during the year ended December 31, 2020, and recognized no performance fees during the year ended December 31, 2019. Average AUM also decreased 5.9% to \$34.8 billion for the year ended December 31, 2020 from \$37.0 billion for the year ended December 31, 2019.

Our weighted average fee rates were 0.398% and 0.409% for the years ended December 31, 2020 and 2019, respectively. Average assets in separately managed accounts was \$14.0 billion for each of the years ended December 31, 2020, and 2019, and had weighted average fees of 0.534% and 0.543% for the years ended December 31, 2020 and 2019, respectively. Average assets in sub-advised accounts decreased 8.8% to \$18.7 billion for the year ended December 31, 2020, from \$20.5 billion for the year ended December 31, 2019, and had weighted average fees of 0.261% and 0.287% for the years ended December 31, 2020 and 2019, respectively. The decrease in weighted average fee rates for assets in sub-advised accounts is related to the impact of fulcrum fees and the decrease in performance fees recognized in 2019. Average assets in Pzena funds decreased 8.7% to \$2.1 billion for the year ended December 31, 2020, from \$2.3 billion for the year ended December 31, 2019, and had weighted average fees of 0.709% and 0.688% for the years ended December 31, 2020 and 2019, respectively. The increase in weighted average fee rates for Pzena funds is driven by an increase in assets in products and strategies that typically carry higher fee rates and a decrease in expense cap reimbursements.

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, 2020 and 2019.

	For the Years Ended December 31,	
	2020	2019
	(in thousands)	
Cash Compensation and Other Benefits	\$ 55,288	\$ 58,016
Other Non-Cash Compensation	13,199	30,093
Total Compensation and Benefits Expense	68,487	88,109
General and Administrative Expense	14,859	16,973
Total Operating Expenses	\$ 83,346	\$ 105,082

Year Ended December 31, 2020 versus December 31, 2019

Total operating expenses decreased by \$21.7 million, or 20.7%, to \$83.3 million for the year ended December 31, 2020, from \$105.1 million for the year ended December 31, 2019.

Compensation and benefits expense decreased by \$19.6 million, or 22.3%, to \$68.5 million for the year ended December 31, 2020, from \$88.1 million for the year ended December 31, 2019. This decrease is driven by non-recurring compensation and benefits expenses of \$22.7 million in 2019, the vast majority of which are related to the issuance of certain unit-based and other awards to a number of the firm's key contributors pursuant to the terms of our equity incentive plans, in addition to costs related to certain employee departures. Excluding these non-recurring expenses, the increase in compensation and benefits expense reflects an increase in compensation.

General and administrative expense decreased by \$2.1 million, or 12.5%, to \$14.9 million for the year ended December 31, 2020, from \$17.0 million for the year ended December 31, 2019. The decrease in general and administrative expense reflects decreases in travel and entertainment and professional fees.

Other Income

Year Ended December 31, 2020 versus December 31, 2019

Other income of \$0.6 million for the year ended December 31, 2020 consisted primarily \$0.6 million in net realized and unrealized gains from investments, \$0.9 million in equity in the losses of affiliates, and \$0.8 million in interest and dividend income. Other income of \$5.6 million for the year ended December 31, 2019 consisted primarily of \$2.0 million in equity in the earnings of affiliates and \$2.3 million in net realized and unrealized gains from investments, partially offset by \$1.4 million in interest and dividend income.

Income Tax Expense

For the years ended December 31, 2020 and 2019, components of income tax expense are as follows:

	For the Years Ended December 31,	
	2020	2019
	(in thousands)	
Unincorporated and Other Business Tax Expenses	\$ 858	\$ 1,287
Corporate Income Tax Expense	3,429	4,508
Total Income Tax Expense	\$ 4,287	\$ 5,795

Our results for the year ended December 31, 2019 include the effects of certain non-recurring compensation and benefits expenses. Details of corporate tax expenses excluding these items and reconciliations between our GAAP and as adjusted corporate tax items are as follows:

	For the Years Ended December 31,	
	<u>2020</u>	<u>2019</u>
	(in thousands)	
Corporate Tax Expense	\$ 3,429	\$ 4,508
Less: Impact of Non-Recurring Compensation and Benefits Expense	—	481
As adjusted Corporate Income Tax Expense	<u>\$ 3,429</u>	<u>\$ 4,989</u>

As adjusted income before corporate income taxes used to calculate our income before income taxes for the years ended December 31, 2020 and 2019 are as follows:

	For the Years Ended December 31,	
	<u>2020</u>	<u>2019</u>
	(in thousands)	
GAAP Income Before Income Taxes	\$ 55,825	\$ 51,271
Non-Recurring Compensation and Benefits Expense	—	22,719
Unincorporated and Other Business Taxes	(858)	(1,287)
As Adjusted Net Income Attributable to Non-Controlling Interests of the Operating Company	(42,421)	(53,525)
Non-Controlling Interests of Consolidated Subsidiaries	(243)	(444)
As Adjusted Income before Corporate Income Taxes	<u>\$ 12,303</u>	<u>\$ 18,734</u>
GAAP Net Income Attributable to Non-Controlling Interests of the Operating Company	\$ 42,421	\$ 36,570
Add back: Effect of Non-Recurring Compensation and Benefits Expense	—	16,955
As Adjusted Net Income Attributable to Non-Controlling Interests of the Operating Company	<u>\$ 42,421</u>	<u>\$ 53,525</u>

Our GAAP effective tax rate was 28.2%, and 34.7% for the years ended December 31, 2020 and 2019, respectively, and was determined as follows:

	For the Years Ended December 31,			
	<u>2020</u>		<u>2019</u>	
	Tax (in thousands)	% of GAAP Pre-tax Income	Tax (in thousands)	% of GAAP Pre-tax Income
Federal Corporate Tax	\$ 2,539	21.0%	\$ 2,724	21.0%
State and Local Taxes, Net of Federal Benefit	462	3.8%	389	3.0%
Impact of Permanent Differences	-	0.0%	781	6.0%
Prior Period and Other Adjustments	428	3.4%	614	4.7%
GAAP Effective Taxes	<u>\$ 3,429</u>	<u>28.2%</u>	<u>\$ 4,508</u>	<u>34.7%</u>

Our as adjusted effective tax rate was 28.2%, and 26.5% for the years ended December 31, 2020 and 2019, respectively, and was determined as follows:

	For the Years Ended December 31,			
	2020		2019	
	Tax	% of As	Tax	% of As
	(in	Adjusted	(in	Adjusted
	thousands)	Pre-tax	thousands)	Pre-tax
		Income		Income
Federal Corporate Tax	\$ 2,539	21.0%	\$ 3,934	21.0%
State and Local Taxes, Net of Federal Benefit	462	3.8%	637	3.4%
Impact of Non-Recurring Compensation and Benefits Expense	-	0.0%	481	2.5%
Prior Period and Other Adjustments	428	3.4%	(63)	-0.4%
As adjusted Effective Taxes	<u>\$ 3,429</u>	<u>28.2%</u>	<u>\$ 4,989</u>	<u>26.5%</u>

Year Ended December 31, 2020 versus December 31, 2019

Income tax expense was \$4.3 million for the year ended December 31, 2020, compared to \$5.8 million for the year ended December 31, 2019. Tax expense for the year ended 2019 also includes the impact of \$22.7 million of non-recurring expenses.

Net Income Attributable to Non-Controlling Interests

Year Ended December 31, 2020 versus December 31, 2019

Net income attributable to non-controlling interests was \$42.7 million for the year ended December 31, 2020, and consisted of \$42.4 million associated with our employees' and outside investors' approximately 77.7% weighted-average interest in the income of the operating company, and approximately \$0.2 million associated with our consolidated subsidiaries' interest in the gains of our consolidated subsidiaries. Net income attributable to non-controlling interests was \$37.0 million for the year ended December 31, 2019, and consisted of \$36.6 million associated with our employees' and outside investors' approximately 74.4% weighted-average interest in the income of the operating company, and approximately \$0.4 million associated with our consolidated subsidiaries' interest in the losses of our consolidated subsidiaries. The operating company allocation for the year ended December 31, 2019 included a \$17.0 million expense associated with the \$22.7 million one-time compensation and benefits expenses recognized in the fourth quarter of 2019. Excluding the effect of these one-time items, 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, 2020, partially offset by an increase 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 and Class B-1 units awarded by our 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, 2020, our average AUM and revenues decreased by 5.9% and 8.0%, respectively, compared to our average AUM and revenues for the year ended December 31, 2019. At December 31, 2020, our cash was \$65.5 million, inclusive of \$6.2 million in cash held by our consolidated subsidiaries. We also had \$7.3 million in an open-ended mutual fund that can be sold to meet future cash flow needs and approximately \$14.2 million in investments set aside to satisfy our obligations under our deferred compensation programs. Advisory fees receivable was \$36.5 million.

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 an annual basis, our Board of Directors has targeted a cash dividend payout ratio of approximately 60% to 70% of our as adjusted diluted net income, subject to growth initiatives and other funding needs. However, our Board of Directors may, in its discretion, modify the level of dividends, or discontinue the payment of dividends entirely.

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 bases 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 IPO who sold all of its membership units to us in connection with our IPO, 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 bases 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, 2020 versus December 31, 2019

Cash, cash equivalents and restricted cash increased \$13.1 million to \$66.6 million in 2020 compared to \$53.5 million in 2019. Net cash provided by operating activities decreased \$27.3 million in 2020 to \$51.3 million from \$78.6 million in 2019. The decrease primarily reflects a decrease in the levels of non-cash compensation, equity in the earnings of affiliates, net realized and unrealized gains and losses from investments, as well as changes in operating assets and liabilities and working capital.

Net cash provided by investing activities was \$24.1 million in 2020 compared to \$0.3 million in 2019. The \$23.8 million increase in cash provided by investing activities was primarily due to a \$26.0 million increase in net sales of investments and a \$1.2 million decrease in purchases of property and equipment, partially offset by a \$3.4 million shift in payments to related parties.

Net cash used in financing activities decreased \$2.2 million in 2020 to \$62.3 million from \$64.5 million in 2019. This decrease is primarily due to a \$2.2 million increase in cash provided by sales of shares under the equity incentive plan and a \$0.8 million decrease in dividends paid, partially offset by a \$0.4 million increase in net distributions from non-controlling interests and a \$0.4 million decrease in the repurchase and retirement of shares of Class A common stock and Class B units during 2020.

Contractual Obligations

We are a smaller reporting company as defined by Rule 12b-2 of the Securities Exchange Act of 1934 and are not required to provide the information under this item.

Off-Balance Sheet Arrangements

We did not have any off-balance sheet arrangements as of December 31, 2020.

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.

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.

Non-Cash Compensation

The Company uses a fair value method in recording the expense associated with the granting of Class B units, Class B-1 units, Delayed Exchange Class B units, phantom Delayed Exchange 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 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 and Class B-1 units under the 2006 and 2007 Equity Incentive Plans are determined by reference to the market price of our Class A common stock on the date of grant, since Class B and Class B-1 units are exchangeable for shares of our Class A common stock, adjusted for the impact of award terms on the value of the award. Certain of the 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 these terms. The Class B-1 units are entitled to distributions for the duration of the holder's employment and will participate in additional value to the extent there has been appreciation subsequent to the issuance of the Class B-1 unit. The fair value of these awards is determined based on the present value of expected future dividends, an option pricing model where the strike price reflects the threshold value over which appreciation is recognized, and the impact of award terms on the value of the award. 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. Certain of the phantom Delayed Exchange Class B units are not entitled to dividends or dividend equivalents while unvested.

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 two years ended December 31, 2020 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 \$43.3 billion as of December 31, 2020. 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 \$17.6 million at our current weighted average fee rate excluding the impact of performance fees and fulcrum fee arrangements of 0.407%. 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, 2020 consist primarily of equity securities at fair value, trading debt securities and investments in equity method investees. At December 31, 2020, the aggregate value of our assets subject to market risk was \$34.1 million. At December 31, 2020, 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 \$3.4 million, at December 31, 2020.

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 \$43.3 billion as of December 31, 2020 and approximately 38% 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 49% 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 49% 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 \$2.3 billion, which would cause an annualized increase or decrease in revenues of approximately \$9.4 million at our current weighted average fee rate excluding the impact of performance fees and fulcrum fee arrangements of 0.407%.

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, 2020, approximately \$65.5 million of our total cash was primarily held in demand deposit accounts and money market funds. As such, interest rate changes would not have a material impact on the income we earn from these deposits. Our interest sensitive assets and liabilities include trading debt securities. At December 31, 2020, the aggregate value of our assets subject to interest rate risk was \$7.3 million. Assuming a 10% increase or decrease, the fair value of these assets would increase or decrease by \$0.7 million, at December 31, 2020. 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, 2020.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Our consolidated financial statements and notes thereto begin on page F-4 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, 2020, 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, 2020, 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 with 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, 2020. 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, 2020, 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, 2020 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 will be set forth under the proposal "Election of Directors" and under the heading "Other Matters" in the Company's 2021 Proxy Statement to be filed with the U.S. Securities and Exchange Commission ("SEC") within 120 days after December 31, 2020 in connection with the solicitation of proxies for the Company's 2021 annual meeting of shareholders and is incorporated herein by reference ("Company's 2021 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. 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 will be set forth under the headings "Executive Compensation" and "2020 Non-Employee Director Compensation" in the Company's 2021 Proxy Statement and is incorporated herein by reference.

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

The information required by this Item will be set forth under the headings "Security Ownership of Principal Stockholders and Management," and "Equity Compensation Plan Information," in the Company's 2021 Proxy Statement and is incorporated herein by reference.

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

The information required by this Item will be set forth under the heading "Related Party Transactions" and under the subheading "Director Independence" under the proposal "Election of Directors" in the Company's 2021 Proxy Statement and is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this Item will be set forth under the proposal "Ratification of Independent Auditors" in the Company's 2021 Proxy Statement and is incorporated herein by reference.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

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

1. Financial Statements

Pzena Investment Management, Inc.	Page
Report of PricewaterhouseCoopers LLP, Independent Registered Public Accounting Firm	F-2
Consolidated Statements of Financial Condition as of December 31, 2020 and 2019	F-5
Consolidated Statements of Operations for the Years Ended December 31, 2020 and 2019	F-6
Consolidated Statements of Comprehensive Income for the Years Ended December 31, 2020 and 2019.....	F-7
Consolidated Statements of Changes in Equity for the Years Ended December 31, 2020 and 2019	F-8
Consolidated Statements of Cash Flows for the Years Ended December 31, 2020 and 2019	F-9
Notes to Consolidated Financial Statements	F-10

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.

Exhibit	Description of Exhibit
3.1	Second Amended and Restated Certificate of Incorporation of Pzena Investment Management, Inc., effective as of May 23, 2017 ⁽¹⁾
3.2	Second Amended and Restated Bylaws of Pzena Investment Management, Inc., effective as of January 15, 2016 ⁽²⁾
4.1	Form of Pzena Investment Management, Inc. Class A Common Stock Certificate ⁽³⁾
4.2	Form of Exchange Rights of Class B Members ⁽⁴⁾
4.3	Form of Exchange Rights of Class B-1 Members ⁽⁴⁾
4.4	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 ⁽⁵⁾
4.5	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 ⁽⁵⁾
4.6	Description of Capital Stock ⁽⁴⁾
10.1	Amended and Restated Operating Agreement of Pzena Investment Management, LLC, dated as of December 30, 2019, by and among Pzena Investment Management, Inc. and the Class B Members named on the signature pages thereto ⁽⁴⁾
10.2	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 ⁽⁵⁾
10.3	Pzena Investment Management, LLC Amended and Restated 2006 Equity Incentive Plan ⁽⁶⁾

- 10.4 Pzena Investment Management, LLC Amended and Restated Bonus Plan, as amended, dated as of October 21, 2008⁽⁷⁾
- 10.5 Pzena Investment Management, Inc. 2007 Equity Incentive Plan, as amended, dated as of January 31, 2017⁽⁶⁾
- 10.6 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⁽⁵⁾
- 10.7 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⁽⁵⁾
- 10.8 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⁽⁵⁾
- 10.9 Indemnification Agreement for Richard S. Pzena, dated as of October 30, 2007, by and among Pzena Investment Management, Inc. and Richard S. Pzena⁽⁵⁾
- 10.10 Indemnification Agreement for Steven M. Galbraith, dated as of October 30, 2007, by and among Pzena Investment Management, Inc. and Steven M. Galbraith⁽⁵⁾
- 10.11 Indemnification Agreement for Joel M. Greenblatt, dated as of October 30, 2007, by and among Pzena Investment Management, Inc. and Joel M. Greenblatt⁽⁵⁾
- 10.12 Indemnification Agreement for Richard P. Meyerowich, dated as of October 30, 2007, by and among Pzena Investment Management, Inc. and Richard P. Meyerowich⁽⁵⁾
- 10.13 Indemnification Agreement for John P. Goetz, dated as of May 17, 2011, by and among Pzena Investment Management, Inc. and John P. Goetz⁽⁸⁾
- 10.14 Indemnification Agreement for William L. Lipsey, dated as of May 17, 2011, by and among Pzena Investment Management, Inc. and William L. Lipsey⁽⁸⁾
- 10.15 Pzena Investment Management, Inc. Non-Employee Director Deferred Compensation Plan, dated as of July 21, 2009 ⁽⁹⁾
- 10.16 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⁽¹⁰⁾
- 10.17 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⁽¹⁰⁾
- 10.18 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⁽¹⁰⁾
- 10.19 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 ⁽¹¹⁾
- 10.20 Indemnification Agreement for Charles D. Johnston, dated as of February 5, 2014, by and among Pzena Investment Management, Inc. and Charles D. Johnston ⁽¹²⁾
- 10.21 Lease, dated as of June 13, 2014, between Mutual of America Life Insurance Company, as Landlord and Pzena Investment Management, LLC, as Tenant ⁽¹³⁾
- 10.22 Form of Class B-1 Unit Agreement – Immediate Vesting⁽⁴⁾
- 10.23 Amendment to the Pzena Investment Management, LLC Amended and Restated Bonus Plan, dated December 2, 2014⁽¹⁴⁾
- 10.24 Form of Unit-Based Award Agreement for Phantom Class B Units⁽¹⁴⁾
- 10.25 Form of Class B Unit Agreement - Delayed Exchange ⁽¹⁴⁾
- 10.26 Form of Class B Unit-Based Agreement for Phantom Class B Units - Revised December, 2015⁽¹⁵⁾
- 10.27 Form of Class B Unit Agreement - Delayed Exchange - Revised December, 2015⁽¹⁵⁾
- 10.28 Amended and Restated Agreement of Limited Partnership of Pzena Investment Management, LP, dated as of December 30, 2019⁽⁴⁾
- 10.29 Form of Class B Unit Option Agreement - Delayed Exchange ⁽¹⁶⁾

- 10.30 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⁽¹⁶⁾
- 10.31 First Amendment of Lease dated November 8th, 2018 amending the Lease, dated as of June 13, 2014, between Mutual of America Life Insurance Company, as Landlord and Pzena Investment Management, LLC as Tenant⁽¹⁷⁾
- 10.32 Indemnification Agreement for Shavar Jeffries, dated as of January 26, 2021, by and among Pzena Investment Management, Inc. and Shavar Jeffries⁽¹⁸⁾
- 14.1 Code of Business Conduct and Ethics, effective as of October 25, 2007, amended as of June 30, 2020 (filed herewith)
- 14.2 Code of Ethics for Senior Financial Officers⁽¹⁹⁾
- 21.1 List of Subsidiaries of Pzena Investment Management, Inc. (filed herewith)
- 23.1 Consent of PricewaterhouseCoopers LLP, Independent Registered Public Accounting Firm (filed herewith)
- 31.1 Certification of Chief Executive Officer pursuant to Exchange Act Rule 13a-14(a) (filed herewith)
- 31.2 Certification of Chief Financial Officer pursuant to Exchange Act Rule 13a-14(a) (filed herewith)
- 32.1 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)
- 32.2 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)
- 101 Materials from the Pzena Investment Management, Inc. Annual Report on Form 10-K for the year ended December 31, 2020, formatted in Inline XBRL (Extensible Business Reporting Language):
(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
- 104 Cover Page Interactive Data File (formatted in Inline XBRL and contained in Exhibit 101)

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- (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 annual report on Form 10-K filed with the Securities and Exchange Commission on March 10, 2020 (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 December 5, 2007 (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 August 8, 2017 (SEC File No. 001-33761).
- (7) 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).
- (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 current report on Form 8-K filed with the Securities and Exchange Commission on November 2, 2012 (SEC File No. 001-33761).
- (11) Previously filed as an exhibit to our annual report on Form 10-K filed with the Securities and Exchange Commission on March 12, 2013 (SEC File No. 001-33761).
- (12) 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).
- (13) 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).

- (14) 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)
- (15) 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).
- (16) Previously filed as an exhibit to our annual report on Form 10-K filed with the Securities and Exchange Commission on March 9, 2018 (SEC File No. 001-33761).
- (17) Previously filed as an exhibit to our annual report on Form 10-K filed with the Securities and Exchange Commission on March 8, 2019 (SEC File No. 001-33761).
- (18) Previously filed as an exhibit to our current report on Form 8-K filed with the Securities and Exchange Commission on January 28, 2021 (SEC File No. 001-33761).
- (19) 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, 2021

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.

SIGNATURE	TITLE	DATE
<u>/s/ Richard S. Pzena</u> Richard S. Pzena	Chairman, Chief Executive Officer, Co-Chief Investment Officer (principal executive officer)	March 9, 2021
<u>/s/ Jessica R. Doran</u> Jessica R. Doran	Chief Financial Officer (principal financial and accounting officer)	March 9, 2021
<u>/s/ John P. Goetz</u> John P. Goetz	President, Co-Chief Investment Officer, Director	March 9, 2021
<u>/s/ William L. Lipsey</u> William L. Lipsey	President, Head of Business Development and Client Service, Director	March 9, 2021
<u>/s/ Steven M. Galbraith</u> Steven M. Galbraith	Director	March 9, 2021
<u>/s/ Joel M. Greenblatt</u> Joel M. Greenblatt	Director	March 9, 2021
<u>/s/ Richard P. Meyerowich</u> Richard P. Meyerowich	Director	March 9, 2021
<u>/s/ Charles D. Johnston</u> Charles D. Johnston	Director	March 9, 2021
<u>/s/ Shavar D. Jeffries</u> Shavar D. Jeffries	Director	March 9, 2021

**INDEX TO FINANCIAL STATEMENTS OF
PZENA INVESTMENT MANAGEMENT, INC.**

	<u>Page</u>
<i>Pzena Investment Management, Inc.</i>	
Report of PricewaterhouseCoopers LLP, Independent Registered Public Accounting Firm	F-2
Consolidated Statements of Financial Condition as of December 31, 2020 and 2019	F-5
Consolidated Statements of Operations for the Years Ended December 31, 2020 and 2019	F-6
Consolidated Statements of Comprehensive Income for the Years Ended December 31, 2020 and 2019	F-7
Consolidated Statements of Changes in Equity for the Years Ended December 31, 2020 and 2019	F-8
Consolidated Statements of Cash Flows for the Years Ended December 31, 2020 and 2019	F-9
Notes to Consolidated Financial Statements	F-10

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 statements of financial condition of Pzena Investment Management, Inc. and its subsidiaries (the “Company”) as of December 31, 2020 and 2019, and the related consolidated statements of operations, comprehensive income, changes in equity and cash flows for each of the two years in the period ended December 31, 2020, 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, 2020, 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, 2020 and 2019, and the results of its operations and its cash flows for each of the two years in the period ended December 31, 2020 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, 2020, 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 Management's Report on Internal Control Over Financial Reporting appearing under Item 9A. 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.

Critical Audit Matters

The critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that was communicated or required to be communicated to the audit committee and that (i) relates to accounts or disclosures that are material to the consolidated financial statements and (ii) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Income Taxes – Deferred Tax Assets and the Related Liability to Selling and Converting Shareholders Under the Tax Receivable Agreement

As described in Notes 2 and 13 to the consolidated financial statements, the Company has recorded a deferred tax assets ("DTA") balance of \$29.8 million as of December 31, 2020 while the liability to selling and converting shareholders under the tax receivable agreement ("TRA") was \$25.7 million. These DTAs 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 ("Exchanges"). The Company records an increase in DTAs 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 Exchanges. The Company records 85% of the estimated realizable tax benefit (which is the recorded DTA less any recorded valuation allowance) as an increase to the liability due under the TRA, which is reflected as the liability to selling and converting shareholders. As disclosed by management, the actual increase in the tax basis, as well as the amount and timing of any payments under the TRA, may vary depending on a number of factors, including the timing of Exchanges, the price of the Class A common stock at the time of the Exchange, the extent to which such Exchanges are taxable, the amount and timing of income, and the tax rates and related laws then applicable. The determination of the tax basis also requires management to make judgments in estimating the components included in the tax basis as of the date of Exchanges (such as cash to be received by the Company on hypothetical sale of assets and allocation of gain/loss to the Company at the time of the Exchanges taking into account complex partnership tax rules). In addition, management estimates the period of time that may generate cash tax savings of such tax benefits and the realizability of the tax benefits.

The principal considerations for our determination that performing procedures relating to deferred tax assets and the related liability to selling and converting shareholders under the tax receivable agreement is a critical audit matter are (i) the significant judgment by management to determine the impact of the change in tax basis, resulting from the Exchanges in 2020, on the DTA and the related liabilities under the TRA, which in turn led to a high degree of auditor judgment, subjectivity, and effort in performing procedures and evaluating management's determination of the change in tax basis, the likelihood of the Company having sufficient future taxable income to utilize the deferred tax asset, and the tax rate then applicable and (ii) the audit effort involved the use of professionals with specialized skill and knowledge.

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the consolidated financial statements. These procedures included testing the effectiveness of controls relating to income taxes, including controls over the DTAs and the related liabilities under the TRA. These procedures also included, among others (i) testing management's process for estimating the DTAs and the related liabilities under the TRA, (ii) evaluating the reasonableness of the determination of (a) the change in tax basis from the Exchanges in 2020 and (b) the likelihood of the Company having sufficient future taxable income to utilize the DTA and the tax rate then applicable; and (iii) testing the completeness and accuracy of the data used by management in the determination of the change in tax basis, future taxable income, and the tax rate then applicable. Professionals with specialized skill and knowledge were used to assist in testing management's determination of the change in tax basis and evaluating the appropriateness of the application of the tax laws.

/s/ PricewaterhouseCoopers LLP

New York, New York
March 9, 2021

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

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

	As of	
	December 31, 2020	December 31, 2019
ASSETS		
Cash and Cash Equivalents (\$2,201 and \$4,190) ¹	\$ 65,534	\$ 52,480
Restricted Cash	1,050	1,036
Due from Broker (\$0 and \$145) ¹	87	149
Advisory Fees Receivable	36,524	32,887
Investments (\$1,131 and \$3,813) ¹	34,104	55,934
Receivable from Related Parties	2,880	1,869
Other Receivables (\$8 and \$10) ¹	154	599
Prepaid Expenses and Other Assets	2,569	2,408
Right-of-use Asset	11,578	13,860
Deferred Tax Assets	29,831	32,683
Property and Equipment, Net of Accumulated Depreciation of \$5,980 and \$4,765, respectively	4,376	5,547
TOTAL ASSETS	\$ 188,687	\$ 199,452
LIABILITIES AND EQUITY		
Liabilities:		
Accounts Payable and Accrued Expenses (\$28 and \$19) ¹	\$ 36,317	\$ 44,713
Due to Broker (\$2 and \$0) ¹	56	40
Securities Sold Short, at Fair Value	714	—
Liability to Selling and Converting Shareholders	25,701	28,652
Lease Liability	11,905	14,235
Deferred Compensation Liability	5,039	3,600
Other Liabilities	—	2
TOTAL LIABILITIES	79,732	91,242
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; 17,328,899 and 18,009,350 Shares Issued and Outstanding in 2020 and 2019, respectively)	173	179
Class B Common Stock (Par Value \$0.000001; 750,000,000 Shares Authorized; 54,313,620 and 52,879,323 Shares Issued and Outstanding in 2020 and 2019, respectively)	—	—
Additional Paid-In Capital	5,190	4,829
Retained Earnings	25,611	26,439
Accumulated Other Comprehensive Loss	132	(3)
Total Pzena Investment Management, Inc.'s Equity	31,106	31,444
Non-Controlling Interests	77,849	76,766
TOTAL EQUITY	108,955	108,210
TOTAL LIABILITIES AND EQUITY	\$ 188,687	\$ 199,452

¹ Asset and liability amounts in parentheses represent the aggregated balances at December 31, 2020 and 2019 attributable to Pzena Investment Management Special Situations, LLC, Pzena U.S. Best Ideas (GP), LLC, and Pzena Global Best Ideas (GP), LLC which were variable interest entities as of December 31, 2020 and December 31, 2019, respectively. Asset and liability amounts in parentheses at December 31, 2020 are also attributable to Pzena Global Focused Value Fund. Asset and liability amounts in parentheses at December 31, 2019 are also attributable to Pzena International Value Service (a series of Pzena Investment Management International, 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,	
	2020	2019
REVENUE	\$ 138,619	\$ 150,746
EXPENSES		
Compensation and Benefits Expenses	68,487	88,109
General and Administrative Expenses	14,859	16,973
TOTAL OPERATING EXPENSES	83,346	105,082
Operating Income	55,273	45,664
OTHER INCOME		
Interest Income	466	1,039
Interest Expense	(16)	(48)
Dividend Income	329	440
Net Realized and Unrealized Gains from Investments	630	2,270
Equity in the (Losses)/ Earnings of Affiliates	(929)	1,966
Other Income/ (Expense)	72	(60)
Total Other Income	552	5,607
Income Before Income Taxes	55,825	51,271
Income Tax Expense	4,287	5,795
Net Income	51,538	45,476
Less: Net Income Attributable to Non-Controlling Interests	42,664	37,014
Net Income Attributable to Pzena Investment Management, Inc.	<u>\$ 8,874</u>	<u>\$ 8,462</u>
Net Income for Basic Earnings per Share	\$ 8,874	\$ 8,462
Basic Earnings per Share	\$ 0.52	\$ 0.47
Basic Weighted Average Shares Outstanding	17,208,174	17,945,686
Net Income for Diluted Earnings per Share	\$ 40,766	\$ 34,046
Diluted Earnings per Share	\$ 0.52	\$ 0.46
Diluted Weighted Average Shares Outstanding ¹	79,143,710	74,199,308
Cash Dividends per Share of Class A Common Stock	\$ 0.55	\$ 0.58

- 1 The Company issues restricted shares of Class A common stock and the operating company issues 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)

	For the Years Ended December 31,	
	2020	2019
NET INCOME	\$ 51,538	\$ 45,476
OTHER COMPREHENSIVE INCOME		
Foreign Currency Translation Adjustment	565	143
Total Other Comprehensive Income	565	143
Comprehensive Income	52,103	45,619
Less: Comprehensive Income Attributable to Non-Controlling Interests	43,094	37,195
Total Comprehensive Income Attributable to Pzena Investment Management, Inc.	<u>\$ 9,009</u>	<u>\$ 8,424</u>

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 Income/ (Loss)	Retained Earnings	Non-Controlling Interests	Total
Balance at December 31, 2018	18,398,211	51,253,526	\$ 183	\$ 3,913	\$ 35	\$ 28,871	\$ 66,006	\$ 99,008
Unit Conversion	234,602	(234,602)	2	712	—	—	(331)	383
Amortization of Non-Cash Compensation	20,000	1,294,024	—	6,050	—	—	17,689	23,739
Issuance of Shares under Equity Incentive Plan	—	715,874	—	1,065	—	—	3,022	4,087
Sale of Shares Under Equity Incentive Plan	—	19,338	—	30	—	—	87	117
Directors' Shares	—	—	—	157	—	—	454	611
Net Income	—	—	—	—	—	8,462	37,014	45,476
Foreign Currency Translation Adjustments	—	—	—	—	(38)	—	181	143
Options Exercised	90,980	29,377	1	10	—	—	(11)	—
Repurchase and Retirement of Class A Common Stock	(734,443)	—	(7)	(4,802)	—	(338)	(1,269)	(6,416)
Repurchase and Retirement of Class B Units	—	(198,214)	—	(380)	—	—	(1,096)	(1,476)
Contributions from Non-Controlling Interests	—	—	—	—	—	—	126	126
Distributions to Non-Controlling Interests	—	—	—	—	—	—	(46,288)	(46,288)
Class A Cash Dividends Declared and Paid (\$0.58 per share)	—	—	—	—	—	(10,556)	—	(10,556)
Tax Impact of Transactions with Non-Controlling Shareholders	—	—	—	(744)	—	—	—	(744)
Other	—	—	—	(1,182)	—	—	1,182	—
Balance at December 31, 2019	18,009,350	52,879,323	\$ 179	\$ 4,829	\$ (3)	\$ 26,439	\$ 76,766	\$ 108,210
Unit Conversion	494,316	(494,316)	5	1,007	—	—	(622)	390
Amortization of Non-Cash Compensation	20,000	859,811	1	1,838	—	—	6,327	8,166
Issuance of Shares under Equity Incentive Plan	—	637,349	—	890	—	—	2,952	3,842
Sale of Shares Under Equity Incentive Plan	—	554,860	—	523	—	—	1,772	2,295
Modification	16,806	(16,806)	—	—	—	—	—	—
Directors' Shares	—	—	—	103	—	—	352	455
Net Income	—	—	—	—	—	8,874	42,664	51,538
Foreign Currency Translation Adjustments	—	—	—	—	135	—	430	565
Options Exercised	—	603	—	—	—	—	—	—
Repurchase and Retirement of Class A Common Stock	(1,211,573)	—	(12)	(1,723)	—	—	(5,928)	(7,663)
Repurchase and Retirement of Class B Units	—	(107,204)	—	(131)	—	—	(509)	(640)
Effect of Deconsolidation	—	—	—	—	—	—	(1,685)	(1,685)
Contributions from Non-Controlling Interests	—	—	—	—	—	—	1,013	1,013
Distributions to Non-Controlling Interests	—	—	—	—	—	—	(47,590)	(47,590)
Class A Cash Dividends Declared and Paid (\$0.55 per share)	—	—	—	—	—	(9,702)	—	(9,702)
Tax Impact of Transactions with Non-Controlling Shareholders	—	—	—	(239)	—	—	—	(239)
Other	—	—	—	(1,907)	—	—	1,907	—
Balance at December 31, 2020	17,328,899	54,313,620	\$ 173	\$ 5,190	\$ 132	\$ 25,611	\$ 77,849	\$ 108,955

See accompanying notes to consolidated financial statements.

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

	For the Years Ended December 31,	
	2020	2019
OPERATING ACTIVITIES		
Net Income	\$ 51,538	\$ 45,476
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Depreciation	1,214	1,039
Loss on Disposal of Fixed Assets	—	30
Non-Cash Compensation	13,204	30,093
Directors' Share Grants	455	611
Net Realized and Unrealized Gains from Investments	(630)	(2,270)
Equity in the Losses/ (Earnings) of Affiliates	929	(1,966)
Accretion of Discount	—	(224)
Foreign Currency Translation Adjustment	565	143
Noncash Lease Expense	2,282	1,942
Change in Liability to Selling and Converting Shareholders	(213)	(346)
Deferred Income Taxes	3,432	4,200
Changes in Operating Assets and Liabilities:		
Advisory Fees Receivable	(3,637)	(297)
Due from Broker	(113)	(320)
Prepaid Expenses and Other Assets	273	(1,147)
Due to Broker	16	(85)
Accounts Payable, Accrued Expenses, and Other Liabilities	(8,442)	7,434
Tax Receivable Agreement Payments	(2,881)	(3,689)
Change in Lease Liability	(2,330)	(1,840)
Purchases of Investments	(23,935)	(16,498)
Proceeds from Sale of Investments	19,602	16,293
Net Cash Provided by Operating Activities	51,329	78,579
INVESTING ACTIVITIES		
Purchases of Investments	(25,169)	(27,889)
Proceeds from Sale of Investments	50,371	27,044
Payments (to)/ from Related Parties	(1,011)	2,370
Purchase of Property and Equipment	(43)	(1,222)
Net Cash Provided by Investing Activities	24,148	303
FINANCING ACTIVITIES		
Repurchase and Retirement of Class A Common Stock	(7,662)	(6,416)
Repurchase and Retirement of Class B Units	(640)	(1,476)
Sale of Shares under Equity Incentive Plan	2,295	117
Distributions to Non-Controlling Interests	(47,590)	(46,288)
Contributions from Non-Controlling Interests	1,013	126
Dividends	(9,702)	(10,556)
Net Cash Used in Financing Activities	(62,286)	(64,493)
NET CHANGE IN CASH, CASH EQUIVALENTS AND RESTRICTED CASH	\$ 13,191	\$ 14,389
CASH, CASH EQUIVALENTS AND RESTRICTED CASH — Beginning of Year	\$ 53,516	\$ 39,127
Effect of Deconsolidation of Affiliates	(123)	—
Net Change in Cash, Cash Equivalents and Restricted Cash	13,191	14,389
CASH, CASH EQUIVALENTS AND RESTRICTED CASH — End of Year	\$ 66,584	\$ 53,516
Supplementary Cash Flow Information:		
Unit Conversion	\$ 390	\$ 383
Issuance of Shares under Equity Incentive Plan	\$ 3,842	\$ 4,087
Income Taxes Paid	\$ 562	\$ 1,646
Initial Recognition of Lease at Commencement	\$ —	\$ 644

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, 2020, 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, 2020:

Legal Entity	Type of Entity (Date of Formation)	Ownership at December 31, 2020
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 Global Best Ideas (GP), LLC	Delaware Limited Liability Company (2/15/2018)	100.0%
Pzena Investment Management International 2, LLC	Delaware Limited Liability Company (1/21/2020)	100.0%
Pzena Investment Management Special Situations, LLC	Delaware Limited Liability Company (12/01/2010)	99.9%
Pzena Global Focused Value Fund	Australian Registered Investment Scheme (6/10/2016)	98.7%
Pzena International Small Cap Value Fund, a series of Advisors Series Trust	Open-end Management Investment Company, series of Delaware Statutory Trust (6/28/2018)	60.1%

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.

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

Pursuant to the *Consolidation Topic* of the FASB Accounting Standard 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.

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.

On January 1, 2020, the Company redeemed its investment in the Pzena International Value Service (a series of Pzena Investment Management International, LLC). As the Company was no longer deemed the primary beneficiary of this entity, it deconsolidated the entity and removed the related assets, liabilities and noncontrolling interest from the Company's Consolidated Statements of Financial Condition. At December 31, 2019, Pzena International Value Service's \$4.1 million in net assets were included in the Company's consolidated statements of financial condition.

During 2020, the Company provided the initial cash investment for a Pzena-branded Australian Registered Investment Scheme, Pzena Global Focused Value Fund, in an effort to generate an investment performance track record to attract third-party investors. The Company is considered the primary beneficiary of this entity. At December 31, 2020, Pzena Global Focused Value Fund's \$3.6 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 \$265.9 million and \$247.8 million at December 31, 2020 and December 31, 2019, respectively.

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

As of December 31, 2020 and December 31, 2019, in order to satisfy certain of the Company's obligations under its deferred compensation programs, the operating company had \$3.2 million and \$0.5 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, 2020 and December 31, 2019, the Company's maximum exposure to loss as a result of its involvement with the non-consolidated VIEs was \$3.6 million and \$0.7 million, respectively.

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 an increase in the base 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, performance fee income is recorded at the conclusion of the contractual performance period, when it is probable that significant reversal of the performance fee will not occur. Advisory fee income is presented net of fund expense cap reimbursements.

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

Revenue from advisory fees is disaggregated into categories based on the composition of the Company's client base and advisory fee structure for the years ended December 31, 2020, and 2019:

Revenue	For the Years Ended December 31,	
	2020	2019²
	(in thousands)	
Separately Managed Accounts		
Asset-Based Fees	\$ 74,725	\$ 76,210
Performance-Based Fees	—	—
Total Separately Managed Fees	74,725	76,210
Sub-Advised Accounts		
Asset-Based Fees	\$ 52,741	\$ 59,664
Impact of Fulcrum Fees ¹	(4,027)	(753)
Performance-Based Fees	—	—
Total Sub-Advised Fees	48,714	58,911
Pzena Funds		
Asset-Based Fees	\$ 15,154	\$ 16,332
Expense Cap Reimbursements	(1,052)	(707)
Performance-Based Fees	1,078	—
Total Pzena Funds Fees	15,180	15,625
Total	\$ 138,619	\$ 150,746

1 Represents the net impact of fulcrum fee arrangements which require a reduction in the base fee or allow for an increase in the base fee if the relevant investment strategy underperforms or outperforms, respectively, the agreed-upon benchmark over the contract's measurement period.

2 Certain prior year amounts have been reclassified to conform to the current year presentation.

Cash and Cash Equivalents:

At December 31, 2020 and 2019, Cash and Cash Equivalents was \$65.5 million and \$52.5 million, respectively. The Company considers all money market funds and highly-liquid debt instruments with an original maturity of three months or less at the time of purchase to be cash equivalents. The Company maintains its cash in bank deposits, other accounts whose balances often exceed federally insured limits and treasury money market funds. Cash is stated at cost, which approximates fair value.

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

Restricted Cash:

At December 31, 2020, and 2019, the Company had \$1.1 million and \$1.0 million, respectively, of compensating balances recorded in Restricted Cash in the consolidated statements of financial condition. These balances reflect a letter of credit issued by a third party in lieu of a cash security deposit, as required by the Company's lease for its corporate headquarters.

The following table reconciles cash, cash equivalents, and restricted cash per the consolidated statements of cash flows to the consolidated statements of financial condition.

	For the Years Ended December 31,		
	2020	2019	2018
	(in thousands)		
Cash and Cash Equivalents	\$ 65,534	\$ 52,480	\$ 38,099
Restricted Cash	1,050	1,036	1,028
Total	\$ 66,584	\$ 53,516	\$ 39,127

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

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:

Investments, at Fair Value

Investments, at Fair Value consist of equity securities at fair value and trading debt securities held by the Company and its consolidated subsidiaries, as well as investments in open-ended registered mutual funds. Management determines the appropriate classification of its investments at the time of purchase and re-evaluates such determination on an ongoing basis. Dividends and interest income 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 and Interest Income, respectively, in the consolidated statements of operations.

Securities Sold Short represents securities sold short, not yet purchased by the Company. Dividend expense associated with these investments is recognized 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 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, 2020 and 2019, no impairment losses were recognized.

Securities Valuation:

Investments in equity securities 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. Investments in registered mutual funds are carried at fair value at their respective net asset values as of the valuation date. Otherwise, fair values for investment securities are based on Level 2 or Level 3 inputs detailed in Note 9. Transactions are recorded on a trade date basis.

The net realized gain or loss on sales of securities 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.

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

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 years ended December 31, 2020 and 2019, there were no client relationships representing more than 10% of the Company's revenue. At December 31, 2020 and 2019, 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.

Leases:

The Company determines if an arrangement is a lease at inception. Operating leases are included as a component of Right-of-use (“ROU”) Assets and Lease Liabilities on the consolidated statements of financial condition. ROU assets represent the right to use an underlying asset for the lease term and lease liabilities represent the obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. The lease terms may include options to extend or terminate the lease. These options to extend or terminate are assessed on a lease-by-lease basis, and the ROU assets and lease liabilities are adjusted when it is reasonably certain that an option will be exercised. If a lease arrangement does not provide an implicit rate, the Company uses an incremental borrowing rate based on the information available at commencement date in determining the present value of lease payments. Lease expense for lease payments is recognized on a straight-line basis over the lease term. Lease expense associated with leases that have a term of 12 months or less as of the commencement date are recognized as a component of general and administrative expenses on a straight-line basis over the lease term.

Share Repurchases:

Share repurchases may be made from time-to-time in open market transactions or through privately negotiated transactions under the authorization approved by the Board of Directors. The Company charges the entire excess of cost over par to additional paid-in capital. If the Company's additional paid-in capital balance is reduced to zero, any additional amounts are recognized in retained earnings.

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.

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

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 on the consolidated statements of operations.

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 computation of inside basis requires management to make judgments in estimating the components included in the inside basis as of the date of the Exchange (i.e., cash received by the Company on hypothetical sale of assets, allocation of gain/loss to the Company at the time of the Exchange taking into account complex partnership tax rules). In addition, management estimates the period of time that may generate cash tax savings of such tax attributes and the realizability of the tax attributes. 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, 2020 and 2019, 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.

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

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, 2020, the Company recorded \$0.6 million of other comprehensive income associated with foreign currency translation adjustments. For the year ended December 31, 2019, the Company recorded approximately \$0.1 million of other comprehensive income 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 December 2019, the FASB issued ASU 2019-12, "Simplifying the Accounting for Income Taxes" ("ASU 2019-12"). The amendments in ASU 2019-12 simplify the accounting for income taxes by removing certain exceptions to the general principles in ASC Topic 740, Income Taxes. The amendments also improve consistent application of and simplify U.S. GAAP for other areas of ASC Topic 740 by clarifying and amending existing guidance. ASU 2019-12 will be effective for the Company commencing in the first quarter of fiscal year 2021 with early adoption permitted. The transition requirements are dependent upon each amendment within this update and will be applied either prospectively or retrospectively. The Company is currently assessing the impact of this standard, however, the Company does not expect the standard to have a material impact on the consolidated financial statements.

In October 2020, the FASB issued ASU No. 2020-10, "Codification Improvements." This new guidance moves all disclosure guidance to the appropriate codification section and makes other improvements and technical corrections. The guidance is effective for the fiscal years and interim periods within those years beginning after December 15, 2020. The Company is currently assessing the impact of this standard, however, the Company does not expect the standard to have a material impact on the consolidated financial statements.

Note 3 — Compensation and Benefits

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

	For the Years Ended December 31,	
	2020	2019
	(in thousands)	
Cash Compensation and Other Benefits	\$ 55,283	\$ 58,016
Non-Cash Compensation	13,204	30,093
Total Compensation and Benefits Expense	\$ 68,487	\$ 88,109

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

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 and Class B-1 units of the operating company, Delayed Exchange Class B units, phantom Delayed Exchange Class B units, options to purchase shares of Class A common stock or Delayed Exchange Class B units, and shares of Class A common stock awarded for the years ended December 31, 2020 and 2019, are as follows:

	For the Years Ended December 31,			
	2020		2019	
	Amount	Fair Value ¹	Amount	Fair Value ¹
Class B-1 Units ²	2,092,879	\$ 3.98	3,683,073	\$ 3.98
Delayed Exchange Class B Units ³	620,543	\$ 5.95	1,084,297	\$ 5.91
Deferred Compensation Phantom Delayed Exchange Class B Units ⁴	188,283	\$ 4.67	141,282	\$ 5.95
Options to Purchase Shares of Class A Common Stock ⁵	146,804	\$ 2.03	—	\$ —
Restricted Shares of Class A Common Stock ⁶	16,806	\$ 4.74	—	\$ —
Phantom Delayed Exchange Class B Units ⁷	—	\$ —	1,301,936	\$ 3.61
Options to Purchase Delayed Exchange Class B Units ⁸	—	\$ —	409,448	\$ 1.27
Restricted Class B Units	—	\$ —	44,470	\$ 7.87

- 1 Represents the weighted average grant date estimated fair value per share, unit, or option.
- 2 Represents Class B-1 units issued under the 2007 Equity Incentive Plan (as defined below). These Class B-1 units are entitled to receive dividends for the duration of the holder's employment, and upon the end of employment are exchanged for shares of Class A common stock in an amount based upon the appreciation in price of the Class A common stock from the date of grant to the date of exchange. Amounts reflected include the impact of a modification as of May 1, 2020, which resulted in the cancellation of 166,804 Class B-1 Units. The 3,683,073 Class B-1 units vest immediately and represented non-recurring unit-based awards issued to a number of the firm's key contributors.
- 3 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.
- 4 Represents phantom Delayed Exchange Class B units issued under the 2006 Equity Incentive Plan and pursuant to the Bonus 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.
- 5 Represents options to purchase shares of Class A common stock issued under the 2007 Equity Incentive Plan. These options become exercisable five years from the date of grant. Amounts reflected include the impact of a modification as of May 1, 2020, which resulted in the issuance of 146,804 options to purchase shares of Class A common stock.
- 6 Represents shares of Class A common stock issued under the 2007 Equity Incentive Plan. These shares vest ratably over a period of four years from the date of grant. These shares are restricted and may not be sold until the seventh anniversary of the date of grant. Amounts reflected include the impact of a modification as of May 1, 2020, which resulted in the issuance of 16,806 restricted shares of Class A common stock.
- 7 Represents phantom Delayed Exchange 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. Upon vesting, the resulting Delayed Exchange Class B units may not be exchanged pursuant the Amended and Restated Operating Agreement until the seventh anniversary of the vesting date and are not entitled to any benefits under the Tax Receivable Agreement.
- 8 Represents options to purchase Delayed Exchange Class B units issued under 2006 Equity Incentive Plan (as defined below). During the year ended December 31, 2019, of these options, 94,488 become exercisable immediately and 314,960 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.

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

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, 2020, \$3.8 million of cash compensation was elected to be paid in the form of equity, which was issued and vested immediately on January 1, 2021. Details of these awards issued on January 1, 2021 are as follows:

	January 1, 2021	
	Amount	Fair Value ¹
Delayed Exchange Class B Units ²	805,987	\$ 4.67
Restricted Shares of Class A Common Stock ³	12,353	\$ 4.67

- 1 Represents the weighted average grant date estimated fair value per share, unit, or option as of December 31, 2020.
- 2 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.
- 3 Represents shares of Class A common stock issued under the 2007 Equity Incentive Plan. These shares vest immediately upon grant, but are restricted and may not be sold until the seventh anniversary of the date of grant.

Pursuant to the 2006 Equity Incentive Plan, the operating company issues Class B units, Class B-1 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, Class B-1 units, options to purchase Class A common stock, and contingently vesting options to acquire shares of Class A common stock.

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, 2020 and 2019, the liability associated with deferred compensation investment accounts was \$5.0 million and \$3.6 million, respectively.

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 second quarter of 2020, the Company's Board of Directors agreed to waive compensation for the full year of 2020, which resulted in the forfeiture of 49,673 phantom shares of Class A common stock. During the fourth quarter of 2020, the Board of Directors elected to re-instate 50% of their compensation for the year of 2020. For the years ended December 31, 2020 and 2019, the directors were awarded 78,416 and 67,512 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, 2020 and 2019, there were 533,444 and 455,028 phantom shares of Class A common stock

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

outstanding, respectively. There were no distributions made under the Director Plan during the years ended December 31, 2020 and 2019.

The Company uses a fair value method in recording the expense associated with the granting of Class B units, Class B-1 units, Delayed Exchange Class B units, phantom Delayed Exchange 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 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 and Class B-1 units under the 2006 and 2007 Equity Incentive Plans are determined by reference to the market price of our Class A common stock on the date of grant, since Class B and Class B-1 units are exchangeable for shares of our Class A common stock, adjusted for the impact of award terms on the value of the award. Certain of the 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 these terms. The Class B-1 units are entitled to distributions for the duration of the holder's employment and will participate in additional value to the extent there has been appreciation subsequent to the issuance of the Class B-1 unit. The fair value of these awards is determined based on the present value of expected future dividends, an option pricing model where the strike price reflects the threshold value over which appreciation is recognized, and the impact of award terms on the value of the award. 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. Certain of the phantom Delayed Exchange Class B units are not entitled to dividends or dividend equivalents while unvested.

The option model used in the fair value of Options to Purchase Shares of Class A Common Stock, Class B-1 units, and the Delayed Exchange Class B units is determined by using an appropriate option pricing model on the grant date. For each of the years ended December 31, 2020 and 2019 the Company issued options and units valued using the Black-Scholes option pricing model with the following weighted average assumptions:

	2020	2019	
	January 1,	December 31,	January 1,
Weighted Average Time Until Exercise	10 years	10 years	7 years
Expected Volatility	44%	44%	41%
Risk-Free Rate	1.90%	1.90%	2.59%
Dividend Yield	4.40%	4.40%	6.50%

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

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.

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

The following is a summary of the Class B-1 unit activity for the two years ended December 31, 2020:

	For the Years Ended December 31,			
	2020		2019	
	Units Outstanding	Weighted Average Threshold Price	Units Outstanding	Weighted Average Threshold Price
Beginning Balance	3,683,073	\$ 8.15	—	\$ -
Units Granted ¹	2,092,879	8.15	3,683,073	8.15
Units Cancelled	—	—	—	—
Units Forfeited	—	—	—	—
Units Exercised	—	—	—	—
Ending Balance	<u>5,775,952</u>	<u>\$ 8.15</u>	<u>3,683,073</u>	<u>\$ 8.15</u>

¹ Amounts reflected include the impact of a modification as of May 1, 2020, which resulted in the cancellation of 166,804 Class B-1 units.

The weighted average grant-date fair value per Class B-1 unit issued in 2020 and 2019 was \$3.98. During the years ended December 31, 2020 and 2019, no Class B-1 units were exercised as the threshold value was not met.

Exercise prices for Class B-1 units outstanding and exercisable as of December 31, 2020 are as follows:

	Units Outstanding		Units Exercisable	
	Number Outstanding as of December 31, 2020	Weighted Average Threshold Price	Number Exercisable as of December 31, 2020	Weighted Average Threshold Price
\$5.00 – \$10.00	5,775,952	8.15	3,683,073	8.15

Based on the closing market price of the Company's Class A common stock on December 31, 2020, the aggregate intrinsic value of the Company's Class B-1 units options was \$0.

The following is a summary of the option activity for the two years ended December 31, 2020:

	For the Years Ended December 31,			
	2020		2019	
	Options Outstanding	Weighted Average Exercise Price	Options Outstanding	Weighted Average Exercise Price
Beginning Balance	6,779,677	\$ 8.24	8,397,562	\$ 8.87
Options Granted ¹	189,539	7.65	409,448	5.97
Options Cancelled	(8,426)	7.58	(5,833)	8.00
Options Forfeited	(178,740)	6.57	(1,200,000)	12.01
Options Exercised	(19,661)	7.58	(821,500)	8.00
Ending Balance	<u>6,762,389</u>	<u>\$ 8.27</u>	<u>6,779,677</u>	<u>\$ 8.24</u>

¹ Options granted for the year ended December 31, 2020 include 189,539 options to purchase shares of Class A common stock. Options granted for the year ended December 31, 2019 include 409,448 options to purchase Delayed Exchange Class B units.

The weighted average grant-date fair values per option issued in 2020 and 2019 were \$1.84 and \$1.27, respectively. The 19,661 options exercised in 2020 resulted in 603 net Class B units issued, as a result of the redemption of 19,058 Class B units for the cashless exercise of the options. The 821,500 options exercised in 2019 resulted in 29,377 net Class B units issued, as a result of the redemption of 137,132 Class B units for the cashless exercise of the options and 90,980 net Class A shares issued, as a result of the redemption of 564,020 Class A shares for the cashless exercise of the options. The 187,166 and 205,833 options to purchase Class B units that were cancelled or forfeited during 2020 and 2019, respectively, were in connection with employee departures and option expirations. The 1,000,000 options to purchase Class A shares that were forfeited during 2019 were in connection with employee departures. During the years ended December 31, 2020 and 2019, no contingently vesting options vested.

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

Exercise prices for options outstanding and exercisable as of December 31, 2020 are as follows:

	Options Outstanding			Options Exercisable		
	Number Outstanding as of December 31, 2020	Weighted-Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable as of December 31, 2020	Weighted-Average Remaining Contractual Life	Weighted Average Exercise Price
\$4.22 – \$5.00	61,334	1.0	\$ 4.77	61,334	1.0	\$ 4.77
\$5.00 – \$10.00	5,308,921	6.7	7.02	1,215,769	7.1	6.90
\$10.00 – \$15.00	1,392,134	2.7	13.19	22,134	3.0	10.26
\$4.22 – \$15.00	6,762,389	5.8	\$ 8.27	1,299,237	6.7	\$ 6.85

Based on the closing market price of the Company's Class A common stock on December 31, 2020, the aggregate intrinsic value of the Company's options was as follows:

	Options Outstanding	Options Exercisable
	(in thousands)	
Aggregate Intrinsic Value	\$ 1,749	\$ 647

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,			
	2020		2019	
	Phantom Units Outstanding	Weighted Average Price	Phantom Units Outstanding	Weighted Average Price
Beginning Balance	503,869	\$ 6.33	587,017	\$ 6.45
Phantom Delayed Exchange Class B Units Issued ¹	188,283	4.67	141,282	5.95
Vesting of Phantom Delayed Exchange Class B Units ¹	(208,879)	6.56	(224,430)	6.38
Phantom Delayed Exchange Class B Units Forfeited ¹	(10,971)	6.04	—	—
Ending Balance	472,302	\$ 5.57	503,869	\$ 6.33

¹ 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 and Phantom Delayed Exchange 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,			
	2020		2019	
	Phantom Units Outstanding	Weighted Average Price	Phantom Units Outstanding	Weighted Average Price
Beginning Balance	3,734,050	\$ 4.05	3,612,026	\$ 4.18
Phantom Delayed Exchange Class B Units Issued	—	—	1,301,936	3.61
Vesting of Phantom Class B Units	(625,896)	4.29	(681,297)	4.23
Phantom Class B Units Forfeited	—	—	(498,615)	3.61
Ending Balance	3,108,154	\$ 4.00	3,734,050	\$ 4.05

As of December 31, 2020 and 2019, the Company had approximately \$34.8 million and \$39.4 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

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

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, 2020, 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	5,844,923
Pzena Investment Management, Inc. 2007 Equity Incentive Plan	8,110,362
Total	13,955,285

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 each of the years ended December 31, 2020 and 2019, the expense recognized in connection with this plan was \$1.1 million.

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 basic 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, 2020 and 2019, the Company's basic earnings per share was determined as follows:

	For the Years Ended December 31,	
	2020	2019
	(in thousands, except share and per share amounts)	
Net Income Allocated to:		
Class A Common Stock	\$ 8,868	\$ 8,462
Participating Shares of Restricted Class A Common Stock	6	—
Net Income for Basic Earnings Per Share	<u>\$ 8,874</u>	<u>\$ 8,462</u>
Basic Weighted-Average Shares Outstanding	17,196,939	17,945,686
Add: Participating Shares of Restricted Class A Common Stock ¹	11,235	—
Total Basic Weighted-Average Shares Outstanding	<u>17,208,174</u>	<u>17,945,686</u>
Basic Earnings per Share	<u>\$ 0.52</u>	<u>\$ 0.47</u>

¹ 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.

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

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, phantom Delayed Exchange Class B units, 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 any prior period and other adjustments. 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.

For the years ended December 31, 2020 and 2019, the Company's diluted net income was determined as follows:

	For the Years Ended December 31,	
	2020	2019
	(in thousands)	
Net Income Attributable to Non-Controlling Interests of Pzena Investment Management, LLC	\$ 42,421	\$ 36,570
Less: Assumed Corporate Income Taxes	(10,529)	(10,986)
Assumed After-Tax Income of Pzena Investment Management, LLC	31,892	25,584
Net Income of Pzena Investment Management, Inc.	8,874	8,462
Diluted Net Income	\$ 40,766	\$ 34,046

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. Dividend equivalent distributions paid per share on the Company's unvested Class B units are equal to the dividends paid per share of Class A common stock of the Company.

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

For the years ended December 31, 2020 and 2019, the Company's diluted earnings per share were determined as follows:

	For the Years Ended December 31,	
	2020	2019
(In thousands, except share and per share amounts)		
Diluted Net Income Allocated to:		
Class A Common Stock	\$ 37,732	\$ 34,046
Participating Shares of Restricted Class A Common Stock	6	—
Participating Class B Units and Class B-1 Units	3,028	—
Total Diluted Net Income Attributable to Shareholders	\$ 40,766	\$ 34,046
Basic Weighted-Average Shares Outstanding	17,208,174	17,945,686
Dilutive Effect of Class B Units	54,156,631	52,132,910
Dilutive Effect of Options ¹	12,637	759,797
Dilutive Effect of Phantom Units	1,874,199	3,243,612
Dilutive Effect of Restricted Shares of Class A Common Stock ²	12,660	44,107
Dilutive Weighted-Average Shares Outstanding	73,264,301	74,126,112
Add: Participating Class B Units and Class B-1 Units ³	5,879,409	73,196
Total Dilutive Weighted-Average Shares Outstanding	79,143,710	74,199,308
Diluted Earnings per Share	\$ 0.52	\$ 0.46

- 1 Represents the dilutive effect of options to purchase Class B units, Delayed Exchange 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. Vested and unvested Class B-1 units are entitled to receive distributions for the duration of the holder's employment with the operating company, will participate in additional value to the extent there has been appreciation subsequent to the issuance of the Class B-1 membership unit. Unvested Class B units and vested and unvested Class B-1 units are included in the computation of diluted earnings per share using the two-class method for participating securities.

Approximately 5.5 million options to purchase Class B units, 0.2 million options to purchase shares of Class A common stock, and 1.0 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, 2020, 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 0.3 million options to purchase Class B units, 0.1 million options to purchase shares of Class A common stock, and 1.0 million contingent options to purchase Class A common stock were excluded from the calculation of diluted earnings per share for the year ended December 31, 2019, 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. Class B-1 membership units, first issued on December 31, 2019, are entitled to receive distributions for the duration of the holder's employment with the operating company, will participate in additional value to the extent there has been appreciation subsequent to the issuance of the Class B-1 membership unit. As of December 31, 2020, the holders of Class A common stock (through the Company) and the holders of Class B units of the operating company held approximately 24.2% and 75.8%, respectively, of the economic interest in the December 31, 2020 value of the operating company. As of December 31, 2020, the holders of Class A common stock (through the Company), the holders of Class B units of the operating company, and the holders of Class B-1 units of the operating company held 22.4%, 70.1%, and 7.5%, respectively, of the right to the future income and distributions. As of December 31, 2019, the holders of Class A common stock (through the Company)

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

and the holders of Class B units of the operating company held approximately 26.4% and 73.6%, respectively, of the economic interest in the December 31, 2019 value of the operating company. As of December 31, 2019, the holders of Class A common stock (through the Company), the holders of Class B units of the operating company, and the holders of Class B-1 units of the operating company held 24.1%, 71.0%, and 4.9%, respectively, of the right to the future income and distributions

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). Class B-1 units have not been issued corresponding shares and do not have voting rights.

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 in accordance 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.

Pursuant to the operating agreement of the operating company, each vested Class B-1 unit, upon the end of the holder's employment, is exchanged for shares of Class A common stock in an amount based upon the appreciation in price of the Class A common stock from the date of grant to the date of exchange.

On December 22, 2020 and December 23, 2019, certain of the operating company's members exchanged an aggregate of 494,316 and 234,602, 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.

The incremental assets and liabilities assumed in the exchanges were recorded on December 22, 2020 and December 23, 2019 as follows:

	December 22, 2020	December 23, 2019
	(in thousands)	
Pzena Investment Management, LLC Members' Capital	\$ 6,694	\$ 3,134
Pzena Investment Management, LLC Accumulated Deficit	(6,072)	(2,805)
Realizable Deferred Tax Asset	506	12
Net Tax Receivable Liability to Converting Unitholders	(430)	(10)
Total	<u>\$ 698</u>	<u>\$ 331</u>
Common Stock, at Par	\$ 5	\$ 2
Additional Paid-in Capital	693	329
Total	<u>\$ 698</u>	<u>\$ 331</u>

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. On

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

April 19, 2018, the Company announced an additional increase of \$30 million in the aggregate amount authorized under the current program to repurchase Class A common stock and Class B units. 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, 2020, the Company purchased and retired 1,211,573 shares of Class A common stock and 107,204 Class B units at an average price per share of \$6.32 and \$5.97, respectively. During the year ended December 31, 2019, the Company purchased and retired 734,443 shares of Class A common stock and 198,214 Class B units at an average price per share of \$8.74 and \$6.94, 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, 2020 and 2019, 554,860 and 19,338 Delayed Exchange Class B units were issued for approximately \$2.3 million and \$0.1 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,	
	2020	2019
	(in thousands)	
Non-Controlling Interests of Pzena Investment Management, LLC	\$ 42,421	\$ 36,570
Non-Controlling Interests of Consolidated Subsidiaries	243	444
Non-Controlling Interests	\$ 42,664	\$ 37,014

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.

Note 8 — Investments

The following is a summary of Investments:

	As of	
	December 31, 2020	December 31, 2019
	(in thousands)	
Equity Investments, at Fair Value		
Equity Securities	\$ 18,739	\$ 15,715
Mutual Funds	7,314	20,039
Total Equity Investments, at Fair Value	\$ 26,053	\$ 35,754
Trading Securities		
U.S. Treasury Bills	—	9,100
Total Trading Securities	—	9,100
Investment in Equity Method Investees	8,051	11,080
Total	\$ 34,104	\$ 55,934

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

Investment Securities, Trading

Investments, at Fair Value consisted of the following at December 31, 2020:

	<u>Cost</u>	<u>Unrealized Gain/(Loss) (in thousands)</u>	<u>Fair Value</u>
Equity Securities	\$ 16,521	\$ 2,218	\$ 18,739
Mutual Funds	7,293	21	7,314
Total Equity Investments, at Fair Value	<u>\$ 23,814</u>	<u>\$ 2,239</u>	<u>\$ 26,053</u>

Securities Sold Short, at Fair Value consisted of the following at December 31, 2020:

	<u>Cost</u>	<u>Unrealized Gain/(Loss) (in thousands)</u>	<u>Fair Value</u>
Equity Securities	\$ 620	\$ 94	\$ 714
Total Securities Sold Short, at Fair Value	<u>\$ 620</u>	<u>\$ 94</u>	<u>\$ 714</u>

Investments, at Fair Value consisted of the following at December 31, 2019:

	<u>Cost</u>	<u>Unrealized (Gain)/Loss (in thousands)</u>	<u>Fair Value</u>
Equity Securities	\$ 14,712	\$ 1,003	\$ 15,715
Mutual Funds	\$ 20,015	\$ 24	\$ 20,039
Total Equity Investments, at Fair Value	<u>\$ 34,727</u>	<u>\$ 1,027</u>	<u>\$ 35,754</u>

	<u>Cost</u>	<u>Unrealized Gain/(Loss) (in thousands)</u>	<u>Fair Value</u>
U.S. Treasury Bills	\$ 9,099	\$ 1	\$ 9,100
Total Trading Securities	<u>\$ 9,099</u>	<u>\$ 1</u>	<u>\$ 9,100</u>

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 Investments on the consolidated statements of financial condition. As of December 31, 2020, the Company's investments range between 2% and 5% of the capital of these entities and have an aggregate carrying value of \$8.1 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).

Level 1 assets consist primarily of certain cash equivalents and equity investments held at fair value. Cash investments in actively traded money market funds are measured at net asset values. Equity securities are exchange-traded securities with quoted prices in active markets. The fair value of investments in mutual funds are based on published net asset values.

Level 2 assets consist of debt securities for which the fair values are determined using independent third-party broker or dealer price quotes. U.S. Treasury bills are valued upon quoted market prices for similar assets in active markets, quoted prices for identical or similar assets that are not active and inputs other than quoted prices that are observable or corroborated by observable market data. The fair value of corporate bonds is measured using various techniques, which consider recently executed transactions in securities of the issuer or comparable issuers, market price quotations (where observable), bond spreads and fundamental data relating to the issuer.

Also included in the Company's consolidated statements of financial condition are investments in American Depositary Receipts ("ADRs") and Global Depositary Receipts ("GDRs"). Certain of the Company's ADRs and GDRs may not be listed on a public exchange and may be valued using an evaluated price based on a compilation of observable market information. Inputs used include currency factors, depositary receipt ratios, exchange prices of underlying and common stock of the same issuer, and adjustments for corporate actions. ADRs and GDRs valued using an evaluated price have been classified as Level 2.

The investments in equity method investees are held at their carrying value.

The following tables present these instruments' fair value at December 31, 2020:

	Level 1	Level 2	Level 3	Total
Assets	(in thousands)			
Cash Equivalents:				
Money Market Funds	\$ 8	\$ —	\$ —	\$ 8
U.S. Treasury Bills	—	—	—	—
Corporate Bonds	—	—	—	—
Equity Investments, at Fair Value:				
Equity Securities	18,006	733	—	18,739
Mutual Funds	7,314	—	—	7,314
Trading Securities:				
U.S. Treasury Bills	—	—	—	—
Total	\$ 25,328	\$ 733	\$ —	\$ 26,061
Liabilities				
Securities Sold Short	714	—	—	714
Total	\$ 714	\$ —	\$ —	\$ 714

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

The following tables present these instruments' fair value at December 31, 2019:

Assets	Level 1	Level 2	Level 3	Total
	(in thousands)			
Cash Equivalents:				
Money Market Funds	\$ 17,129	\$ —	\$ —	\$ 17,129
U.S. Treasury Bills	—	—	—	—
Corporate Bonds	—	—	—	—
Equity Investments, at Fair Value:				
Equity Securities	15,195	520	—	15,715
Mutual Funds	20,039	—	—	20,039
Trading Securities:				
U.S. Treasury Bills	—	9,100	—	9,100
Total	<u>\$ 52,363</u>	<u>\$ 9,620</u>	<u>\$ —</u>	<u>\$ 61,983</u>

Transfers among levels, if any, are recorded as of the beginning of the reporting period. For the years ended December 31, 2020, and 2019, there were no transfers between levels. In addition, the Company did not hold any Level 3 securities as of December 31, 2020 and 2019.

Note 10 — Property and Equipment

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

	As of	
	December 31, 2020	December 31, 2019
	(in thousands)	
Leasehold Improvements	\$ 6,929	\$ 6,929
Furniture and Fixtures	1,591	1,591
Computer Hardware	745	701
Computer Software	879	879
Office Equipment	212	212
Total	10,356	10,312
Less: Accumulated Depreciation and Amortization	(5,980)	(4,765)
Total	<u>\$ 4,376</u>	<u>\$ 5,547</u>

Depreciation is included in general and administrative expense and totaled \$1.2 million and \$1.1 million for the years ended December 31, 2020, and 2019, respectively.

Note 11 — Related Party Transactions

For the years ended December 31, 2020, and 2019, the Company earned \$0.8 million and \$0.6 million, respectively, in investment advisory fees from unconsolidated VIEs which receive investment management services from the Company.

During the year ended December 31, 2020, and 2019, 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 \$2.6 million and \$1.7 million at December 31, 2020, and 2019, 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 \$1.3 million of such expenses for the year ended December 31, 2020, and \$1.0 million for the year ended December 31, 2019.

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

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. 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, 2020, and \$0.6 million in the year ended December 31, 2019.

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, 2020, and 2019, \$0.5 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. The Company entered into a four-year sublease agreement commencing on October 1, 2016, which terminated on January 31, 2019. The Company entered into a new sublease agreement commencing on February 1, 2019, that expires on December 31, 2025. During October of 2020, the Company executed an amendment to the sublease agreement. The sublease agreement is cancelable by either the Company or sublessee upon at least six months prior written notice. For the years ended December 31, 2020 and 2019, sublease income decreased annual lease expense by approximately \$0.4 million per year. Sublease income will decrease annual lease expense by approximately \$0.3 million per year beginning in 2021.

During December 2018, the Company signed a non-cancellable amendment to the corporate headquarters lease to obtain additional space that expires on December 31, 2025. In accordance with ASC 842, Leases, the lease term commenced on February 1, 2019 and the Company recorded a Right-of-use Asset and Lease Liability on the consolidated statements of financial condition associated with the new lease.

During June 2019, the Company signed a non-cancellable lease to the business development and client service office in London lease to obtain additional space that expires on October 31, 2021. In accordance with ASC 842, Leases, the lease term commenced on November 1, 2019 and the Company recorded a Right-of-use Asset and Lease Liability on the consolidated statements of financial condition associated with the new lease.

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

Lease expenses were \$2.9 million and \$2.8 million, respectively, for the years ended December 31, 2020, and 2019, and are included in general and administrative expense. Lease expense for each of the years ended December 31, 2020 and 2019, was net of \$0.4 million and \$0.4 million, respectively, in sublease income.

The following table presents the components of operating lease expense, as well as supplemental cash flow information, related to the Company's leases:

	For the Years Ended December 31,	
	2020	2019
	(in thousands)	
Operating lease expense	\$ 2,282	\$ 2,532
Supplemental cash flow information:		
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	\$ 2,330	\$ 2,431
Right-of-use assets obtained in exchange for lease obligations	\$ —	\$ 4,135

The following table presents information regarding the Company's operating leases:

	As of December 31, 2020
	(in thousands)
Operating lease right-of-use assets	\$ 11,578
Operating lease liabilities	\$ 11,905
Weighted-average remaining lease term (in years)	4.9
Weighted-average discount rate	4.3%

Future minimum lease payments are as follows:

Year Ending December 31,	Minimum Payments
	(in thousands)
2021	2,853
2022	2,574
2023	2,596
2024	2,607
2025	2,607
2026 and thereafter	-
Total undiscounted lease payments	13,236
Less discount	(1,331)
Total lease liabilities	<u>\$ 11,905</u>

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 are as follows:

	For the Year Ended December 31,	
	2020	2019
	(in thousands)	
Current Provision:		
Unincorporated and Other Business Taxes ¹	\$ 937	\$ 1,272
Local Corporate Tax	—	29
State Corporate Tax	15	16
Federal Corporate Tax	(103)	278
Total Current Provision	\$ 849	\$ 1,595
Deferred Provision:		
Unincorporated and Other Business Taxes ¹	\$ (79)	\$ 15
Local Corporate Tax	304	376
State Corporate Tax	267	196
Federal Corporate Tax	2,946	3,613
Total Deferred Provision	\$ 3,438	\$ 4,200
Total Income Tax Expense	\$ 4,287	\$ 5,795

1 During the year ended December 31, 2020 and 2019, the operating company recognized a \$1.6 million and \$1.6 million, respectively, tax benefit associated with the reversal of uncertain tax position liabilities and interest related to unincorporated and other business tax expenses.

Pzena Investment Management, Inc.
Notes to Consolidated Financial Statements (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, 2020 and 2019, were as follows:

	For the Year Ended December 31,			
	2020		2019	
	Amount	% of Pretax Income	Amount	% of Pretax Income
	(in thousands, except % amounts)			
Federal Corporate Tax	\$ 11,723	21.0%	\$ 10,767	21.0%
State and Local Corporate Tax, net of Federal Benefit	586	1.0%	617	1.2%
Unincorporated and Other Business Tax ¹	678	1.2%	1,017	2.0%
Non-Controlling Interests	(8,959)	(16.0)%	(7,773)	(15.2)%
Non-Deductible Share-Based Compensation	22	0.0%	730	1.4%
Other	237	0.4%	437	0.9%
Income Tax Expense	\$ 4,287	7.7%	\$ 5,795	11.3%

¹ During the years ended December 31, 2020 and 2019, the operating company recognized a \$1.6 million and \$1.6 million, respectively, tax benefit associated with the reversal of uncertain tax position liabilities and interest related to unincorporated and other business tax expenses.

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, 2020 and 2019 are as follows:

	For the Year Ended December 31, 2020
	(in thousands)
Balance at December 31, 2019	\$ 7,193
Decreases Related to Prior Year Tax Positions	(1,210)
Increases Related to Current Year Tax Positions	1,629
Balance at December 31, 2020	<u>\$ 7,612</u>
	For the Year Ended December 31, 2019
	(in thousands)
Balance at December 31, 2018	\$ 6,460
Decreases Related to Prior Year Tax Positions	(1,218)
Increases Related to Current Year Tax Positions	1,951
Balance at December 31, 2019	<u>\$ 7,193</u>

The Company recognizes accrued interest and penalties related to unrecognized tax benefits as a component of Income Tax Expense on the consolidated statements of operations. As of December 31, 2020 and 2019, the Company had \$7.6 million and \$7.2 million in unrecognized tax benefits, that, if recognized, would affect the provision for income taxes. As of December 31, 2020 and 2019, the Company had interest related to unrecognized tax benefits of \$1.2 million and \$1.1 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 \$4.5 million.

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

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 2017. All tax years subsequent to, and including, 2017 are considered open and subject to examination by tax authorities.

During the twelve months ended December 31, 2020, the Company generated \$0.8 million in net operating loss carryforwards available for U.S. Federal, state and local income tax reporting purposes. As of December 31, 2019, the Company had no remaining net operating loss carryforwards available for U.S. Federal, state and local income tax reporting purposes.

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 bases 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 22, 2020 and December 23, 2019, certain of the operating company’s members exchanged an aggregate of 494,316 and 234,602, 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 \$0.8 million deferred tax asset and corresponding \$0.4 million liability to converting shareholders on December 22, 2020, and a \$0.4 million deferred tax asset and corresponding less than \$0.1 million liability to converting shareholders on December 23, 2019. As required by the *Income Taxes Topic* of the FASB ASC, the Company recorded the effects of these transactions in equity.

As of December 31, 2020 and 2019, the net values of all deferred tax assets were approximately \$29.8 million and \$32.7 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, 2020 and 2019, the Company did not have a valuation allowance recorded against its deferred tax assets.

The change in the Company’s deferred tax assets for the year ended December 31, 2020, is summarized as follows:

	Section 754	Other	Total
	(in thousands)		
Balance at December 31, 2019	\$ 27,953	\$ 4,730	\$ 32,683
Deferred Tax (Expense)	(4,204)	771	(3,433)
Tax Impact of Transactions with Non-Controlling Shareholders	—	(239)	(239)
Unit Exchange	506	314	820
Balance at December 31, 2020	<u>\$ 24,255</u>	<u>\$ 5,576</u>	<u>\$ 29,831</u>

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

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, 2020, is summarized as follows:

	Total
	(in thousands)
Balance at December 31, 2019	\$ (2)
Deferred Tax (Expense)	1
Balance at December 31, 2020	\$ (1)

The change in the Company's deferred tax assets for the year ended December 31, 2019 is summarized as follows:

	Section 754	Other	Total
	(in thousands)		
Balance at December 31, 2018	\$ 32,075	\$ 5,157	\$ 37,232
Deferred Tax (Expense)	(4,134)	(64)	\$ (4,198)
Tax Impact of Transactions with Non-Controlling Shareholders	—	(744)	\$ (744)
Unit Exchange	12	381	\$ 393
Balance at December 31, 2019	\$ 27,953	\$ 4,730	\$ 32,683

The change in the Company's deferred tax liabilities for the year ended December 31, 2019 is summarized as follows:

	Total
	(in thousands)
Balance at December 31, 2018	\$ -
Deferred Tax Benefit/ (Expense)	(2)
Balance at December 31, 2019	\$ (2)

As of December 31, 2020 and 2019, the net values of the liability to selling and converting shareholders were approximately \$25.7 million and \$28.7 million, respectively. The change in the Company's liability to selling and converting shareholders for the years ended December 31, 2020 and 2019, is summarized as follows:

	For the Year Ended December 31,	
	2020	2019
	(in thousands)	
Beginning Balance	\$ 28,652	\$ 32,389
Unit Exchanges	430	10
Tax Receivable Agreement Payments	(2,881)	(3,689)
Change in Liability	(500)	(58)
Ending Balance	\$ 25,701	\$ 28,652

Note 14 — 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 January 26, 2021, the Company declared a year-end dividend of \$0.25 per share of its Class A common stock which was paid on February 25, 2021 to holders of record on February 12, 2021.



Investment
Management

CODE OF BUSINESS CONDUCT AND ETHICS

Code of Business Conduct and Ethics

Revised June 2020

Pzena Investment Management, Inc.
Pzena investment Management, LLC



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



Table of Contents

	Page
<u>PUTTING THIS CODE OF BUSINESS CONDUCT AND ETHICS TO WORK</u>	1
<u>About this Code of Business Conduct and Ethics</u>	1
<u>Purpose</u>	1
<u>Employee Provisions</u>	2
<u>Implementation</u>	2
<u>Definitions</u>	4
<u>RESPONSIBILITY TO OUR ORGANIZATION</u>	5
<u>Conflicts of Interest</u>	5
<u>Prohibited Transactions with Respect to Non-Company Securities</u>	6
<u>Employee Trading Exceptions with Respect to Non-Company Securities</u>	7
<u>Exempt Transactions</u>	7
<u>Pre-Clearance Requirement</u>	8
<u>Reporting Requirements</u>	9
<u>Other Prohibitions</u>	11
<u>Company Disclosures</u>	12
<u>Review</u>	12
<u>Reporting Violations</u>	13
<u>Background Checks</u>	13
<u>Sanctions</u>	13
<u>Required Records</u>	14
<u>Record Retention</u>	14
<u>Waivers of this Code</u>	15
<u>Corporate Opportunities</u>	15
<u>Protection and Proper Use of Company Assets</u>	15
<u>Client Information</u>	15
<u>Portfolio Company Information</u>	16
<u>Company Information</u>	16
<u>INSIDER TRADING</u>	16
<u>FAIR DEALING</u>	17
<u>Antitrust Laws</u>	17
<u>Conspiracies and Collaborations Among Competitors</u>	17
<u>Distribution Issues</u>	18
<u>Penalties</u>	18
<u>Gathering Information About the Company's Competitors</u>	19
<u>RESPONSIBILITY TO OUR PEOPLE</u>	19
<u>Equal Employment Opportunity</u>	19
<u>Non-Discrimination Policy</u>	19
<u>Anti-Harassment Policy</u>	20
<u>Individuals and Conduct Covered</u>	20
<u>Retaliation</u>	20
<u>Reporting an Incident of Harassment, Discrimination or Retaliation</u>	20



<u>Leave Policies</u>	21
<u>Safety in the Workplace</u>	21
<u>Weapons and Workplace Violence</u>	21
<u>Drugs and Alcohol</u>	21
<u>INTERACTING WITH GOVERNMENT</u>	21
<u>Prohibition on Gifts to Government Officials and Employees</u>	21
<u>Political Contributions and Activities</u>	22
<u>Lobbying Activities</u>	22
<u>Bribery of Foreign Officials</u>	22
<u>Amendments and Modifications</u>	23
<u>Form ADV Disclosure</u>	23
<u>Employee Certification</u>	23



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 and on the Company's website. A statement of compliance with this Code must be completed 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 control¹, 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

¹ 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.



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 or participation in a tender offer. 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 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 for any security, or related security (e.g., derivatives, convertible instruments, corporate bonds), 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,



or related 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 Prohibited 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, or related 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; and
- (x) Purchases or sales of futures (except individual stock futures contracts) and commodity contracts.

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, or related security, that is held in a client account or that is being considered for client purchase or sale, must also be



accompanied by a fully completed Securities Transaction Pre-Clearance Form, as approved by the CCO (or Alternate). The Securities Transaction Pre-Clearance Forms generally include the signatures of an Approving Officer, the relevant Portfolio Manager, the Portfolio Implementation Desk 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. Personal Security Transactions in foreign markets will be approved for the next trading session in that local market. 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 records 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 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 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 completing the annual 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. 333-235756, No. 333-221339, No. 333-163370 and No. 333-147027) of Pzena Investment Management, Inc. of our report dated March 9, 2021 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, 2021

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, 2021

/s/ Richard S. Pzena

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, 2021

/s/ Jessica R. Doran

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, 2020, 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, 2021

/s/ Richard S. Pzena

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, 2020, 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, 2021

/s/ Jessica R. Doran

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