Pzena Investment Management, Inc.
Form 10-K
March 08, 2019

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, 2018

or

Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from to

Commission file number 001-33761

PZENA INVESTMENT MANAGEMENT, INC.

(Exact Name of Registrant as Specified in its Charter)

Delaware	20-8999751
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

320 Park Avenue

New York, New York 10022

(Address of Principal Executive Offices)

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

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

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

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

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

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

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

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

Large accelerated filer	Accelerated filer
Non-accelerated filer	Smaller reporting company
	Emerging growth company

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

The aggregate market value of the common equity held by non-affiliates of the registrant as of June 30, 2018, the last business day of its most recently completed second fiscal quarter, was approximately $156.2 million based on the closing sale price of $9.21 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 7, 2019, there were 18,189,544 outstanding shares of the registrant's Class A common stock, par value $0.01 per share.

As of March 7, 2019, there were 52,194,349 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 2019 annual meeting of shareholders (the "2019 Proxy Statement") are incorporated by reference into Part III of this Annual Report on Form 10-K where indicated. The 2019 Proxy Statement will be filed with the U.S. Securities and Exchange Commission within 120 days after the end of the fiscal year to which this report relates.

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

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

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

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

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

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Preliminary Notes

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

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PART I

ITEM 1. BUSINESS

Overview

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

Pzena Investment Management, LLC is comprised of Class A and Class B membership units, each of which have an identical economic interest in the operating company. As a holding company, we hold all 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. For each Class A membership unit held, we have issued one corresponding share of Class A common stock, par value $0.01 per share, which entitles the holder to one vote per share. For each Class B membership unit, we have issued one corresponding share of Class B common stock, par value $0.000001 per share, which entitles the holder to five votes per share without dividend rights, as described below in the graphic illustration. As of December 31, 2018, we owned approximately 26.4% of the economic interest in our operating company and our Class A shareholders hold approximately 6.7% of our voting interests.

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

The graphic below illustrates our holding company structure and ownership as of December 31, 2018.

(1) As of December 31, 2018, the members of Pzena Investment Management, LLC, other than us, consisted of:
- Richard S. Pzena, John P. Goetz, and William L. Lipsey, our named executive officers, and their estate planning vehicles, who collectively held, through direct and indirect interests, approximately 49.9% of the economic interests in Pzena Investment Management, LLC.
- 40 of our other employee members and their estate planning vehicles, who collectively held, through direct and indirect interests, approximately 4.6% of the economic interests in Pzena Investment Management, LLC.
- Certain other members of our operating company, including one of our directors and his related entities, and former employees, who collectively held, through direct and indirect interests, approximately 19.1% of the economic interests in Pzena Investment Management, LLC.

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

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

(4) As of December 31, 2018, we held 18,398,211 Class A units of Pzena Investment Management, LLC, which represented the right to receive 26.4% of the distributions made by Pzena Investment Management, LLC.

(5) As of December 31, 2018, the principals collectively held 51,302,126 Class B units of Pzena Investment Management, LLC, which represented the right to receive 73.6% of the distributions made by Pzena Investment Management, LLC.

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

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

- willingness to invest in companies before their stock prices reflect signs of business improvement, and
- significant patience, based upon our understanding of the business' fundamentals, and our long-term investment horizon.

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

Our assets under management, or AUM, was $33.4 billion at December 31, 2018, 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 of our Chief Executive Officer (CEO), Mr. Richard S. Pzena; each of our Presidents, Messrs. John P. Goetz and William L. Lipsey; and our Chief Operating Officer (COO), Mr. Gary J. Bachman (the "Executive Committee").

Our Competitive Strengths

We believe that the following are our competitive strengths:

- Focus on Investment Excellence. We recognize that we must achieve investment excellence in order to attain long-term business success. All of our business decisions, including the design of our investment process and our willingness to limit AUM in our investment strategies, are focused on producing attractive long-term investment results. We believe that our long-term investment performance, together with our willingness to close our strategies to new investors in order to optimize the prospects for future performance, has contributed to our positive reputation among our clients and the institutional consultants who advise them.
- Consistency of Investment Process. Since our inception over twenty years ago, we have utilized a classic value investment approach and a systematic, disciplined investment process to construct portfolios for our investment strategies in U.S. and non-U.S. markets across all market capitalizations. The consistency of our process has allowed us to leverage the same investment team to launch new strategies. We believe that our consistent investment process has resulted in our strong brand recognition in the investment community.
- Diverse and High Quality Client Base. We believe that we have developed a favorable reputation in the institutional investment community. This is evidenced by our strong relationships with institutional investors, investment consultants, and mutual fund providers, as well as the diversity and sophistication of our investors. For more information concerning our client base, see "Our Client Relationships and Distribution Approach" below.
- Experienced Investment Professionals and a Team-Oriented Approach. We believe that our greatest asset is the experience of the individuals on our team. For more information on our investment team, see "Our Investment Team" below.
- Employee Retention. We have focused on building an environment that we believe is attractive to talented investment professionals. Important among our practices are our team-oriented approach to investment decisions, rotation of coverage areas among individuals, and our culture of employee ownership.

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- 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, 2018, we had 43 employee members positioned within all of our functional areas. We believe this ownership model results in a shared sense of purpose with our clients and their advisers. We intend to continue fostering a culture of ownership through our equity incentive plans, which are designed to align our team's interests with those of our stockholders and clients. We believe this culture of ownership contributes to our team orientation and connection with clients.

Our Business Strategy

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

- Unwavering Focus on Classic Value Investing. We view our unwavering focus on long-term classic value investment excellence to be the key driver of our business success.
- Capitalize on Growth Opportunities Created By Our Global Strategies. Among both institutional and retail investors industry-wide, over the past few years, there have been increasing levels of investments in portfolios including non-U.S. equities. As of December 31, 2018, the total AUM in our Global Value strategies, International Value strategies, Emerging Markets Value strategy, European Value strategy, and other Global & non-U.S. strategies was $18.9 billion, or 56.6% 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, 2018, our largest consultant relationship represented approximately 10.5% of our AUM.
- Expand Our Non-U.S. Client Base. In recent years, we have increased our efforts to develop our non-U.S. client base. Through our strong relationships with global consultants, we have been able to accelerate the development of our relationships with their non-U.S. branches. Over time, we aim to achieve growth of this client base through these relationships and by directly calling on the world's largest institutional investors. We have also sought to expand our non-U.S. base through our relationships with non-U.S. mutual funds and other investment fund advisers. In addition to our headquarters in the United States, we have a business development and client service office in London as well as a representative office in Melbourne. To date, our marketing efforts have resulted in client relationships in sixteen non-U.S. countries, including Australia, the United Kingdom, Luxembourg, Canada, and Ireland. As of December 31, 2018, we managed $10.8 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. During 2018, we launched a fifth SEC-registered Pzena mutual fund and an additional private placement vehicle for which we act as the sole investment adviser in an effort to expand the access investors have to our strategies. For more information concerning access to our strategies and our distribution approach, see "Our Client Relationships and Distribution Approach" below.

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- Employ Global Team to Serve Clients and Prospects. Our business development and client service professionals are critical to our business, as noted below under "Business Development and Client Service Teams," and are generally focused geographically 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. We recognize the importance of considering environmental, social and governance (ESG) issues as part of a robust investment process. In the beginning of 2018, we became a signatory to the Principles for Responsible Investment (PRI), which is a leading global responsible investment network of investment managers, service providers and asset owners.

Our Investment Team

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

As of December 31, 2018, we had a 24-member investment team. Each member serves as a research analyst, and certain members of the team also have portfolio management responsibilities. There are generally three portfolio managers for each investment strategy. These three managers have joint decision-making responsibility, and each has “veto authority” over all decisions regarding the relevant portfolio. Research analysts have sector and company-level research responsibilities which span all of our investment strategies, including those with a non-U.S. focus. In order to facilitate the professional development of our team, and to keep a fresh perspective on the companies in our investment portfolios, our research analysts generally rotate industry coverage every three to four years.

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

Our Investment Strategies

As of December 31, 2018, our approximately $33.4 billion in AUM was invested in a variety of value-oriented investment strategies, representing differing degrees of concentration, and capitalization segments of U.S. and non-U.S. markets. See "Item 7 — Management's Discussion and Analysis of Financial Condition & Results of Operations — Operating Results — Assets Under Management and Flows" for additional details about our strategies.

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The following table identifies our current U.S. and non-U.S. investment strategies, and the allocation of our AUM among them, as of December 31, 2018, 2017, and 2016:

Strategy	As of December 31,		
	2018	2017	2016
U.S. Value Strategies	(in billions)		
Large Cap Value	$9.0	$11.2	$9.4
Mid Cap Value	2.3	2.8	2.5
Value	1.8	2.2	2.0
Small Cap Value	1.2	1.6	1.6
Other U.S. Strategies	0.2	0.1	0.1
Global and Non-U.S. Strategies			
Global Value	6.0	6.7	4.6
International Value	5.7	6.3	4.9
Emerging Markets Value	4.0	4.3	2.6
European Value	2.9	3.2	2.1
Other Global and Non-U.S. Strategies	0.3	0.1	0.2
Total	$33.4	$38.5	$30.0

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

Our largest investment strategies as of December 31, 2018 are further described below. This strategy detail is representative of our Value and Focused Value strategies, and variations thereof.

U.S. Strategies

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

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

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

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

Global and Non-U.S. Strategies

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

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

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

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

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

Our Strategy Development Approach

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

Our Investment Performance

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

Our Client Relationships and Distribution Approach

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

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

Our business development and client service team is responsible for:

- identifying, developing relationships with, and marketing to prospective clients;
- providing ongoing service to existing accounts;
- responding to requests for investment management proposals;
- developing and maintaining relationships with independent consultants;
- developing and maintaining relationships with intermediary partners to grow retail distribution capabilities;
- addressing all ongoing client needs, including periodic updates and reporting requirements; and

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

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, 2018	2017	2016
	(in billions)		
Separately Managed Accounts	$12.6	$15.0	$12.5
Sub-Advised Accounts	18.8	21.8	16.3
Pzena Funds	2.0	1.7	1.2
Total	$33.4	$38.5	$30.0

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. In 2018, we launched a fifth Pzena mutual fund. We act as the investment adviser to five Pzena mutual funds that offer no-load, open-end share classes designed to meet the needs of a range of investor types.

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

In the U.S., we offer access to many of our U.S., global and non-U.S. strategies through private placement vehicles and collective investment trusts.

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Advisory Fees

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

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

With respect to our sub-advised accounts, as of December 31, 2018, we sub-advised nineteen 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 nineteen sub-investment advisory agreements are beyond their initial two-year terms as of December 31, 2018. In addition, we sub-advise twenty-nine non-U.S. funds. Under these agreements, we are generally paid a management fee according to a schedule, pursuant to which the rate we earn on the AUM declines as the amount of AUM increases. Certain of these funds pay us fixed-rate management fees. Due to the substantially larger account size of certain of these accounts, the average advisory fees we earn on them, as a percentage of AUM, are lower than the advisory fees we earn on our separately managed accounts.

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

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

Competition

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

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

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

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

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

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Employees

At December 31, 2018, we had 106 full-time employees, including 24 investment professionals and 15 business development and client service professionals.

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 & Operations Officer and Chief Information Security Officer (“CIOO/CISO”) 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, which we refer to as the Investment Advisers Act, and the SEC’s regulations thereunder, as well as to examination by the SEC’s staff. The Investment Advisers Act imposes substantive regulation on virtually all aspects of Pzena Investment Management, LLC's business and its relationships with its clients. As an investment adviser, Pzena Investment Management, LLC owes fiduciary duties to its clients, which relate to conflicts of interest, client recommendations and other fundamental matters. Applicable requirements relate to, among other things, engaging in transactions with clients, maintaining an effective compliance program, performance fees, solicitation arrangements, advertising, recordkeeping, reporting, and disclosure requirements.

The U.S. funds for which Pzena Investment Management, LLC acts as the sub-investment adviser and five 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, 2018, Pzena Financial Services, LLC had net capital of $400,428, which was $386,894 in excess of its net capital requirement of $13,534.

ERISA-Related Regulation

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

Foreign Regulation

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

Pzena Investment Management, Ltd, our United Kingdom subsidiary, is an appointed representative of Mirabella Advisers LLP which is authorized and regulated by the Financial Conduct Authority ("FCA") in the United Kingdom. In Europe outside of the United Kingdom, Pzena Investment Management, Ltd is an appointed representative and tied agent of 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, or OSC, produce all books, papers, documents, records and correspondence relating to its activities in Ontario, and inform the OSC if it becomes the subject of an investigation or disciplinary action by any financial services or securities regulatory authority or self-regulatory authority. 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 Securities and Exchange Commission ("SEC"). To retrieve these reports, and any amendments thereto, visit the Investor Relations section of our website. The SEC maintains a website at www.sec.gov. All of the materials we filed with the SEC may be accessed free of charge on the SEC's website through its EDGAR page.

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 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, 2018, five client relationships represented 44% and 30% of our AUM and revenue, respectively, including one client relationship which represents approximately 21% and 11% of our AUM and revenue respectively. The termination of any of these relationships and outflow of money from our pooled funds could significantly reduce our revenue, and we may not be able to establish relationships with other clients in order to replace the lost revenue. There can also be no assurance that our agreements with respect to these relationships will remain in place going forward.
- Defined benefit plans are declining: Defined benefit plans are declining as corporate plan sponsors are decreasing their liabilities and shifting employee enrollment to defined contribution plans. Given the reduction in funding and shift to defined contribution plans there is no guarantee that we will be successful in increasing our penetration of the defined contribution market, which could limit our ability to grow our AUM.
- Intermediary dependence: New accounts sourced through consultant-led searches have been a large driver of our inflows in the past, and are expected to be a major component of our inflows going forward. We have also established relationships with certain mutual fund providers who have offered us opportunities to access certain market segments through sub-investment advisory roles. Such consultants and mutual fund providers routinely

review and evaluate our organization and the services we offer, and poor evaluations may result in client outflows and impact our ability to attract new assets through such intermediaries. See "Item 1 — Our Business Strategy — Work with Our Strong Consultant Relationships" and "Item 1 — Our Client Relationships and Distribution Approach — Distribution Channels."

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

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

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

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

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

A portion of our investment advisory revenue is also derived from performance fees. We generally earn performance fees under certain client agreements according to the performance relative to an agreed-upon benchmark. This fee structure results in a lower base fee but allows for us to earn higher fees if the investment strategy outperforms the benchmark. Some performance-based fee arrangements include high-water mark provisions, which generally provide that if a client account underperforms relative to its performance target, it must gain back such underperformance before we can collect future performance-based fees. Therefore, if we fail to achieve the performance target for a particular period, we may not earn a performance fee for that period and for accounts with a high-water mark provision, our ability to earn future performance fees may be impaired. During fiscal years 2018 and 2017, we earned $2.9 million and $3.2 million in performance fees, respectively. An increase in performance-based fee arrangements with clients could create greater fluctuations in our revenue and earnings.

In addition, certain accounts related to one retail client relationship have fulcrum fee arrangements. These fee arrangements require a reduction in the base fee, or allow for a performance fee if the relevant investment strategy underperforms or outperforms, respectively, the agreed-upon benchmark over the contract's measurement period, which extends to three years. For the year ended December 31, 2018, we recognized a reduction in base fees in the amount of $0.2 million related to fulcrum fee arrangements. To the extent the three-year performance records of these accounts fluctuate relative to their relevant benchmarks, the amount of base fees recognized may vary.

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

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

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

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

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

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

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

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

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

We offer investment management services in different regulatory jurisdictions around the world, and intend to continue to expand our operations internationally. In order to remain competitive, we must be proactive and prepared to deploy necessary resources when and where growth opportunities present themselves. If we lack the necessary resources and/or personnel, we may be unable to take full advantage of strategic opportunities when they appear and our strategic decisions may not be efficiently implemented. Meeting local requirements and complying with local industry standards may also place additional demands on sales and compliance personnel and resources that we may not be able to meet. Finding and hiring additional, well-qualified personnel and crafting and adopting policies, procedures and controls to address local or regional requirements remain a challenge as we expand our

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operations internationally. Moreover, regulators could also change their policies or laws in a manner that might restrict or otherwise impede our ability to offer our investment products in their respective markets. Any of these requirements, activities, or needs could increase the costs and expenses we incur in a specific jurisdiction without any corresponding increase in revenue and income from operating in such jurisdiction.

The investment management business is intensely competitive.

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

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

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

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

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

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

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

We are subject to extensive regulation of our investment management business and operations. As a registered investment adviser, the SEC oversees our activities pursuant to its regulatory authority under the Investment Advisers Act. In addition, we must comply with certain requirements under the Investment Company Act with respect to the SEC-registered funds for which we act as investment adviser or sub-investment adviser. 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

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jurisdiction over us has the authority to regulate various aspects of financial services, including the authority to grant, and, in specific circumstances to cancel, permissions to carry on particular businesses. Our failure to comply with applicable laws or regulations could result in fines, censure, suspensions of personnel or other sanctions, including revocation of our registration as an investment adviser. Even if a sanction imposed against us is small in monetary amount, the adverse publicity arising from the imposition of such sanctions by regulators could harm our reputation, result in withdrawal by our clients and/or impede our ability to retain clients and develop new client relationships. As we continue to expand into the international market, we may also be under the regulatory scope of local regulatory authorities and non-compliance with any of these authorities may result in fines, sanctions and inability to operate in that local market.

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

The United Kingdom (U.K.) and other European jurisdictions in which we operate have implemented the Markets in Financial Instruments Directive (MiFID) rules into national legislation. MiFID II, which 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 (ESMA). MiFID II has significant impact on the European Union (EU) securities market, including (i) enhanced investor protection and governance standards, (ii) rules regarding the ability of portfolio management firms to receive and pay for investment research relating to all asset classes, (iii) an enhanced role for ESMA in supervising EU securities, (iv) new requirements regarding non-EU investment firms' access to EU financial markets, as well as many other requirements for derivatives and trading activities. In particular, compliance with MiFID II may increase costs and affect the manner in which our businesses obtain investment research services.

The U.K.'s decision to exit the European Union following the June 2016 vote on the matter (referred to as Brexit) may disrupt our business operations and impact our financial results and value of our investments. Brexit has caused significant geo-political and legal uncertainty and market volatility in the U.K. and elsewhere, which has continued during the Brexit negotiation process. Depending on the outcome of the Brexit negotiations, our ability to market and provide services within the European Union could be restricted temporarily or in the long term. Our contingency plans for certain Brexit scenarios require the cooperation of counterparties or a regulator of financial services to make timely arrangements. We cannot guarantee that counterparties or regulators will cooperate or the timeliness of their cooperation. Our operating expenses may increase as we implement our plan to continue to market and provide our services and distribute our products in the short and/or long term.

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

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.

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. The Tax Cuts and Jobs Act enacted into U.S. law in December 2017 included a permanent reduction in the corporate income tax rate. This change in future tax rates caused the carrying value of our deferred tax assets to be lowered. Furthermore, additional guidance and changes may be issued that may have a direct effect on our financial condition, results of operations and liquidity. We are also subject to potential tax audits in various jurisdictions and in such event, tax authorities may disagree with certain positions we have taken and assess penalties or additional taxes. We regularly assess the likely outcomes of these potential audits in order to determine the appropriateness of our tax provision; however, there can be no assurance that we will accurately predict the outcomes of these potential audits. The actual outcomes of these potential audits could have a material impact on our net income or financial condition and any changes in tax laws or tax rulings could materially impact our effective tax rate and earnings.

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

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

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

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

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

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

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

We are dependent on the effectiveness of our, and our third-party vendors', information and cyber security infrastructure, policies, procedures and capabilities to protect our computer and telecommunications systems and the data that resides in or is transmitted through them. As part of our normal operations, we maintain and transmit confidential information about our clients as well as proprietary information relating to our business operations. We

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maintain a system of internal controls designed to provide reasonable assurance that fraudulent activity, including misappropriation of assets, fraudulent financial reporting, and unauthorized access to sensitive or confidential data is either prevented or detected in a timely manner. We are continuously working to install new, and upgrade existing, information technology systems and provide employee awareness training around phishing, malware, and other cyber risks to ensure that we are protected, to the greatest extent possible, against cyber risks and security breaches.

We also strive to understand the protective measures of our third-party vendors and ensure that we have complementary user controls in place to mitigate risk, however our information technology systems may still be vulnerable to unauthorized access or may be corrupted by cyber-attacks, computer viruses or other malicious software code, or authorized persons could inadvertently or intentionally release confidential or proprietary information. Although we take precautions to password protect and/or encrypt our electronic hardware, if such hardware is stolen, misplaced or left unattended, it may become vulnerable to hacking or other unauthorized use, creating a possible security risk and resulting in potentially costly consequences to us. A breach of our technology systems could result in the loss of valuable information, liability for stolen assets or information, remediation costs to repair damage caused by the breach, additional security costs to mitigate against future incidents and legal costs resulting from the incident. Moreover, loss of confidential customer information could harm our reputation, result in the termination of contracts by our existing customers and subject us to liability under laws that protect confidential data, resulting in loss of revenue.

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

We rely on various third parties and other vendors to fulfill their obligations to us, whether specified by contract, course of dealing or otherwise. Disruptions in the financial markets and other economic challenges may cause our counterparties and other vendors to experience significant cash flow problems or even render them insolvent, which may expose us to credit, operational or other risk.

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

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

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

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

These risks are often difficult to assess or quantify and their existence and magnitude often remain unknown for substantial periods of time.

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

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

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

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

Risks Related to Our Investment Strategies and Process

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

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

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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 \$18.9 billion and \$20.6 billion of our AUM as of December 31, 2018 and 2017, respectively, are primarily invested in securities of companies located outside the United States. As of December 31, 2018, approximately 45% 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.

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.

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Risks Related to Our Structure

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

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

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

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

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

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

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

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Risks Related to Our Class A Common Stock

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

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

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

Pursuant to the operating agreement of our operating company, on at least one date designated by us each year, certain holders of Class B units 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. 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 2018, we established December 21, 2018 as an exchange date. Certain employee members, non-employee members and permitted transferees, elected to exchange an aggregate of 1,141,663 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, 2018, there remained 51,302,126 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 10,859,317 shares of Class A common stock are registered relating to Class B units that have not been issued.

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

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

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

Our Class B stockholders collectively hold approximately 93% of the combined voting power of our common stock. These stockholders consist of our named executive officers, 40 of our other employees (directly or through their interests in Pzena Investment Management, LP), the estate planning vehicles of our named executive officers and certain of our other employees, certain other members of our operating company, including one of our directors and his related entities, and former employees (directly or through their interests in Pzena Investment Management, LP). Holders of shares of our Class B common stock have entered into a Class B Stockholders' Agreement with respect to all shares of Class B common stock then held by them and any additional shares of Class B common stock they may acquire in the future. Pursuant to this agreement, they may vote these shares of Class B common stock together on all matters submitted to a vote of our common stockholders. To the extent that we cause our operating company to issue additional Class B units, which may be granted, subject to vesting, to our employees pursuant to the PIM LLC 2006 Equity Incentive Plan, these employees will be entitled to receive an equivalent number of shares of our Class B common stock, subject to the condition that they agree to enter into this Class B Stockholders' Agreement. Each share of our Class B common stock entitles its holder to five votes per share for so long as the Class B stockholders collectively hold 20% of the total number of shares of our common stock outstanding. When a Class B unit is exchanged for a share of our Class A common stock, an unvested Class B unit is forfeited due to the employee holder's failure to satisfy the conditions of the award agreement pursuant to which it was granted, or any Class B unit is forfeited as a result of a breach of any restrictive covenants contained in our operating company's amended and restated operating agreement, a corresponding share of our Class B common stock will automatically be redeemed by us.

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

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

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

We currently intend to pay cash dividends on a quarterly basis and our Board of Directors has targeted a cash dividend payout ratio of approximately 60% to 70% of annual non-GAAP earnings per share, subject to growth initiatives and other funding needs. However, our Board of Directors may, in its discretion, 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

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quarterly dividend payment. See “Item 5 — Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities — Our Dividend Policy.”

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

As of the date of this Annual Report, our corporate headquarters and principal offices are located at 320 Park Avenue, 8th Floor, New York, New York 10022. On December 1, 2018, we entered into an amendment to our lease providing us with additional space in the same building where we now occupy approximately 40,300 square feet out of approximately 45,050 square feet of space under a non-cancellable operating lease, the term of which expires on December 31, 2025. The Company entered into a new sublease agreement commencing on February 1, 2019 and expiring on December 31, 2025 that is cancelable by either the Company or sublessee given appropriate notice on the second anniversary of the commencement of the sublease agreement, and annually thereafter.

ITEM 3. LEGAL PROCEEDINGS

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

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

ITEM 4. MINE SAFETY DISCLOSURES

Not Applicable.

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PART II.

ITEM 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 7, 2019, there were approximately 35 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 non-GAAP 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 earnings measures, discussed in further detail in "Item 7 — Management's Discussion and Analysis of Financial Condition and Results of Operation — Net Income" in Part II of this Annual Report, to assess the strength of the underlying operations of the business. Included in our annual results are certain tax related and non-recurring adjustments that we feel add a measure of non-operational complexity to our results as reported under GAAP and obscure the underlying performance of the business. Management therefore does not consider these adjustments when evaluating operating results or financial information in any given period, and instead uses non-GAAP measures of earnings, which exclude these items, to analyze our operations between periods, and over time, and to evaluate the financial condition and results of operations. Investors should consider the non-GAAP measures in addition to, and not as a substitute for, financial measures prepared in accordance with GAAP.

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

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

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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 2018 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, 2018 through October 31, 2018	40,608	$ 9.40	40,608	$ 27.7
November 1, 2018 through November 30, 2018	—	—	—	27.5
December 1, 2018 through December 31, 2018	77,143	9.23	77,143	26.6
Total	117,751	$ 9.29	117,751	$ 26.6

(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 14,124 and 30,066 of the operating company's Class B units during November and December 2018, respectively, for an average price of $10.23 and $6.82 per unit, respectively. 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.

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, 2018 and 2017 and the selected consolidated statements of financial condition data as of December 31, 2018 and 2017, 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, 2016, 2015 and 2014, and the selected consolidated statements of financial condition as of December 31, 2016, 2015 and 2014, 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.

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	For the Years Ended December 31,				
	2018	2017	2016	2015	2014
	(in thousands, except share and per share amounts)				
Statements of Operations Data:					
REVENUE					
Management Fees	$150,700	$138,136	$108,129	$112,102	$108,675
Performance Fees	2,879	3,159	207	4,505	3,836
Total Revenue	153,579	141,295	108,336	116,607	112,511
EXPENSES					
Cash Compensation and Benefits	51,600	48,722	41,397	35,431	32,396
Other Non-Cash Compensation	9,819	10,182	6,933	11,092	8,877
Total Compensation and Benefits Expense	61,419	58,904	48,330	46,523	41,273
General and Administrative Expenses	13,405	13,337	12,788	14,667	10,285
TOTAL OPERATING EXPENSES	74,824	72,241	61,118	61,190	51,558
Operating Income	78,755	69,054	47,218	55,417	60,953
Other (Expense)/ Income	(2,658)	25,608	(48,042)	(3,300)	(4,036)
INCOME BEFORE INCOME TAXES	76,097	94,662	(824)	52,117	56,917
Income Tax Provision	7,778	34,512	(54,475)	5,114	1,883
Consolidated Net Income	68,319	60,150	53,651	47,003	55,034
Less: Net Income Attributable to Non-Controlling Interests	54,525	53,242	37,472	39,324	46,934
NET INCOME Attributable to Pzena Investment Management, Inc.	$13,794	$6,908	$16,179	$7,679	$8,100
Per Share Data[1]:					
Net Income for Basic Earnings per Share	$13,794	$6,908	$16,179	$7,679	$8,100
Basic Earnings per Share	$0.78	$0.40	$1.01	$0.55	$0.64
Basic Weighted Average Shares Outstanding	17,678,874	17,338,348	15,962,902	14,014,219	12,628,676
Net Income for Diluted Earnings per Share	$55,347	$40,064	$39,600	$33,809	$35,685
Diluted Earnings per Share[2]	$0.77	$0.40	$0.58	$0.50	$0.53
Diluted Weighted Average Shares Outstanding	71,934,144	70,934,362	68,849,172	68,126,786	67,797,524
Cash Dividends Declared Per Share	$0.51	$0.37	$0.41	$0.41	$0.35

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

(2) During the year ended December 31, 2017, the calculation of diluted earnings per share resulted in an increase in earnings per share. Therefore, diluted earnings per share is assumed to be equal to basic earnings per share. See Note 5 to our consolidated financial statements beginning on page F-22 of this Annual Report for further details.

	As of December 31,				
	2018	2017	2016	2015	2014
	(in thousands)				
Statements of Financial Condition Data:					
Cash and Cash Equivalents	$38,099	$63,414	$43,522	$35,417	$39,109
TOTAL ASSETS	170,976	169,047	179,121	114,309	111,886
TOTAL LIABILITIES	71,968	69,758	97,787	28,847	26,853
Non-Controlling Interests	66,006	66,985	52,841	67,040	66,632
EQUITY	33,002	32,304	28,493	18,422	18,401

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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, 2018, our assets under management, or AUM, was approximately $33.4 billion. We manage separate accounts on behalf of institutions, act as sub-investment adviser for a variety of SEC-registered mutual funds and non-U.S. funds, and act as investment adviser for the Pzena mutual funds, certain private placement funds and non-U.S. funds.

We function as the sole managing member of our operating company, Pzena Investment Management, LLC (the "operating company"). As a result, we: (i) consolidate the financial results of our operating company with our own, and reflect the membership interest in it that we do not own as a non-controlling interest in our consolidated financial statements; and (ii) recognize income generated from our economic interest in our operating company's net income. As of December 31, 2018, the holders of our Class A common stock and the holders of Class B units of our operating company held approximately 26.4% and 73.6%, respectively, of the economic interests in the operations of our business.

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

Our named executive officers and certain of our employees have interests in Pzena Investment Management, LP and certain estate planning vehicles through which they indirectly own Class B units of our operating company. As of December 31, 2018, through direct and indirect interests, our three named executive officers; 40 other employee members; and certain other members of our operating company, including one of our directors, his related entities, and certain former employees, collectively held 49.9%, 4.6%, and 19.1% of the economic interests in our operating company, respectively.

Net Income

GAAP diluted net income and GAAP diluted earnings per share were $55.3 million and $0.77, respectively, for the year ended December 31, 2018, and $40.1 million and $0.40, respectively, for the year ended December 31, 2017. During the year ended December 31, 2017, the calculation of diluted earnings per share resulted in an increase in earnings per share. Therefore, diluted earnings per share is assumed to be equal to basic earnings per share.

In evaluating the results of operations, we also review non-GAAP measures of earnings, which are adjusted to exclude accounting items that add a measure of non-operational complexity which obscures the underlying performance of the business. For the year ended December 31, 2018 and 2017, earnings were adjusted to exclude changes in the deferred tax asset and corresponding liability to the Company's selling and converting shareholders associated with a change in the calculation of historical 754 step-ups. For the year ended December 31, 2017, earnings were also adjusted to exclude the impact of the Tax Cuts and Jobs Act enacted in the fourth quarter of 2017. We use these non-GAAP measures to assess the strength of the underlying operations of the business. We believe that these adjustments, and the non-GAAP measures derived from them, provide information to better analyze our operations between periods, and over time. Investors should consider these non-GAAP measures in addition to, and not as a substitute for, financial measures prepared in accordance with GAAP.

As adjusted, non-GAAP diluted net income and non-GAAP diluted earnings per share were $55.6 million and $0.77, respectively, for the year ended December 31, 2018, and $44.7 million and $0.63, respectively, for the year ended December 31, 2017. GAAP and non-GAAP net income for diluted earnings per share generally assumes all operating company membership units are converted into Company stock at the beginning of the reporting period, and the resulting change to our GAAP and non-GAAP net income associated with our increased interest in the operating company is taxed at our historical effective tax rate, exclusive of the adjustments related to our tax receivable agreement and the associated liability to selling and converting shareholders, the adjustments related to the non-recurring charges recognized in operating expenses, and other adjustments as noted above. Our effective tax

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rate, exclusive of these adjustments, was 24.1% for the year ended December 31, 2018 and approximately 36.7% for the year ended December 31, 2017. See “Operating Results — Income Tax Expense” below.

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

	For the Years Ended December 31,	
	2018	2017
	(in thousands, except share and per share amounts)	
GAAP Net Income	$13,794	$6,908
Net Expense as a result of Tax Cuts and Jobs Act	—	5,649
Impact of Change in Historical 754 Step-Up Calculations[1]	246	(1,006)
Non-GAAP Net Income	$14,040	$11,551
Basic Weighted Average Shares Outstanding	17,678,874	17,338,348
GAAP Basic Earnings per Share	$0.78	$0.40
Net Expense as a result of Tax Cuts and Jobs Act	—	0.33
Impact of Change in Historical 754 Step-Up Calculations[1]	0.01	(0.06)
Non-GAAP Basic Earnings per Share	$0.79	$0.67
GAAP Net Income for Diluted Earnings per Share	$55,347	$40,063
Net Expense as a result of Tax Cuts and Jobs Act	—	5,649
Impact of Change in Historical 754 Step-Up Calculations[1]	246	(1,006)
Non-GAAP Net Income for Diluted Earnings per Share	$55,593	$44,706
Basic Weighted Average Shares Outstanding	71,934,144	70,934,362
GAAP Diluted Earnings per Share	$0.77	$0.56
Net Expense as a result of Tax Cuts and Jobs Act	—	0.08
Impact of Change in Historical 754 Step-Up Calculations[1]	—	(0.01)
Non-GAAP Diluted Earnings per Share	$0.77	$0.63

1 Reflects the net impact of a change in the calculation of historical 754 step-ups and related deferred tax asset and corresponding liability to selling and converting shareholders recognized during the years ended December 31, 2018 and 2017 as noted in the income tax expense discussion below.

Revenue

We generate revenue primarily from management fees and performance fees, which we collectively refer to as our advisory fees, by managing assets on behalf of our separately managed and sub-advised accounts, as well as our Pzena funds. Our advisory fee income is primarily based on our AUM, as discussed below, and is recognized over the period in which investment management services are provided. 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. Upon adoption of ASU No. 2014-09 on January 1, 2018, advisory fee income also includes fund expense cap reimbursements which are required to be presented net against revenue rather than as a component of general and administrative expense.

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

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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 a performance fee if the relevant investment strategy underperforms or outperforms, respectively, the agreed-upon benchmark.

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

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

Expenses

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

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

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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 (Expense)/ Income

Other (expense)/ income is derived primarily from investment income or loss arising from our consolidated subsidiaries and interest income generated on our cash balances. Other (expense)/ income is also affected by changes in our estimates of the liability due to our selling and converting shareholders associated with payments owed to them under the tax receivable agreement which was executed in connection with our reorganization and initial public offering on October 30, 2007. As discussed further below under "Tax Receivable Agreement," this liability represents 85% of the amount of cash savings, if any, in U.S. federal, state, and local income tax that we realize as a result of the amortization of the increases in tax basis generated from our acquisitions of our operating company's units from our selling and converting shareholders. We expect the interest and investment components of other (expense)/ income, 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, 2018, the holders of our Class A common stock and the holders of Class B units of our operating company held approximately 26.4% and 73.6%, respectively, of the economic interests in the operations of our business. In addition, our operating company consolidates the results of operations of the private investment partnerships and Pzena-branded mutual funds over which we exercise a controlling influence. Non-controlling interests recorded in our consolidated financial statements include the non-controlling interests of the outside investors in these consolidated subsidiaries.

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Operating Results

Assets Under Management and Flows

As of December 31, 2018, our approximately $33.4 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, 2018 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, 2018 and 2017:

Strategy	AUM at December 31, 2018	2017
	(in billions)	
U.S. Value Strategies		
Large Cap Value	$9.0	$11.2
Mid Cap Value	2.3	2.8
Value	1.8	2.2
Small Cap Value	1.2	1.6
Other U.S. Strategies	0.2	0.1
Total U.S. Value Strategies	14.5	17.9
Global and Non-U.S. Value Strategies		
Global Value	6.0	6.7
International Value	5.7	6.3
Emerging Markets Value	4.0	4.3
European Value	2.9	3.2
Other Global and Non-U.S. Strategies	0.3	0.1
Total Global and Non-U.S. Value Strategies	18.9	20.6
Total	$33.4	$38.5

Account Domicile	AUM at December 31, 2018	2017

	(in billions)	
U.S.	$22.6	$25.6
Non-U.S.	10.8	12.9
Total	$33.4	$38.5

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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, 2018, and in the five-year, three-year, and one-year periods ended December 31, 2018, relative to the performance of the market index which is often used by our clients to compare the performance of the relevant investment strategy.

	Period Ended December 31, 2018[1]			
Investment Strategy (Inception Date)	Since Inception	5 Years	3 Years	1 Year
Large Cap Value (July 2012)				
Annualized Gross Returns	11.4%	5.7 %	7.2 %	(13.4)%
Annualized Net Returns	11.3%	5.5 %	7.1 %	(13.6)%
Russell 1000® Value Index	10.5%	5.9 %	7.0 %	(8.3)%
International Value (November 2008)				
Annualized Gross Returns	9.0 %	0.6 %	4.0 %	(15.4)%
Annualized Net Returns	8.7 %	0.3 %	3.7 %	(15.7)%
MSCI EAFE® Index – Net/U.S.$	6.2 %	0.5 %	2.9 %	(13.8)%
Emerging Markets Focused Value (January 2008)				
Annualized Gross Returns	2.8 %	2.3 %	13.7 %	(9.2)%
Annualized Net Returns	1.9 %	1.5 %	12.9 %	(9.9)%
MSCI® Emerging Markets Index – Net/U.S.$	0.1 %	1.6 %	9.2 %	(14.6)%
Large Cap Focused Value (October 2000)				
Annualized Gross Returns	6.5 %	5.1 %	6.9 %	(16.2)%
Annualized Net Returns	6.1 %	4.7 %	6.5 %	(16.5)%
Russell 1000® Value Index	6.2 %	5.9 %	7.0 %	(8.3)%
Global Value (January 2010)				
Annualized Gross Returns	7.2 %	3.0 %	5.7 %	(14.6)%
Annualized Net Returns	6.9 %	2.6 %	5.3 %	(15.0)%
MSCI® World Index – Net/U.S.$	7.6 %	4.6 %	6.3 %	(8.7)%
European Focused Value (August 2008)				
Annualized Gross Returns	4.0 %	(1.0)%	3.5 %	(20.3)%
Annualized Net Returns	3.7 %	(1.3)%	3.1 %	(20.6)%
MSCI® Europe Index – Net/U.S.$	1.3 %	(0.6)%	2.1 %	(14.9)%
Global Focused Value (January 2004)				
Annualized Gross Returns	4.8 %	2.1 %	5.5 %	(16.8)%
Annualized Net Returns	4.1 %	1.5 %	4.9 %	(17.2)%
MSCI® All Country World Index – Net/U.S.$	6.2 %	4.3 %	6.6 %	(9.4)%
Mid Cap Value (April 2014)				
Annualized Gross Returns	3.7 %	N/A	4.9 %	(20.2)%
Annualized Net Returns	3.5 %	N/A	4.6 %	(20.4)%
Russell Mid Cap® Value Index	4.6 %	N/A	6.1 %	(12.3)%
Focused Value (January 1996)				
Annualized Gross Returns	9.8 %	4.2 %	5.2 %	(20.1)%
Annualized Net Returns	9.0 %	3.6 %	4.8 %	(20.4)%
Russell 1000® Value Index	8.3 %	5.9 %	7.0 %	(8.3)%
Small Cap Focused Value (January 1996)				

Annualized Gross Returns	12.8%	5.8 %	6.2 %	(13.1)%
Annualized Net Returns	11.6%	4.8 %	5.2 %	(14.0)%
Russell 2000® Value Index	9.0 %	3.6 %	7.4 %	(12.9)%
International Focused Value (January 2004)				
Annualized Gross Returns	5.7 %	0.9 %	5.4 %	(15.5)%
Annualized Net Returns	4.9 %	0.3 %	4.9 %	(15.9)%
MSCI® All Country World ex-U.S. Index – Net/U.S.$	5.2 %	0.7 %	4.5 %	(14.2)%
Mid Cap Focused Value (September 1998)				
Annualized Gross Returns	11.5%	4.6 %	5.4 %	(20.9)%
Annualized Net Returns	10.7%	4.0 %	4.7 %	(21.4)%
Russell Mid Cap® Value Index	9.5 %	5.4 %	6.1 %	(12.3)%

1 The historical returns of these investment strategies are not necessarily indicative of their future performance, or the future performance of any of our other current or future investment strategies.
2 Net of applicable withholding taxes and presented in U.S.$.

Large Cap Value. This strategy reflects a portfolio composed of approximately 50 to 80 stocks drawn generally from a universe of 500 of the largest U.S. listed companies, based on market capitalization. This strategy was launched in July 2012. At December 31, 2018, the Large Cap Value strategy generated a one-year annualized gross return of (13.4)%, underperforming its benchmark. The top detracting sector was the financial services sector.

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, 2018, the International Value strategy generated a one-year annualized gross return of (15.4)%, underperforming its benchmark. The top detracting sectors included the financial services and industrials sectors, partially offset by the performance of the information technology sector.

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, 2018, the Emerging Markets Focused Value strategy generated a one-year annualized gross return of (9.2)%, underperforming its benchmark. The top detracting sector was the financial services sector, partially offset by the performance of the consumer staples and communications sectors.

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, 2018, the Large Cap Focused Value strategy generated a one-year annualized gross return of (16.2)%, underperforming its benchmark. The top detracting sectors included the financial services and healthcare 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, 2018, the Global Value strategy generated a one-year annualized gross return of (14.6)%, underperforming its benchmark. The top detracting sectors included the financial services, energy and healthcare 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, 2018, the European Focused Value strategy generated a one-year annualized gross return of (20.3)%, underperforming its benchmark. The top detracting sectors included the consumer staples, industrials, financial services and health care sectors, partially offset by the performance of the information technology sector.

Global Focused Value. This strategy reflects a portfolio composed of approximately 40 to 60 stocks drawn generally from a universe of 2,000 of the largest companies across the world, based on market capitalization. This strategy was launched in January 2004. At December 31, 2018, the Global Focused Value strategy generated a one-year annualized gross return of (16.8)%, underperforming its benchmark. The top detracting sectors included the financial services and health care sectors, partially offset by the performance of certain Chinese stocks.

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, 2018, the Mid Cap Value strategy generated a one-year annualized gross return of (20.2)%, underperforming its benchmark. The top detracting sectors included the health care, financial services, materials & processing, producer durables and utilities sectors.

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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, 2018, the Focused Value strategy generated a one-year annualized gross return of (20.1)%, underperforming its benchmark. The top detracting sectors included the financial services, health care, producer durables, materials & processing and consumer discretionary sectors.

Small Cap Focused Value. This strategy reflects a portfolio composed of approximately 40 to 50 stocks drawn generally from a universe of U.S. listed companies ranked from the 1,001st to 3,000th largest, based on market capitalization. This strategy was launched in January 1996. At December 31, 2018, the Small Cap Focused Value strategy generated a one-year annualized gross return of (13.1)%, underperforming its benchmark. The top detracting sectors included the technology, materials & processing and consumer discretionary sectors, partially offset by the performance of the financial services, producer durables and energy sectors.

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, 2018, the International Focused Value strategy generated a one-year annualized gross return of (15.5)%, underperforming its benchmark. The top detracting sectors included the financial services and industrials sectors, partially offset by the performance of the information technology sector.

Mid Cap Focused Value. This strategy reflects a portfolio composed of approximately 30 to 40 stocks drawn generally from a universe of U.S. listed companies ranked from the 201st to 1,200th largest, based on market capitalization. This strategy was launched in September 1998. At December 31, 2018, the Mid Cap Focused Value strategy generated a one-year annualized gross return of (20.9)%, underperforming its benchmark. The top detracting sectors included the health care, financial services, materials & processing, producer durables and utilities 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.

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The change in AUM in our separately managed accounts, sub-advised accounts and Pzena funds for the years ended December 31, 2018 and 2017 is described below. Inflows are composed of the investment of new or additional assets by new or existing clients. Outflows consist of redemptions of assets by existing clients.

Assets Under Management[1]	For the Years Ended December 31, 2018	2017
	(in billions)	
Separately Managed Accounts		
Assets		
Beginning of Period	$15.0	$12.5
Inflows	1.6	1.4
Outflows	(1.8)	(1.6)
Net Flows	(0.2)	(0.2)
Market Appreciation/(Depreciation)	(2.2)	2.7
End of Period	$12.6	$15.0
Sub-Advised Accounts		
Assets		
Beginning of Period	$21.8	$16.3
Inflows	3.0	3.5
Outflows	(2.4)	(1.8)
Net Flows	0.6	1.7
Market Appreciation/(Depreciation)	(3.6)	3.8
End of Period	$18.8	$21.8
Pzena Funds		
Assets		
Beginning of Period Assets	$1.7	$1.2
Inflows	0.9	0.5
Outflows	(0.3)	(0.3)
Net Flows	0.6	0.2
Market Appreciation/(Depreciation)	(0.3)	0.3
End of Period	$2.0	$1.7
Total		
Assets		
Beginning of Period	$38.5	$30.0
Inflows	5.5	5.4
Outflows	(4.5)	(3.7)
Net Flows	1.0	1.7
Market Appreciation/(Depreciation)	(6.1)	6.8
End of Period	$33.4	$38.5

During the year ended December 31, 2018, our AUM decreased $5.1 billion, or 13.2%, from $38.5 billion at December 31, 2017. This decrease is primarily due to market depreciation, partially offset by net inflows during the year ended December 31, 2018.

At December 31, 2018, we managed $12.6 billion in separately managed accounts, $18.8 billion in sub-advised accounts, and $2.0 billion in Pzena funds, for a total of $33.4 billion in assets. For the year ended December 31, 2018, we experienced $6.1 billion in market depreciation and total gross outflows of $4.5 billion, which were partially offset by total gross inflows of $5.5 billion. Assets in separately managed accounts decreased by $2.4 billion, or 16.0%, from $15.0 billion at December 31, 2017, due to $2.2 billion in market depreciation and $1.8 billion in gross outflows, partially offset by $1.6 billion in gross inflows. Assets in sub-advised accounts decreased by $3.0 billion, or 13.8%, from $21.8 billion at December 31, 2017, due to $3.6 billion in market depreciation and $2.4 billion in gross outflows, partially offset by $3.0 billion in gross inflows. Assets in Pzena funds increased by

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$0.3 billion, or 17.6%, from $1.7 billion at December 31, 2017 as a result of $0.9 billion in gross inflows, partially offset by $0.3 billion in market depreciation and $0.3 billion in gross outflows.

At December 31, 2017, we managed $15.0 billion in separately managed accounts, $21.8 billion in sub-advised accounts, and $1.7 billion in Pzena funds, for a total of $38.5 billion in assets. For the year ended December 31, 2017, we experienced $6.8 billion in market appreciation and total gross inflows of $5.4 billion, which were partially offset by total gross outflows of $3.7 billion. Assets in separately managed accounts increased by $2.5 billion, or 20.0%, from $12.5 billion at December 31, 2016, due to $2.7 billion in market appreciation and $1.4 billion in gross inflows, partially offset by $1.6 billion in gross outflows. Assets in sub-advised accounts increased by $5.5 billion, or 33.7%, from $16.3 billion at December 31, 2016, due to $3.8 billion in market appreciation and $3.5 billion in gross inflows, partially offset by $1.8 billion in gross outflows. Assets in Pzena funds increased by $0.5 billion, or 41.7%, from $1.2 billion at December 31, 2016 as a result of $0.5 billion in gross inflows and $0.3 billion in market appreciation, partially offset by $0.3 billion in gross outflows.

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, 2018 is described below:

Revenue	For the Years Ended December 31, 2018	2017
	(in thousands)	
Separately Managed Accounts	$77,144	$76,419
Sub-Advised Accounts	64,155	55,003
Pzena Funds	12,280	9,873
Total	$153,579	$141,295

Year Ended December 31, 2018 versus December 31, 2017

Our total revenue increased $12.3 million, or 8.7%, to $153.6 million for the year ended December 31, 2018 from $141.3 million for the year ended December 31, 2017. This change was driven by an increase in average assets during 2018, partially offset by a decrease in performance fees recognized during 2018. We recognized $2.9 million in performance fees during 2018, compared to $3.2 million in performance fees recognized in 2017. In addition, for the year ended December 31, 2018, we recognized a reduction of base fees in the amount of $0.2 million related to fulcrum fee arrangements. Average AUM increased 11.5% to $37.7 billion for the year ended December 31, 2018 from $33.8 billion for the year ended December 31, 2017.

Our weighted average fee rates were 0.408% and 0.418% for the years ended December 31, 2018 and 2017, respectively. Average assets in separately managed accounts increased 4.4% to $14.3 billion for the year ended December 31, 2018, from $13.7 billion for the year ended December 31, 2017, and had weighted average fees of 0.539% and 0.556% for the years ended December 31, 2018 and 2017, respectively. The decrease in the weighted average fee rate for separately managed accounts is driven by an increase in assets in large client relationships which generally carry lower fee rates, as well as a decrease in performance fees recognized during 2018. Average assets in sub-advised accounts increased 15.1% to $21.4 billion for the year ended December 31, 2018, from $18.6 billion for the year ended December 31, 2017, and had weighted average fees of 0.299% and 0.295% for the years ended December 31, 2018 and 2017, respectively. Average assets in Pzena funds increased 26.7% to $1.9 billion for the year ended December 31, 2018, from $1.5 billion for the year ended December 31, 2017, and had weighted average fees of 0.635% and 0.679% for the years ended December 31, 2018 and 2017, respectively. The Company adopted the new revenue recognition standard as of January 1, 2018 using a modified retrospective approach, and thus prior periods have not been restated. Excluding the impact of the revenue recognition presentation change, the weighted average fee rate for Pzena funds was 0.680% for year ended December 31, 2018, compared to 0.679% for the year ended December 31, 2017. This fluctuation in weighted average fee rate for Pzena funds was primarily driven by an increase in assets in products that generally carry higher fee rates, partially offset by a decrease in performance fees recognized in 2018.

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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, 2018 and 2017.

	For the Years Ended December 31,	
	2018	2017
	(in thousands)	
Cash Compensation and Other Benefits	$51,600	$48,722
Other Non-Cash Compensation	9,819	10,182
Total Compensation and Benefits Expense	61,419	58,904
General and Administrative Expense	13,405	13,337
Total Operating Expenses	$74,824	$72,241

Year Ended December 31, 2018 versus December 31, 2017

Total operating expenses increased by $2.6 million, or 3.6%, to $74.8 million for the year ended December 31, 2018, from $72.2 million for the year ended December 31, 2017.

Compensation and benefits expense increased by $2.5 million, or 4.3%, to $61.4 million for the year ended December 31, 2018, from $58.9 million for the year ended December 31, 2017. This increase reflects an increase in compensation rates, partially offset by the performance of deferred compensation investments made pursuant to our Bonus Plan.

General and administrative expense increased by $0.1 million, or 0.5%, to $13.4 million for the year ended December 31, 2018, from $13.3 million for the year ended December 31, 2017.

Other (Expense)/ Income

Year Ended December 31, 2018 versus December 31, 2017

Other (expense)/ income was an expense of $2.7 million for the year ended December 31, 2018, and consisted primarily of $2.3 million in equity in the losses of affiliates, and $1.2 million in net realized and unrealized losses from investments, partially offset by $1.0 million in interest and dividend income. Other (expense)/ income was income of $25.6 million for the year ended December 31, 2017, and consisted primarily of $20.8 million in income related to adjustments to our liability to our selling and converting shareholders, $2.6 million in net realized and unrealized gains from investments, $1.5 million in equity in the earnings of affiliates, and $0.6 million in interest and dividend income. As discussed further below, the liability to our selling and converting shareholders represents 85% of the amount of cash savings, if any, in U.S. federal, state and local income tax that we realize as a result of the amortization of the increases in tax basis generated from our purchase of operating company units from our selling shareholders. The decrease in the liability to our selling and converting shareholders primarily resulted from the re-measurement of the deferred tax asset upon enactment of the Tax Cuts and Jobs Act in the fourth quarter of 2017 described in income tax expense below.

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Income Tax Expense

For the years ended December 31, 2018 and 2017, components of income tax expense are as follows:

	For the Years Ended December 31,	
	2018	2017
	(in thousands)	
Unincorporated and Other Business Tax Expenses	$2,778	$2,862
Corporate Tax Expense:		
Corporate Income Tax Expense	4,667	6,188
Impact of Tax Cuts and Jobs Act[1]	—	26,468
Impact of Change in Historical 754 Step-Up Calculations[2]	333	(1,006)
Total Corporate Tax Expense	5,000	31,650
Total Income Tax Expense	$7,778	$34,512

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

2 Reflects the net impact of a change in the calculation of historical 754 step-ups and related deferred tax asset recognized during the year ended December 31, 2018 and the net impact of a change in the calculation of historical 754 step-ups and related deferred tax asset and corresponding liability to selling and converting shareholders recognized during the year ended December 31, 2017.

Our results for the years ended December 31, 2018 and 2017 include the effects of adjustments to our deferred tax asset associated with our initial public offering and subsequent unit exchanges. Our results for the year ended December 31, 2017 also include the effects of adjustments related to the Tax Cuts and Jobs Act. Details of corporate tax expenses excluding these items and reconciliations between our GAAP and non-GAAP corporate tax items are as follows:

	For the Years Ended December 31,	
	2018	2017
	(in thousands)	
Corporate Tax Expense	$5,000	$31,650
Less: Impact of Tax Cuts and Jobs Act	—	(26,468)
Less: Impact of Change in Historical 754 Step-Up Calculations	(333)	1,006
Non-GAAP Corporate Income Tax Expense	$4,667	$6,188

Our effective tax rate, exclusive of adjustments related to our tax receivable agreement and the associated liability to selling and converting shareholders, was 24.8%, and 34.9% for the years ended December 31, 2018 and 2017, respectively, and was determined as follows:

	For the Years Ended December 31,			
	2018		2017	
	Tax (in thousands)	% of Non-GAAP Pre-tax Income	Tax (in thousands)	% of Non-GAAP Pre-tax Income
Federal Corporate Tax	$3,947	21.0 %	$6,031	34.0 %
State and Local Taxes, Net of Federal Benefit	579	3.1 %	479	2.7 %
Prior Period and Other Adjustments	141	0.7 %	(322)	(1.8)%
Non-GAAP Effective Taxes	$4,667	24.8 %	$6,188	34.9 %

A comparison of the GAAP effective tax rates for the years ended December 31, 2018 and 2017 is not meaningful due to the Tax Cuts and Jobs Act.

Year Ended December 31, 2018 versus December 31, 2017

Income tax expense was $7.8 million for the year ended December 31, 2018, compared to $34.5 million for the year ended December 31, 2017. The 2017 income tax expense included $26.5 million of expense related to the re-measurement of the deferred tax asset upon enactment of the Tax Cuts and Jobs Act in the United States during the fourth quarter of 2017. Additionally, we identified an adjustment related to the historical calculation of the 754 step-ups in tax basis impacting the deferred tax assets and corresponding liability to selling and converting shareholders during the years ended December 31, 2018 and 2017. The adjustment that was made during the year ended December 31, 2018 resulted in a $0.3 million decrease to the deferred tax assets. The adjustment that was made during the year ended December 31, 2017, resulted in a $4.6 million decrease to the deferred tax assets and a $5.6 million decrease to the corresponding liability to selling and converting shareholders. The cumulative impact of the adjustment for the year ended December 31, 2017 is a net tax benefit of approximately $1.0 million which was recognized as a component of income tax expense.

Net Income Attributable to Non-Controlling Interests

Year Ended December 31, 2018 versus December 31, 2017

Net income attributable to non-controlling interests was $54.5 million for the year ended December 31, 2018, and consisted of $54.7 million associated with our employees' and outside investors' approximately 74.5% weighted-average interest in the income of the operating company, and approximately $0.2 million associated with our consolidated subsidiaries' interest in the losses of our consolidated subsidiaries. Net income attributable to non-controlling interests was $53.2 million for the year ended December 31, 2017, and consisted of $52.4 million associated with our employees’ and outside investors’ approximately 74.7% weighted-average interest in the income of the operating company, and approximately $0.9 million associated with our consolidated subsidiaries’ interest in the income of our consolidated subsidiaries. The change in net income attributable to non-controlling interests primarily reflects the increase in net income of the operating company for the year ended December 31, 2018, partially offset by a decrease in our employees’ and outside investors’ weighted average interest in the income of the operating company. We expect the interests in our operating company in subsequent periods to depend on changes in our shareholder’s equity and the size and composition of Class B units awarded by our operating company’s compensation plans.

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, 2018, our average AUM and revenues increased by 11.5% and 8.7%, respectively, compared to our average AUM and revenues for the year ended December 31, 2017. At December 31, 2018, our cash was $38.1 million, inclusive of $6.2 million in cash held by our consolidated subsidiaries. We also had $29.9 million in investments in trading debt securities and an open-ended mutual fund that can be sold to meet future cash flow needs and approximately $9.8 million in investments set aside to satisfy our obligations under our deferred compensation programs. Advisory fees receivable was $32.6 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

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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 non-GAAP 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."

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Tax Receivable Agreement

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

Cash Flows

Year Ended December 31, 2018 versus December 31, 2017

Cash, cash equivalents and restricted cash decreased $25.3 million to $39.1 million in 2018 compared to $64.4 million in 2017. Net cash provided by operating activities increased $18.6 million in 2018 to $87.6 million from $69.0 million in 2017. The increase primarily reflects an increase in net income, changes in the levels of non-cash compensation, equity in the losses of affiliates, net realized and unrealized losses from investments, as well as changes in operating assets and liabilities and working capital.

Net cash used in investing activities was $33.4 million in 2018 compared to $0.5 million in cash provided by investing activities in 2017. The $33.9 million increase in cash used was primarily due to a $31.7 million increase in net purchases of investments and a $2.3 million increase in payments to related parties, partially offset by a $0.2 million decrease in purchases of property and equipment.

Net cash used in financing activities increased $31.5 million in 2018 to $79.5 million from $48.0 million in 2017. This increase is primarily due to a $26.8 million increase in net distributions from non-controlling interests, a $7.0 million increase in the repurchase and retirement of shares of Class A common stock and Class B units during 2018, partially offset by a $5.0 million increase in cash provided by sales of shares under the equity incentive plan.

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, 2018.

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.

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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.

Recently Issued Accounting Pronouncements Not Yet Adopted

See Note 2, "Significant Accounting Policies — Recently Issued Accounting Pronouncements Not Yet Adopted" to the consolidated financial statements beginning on page F-9 of this Annual Report.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market Risk

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

Our revenue for the two years ended December 31, 2018 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 $33.4 billion as of December 31, 2018. 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 $13.5 million at our current weighted average fee rate excluding the impact of performance fees and fulcrum fee arrangements of 0.405%. 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, 2018 consist primarily of equity securities at fair value, trading debt securities and investments in equity method investees. At December 31, 2018, the aggregate value of our assets subject to market risk was $50.5 million. At December 31, 2018, 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 $5.0 million, at December 31, 2018.

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 $33.4 billion as of December 31, 2018 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 45% 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 45% of our assets under management is invested in securities denominated in currencies other than the U.S. dollar and excluding the impact of any hedging arrangements, a 10% increase or decrease in the value of the U.S. dollar would decrease or increase the fair value of our assets under management by $1.6 billion, which would cause an annualized increase or decrease in revenues of approximately $6.6 million at our current weighted average fee rate excluding the impact of performance fees and fulcrum fee arrangements of 0.405%.

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, 2018, approximately $16.8 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 included trading debt securities. At December 31, 2018, the aggregate value of our assets subject to interest rate risk was $29.7 million. Assuming a 10% increase or decrease, the fair value of these assets would increase or decrease by $3.0 million, at December 31,

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2018. 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, 2018.

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, 2018, 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, 2018, our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) were effective to ensure that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Management's Report on Internal Control Over Financial Reporting

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

Our management, with the participation of our Chief Executive Officer and our Chief Financial Officer, has assessed the effectiveness of our internal control over financial reporting as of December 31, 2018. 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, 2018, 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, 2018 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

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PART III.

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by this Item is set forth under the proposal “Election of Directors” and under the subheading "Section 16(a) Beneficial Ownership Reporting Compliance" under the heading "Other Matters" in the Company’s 2019 Proxy Statement to be filed with the U.S. Securities and Exchange Commission (“SEC”) within 120 days after December 31, 2018 in connection with the solicitation of proxies for the Company’s 2019 annual meeting of shareholders and is incorporated herein by reference ("Company's 2019 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 is set forth under the headings “Executive Compensation” and "2018 Non-Employee Director Compensation" in the Company’s 2019 Proxy Statement.

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

The information required by this Item is set forth under the headings “Security Ownership of Principal Stockholders and Management,” and "Equity Compensation Plan Information," in the Company’s 2019 Proxy Statement.

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

The information required by this Item is set forth under the heading “Related Party Transactions” and under the subheading “Director Independence” under the proposal "Election of Directors” in the Company’s 2019 Proxy Statement.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this Item is set forth under the proposal “Ratification of Independent Auditors” in the Company’s 2019 Proxy Statement.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

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

1. Financial Statements

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(3)
4.3	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(4)
4.4	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(4)
10.1	Amended and Restated Operating Agreement of Pzena Investment Management, LLC, dated as of October 30, 2007, by and among Pzena Investment Management, Inc. and the Class B Members named on the signature pages thereto(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(4)
10.3	Pzena Investment Management, LLC Amended and Restated 2006

	Equity Incentive Plan(5)
10.4	Pzena Investment Management, LLC Amended and Restated Bonus Plan, as amended, dated as of October 21, 2008(6)

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Exhibit	Description of Exhibit
10.5	Pzena Investment Management, Inc. 2007 Equity Incentive Plan, as amended, dated as of January 31, 2017[(5)]
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[(4)]
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[(4)]
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(4)
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(4)
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(4)
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(4)
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(4)
10.13	Indemnification Agreement for Myron E. Ullman, III, dated as of October 30, 2007, by and among Pzena Investment Management, Inc. and Myron E. Ullman, III(4)
10.14	Indemnification Agreement for Ronald W. Tysoe, dated as of December 11, 2008, by and among Pzena Investment Management, Inc. and Ronald W. Tysoe(7)
10.15	Indemnification Agreement for John P. Goetz, dated as of May 17, 2011, by and among Pzena Investment Management, Inc. and John P. Goetz(8)
10.16	

	Indemnification Agreement for William L. Lipsey, dated as of May 17, 2011, by and among Pzena Investment Management, Inc. and William L. Lipsey(8)
10.17	Pzena Investment Management, Inc. Non-Employee Director Deferred Compensation Plan, dated as of July 21, 2009 (9)
10.18	Amendment, effective March 24, 2010, to Amended and Restated Operating Agreement of Pzena Investment Management, LLC, dated as of October 30, 2007, by and among Pzena Investment Management, Inc. as the Managing Member of Pzena Investment Management, LLC and those Class B members whose signatures are affixed

	thereto(10)
10.19	Amendment, dated as of March 5, 2012, to Amended and Restated Operating Agreement of Pzena Investment Management, LLC, dated as of October 30, 2007, by and among Pzena Investment Management, Inc. as the Managing Member of Pzena Investment Management, LLC and those Class B members whose signatures are affixed thereto(8)
10.20	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(11)
10.21	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(11)
10.22	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(11)
10.23	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 (12)
10.24	Indemnification Agreement for Charles D. Johnston, dated as of February 5, 2014, by and among Pzena Investment Management, Inc. and Charles D. Johnston (13)
10.25	Lease, dated as of June 13, 2014, between Mutual of America Life Insurance Company, as Landlord and Pzena Investment Management, LLC, as Tenant (14)

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Exhibit	Description of Exhibit
10.26	Amendment No. 3 to Pzena Investment Management, LLC Amended and Restated Operating Agreement, dated November 1, 2014 (15)
10.28	Amendment to the Pzena Investment Management, LLC Amended and Restated Bonus Plan, dated December 2, 2014 (15)
10.29	Form of Unit-Based Award Agreement for Phantom Class B Units (15)
10.30	Form of Class B Unit Agreement - Delayed Exchange (15)
10.31	Form of Class B Unit-Based Agreement for Phantom Class B Units - Revised December, 2015 (16)
10.32	Form of Class B Unit Agreement - Delayed Exchange - Revised December, 2015 (16)
10.33	Amended and Restated Agreement of Limited Partnership of Pzena Investment Management, LP, dated as of January 1, 2016(17)
10.34	Form of Class B Unit Option Agreement - Delayed Exchange (18)
10.35	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 (18)
10.36	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 (filed herewith)
14.1	Code of Business Conduct and Ethics, effective as of October 25, 2007, amended as of February 2019 (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, 2018, formatted in Extensible Business Reporting Language (XBRL): (i) Consolidated Statements of Financial Condition, (ii) Consolidated Statements of Operations, (iii) Consolidated Statement of Changes in Equity, (iv) Consolidated Statements of Cash Flows, and (vi) related Unaudited Notes to the Consolidated Financial Statements, tagged in detail (furnished herewith)

(1) Previously filed as an exhibit to our current report on Form 8-K filed with the Securities and Exchange Commission on May 24, 2017 (SEC File No. 001-33761).
(2) Previously filed as an exhibit to our current report on Form 8-K filed with the Securities and Exchange Commission on January 19, 2016 (SEC File No. 001-33761).
(3) Previously filed as an exhibit to Amendment No. 4 of the Registration Statement on Form S-1 (No. 333-143660) of Pzena Investment Management, Inc., which was filed with the Securities and Exchange Commission on October 22, 2007.
(4) Previously filed as an exhibit to our quarterly report on Form 10-Q filed with the Securities and Exchange Commission on December 5, 2007 (SEC File No. 001-33761).
(5)

Previously filed as an exhibit to our quarterly report on Form 10-Q filed with the Securities and Exchange Commission on August 8, 2017 (SEC File No. 001-33761).

(6) Previously filed as an exhibit to our quarterly report on Form 10-Q filed with the Securities and Exchange Commission on November 13, 2008 (SEC File No. 001-33761).

(7) Previously filed as an exhibit to our current report on Form 8-K filed with the Securities and Exchange Commission on December 12, 2008 (SEC File No. 001-33761).

(8) Previously filed as an exhibit to our annual report on Form 10-K filed with the Securities and Exchange Commission on March 14, 2012 (SEC File No. 001-33761).

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(9) Previously filed as an exhibit to our quarterly report on Form 10-Q filed with the Securities and Exchange Commission on November 9, 2009 (SEC File No. 001-33761).
(10) Previously filed as an exhibit to our quarterly report on Form 10-Q filed with the Securities and Exchange Commission on May 7, 2010 (SEC File No. 001-33761).
(11) Previously filed as an exhibit to our current report on Form 8-K filed with the Securities and Exchange Commission on November 2, 2012 (SEC File No. 001-33761).
(12) Previously filed as an exhibit to our annual report on Form 10-K filed with the Securities and Exchange Commission on March 13, 2013 (SEC File No. 001-33761).
(13) Previously filed as an exhibit to our current report on Form 8-K filed with the Securities and Exchange Commission on January 30, 2014 (SEC File No. 001-33761).
(14) Previously filed as an exhibit to our quarterly report on Form 10-Q filed with the Securities and Exchange Commission on August 7, 2014 (SEC File No. 001-33761).
(15) Previously filed as an exhibit to our annual report on Form 10-K filed with the Securities and Exchange Commission on March 16, 2015 (SEC File No. 001-33761)
(16) Previously filed as an exhibit to our annual report on Form 10-K filed with the Securities and Exchange Commission on March 14, 2016 (SEC File No. 001-33761).
(17) Previously filed as an exhibit to our quarterly report on Form 10-Q filed with the Securities and Exchange Commission on May 6, 2016 (SEC File No. 001-33761).
(18) Previously filed as an exhibit to our annual report on Form 10-K filed with the Securities and Exchange Commission on March 9, 2018 (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.

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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 8, 2019

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
/s/ Richard S. Pzena Richard S. Pzena	Chairman, Chief Executive Officer, Co-Chief Investment Officer (principal executive officer)	March 8, 2019
/s/ Jessica R. Doran Jessica R. Doran	Chief Financial Officer (principal financial and accounting officer)	March 8, 2019
/s/ John P. Goetz John P. Goetz	President, Co-Chief Investment Officer, Director	March 8, 2019
/s/ William L. Lipsey William L. Lipsey	President, Head of Business Development and Client Service, Director	March 8, 2019

/s/ Steven M. Galbraith Steven M. Galbraith	Director	March 8, 2019
/s/ Joel M. Greenblatt Joel M. Greenblatt	Director	March 8, 2019
/s/ Richard P. Meyerowich Richard P. Meyerowich	Director	March 8, 2019
/s/ Charles D. Johnston Charles D. Johnston	Director	March 8, 2019

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PZENA INVESTMENT MANAGEMENT, INC.

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, 2018 and 2017, 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, 2018, 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, 2018, 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, 2018 and 2017, and the results of its operations and its cash flows for each of the two years in the period ended December 31, 2018 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, 2018, based on criteria established in Internal Control - Integrated Framework (2013) issued by the COSO.

Basis for Opinions

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

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

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

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Definition and Limitations of Internal Control over Financial Reporting

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

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

/s/PricewaterhouseCoopers LLP

New York, New York

March 8, 2019

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

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PZENA INVESTMENT MANAGEMENT, INC.

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

(in thousands, except share and per-share amounts)

	As of December 31, 2018	December 31, 2017
ASSETS		
Cash and Cash Equivalents ($3,733 and $3,717)[1]	$38,099	$ 63,414
Restricted Cash	1,028	1,017
Due from Broker ($16 and $1,485)[1]	64	1,875
Advisory Fees Receivable	32,590	32,531
Investments ($3,295 and $3,927)[1]	50,470	21,737
Receivable from Related Parties	4,239	1,453
Other Receivables ($13 and $15)[1]	474	132
Prepaid Expenses and Other Assets	1,386	990
Deferred Tax Assets	37,232	39,639
Property and Equipment, Net of Accumulated Depreciation of $3,724 and $3,063, respectively	5,394	6,259
TOTAL ASSETS	$170,976	$ 169,047
LIABILITIES AND EQUITY		
Liabilities:		
Accounts Payable and Accrued Expenses ($15 and $14)[1]	$37,266	$ 31,983
Due to Broker ($4 and $0)[1]	360	144
Liability to Selling and Converting Shareholders	32,389	36,441
Deferred Compensation Liability	1,845	918
Other Liabilities	108	272
TOTAL LIABILITIES	71,968	69,758
Commitments and Contingencies (see Note 12)		
Equity:		
Preferred Stock (Par Value $0.01; 200,000,000 Shares Authorized; None Outstanding)	—	—
Class A Common Stock (Par Value $0.01; 750,000,000 Shares Authorized; 18,398,211 and 18,096,554 Shares Issued and Outstanding in 2018 and 2017, respectively)	183	180
Class B Common Stock (Par Value $0.000001; 750,000,000 Shares Authorized; 51,253,526 and 50,709,673 Shares Issued	—	—

and Outstanding in 2018 and 2017 respectively)		
Additional Paid-In Capital	3,913	7,915
Retained Earnings	28,871	24,214
Accumulated Other Comprehensive Loss	35	(5)
Total Pzena Investment Management, Inc.'s Equity	33,002	32,304
Non-Controlling Interests	66,006	66,985
TOTAL EQUITY	99,008	99,289
TOTAL LIABILITIES AND EQUITY	$170,976	$ 169,047

1 Asset and liability amounts in parentheses represent the aggregated balances at December 31, 2018 and 2017 attributable to Pzena International Value Service (a series of Pzena Investment Management, LLC), Pzena Investment Management Special Situations, LLC, and Pzena U.S. Best Ideas (GP), LLC, which were variable interest entities as of December 31, 2018 and 2017, respectively. Aggregated balances of variable interest entities at December 31, 2018 also reflect Pzena Global Best Ideas (GP), LLC.

See accompanying notes to consolidated financial statements.

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PZENA INVESTMENT MANAGEMENT, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except share and per-share amounts)

	For the Years Ended December 31,	
	2018	2017
REVENUE	$153,579	$141,295
EXPENSES		
Compensation and Benefits Expenses	61,419	58,904
General and Administrative Expenses	13,405	13,337
TOTAL OPERATING EXPENSES	74,824	72,241
Operating Income	78,755	69,054
OTHER (EXPENSE)/ INCOME		
Interest Income	764	213
Interest Expense	(77)	(29)
Dividend Income	154	368
Net Realized and Unrealized (Losses)/ Gains from Investments	(1,183)	2,600
Equity in the (Losses)/ Earnings of Affiliates	(2,347)	1,517
Change in Liability to Selling and Converting Shareholders	48	20,819
Other (Expense)/ Income	(17)	120
Total Other (Expense)/ Income	(2,658)	25,608
Income Before Income Taxes	76,097	94,662
Income Tax Expense	7,778	34,512
Net Income	68,319	60,150
Less: Net Income Attributable to Non-Controlling Interests	54,525	53,242
Net Income Attributable to Pzena Investment Management, Inc.	$13,794	$6,908
Net Income for Basic Earnings per Share	$13,794	$6,908
Basic Earnings per Share	$0.78	$0.40
Basic Weighted Average Shares Outstanding	17,678,874	17,338,348
Net Income for Diluted Earnings per Share	$55,347	$40,064
Diluted Earnings per Share[1]	$0.77	$0.40
Diluted Weighted Average Shares Outstanding[2]	71,934,144	70,934,362
Cash Dividends per Share of Class A Common Stock	$0.51	$0.37

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

2

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

See accompanying notes to consolidated financial statements.

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PZENA INVESTMENT MANAGEMENT, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands)

	For the Years Ended December 31,	
	2018	2017
NET INCOME	$68,319	$60,150
OTHER COMPREHENSIVE (LOSS)/ INCOME		
Foreign Currency Translation Adjustment	(152)	122
Total Other Comprehensive (Loss)/ Income	(152)	122
Comprehensive Income	68,167	60,272
Less: Comprehensive Income Attributable to Non-Controlling Interests	54,333	53,344
Total Comprehensive Income Attributable to Pzena Investment Management, Inc.	$13,834	$6,928

See accompanying notes to consolidated financial statements.

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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, 2016	17,340,090	50,461,598	$ 173	$ 5,996	$ (25)	$ 22,349	$ 52,841	$ 81,334
Adjustment for the Cumulative Effect of Applying ASU 2016-09	—	—	—	—	—	1,377	—	1,377
Adjusted Balance at January 1, 2017	17,340,090	50,461,598	173	5,996	(25)	23,726	52,841	82,711
Unit Conversion	855,535	(855,535)	9	1,600	—	—	(1,059)	550
Amortization of Non-Cash Compensation	34,934	443,198	—	1,070	—	—	3,092	4,162
Issuance of Shares under Equity Incentive Plan	—	620,543	—	1,118	—	—	3,295	4,413
Sale of Shares Under Equity Incentive Plan	—	31,803	—	51	—	—	153	204
Directors' Shares	—	—	—	121	—	—	360	481
Net Income	—	—	—	—	—	6,908	53,242	60,150
Foreign Currency Translation Adjustments	—	—	—	—	20	—	102	122
Options Exercised	16,722	41,781	—	—	—	—	—	—
Repurchase and Retirement of Class A Common Stock	(150,727)	—	(2)	(1,488)	—	—	—	(1,490)
Repurchase and Retirement of Class B Units	—	(33,715)	—	(96)	—	—	(278)	(374)
Contributions from Non-Controlling Interests	—	—	—	—	—	—	4,166	4,166
Distributions to Non-Controlling	—	—	—	—	—	—	(44,095)	(44,095)

Interests								
Class A Cash Dividends Declared and Paid ($0.37 per share)	—	—	—	—	—	(6,420)	—	(6,420)
Effect of Deconsolidation	—	—	—	—	—	—	(5,291)	(5,291)
Other	—	—	—	(457)	—	—	457	—
Balance at December 31, 2017	18,096,554	50,709,673	$ 180	$ 7,915	$ (5)	$ 24,214	$ 66,985	$ 99,289
Unit Conversion	1,141,663	(1,141,663)	11	2,498	—	—	(1,634)	875
Amortization of Non-Cash Compensation	20,000	505,134	—	1,479	—	—	4,240	5,719
Issuance of Shares under Equity Incentive Plan	—	300,931	—	1,096	—	—	3,095	4,191
Sale of Shares Under Equity Incentive Plan	—	897,813	—	1,343	—	—	3,850	5,193
Directors' Shares	—	—	—	141	—	—	410	551
Net Income	—	—	—	—	—	13,794	54,525	68,319
Foreign Currency Translation Adjustments	—	—	—	—	40	—	(192)	(152)
Options Exercised	—	29,698	—	—	—	—	—	—
Repurchase and Retirement of Class A Common Stock	(860,006)	—	(8)	(8,586)	—	—	—	(8,594)
Repurchase and Retirement of Class B Units	—	(48,060)	—	(74)	—	—	(217)	(291)
Contributions from Non-Controlling Interests	—	—	—	—	—	—	272	272
Distributions to Non-Controlling Interests	—	—	—	—	—	—	(66,982)	(66,982)
Class A Cash Dividends Declared and Paid ($0.51 per share)	—	—	—	—	—	(9,137)	—	(9,137)
Tax Impact of Transactions with Non-Controlling Shareholders	—	—	—	(245)	—	—	—	(245)
Other	—	—	—	(1,654)	—	—	1,654	—
Balance at December 31, 2018	18,398,211	51,253,526	$ 183	$ 3,913	$ 35	$ 28,871	$ 66,006	$ 99,008

See accompanying notes to consolidated financial statements.

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PZENA INVESTMENT MANAGEMENT, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

	For the Years Ended December 31, 2018	2017
OPERATING ACTIVITIES		
Net Income	$68,319	$60,150
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Depreciation	995	1,024
Loss on Disposal of Fixed Assets	36	6
Non-Cash Compensation	9,819	10,182
Directors' Share Grants	551	481
Net Realized and Unrealized Losses/ (Gains) from Investments	1,183	(2,600)
Equity in the Losses/ (Earnings) of Affiliates	2,347	(1,517)
Accretion of Discount	(90)	—
Non-Cash Performance Fees	—	(237)
Foreign Currency Translation Adjustment	(152)	122
Change in Liability to Selling and Converting Shareholders	(48)	(26,427)
Deferred Income Taxes	4,620	37,269
Changes in Operating Assets and Liabilities:		
Advisory Fees Receivable	(59)	(6,205)
Due from Broker	1,878	(1,026)
Prepaid Expenses and Other Assets	(738)	(60)
Due to Broker	216	127
Accounts Payable, Accrued Expenses, and Other Liabilities	6,430	2,566
Tax Receivable Agreement Payments	(5,880)	(4,155)
Purchases of Investments	(23,853)	(41,077)
Proceeds from Sale of Investments	22,025	40,329
Net Cash Provided by Operating Activities	87,599	68,952
INVESTING ACTIVITIES		
Purchases of Investments	(41,603)	(869)
Proceeds from Sale of Investments	11,191	2,180
Payments to Related Parties	(2,786)	(445)
Purchase of Property and Equipment	(166)	(324)
Net Cash (Used in)/ Provided by Investing Activities	(33,364)	542
FINANCING ACTIVITIES		
Repurchase and Retirement of Class A Common Stock	(8,594)	(1,490)
Repurchase and Retirement of Class B Units	(291)	(374)
Sale of Shares under Equity Incentive Plan	5,193	204
Distributions to Non-Controlling Interests	(66,982)	(44,095)
Contributions from Non-Controlling Interests	272	4,166

Dividends	(9,137)	(6,420)
Net Cash Used in Financing Activities	(79,539)	(48,009)
NET CHANGE IN CASH, CASH EQUIVALENTS AND RESTRICTED CASH	$(25,304)	$21,485
CASH, CASH EQUIVALENTS AND RESTRICTED CASH — Beginning of Year	$64,431	$47,158
Effect of Deconsolidation of Affiliates	—	(4,212)
Net Change in Cash, Cash Equivalents and Restricted Cash	(25,304)	21,485
CASH, CASH EQUIVALENTS AND RESTRICTED CASH — End of Year	$39,127	$64,431
Supplementary Cash Flow Information:		
Unit Conversion	$875	$550
Issuance of Shares under Equity Incentive Plan	$4,191	$4,413
Income Taxes Paid	$500	$797

See accompanying notes to consolidated financial statements.

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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, 2018, 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, 2018:

Legal Entity	Type of Entity (Date of Formation)	Ownership at December 31, 2018	
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 Special Situations, LLC	Delaware Limited Liability Company (12/01/2010)	99.9	%
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)	97.1	%

Pzena International Value Service, a series of the Pzena Investment Management International, LLC	Delaware Limited Liability Company (12/22/2003)	50.8	%

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

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

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

Consolidated Entities

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

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

During 2014, the Company provided the initial cash investment for three Pzena mutual funds in an effort to generate an investment performance track record to attract third-party investors. During 2016, the Company provided the initial cash investment for the launch of a fourth Pzena mutual fund: the Pzena Small Cap Value Fund. During 2018, the Company provided the initial cash investment for the launch of a fifth Pzena mutual fund: the Pzena International Small Cap Value Fund. Due to their series fund structure, registration, and compliance with the requirements of the Investment Company Act of 1940, these funds are analyzed for consolidation under the voting interest model. As a result of the Company's initial interests, it consolidated the Pzena Mid Cap Value Fund, Pzena Long/Short Value Fund, Pzena Emerging Markets Value Fund, Pzena Small Cap Value Fund, and Pzena International Small Cap Value

Fund. On July 11, 2016, due to additional subscriptions into the Pzena Small Cap Value Fund, the Company's ownership decreased to 36.1%. On November 9, 2017 and December 21, 2017 due to additional subscriptions into the Pzena Mid Cap Value Fund and Pzena Long/Short Value Fund, respectively, the Company's ownership decreased to 41.7% and 35.5%, respectively. As the Company was no longer deemed to control the funds, it deconsolidated the entities, removed the related assets, liabilities and non-controlling interest from its balance sheet and classified the Company's remaining investments as equity method investments. In addition, as of December 31, 2018, the Company withdrew its initial cash investment in Pzena Emerging Markets Value Fund and removed the equity method investment from its balance sheet.

The operating company is the managing member of Pzena International Value Service, a series of Pzena Investment Management International, LLC. The operating company is considered the primary beneficiary of this entity. At December 31, 2018, Pzena International Value Service’s $3.0 million in net assets were included in the Company’s consolidated statements of financial condition.

Pzena Investment Management, Inc.

Notes to Consolidated Financial Statements (Continued)

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 $205.4 million and $165.5 million at December 31, 2018 and December 31, 2017, respectively.

As of December 31, 2018 and December 31, 2017, in order to satisfy certain of the Company's obligations under its deferred compensation programs, the operating company had $2.4 million and $3.0 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, 2018 and December 31, 2017, the Company's maximum exposure to loss as a result of its involvement with the non-consolidated VIEs was $2.7 million and $3.2 million, respectively.

Accounting Pronouncements Adopted in 2018:

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers (Topic 606)." The core principle of the revenue model is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for the goods or services. The Company completed its overall assessment of its revenue streams and review of related contracts potentially affected by the new standard, including base management fees, performance fees, and fulcrum fee arrangements. Based on this assessment, the Company concluded that ASU No. 2014-09 did not change the method in which the Company currently recognizes revenue. The Company also completed its evaluation of certain costs related to revenue streams to determine whether such costs should be presented as expenses or contra-revenue. Based on its evaluation, the Company concluded that the classification of fund expense cap reimbursements should change upon adoption. The Company adopted ASU No. 2014-09 as of January 1, 2018 using a modified retrospective approach. The adoption of the new standard requires the Company to present fund expense cap reimbursements net against Revenue. Prior to adoption, these expense cap reimbursements were presented as a component of General and Administrative Expense. These classification changes resulted in immaterial changes to both revenue and expense. In accordance with the historic method of accounting under ASC Topic 605, Revenue and General and Administrative Expenses would have been higher by $0.9 million for the year ended December 31, 2018. As the implementation of the new standard did not impact the measurement or recognition of revenue, a cumulative effect adjustment to opening retained earnings was not deemed necessary. Consistent with the modified retrospective approach, the Company did not adjust prior period amounts for the fund expense cap reimbursement reclassifications noted above. The Company has included additional disclosures associated with the disaggregation of revenue and performance obligations.

In August 2016, the FASB issued ASU No. 2016-15, "Statement of Cash Flows (Topic 230)." This update provides specific guidance on cash flow classification issues, which is intended to reduce the diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The Company adopted ASU No. 2016-15 as of January 1, 2018. The adoption did not have a material impact on the consolidated financial statements.

In November 2016, the FASB issued ASU No. 2016-18, "Statement of Cash Flows (Topic 230): Restricted Cash." This update requires entities to show the changes in the total cash, cash equivalents, restricted cash, and restricted cash equivalents in the statement of cash flows. The Company adopted ASU No. 2016-18 as of January 1, 2018 using a retrospective approach. Upon adoption, the net change in cash presented in the consolidated statement of cash flows will reflect the total of cash and restricted cash.

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.

Pzena Investment Management, Inc.

Notes to Consolidated Financial Statements (Continued)

Revenue Recognition:

Revenue, comprised of advisory fee income, is recognized over the period in which advisory services are provided. Advisory fee income includes management fees that are calculated based on percentages of assets under management ("AUM"), generally billed quarterly, either in arrears or advance, depending on their contractual terms. Advisory fee income also includes performance fees that may be earned by the Company depending on the investment return of AUM, as well as fulcrum fee arrangements. Performance fee arrangements generally entitle the Company to participate, on a fixed-percentage basis, in any returns generated in excess of an agreed-upon benchmark. The Company's participation percentage in such return differentials is then multiplied by AUM to determine the performance fees earned. In general, returns are calculated on an annualized basis over the contract's measurement period, which usually extends to three years. Performance fees are generally payable annually or quarterly. Fulcrum fee arrangements require a reduction in the base fee, or allow for a performance fee if the relevant investment strategy underperforms or outperforms, respectively, the agreed-upon benchmark over the contract's measurement period, which extends to three years. Fulcrum fees are generally payable quarterly. Following the preferred method identified in the Revenue Recognition Topic of the FASB ASC, 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. Upon adoption of ASU No. 2014-09 on January 1, 2018, advisory fee income also includes fund expense cap reimbursements which are required to be presented net against Revenue rather than as a component of General and Administrative Expense.

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, 2018, and 2017:

Revenue	For the Years Ended December 31, 2018	2017
	(in thousands)	
Separately Managed Accounts		
Asset-Based Fees	$77,144	$75,545
Performance-Based Fees	—	874
Total Separately Managed Fees	77,144	76,419
Sub-Advised Accounts		
Asset-Based Fees	$61,475	$52,952
Decrease in Asset-Based Fees	(187)	—
Performance-Based Fees	2,867	2,051
Total Sub-Advised Fees	64,155	55,003
Pzena Funds		
Asset-Based Fees	$13,136	$9,638
Expense Cap Reimbursements	(868)	—

Performance-Based Fees	12	235
Total Pzena Funds Fees	12,280	9,873
Total	$153,579	$141,295

Cash and Cash Equivalents:

At December 31, 2018 and 2017, Cash and Cash Equivalents was $38.1 million and $63.4 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.

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Pzena Investment Management, Inc.

Notes to Consolidated Financial Statements (Continued)

Restricted Cash:

At both December 31, 2018, and 2017, the Company had $1.0 million 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,		
	2018	2017	2016
	(in thousands)		
Cash and Cash Equivalents	$38,099	$63,414	$43,522
Restricted Cash	1,028	1,017	3,636
Total	$39,127	$64,431	$47,158

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.

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 (Losses)/ Gains 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 (Losses)/ Earnings 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, 2018 and 2017, no impairment losses were recognized.

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Pzena Investment Management, Inc.

Notes to Consolidated Financial Statements (Continued)

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 (Losses)/ Gains from Investments in the consolidated statements of operations.

Concentrations of Credit Risk:

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

The concentration of credit risk with respect to advisory fees receivable is generally limited due to the short payment terms extended to clients by the Company. On a periodic basis, the Company evaluates its advisory fees receivable and establishes an allowance for doubtful accounts, if necessary, based on a history of past write-offs, collections, and current credit conditions. For the year ended December 31, 2018 and 2017, approximately 11.4% and 11.3%, respectively, of the Company's advisory fees were generated from advisory agreements with one client relationship. At December 31, 2018 and 2017, no allowance for doubtful accounts has been deemed necessary.

Property and Equipment:

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

Business Segments:

The Company views its operations as comprising one operating segment.

Income Taxes:

The Company is a “C” corporation under the Internal Revenue Code, and is thus liable for federal, state, and local taxes on the income derived from its economic interest in its operating company. The operating company is a limited liability company that has elected to be treated as a partnership for tax purposes. &nb