Pzena Investment Management, Inc.
Form 10-K
March 12, 2014
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-K
ý Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the Fiscal Year Ended December 31, 2013
or
o Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from to
Commission file number 001-33761
PZENA INVESTMENT MANAGEMENT, INC.
(Exact Name of Registrant as Specified in its Charter)

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

120 West 45th Street
New York, New York 10036
(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 o No ý
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No ý
Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý No o
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý No o
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ý
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" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer o	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company x

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

The aggregate market value of the common equity held by non-affiliates of the registrant as of June 28, 2013, the last business day of its most recently completed second fiscal quarter, was approximately $73,061,692 based on the closing sale price of $6.52 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 11 2014, there were 12,176,592 outstanding shares of the registrant’s Class A common stock, par value $0.01 per share.

As of March 11, 2014, there were 52,980,621 outstanding shares of the registrant’s Class B common stock, par value $0.000001 per share.

DOCUMENTS INCORPORATED BY REFERENCE

None.

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K, or Annual Report, contains forward-looking statements. Forward-looking statements provide our current expectations, or forecasts, of future events. Forward-looking statements 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, "potential," "predict," "project" or similar words or phrases, or the negatives of those words or phrases, may identify forward-looking statements, but the absence of these words does not necessarily mean that a statement is not forward-looking.

Forward-looking statements are subject to known and unknown risks and uncertainties and are based on potentially inaccurate assumptions that could cause actual results to differ materially from those expected or implied by the forward-looking statements. Our actual results could differ materially from those anticipated in forward-looking statements for many reasons, including the factors described in Item 1A, "Risk Factors" in Part I of this Annual Report. Accordingly, you should not unduly rely on these forward-looking statements, which speak only as of the date of this Annual Report. 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 anticipated future results of operations and operating cash flows;
- our 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;
- potential growth opportunities available to us;
- the recruitment and retention of our employees;
- our expected levels of compensation for our employees;
- our potential operating performance, achievements, efficiency and cost reduction efforts;
- our expected tax rate;
- changes in interest rates;
- our expectation with respect to the economy, capital markets, the market for asset management services and other industry trends; and
- the impact of future legislation and regulation, and changes in existing legislation and regulation, on our business.

The reports that we file with the SEC, accessible on the SEC's website at www.sec.gov, identify additional factors that can affect forward-looking statements.

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Preliminary Notes

In this Annual Report, “we,” “our,” and “us” refers to Pzena Investment Management, Inc. (also referred to as the “Company”) and its consolidated subsidiaries.

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

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

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PART I.

ITEM 1. BUSINESS

Overview

Pzena Investment Management, Inc. 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 very qualified people. Over the past eighteen years, we have built a diverse, global client base of respected and sophisticated institutional investors, high net worth individuals and select third-party distributed mutual funds for which we act as sub-investment adviser.

The graphic below illustrates our holding company structure and ownership as of December 31, 2013.

(1) As of December 31, 2013, the members of Pzena Investment Management, LLC, other than us, consisted of:

- Five of our named executive officers and their estate planning vehicles, who collectively held approximately 58.8% of the economic interests in Pzena Investment Management, LLC. In addition, certain of our named executive officers held 1.3% of the economic interest in Pzena Investment Management, LLC through ownership of our Class A common stock. For more detail on executive officer ownership, see Item 12 “Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters”.
- 29 of our other employee members, who collectively held approximately 3.1% 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 eight former employees, who collectively held approximately 19.4% of the economic interests in Pzena Investment Management, LLC.

(2) Each share of Class A common stock is entitled to one vote per share. Class A common stockholders have 100% of the rights of all classes of our capital stock to receive distributions.

(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. Class B common stockholders have the right to receive the par value of the Class B common stock upon our liquidation, dissolution or winding up, but do not share in dividends.

(4) As of December 31, 2013, we held 12,158,057 Class A units of Pzena Investment Management, LLC, which represented the right to receive 18.7% of the distributions made by Pzena Investment Management, LLC.

(5) As of December 31, 2013, the Principals collectively held 52,951,618 Class B units of Pzena Investment Management, LLC, which represented the right to receive 81.3% of the distributions made by Pzena Investment Management, LLC.

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We utilize a classic value approach to investing and seek to make investments in good businesses at low prices. Our approach and process have helped us achieve attractive returns over the long term. As of December 31, 2013, we managed assets in fifteen value-oriented investment strategies across a wide range of market capitalizations in both U.S. and non-U.S. capital markets. Our assets under management, or AUM, were $25.0 billion at December 31, 2013, and we managed money on behalf of institutions and high net worth individuals, and acted as sub-investment adviser to a variety of SEC-registered mutual funds and offshore funds.

Our investment discipline and our commitment to a classic value approach have been important elements of our success. We construct concentrated portfolios selected through a rigorous fundamental research process. Our investment decisions are not motivated by short-term results or aimed at closely tracking specific market benchmarks.

Generating excess returns by utilizing a classic value investment approach 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.

As of December 31, 2013, we had 76 employees, including 34 employee members who collectively owned 61.9% of the ownership interests in our operating company. 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 each of our Executive Vice Presidents, Messrs. Antonio DeSpirito, III and Michael D. Peterson (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 eighteen 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 products. 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. Our greatest asset is the experience of the individuals on our team. For more information on our investment team, see"Our Investment Team" below.
- Employee Retention. We have focused on building an environment that we believe is attractive to talented investment professionals. Important among our practices are our team-oriented approach to investment decisions, rotation of coverage areas among individuals, and our culture of employee ownership.
- Culture of Ownership. We believe in significant ownership of our business by the key contributors to our success. Since our inception, we have communicated to all our employees that they have the opportunity to become partners in our operating company. As of December 31, 2013, we had 34 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.

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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, 2013, the total AUM in our Global Value strategies, International (ex-U.S.) Value strategies, Emerging Markets Focused Value strategy, and other non-U.S. strategies was $9.9 billion, or 39.6% of our overall AUM. Our global capability provides opportunity for all of our strategies around the world.
- Apply Our Proven Process to Introduce New Products. We anticipate continuing to offer new investment strategies over time, on a measured basis, consistent with our past practice, utilizing our proven investment process.
- 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.
- 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 advisors. During 2010 we opened a representative office in Melbourne, Australia to more effectively service existing clients and develop new relationships in the geographic area. To date, these marketing efforts have resulted in client relationships in more than ten non-U.S. countries, such as the United Kingdom, Australia and Canada. As of December 31, 2013, we managed $8.1 billion in separate accounts, commingled funds and sub-advised funds on behalf of non-U.S. clients.
- Employ Global Team to Deliver Content-Based Information to Clients and Prospects. Our marketing and client service team is currently a team of 19 people including marketing and client service professionals, associates, and support staff. The marketing and client services professionals are focused geographically along with one individual focused on the sub-advisory and investment-only defined contribution distribution channels. In addition to our representative office in Melbourne, Australia, we have two professionals dedicated to business development and client service throughout Europe and the Middle East.

Our Investment Team

We believe we have built an investment team that is well-suited to implementing 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, legal, 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, 2013, we had a 23-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 our portfolio companies, 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 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 administration, 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, 2013, our approximately $25.0 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. The following table describes the largest of our current U.S. and non-U.S. investment strategies, and the allocation of our approximately $25.0 billion in AUM among them, as of December 31, 2013.

Strategy	AUM (in billions)
U.S. Strategies	
Large Cap Focused Value	$6.0
Large Cap Expanded Value	5.1
Focused Value	2.0
Small Cap Focused Value	1.3
Mid Cap Focused Value	0.4
Other U.S. Strategies	0.3
Non-U.S. Strategies	
Global Focused Value	5.0
International (ex-U.S.) Expanded Value	2.0
Global Expanded Value	1.1
Emerging Markets Focused Value	0.9
European Focused Value	0.7
Other Non-U.S. Strategies	0.2
Total	$25.0

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, with the Focused Value strategies being more concentrated in fewer positions.

Our largest investment strategies as of December 31, 2013 are further described below.

U.S. Strategies

Large Cap Focused Value. This strategy reflects a portfolio composed of approximately 30 to 40 stocks drawn from a universe of 500 of the largest U.S. listed companies, based on market capitalization. This strategy was launched in October 2000.

Large Cap Expanded Value. This strategy reflects a portfolio composed of approximately 50 to 80 stocks drawn from a universe of 500 of the largest U.S. listed companies, based on market capitalization. This strategy was launched in July 2012.

Focused Value. This strategy reflects a portfolio composed of a portfolio of approximately 30 to 40 stocks drawn from a universe of 1,000 of the largest U.S. listed companies, based on market capitalization. This strategy was launched in January 1996.

Small Cap Focused Value. This strategy reflects a portfolio composed of approximately 40 to 50 stocks drawn 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.

Mid Cap Focused Value. This strategy reflects a portfolio composed of approximately 30 to 40 stocks drawn from a universe of U.S. listed companies ranked from the 201th to 1,200th largest, based on market capitalization. This strategy was launched in September 1998.

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Non-U.S. Strategies

Global Focused Value. This strategy reflects a portfolio composed of approximately 40-60 stocks drawn from a universe of 2,000 of the largest companies across the world, based on market capitalization. This strategy was launched in January 2004.

International (ex-U.S.) Expanded Value. This strategy reflects a portfolio composed of approximately 60-80 stocks drawn 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.

Global Expanded Value. This strategy reflects a portfolio composed of approximately 60-95 stocks drawn from a universe of 2,000 of the largest companies across the world, based on market capitalization. This strategy was launched in January 2010.

Emerging Markets Focused Value. This strategy reflects a portfolio composed of approximately 40 to 80 stocks drawn from a universe of 1,500 of the largest emerging market companies, based on market capitalization. This strategy was launched in January 2008.

European Focused Value. This strategy reflects a portfolio composed of approximately 40-60 stocks drawn from a universe of 750 of the largest European companies, based on market capitalization. This strategy was launched in August 2008.

We understand that our ability to retain and grow assets has been, and will be, driven primarily by delivering attractive long-term investment results to our clients. As a consequence, we have 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 Product Development Approach

Historically, a major component of our growth has been the development of new products. Prior to incubating a new product, 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. In the past, as appropriate, we have created partnerships with third parties to enhance the distribution of a product or add expertise that we do not have in-house. Prior to marketing a new product, 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.

Furthermore, we continually seek to identify opportunities to extend our investment process into new markets or to apply it in different ways to offer clients additional strategies. We are currently incubating several products which we believe may be attractive to our clients in the future.

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 "Part II — Item 7 — Management's Discussion and Analysis of Financial Condition and Results of Operations — Operating Results."

Advisory Fees

We earn advisory fees on the accounts that we manage for institutional clients, for retail clients which are generally mutual funds, and for other investment funds.

On our institutional 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. 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.

As of December 31, 2013, we sub-advised twelve 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"). Ten of these twelve sub-investment advisory agreements are beyond their initial two-year terms as of December 31, 2013. In addition, we sub-advise eleven offshore funds.

Pursuant to these 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 accounts, the average advisory fees we earn on them, as a percentage of assets under management, are lower

than the advisory fees we earn on our institutional accounts. The majority of the advisory fees we earn on institutional accounts are based on the value of AUM at a specific date on a quarterly basis, either in arrears or in advance. Advisory fees on certain of our institutional accounts, and with respect to all of the mutual funds that we sub-advise, 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 method used to calculate the fee according to the fee rate schedule may differ, as described above.

Our Client Relationships and Distribution Approach

We manage separate accounts on behalf of institutions and high net worth individuals and, as of December 31, 2013, acted as sub-investment adviser for twelve SEC-registered mutual funds and eleven offshore funds. 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 marketing and client service professionals. We distribute our products to institutional and retail clients primarily through the efforts of our internal sales team, who calls on them directly and on the consultants who serve them, as well as through the marketing programs of our sub-investment advisory partners. Since our objective is to attract long-term investors with an investment horizon in excess of three years, our sales and client service efforts focus on educating our investors regarding our disciplined value investment process and philosophy.

Our marketing and client service effort is led by our 19-person business development team, which is responsible for:

- identifying and marketing to prospective institutional clients;
- responding to requests for investment management proposals; and
- developing and maintaining relationships with independent consultants.

Direct Institutional Relationships

Since our inception, we have directly offered institutional investment products to public and corporate pension funds, endowments, foundations and Taft-Hartley plans. Wherever possible, we have sought to develop direct relationships with the largest U.S. institutional investors, a universe we define to include plan sponsors with greater than $300 million in plan assets. Over the past few years, we have focused on expanding this direct calling effort to potential institutional clients outside of the United States.

Investment Consultants

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 those consulting firms that we believe are the most important and believe that most of them rate our investment strategies favorably. 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. We seek to develop direct relationships with accounts sourced through consultant-led searches by our ongoing marketing and client service efforts, as described below under “Client Service.”

Sub-Investment Advisory Distribution

We have established relationships with mutual fund and fund providers domestically and internationally, who offer us opportunities to efficiently access new market segments through sub-investment advisory roles.

We currently sub-advise three mutual funds that are advised by The Vanguard Group. In August 2012, we expanded our sub-advisory relationship with The Vanguard Group as we were hired as a co-manager to manage approximately 28% of the Vanguard Windsor Fund. As of December 31, 2013, these three mutual funds represented $5.0 billion, or 20.0%, of our AUM. For the year ended December 31, 2013, 2012, and 2011, approximately 6.9%, 3.1%, and less than 1%, respectively, of our total revenue was generated from our sub-investment advisory agreement with The Vanguard Group.

We sub-advise a mutual fund that is advised by John Hancock Advisers, namely the John Hancock Classic Value Fund. As of December 31, 2013, this fund represented $2.8 billion, or 11.2%, of our AUM. For the years ended December 31, 2013, 2012, and 2011 approximately 7.7%, 7.0%, and 7.7%, respectively, of our total revenue was generated from our sub-investment advisory agreement with John Hancock Advisers.

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High Net Worth Advisory Firms

We have accessed the high net worth segment of the investing community primarily through relationships with wealth advisers who utilize our investment strategies in investment programs they construct for their clients. Similar to our approach with consultants, we have targeted select firms around the world serving the family office and ultra high net worth market. We believe this approach leads to an efficient client servicing model and strong relationships with wealth advisers, who ultimately view us as partners in their investment programs. Occasionally, we establish direct separate account relationships with high net worth individuals.

Client Service

Our client service team's efforts are instrumental to maintaining our direct relationships with institutional and individual separate account clients, and developing direct relationships with separate accounts sourced through consultant-led searches. We have a dedicated client service team, which is primarily responsible for addressing all ongoing client needs, including periodic updates and reporting requirements. Our business development team assists in providing ongoing client service to existing institutional accounts. Our institutional distribution, sales and client service efforts are also supported, as necessary, by members of our investment team.

Our client service team consists of individuals with both general business backgrounds and investment research experience. Our client service team members are fully integrated into our research team, attending both research and company management meetings to ensure our clients receive primary information. As appropriate, 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 with them. We additionally meet and hold conference calls regularly with clients to share perspectives on the portfolio and the current investment environment.

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 products 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. For additional information concerning the competitive risks that we face, see "Item 1A — Risk Factors — Risks Related to Our Business — The investment management business is intensely competitive."

Employees

At December 31, 2013, we had 76 full-time employees, consisting of 26 research department personnel; 3 traders; 19 client service and marketing personnel; 15 employees in operations; and 13 legal, compliance and finance personnel.

Available Information

We maintain a website at www.pzena.com. The contents of our website are not part of, nor are they incorporated by reference into, this Annual Report.

We make available through our website 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, as soon as reasonably practicable after they are electronically filed with the Securities and Exchange Commission. To retrieve these reports, and any amendments thereto, visit the Investor Relations section of our website.

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REGULATORY ENVIRONMENT AND COMPLIANCE

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

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 our business and our relationships with our clients. Applicable requirements relate to, among other things, fiduciary duties to clients, engaging in transactions with clients, maintaining an effective compliance program, performance fees, solicitation arrangements, conflicts of interest, advertising, recordkeeping, reporting and disclosure requirements. Twelve of the U.S. funds for which Pzena Investment Management, LLC acts as the sub-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, 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. The failure of Pzena Investment Management, LLC, or the registered funds for which Pzena Investment Management, LLC acts as sub-investment adviser, to comply with the requirements of the SEC could have a material adverse effect on us.

ERISA-Related Regulation

To the extent that Pzena Investment Management, LLC is a "fiduciary" under the Employment Retirement Act of 1974, or ERISA, with respect to benefit plan clients, it is 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. Our failure to comply with these requirements could have a material adverse effect on our business.

Foreign Regulation

Pzena Investment Management, LLC is currently availing 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.

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

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

Compliance

We maintain a Legal and Compliance Department with two full-time lawyers, including our General Counsel/Chief Compliance Officer. Other members of the Department, as well as certain of our other employees, also devote significant time to compliance matters.

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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 may directly impact our revenue and earnings.

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 may greatly affect our revenue and earnings, and could occur due to a variety of factors, including:

- Poor performance of our strategies: Poor performance of our investment strategies may result in decreased market value of AUM. In addition, underperformance could impact our ability to maintain our existing client base and develop new relationships, both of which could negatively impact AUM.
- Poor market environment: We could expect our business to generate lower revenue in a depressed equities market or general economic downturn. Any decline in the market value of securities held in client portfolios due to such adverse conditions could lower AUM significantly 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.
- Geo-political 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 worldwide political, social and economic conditions, all of which could negatively impact AUM.
- Termination of significant relationships: As of December 31, 2013, four client relationships represented 43% and 25% of our AUM and revenue respectively. Our clients can generally terminate our advisory agreements or reduce assets managed upon short notice and for any reason, and there can be no assurance that our agreements with respect to these relationships will remain in place. The termination of any of these relationships could significantly reduce our revenue and earnings, and we may not be able to establish relationships with other clients in order to replace the lost revenue and earnings.
- Defined benefit plans are declining: Defined benefit plans are projected to decline as a share of overall retirement assets relative to defined contribution plans, as corporate plan sponsors are actively decreasing their liabilities and pushing employee enrollment to defined contribution plans. We currently do not have significant exposure to the defined contribution market and if this situation persists, our AUM growth may be negatively impacted.
- 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. In addition, we have established relationships with certain mutual fund providers who have offered us opportunities to access certain market segments through sub-investment advisory roles. We have also accessed the high-net worth segment of the investing community through relationships with well-respected wealth advisers who utilize our investment strategies in investment programs they construct for their clients. Our intermediaries 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.
- Passive strategies have grown substantially in relation to active strategies: During the past decade, investors overall have exhibited a preference for passive investment products, such as index and exchange traded funds, over active strategies managed by asset managers such as ourselves. If this market preference continues our AUM may be negatively impacted.

In 2013, the vast majority of our investment strategies outperformed their respective benchmarks. Improved market conditions for the year have significantly contributed to asset inflows but no assurance can be given that improved market conditions will continue indefinitely and that our AUM, revenue or profitability will not decline in the future.

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Market pressures to lower our advisory fees could lead to a decline in our profit margin and increase the volatility of our revenue and earnings.

Market pressures in recent years have created a trend towards lower 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. Additionally, a shift in the composition of our AUM from higher to lower fee-generating client relationships may 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 currently derived from performance fees. We generally earn performance fees under certain client agreements according to the performance in the accounts 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. In addition, 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 2013 and 2012, we earned $3.9 million and $0.3 million in performance fees, respectively. An increase in performance fees, or in performance-based fee arrangements with clients, could create greater fluctuations in our revenue and earnings.

The potential of decreases in management fees and uncertainty in performance fee income could lead to volatility in our profit margins and impact our revenue and earnings.

Loss of key employees, and difficulties in attracting qualified investment professionals, could have a material adverse effect on the performance of our strategies, which may lead to a decrease in revenue and profitability.

The success of our business largely depends on the participation of Richard S. Pzena, John P. Goetz, William L. Lipsey, Antonio DeSpirito, III, and Michael D. Peterson, our CEO, two Presidents, and two Executive Vice Presidents, respectively. 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 for a certain period thereafter. The penalty for breach of these restrictive covenants will 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 also 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 additions 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. However, we may not be successful in our efforts to retain them as the market for investment professionals is extremely competitive. Our portfolio managers possess substantial experience and expertise in classic value investing as well as 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 sustain the performance of our investment strategies, which, in turn, could have a material adverse effect on our reputation, client relationships and our results of 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 our expenses.

The potential inability of our systems to accommodate an increasing volume of transactions could also constrain our ability to expand our businesses. In recent years, we have substantially upgraded and expanded the capabilities of our data processing

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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 many 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 growth opportunities present themselves. The necessary resources and/or personnel may be unavailable to take full advantage of strategic opportunities when they appear, or that strategic decisions can be efficiently implemented. Local regulatory environments may vary widely, as well as the adequacy and sophistication of each. Local requirements or needs may also place additional demands on sales and compliance personnel and resources, such as meeting local requirements and complying with local industry standards. Finding and hiring additional, well-qualified personnel and crafting and adopting policies, procedures and controls to address local or regional requirements remain a challenge as we expand our operations internationally. Moreover, regulators in non-U.S. jurisdictions 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 local 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 interest; quality of service provided to and duration of, relationships with clients; 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.

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

Pursuant to the Investment Company Act, each of the sub-investment advisory agreements for the SEC-registered mutual funds that we sub-advise automatically terminates upon its deemed “assignment,” and a fund’s board and shareholders must approve a new agreement in order for us to continue to act as its sub-investment adviser. In addition, pursuant to the Investment Advisers Act, each of our investment advisory agreements for the separate accounts we manage may not be “assigned” without the consent of the client. A sale of a controlling block of our voting securities and certain other transactions would be deemed an “assignment” pursuant to both the Investment Company Act and the Investment Advisers Act. 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 funds 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 sub-investment adviser. Each of the regulatory bodies with jurisdiction over us has regulatory powers dealing with many 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 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.

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.

In addition, the regulatory environment in which we operate is subject to ongoing modification and further regulation. The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (“the Dodd-Frank Act”) is one such example. While we do not believe that the Dodd-Frank Act will fundamentally change the investment management industry, certain provisions may have unintended consequences on the financial market as a whole that could negatively affect our business. Many aspects of the Dodd-Frank Act are still subject to rulemaking and may continue to take effect over several years, making it difficult to anticipate both the impact on the manner in which we conduct business as well as the increased regulatory requirements and related compliance costs.

Also, we are required to implement specific corporate governance practices and adhere to a variety of reporting requirements under the Sarbanes-Oxley Act of 2002 (“Sarbanes-Oxley” or “SOX”). Our management is required to conduct an annual assessment of the effectiveness of our internal controls over financial reporting and include a report on our internal controls in our annual reports on Form 10-K pursuant to Section 404 of SOX. In addition, our independent registered public accounting firm attests to and reports on the effectiveness of our internal controls over financial reporting. We may continue to incur costs in order to maintain our internal control over financial reporting and comply with Section 404 of SOX, including costs associated with accounting, internal audit, information technology, compliance and administrative staff. If we are unable to maintain effective internal control over financial reporting, this could lead to a loss of confidence in the reliability of our financial statements, thus adversely affecting the value of our common stock.

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. We are also subject to potential tax audits in various jurisdictions. Tax authorities may disagree with certain positions we have taken and assess 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, and the actual outcomes of these potential audits could have a material impact on our net income or financial condition. 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 financial position or results of our operations.

We are subject to the application of generally accepted accounting principles in the United States (“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.

In addition, the FASB is currently working with the International Accounting Standards Board (“IASB”) to converge certain accounting principles and to facilitate more comparable financial reporting between companies that are required to follow GAAP and those that are required to follow International Financial Reporting Standards (“IFRS”). These projects may result in different accounting principles under GAAP, which may have a material impact on the way in which we report financial results.

Inadequate business continuity plans 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, security breach 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. Although we have back-up systems in place and have taken other protective measures, our back-up procedures and capabilities in the

event of a failure or interruption may not be adequate.

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 sound business continuity plan in place that is tested on a quarterly basis, but there can be no assurance that this plan will be sufficient to mitigate the harm that may result from such a disaster or disruption.

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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.

As part of our normal operations, we rely on secure processing, storage and transmission of confidential client and firm information through computer systems and networks. Breach of such systems and networks could lead to loss of confidential client and proprietary information, liability for stolen information, additional cost to repair damage and prevent future incidents and litigation cost from loss of information. We maintain and rely on a system of internal controls designed to provide reasonable assurance that unauthorized access to sensitive or confidential data is prevented or detected in a timely manner. However, our technology systems may still be vulnerable to unauthorized access or may be corrupted by computer virus, malicious software or access by unauthorized individuals especially when related to portable devices. We take precautions to password protect all portable devices but that may not prevent unauthorized access if the device is misplaced or lost. Loss of confidential information may greatly harm our reputation and adversely affect our ability to maintain current or attract new relationships.

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 glitches. 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. We have sound internal controls in place to mitigate such risks but there can be no assurance that all risks can be prevented.

The investment management industry faces substantial litigation risks which could materially adversely affect our business, financial condition or results of operations or cause significant reputational harm to us.

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. 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. For information on our legal proceedings, see "Item 3 — Legal Proceedings."

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, our risk profile, and may increase significantly over relatively short periods. Renewals of insurance policies may result in additional costs through higher premiums or the assumption of higher deductibles or co-insurance liability. In addition, insurance and other safeguards might only partially reimburse us for our losses in the event our business continuity plan fails and our operations are significantly disrupted.

Our non-US holdings 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.

Our international strategies, which together represented $9.9 billion and $6.2 billion of our AUM as of December 31, 2013 and 2012, respectively, are primarily invested in securities of companies located outside the United States.

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 developed 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

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engage in currency hedging for these portfolios. Due to these factors, our AUM may fluctuate from one reporting period to another causing volatility in earnings.

Risks Related to Our Investment Strategies

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 very few investors are 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, there is the risk that we may be unable to find willing purchasers for our investments when we decide to sell them.

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

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

Our products are best suited for investors with long-term investment horizons. In order for our classic value investment approach to yield attractive returns, we must typically hold securities for an average of three to five years. Our investment strategies may not perform well during certain periods of time. The disruption in the global credit markets and the deterioration of the economy and the financial markets beginning in the second half of 2007, and continuing through early 2009, created difficult conditions for most companies, including many of those in which we invest. In addition, 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, as was the case in the late 1990s. 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 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 our operating company 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 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 future 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 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 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 the Selling Members, all holders of Class B units after our October 2007 IPO, and us, we are required to pay the Selling Members, and any 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 then applicable. Payments under the tax receivable agreement are expected to give rise to certain additional tax benefits attributable to further increases in basis. Any such benefits are covered by the tax receivable agreement and may increase the amounts due thereunder. We expect that, as a result of the size and increases in our share of the tax basis in the tangible and intangible assets of our operating company attributable to our interest therein, the payments that we may make to these members likely may be substantial.

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

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

Risks Related to Our Class A Common Stock

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

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

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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.

Pursuant to the operating agreement of our operating company, on at least one date designated by us each year, certain holders of Class B units may exchange up to 15% of their Class B units for an equivalent number of shares of our Class A common stock, subject to certain restrictions set forth in the operating agreement. Also, as of October 30, 2011, the fourth anniversary of our initial public offering, 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, on at least one date designated by us each year these holders may resell the shares of Class A common stock issued to them upon the exchange of up to 15% of their Class B units, or, in the case of non-employee members, all of their Class B units.

We filed a Form S-3 registration statement, which became effective in February 2009, in order to register our issuance to these holders of 57,937,910 shares of Class A common stock issuable upon exchange of all Class B units outstanding immediately after the consummation of our operating company's reorganization. On January 27, 2012, the SEC declared effective a subsequent registration statement on Form S-3 which registers the resale of 40,114,701 shares of our Class A common stock by the selling stockholders named therein. During 2013, we established March 20th as an exchange date. Certain executive officers, employee members, and non-employee members, elected to exchange an aggregate of 1,328,334 of their Class B units for an equivalent number of shares of our Class A common stock, which, with the exception of those held by our executive officers, are freely tradable. The market price of our Class A common stock could decline as a result of sales pursuant to the Form S-3 registration statements, or the perception that such sales could occur. These sales, or the possibility that these sales may occur, also might make it more difficult for us to raise additional capital by selling equity securities in the future, at a time and price that we deem appropriate.

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

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

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

Our Class B stockholders collectively hold approximately 95.6% of the combined voting power of our common stock. These stockholders consist of five of our named executive officers, 29 of our other employees, certain other members of our operating company, including one of our directors and his related entities, and eight former employees. 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

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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. However, our Board of Directors may, in its discretion, decrease the level of dividends, or discontinue the payment of dividends entirely. In addition, as a holding company, we depend upon the ability of Pzena Investment Management, LLC 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 are unable to generate sufficient distributions from our business, we may not be able to make, or may have to reduce or eliminate, the payment of dividends on our Class A common stock. Because of these various limitations and restrictions, we have, in the past, had to suspend our quarterly dividend payment. See “Item 5 — Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities — Our Dividend Policy.”

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Our corporate headquarters and principal offices are located at 120 West 45th Street, New York, New York 10036, where we occupy approximately 25,000 square feet out of 35,000 square feet of space under our non-cancellable operating lease, the term of which expires in October 2015. During the year ended December 31, 2011, we entered into a non-cancellable sublease agreement for approximately 10,000 square feet of excess office space associated with the operating lease (see Exhibit 10.7 of this Annual Report on Form 10-K).

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.

ITEM 4. REMOVED AND RESERVED

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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 3, 2014, there were approximately 25 record holders of our Class A common stock and 77 record holders of our Class B common shares. These numbers do not include shareholders who hold their shares through one or more intermediaries, such as banks, brokers or depositories.

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

	2013			2012		
Quarter	High	Low	Dividends Declared Per Share	High	Low	Dividends Declared Per Share
Quarter Ended March 31	$7.19	$5.22	$0.16	$6.66	$4.30	$0.19
Quarter Ended June 30	$7.05	$5.43	$0.03	$7.39	$3.82	$0.03
Quarter Ended September 30	$7.49	$6.34	$0.03	$5.82	$3.68	$0.03
Quarter Ended December 31	$11.87	$6.44	$0.03	$5.66	$4.51	$0.03

Our Dividend Policy

Our Board of Directors has targeted a cash dividend payout ratio of approximately 70% to 80% of annual non-GAAP net income, subject to growth initiatives and other funding needs. We use non-GAAP measures, discussed in further detail in "Item 7 — Management's Discussion and Analysis of Financial Condition and Results of Operation — Non-GAAP Net Income" in Part II of this Annual Report to assess the strength of the underlying operations of the business. We believe non-GAAP measures provide information to better analyze our operations between periods, and over time. We are a holding company and 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. 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.

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

Recent Sales of Unregistered Securities

For 2013, in connection with new employee member grants and year-end compensation, we issued an aggregate of 82,491 Class B units of our operating company, and the related 82,491 shares of Class B common stock to employee members. In addition, we awarded an aggregate of 76,522 options to acquire Class B units of our operating company to certain employee members, at an exercise price of $10.26 per unit. Also, in connection with year-end compensation, we awarded an aggregate of 805,879 Phantom Class B units, which vest ratably over ten years, are subject to continued employment with us, and are not entitled to receive dividends or dividend equivalents until vested.

Further, in connection with the vesting of certain employee members' mandatory deferred compensation, in 2013 we issued 68,518 Class B units of the operating company and the related 68,518 shares of Class B common stock. For a description of the Bonus Plan, see "Item 12 - Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters - Bonus Plan."

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The exercise of options to acquire an aggregate of 752,445 Class B units of our operating company by certain employee members, resulted in the issuance of 421,173 Class B units after the redemption of 331,272 Class B units for the cashless exercise of the options.
In 2013, a total of 410,389 Class B units were issued to various employee members in connection with the vesting of their Phantom Class B units.
Furthermore, in 2013, we issued an aggregate of 64,144 shares of Phantom Class A common stock to our non-employee directors, see "Item 11 — Executive Compensation — 2013 Non-Employee Director Compensation," and a total of 100,000 shares of Phantom Class A common stock in connection with a grant made to a new employee.
The issuances did not involve any public offering, general advertising or general solicitation. If certificates were issued to represent the securities, they bear a restrictive legend. On the basis of these facts, the securities were issued in a transaction not involving a public offering and were issued in reliance upon the exemption from registration provided by Section 4(2) of the Securities Act of 1933, as amended (the "Securities Act").
Performance Graph
The following graph compares the cumulative total stockholder return on our Class A common stock over the five-year period ending December 31, 2013, with the cumulative total return of the S&P 500® and the SNL Asset Manager Index*. The graph assumes the investment of $100 in our common stock, and in each of the two indices, on December 31, 2008 and the reinvestment of all dividends, if any.

	Period Ending					
Index	2008	2009	2010	2011	2012	2013
Pzena Investment Management, Inc.	$100.00	$71.40	$66.59	$40.10	$52.41	$117.98
SNL Asset Manager Index*	$100.00	$162.23	$186.74	$161.53	$207.25	$316.84
S&P 500 Index	$100.00	$126.47	$145.52	$148.59	$172.37	$228.17

* The SNL Asset Manager Index is comprised of the securities of 35 publicly traded asset management companies.
In accordance with the rules of the SEC, this section entitled "Performance Graph" shall not be incorporated by reference into any future filings by us under the Securities Act or the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and shall not be deemed to be soliciting material or to be filed under the Securities Act or the Exchange Act.

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Issuer Purchases of Equity Securities
Purchases of Equity Securities by the Issuer and Affiliated Purchasers

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[1]	(d) Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs[2] (in millions)
October 1, 2013 through October 31, 2013	29,145	$6.90	29,145	$6.7
November 1, 2013 through November 30, 2013	—	—	—	6.7
December 1, 2013 through December 31, 2013	—	—	—	2.9
Total	29,145	$6.90	29,145	$2.9

(1) Our share repurchase program was announced on April 24, 2012. The Board of Directors authorized us to repurchase an aggregate of $10 million of our outstanding Class A common stock, and Class B units of the operating company, on the open market and in private transactions in accordance with applicable securities laws. On February 5, 2014, the Board of Directors authorized us to repurchase an additional $20 million of our outstanding Class A common stock and Class B units of the operating company. The timing, number, and value of common shares and units repurchased are subject to our discretion. Our share repurchase program is not subject to an expiration date and may be suspended, discontinued, or modified at any time, or for any reason.

(2) Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs reflects the remainder of the $10.0 million program announced by the Board of Directors on April 24, 2012 and also reflects the repurchase of 356,843 of the operating company's Class B units during December 2013 for an average price of $10.44 per unit. Class B units are repurchased at the closing price of 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.

Equity Compensation Plan Information

For certain information concerning securities authorized for issuance under our equity compensation plans, see "Item 12 — Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters — Equity Compensation Plan Information."

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, 2013, 2012, and 2011 and the selected consolidated statements of financial condition data as of December 31, 2013 and 2012, have been derived from Pzena Investment Management, Inc.'s audited consolidated financial statements included elsewhere in this Annual Report on Form 10-K.

The selected consolidated statement of operations data for the years ended December 31, 2010 and 2009, and the selected consolidated statements of financial condition as of December 31, 2011, 2010 and 2009, 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 elsewhere in this Annual Report.

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	For the Year Ended December 31,				
	2013	2012	2011	2010	2009
	(in thousands, except share and per share amounts)				
Statements of Operations Data:					
REVENUE					
Management Fees	$91,866	$75,980	$79,230	$77,025	$63,039
Performance Fees	3,903	300	3,815	500	—
Total Revenue	95,769	76,280	83,045	77,525	63,039
EXPENSES					
Cash Compensation and Benefits	31,374	28,690	29,518	25,895	22,057
Other Non-Cash Compensation	5,448	3,065	5,047	3,653	2,934
Total Compensation and Benefits Expense	36,822	31,755	34,565	29,548	24,991
General and Administrative Expenses	8,099	7,346	10,626	8,007	8,261
TOTAL OPERATING EXPENSES	44,921	39,101	45,191	37,555	33,252
Operating Income	50,848	37,179	37,854	39,970	29,787
Other Income/(Expense)	(1,821)	(863)	(1,466)	(2,744)	1,601
INCOME BEFORE INCOME TAXES	49,027	36,316	36,388	37,226	31,388
Income Tax Provision/(Benefit)	589	1,911	3,145	741	(1,307)
Consolidated Net Income	48,438	34,405	33,243	36,485	32,695
Less: Net Income Attributable to Non-Controlling Interests.	41,768	30,565	29,861	32,674	29,326
NET INCOME/(LOSS) Attributable to Pzena Investment Management, Inc.	$6,670	$3,840	$3,382	$3,811	$3,369
Per Share Data[(1)]:					
Net Income/(Loss) for Basic Earnings per Share	$6,670	$3,840	$3,382	$3,811	$3,369
Basic Earnings/(Loss) per Share	$0.56	$0.36	$0.34	$0.41	$0.41
Basic Weighted Average Shares Outstanding	11,990,757	10,787,540	9,972,978	9,186,520	8,217,561
Net Income/(Loss) for Diluted Earnings per Share	$30,317	$20,821	$20,631	$22,419	$18,106
Diluted Earnings/(Loss) per Share	$0.45	$0.32	$0.32	$0.34	$0.28
Diluted Weighted Average Shares Outstanding	66,759,840	65,491,273	65,095,797	64,985,753	64,853,824
Cash Dividends Declared Per Share	$0.25	$0.28	$0.12	$0.24	$—

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

	For the Year Ended December 31,				
	2013	2012	2011	2010	2009
	(in thousands)				
Statements of Financial Condition Data:					
Cash and Cash Equivalents	$33,878	$32,645	$35,083	$16,381	$15,908
TOTAL ASSETS	80,213	64,679	66,678	48,402	48,518
Senior Subordinated Debt	—	—	—	—	10,000
TOTAL LIABILITIES	21,664	16,713	20,454	14,606	21,160
Non-Controlling Interests	42,187	33,397	32,287	23,224	19,088
EQUITY	$16,362	$14,569	$13,937	$10,572	$8,270

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

We are a public-equity 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, 2013, our assets under management, or AUM, was $25.0 billion. We manage separate accounts on behalf of institutions and high net worth individuals, and act as sub-investment adviser for a variety of SEC-registered mutual 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, 2013, the holders of our Class A common stock and the holders of Class B units of our operating company held approximately 18.7% and 81.3%, respectively, of the economic interests in the operations of our business.

Non-GAAP Net Income

Our results for the years ended December 31, 2013, 2012, and 2011 included recurring adjustments related to our tax receivable agreement and the associated liability to its selling and converting shareholders, in addition to adjustments related to certain one-time charges recognized in operating expense in the fourth quarter of 2011. We believe that these accounting adjustments add a measure of non-operational complexity which partially obscures the underlying performance of our business. In evaluating our financial condition and results of operations, we also review certain non-GAAP measures of net income, which exclude these items. Excluding these adjustments, non-GAAP diluted net income and non-GAAP diluted earnings per share were $29.3 million and $0.44, respectively, for the year ended December 31, 2013, $20.4 million and $0.31, respectively, for the year ended December 31, 2012, and $23.2 million and $0.36, respectively, for the year ended December 31, 2011. 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 net income associated with our increased interest in the operating company is taxed at our historical effective tax rate, exclusive of other adjustments, the adjustments related to our tax receivable agreement and the associated liability to selling and converting shareholders, and adjustments related to the one-time charges recognized in operating expense in the fourth quarter of 2011. Our effective tax rate, exclusive of these adjustments, was 41.7% for the year ended December 31, 2013, and approximately 42.9% for the years ended December 31, 2012 and 2011, respectively. See "Operating Results — Income Tax Expense" below.

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.

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

	For the Year Ended December 31,		
	2013	2012	2011
	(in thousands, except share and per share amounts)		
GAAP Net Income	$6,670	$3,840	$3,382
Net Effect of One-time Adjustments	—	—	443
Net Effect of Tax Receivable Agreement	(989)	(421)	(214)
Non-GAAP Net Income	$5,681	$3,419	$3,611
GAAP Income Attributable to Non-Controlling Interest of Pzena Investment Management, LLC	$40,533	$29,711	$30,188
Effect of One-time Adjustments	—	—	4,017
Non-GAAP Income Attributable to Non-Controlling Interest of Pzena Investment Management, LLC	40,533	29,711	34,205
Less: Assumed Corporate Income Taxes	16,886	12,730	14,660
Assumed After-Tax Income of Pzena Investment Management, LLC	23,647	16,981	19,545
Non-GAAP Net Income of Pzena Investment Management, Inc.	5,681	3,419	3,611
Non-GAAP Diluted Net Income	$29,328	$20,400	$23,156
Non-GAAP Diluted Earnings Per Share Attributable to Pzena Investment Management, Inc. Common Stockholders:			
Non-GAAP Net Income for Diluted Earnings per Share	$29,328	$20,400	$23,156
Non-GAAP Diluted Earnings Per Share	$0.44	$0.31	$0.36
Non-GAAP Diluted Weighted-Average Shares Outstanding	66,759,840	65,491,273	65,095,797

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 institutional accounts and for retail clients, which are generally open-end mutual funds catering primarily to retail investors. Our advisory fee income is recognized over the period in which investment management services are provided. Following the preferred method identified in the Revenue Recognition Topic of the Financial Accounting Standards Board Accounting Standards Codification ("FASB ASC"), income from performance fees is recorded at the conclusion of the contractual performance period, when all contingencies are resolved.

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

- our ability to educate our target clients about our classic value investment strategies and provide them with exceptional client service;
- the relative investment performance of our investment strategies, as compared to competing products and market indices;
- competitive conditions in the investment management and broader financial services sectors;
- general economic conditions;
- investor sentiment and confidence; and
- our decision to close strategies when we deem it to be in the best interests of our clients.

For our institutional 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.

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Pursuant to our sub-investment advisory agreements with our retail clients, 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 accounts, the average advisory fees we earn on them, as a percentage of AUM, are lower than the advisory fees we earn on our institutional accounts.

Certain of our clients pay us fees according to the performance of their accounts relative to certain agreed-upon benchmarks, which results in a lower base fee, but allows us to earn higher fees if the relevant investment strategy outperforms the agreed-upon benchmark.

The majority of advisory fees we earn on institutional accounts is based on the value of our AUM at a specific date on a quarterly basis, either in arrears or advance. Advisory fees on certain of our institutional accounts, and with respect to all of our retail accounts, are calculated based on the average of the monthly or daily market value. Advisory fees are also generally adjusted for any cash flows into or out of a portfolio, where the cash flow represents greater than 10% of the value of the portfolio. While a specific group of accounts may use the same fee rate, the method used to calculate the fee according to the fee rate schedule may differ as described above.

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 institutional accounts and retail 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.

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 office rent and other expenses, professional and outside services fees, depreciation, and the costs associated with operating and maintaining our research, trading, and portfolio accounting systems. Our occupancy-related costs and professional services expenses, in particular, generally increase or decrease in relative proportion to the overall size and scale of our business operations.

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

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

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

Other Income/(Expense)

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

expect the interest and investment components of other income/(expense), in the aggregate, to fluctuate based on market conditions and the performance of our consolidated investment partnerships and other investments.

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Non-Controlling Interests

Our operating company has historically consolidated the results of operations of the private investment partnerships over which we exercise a controlling influence. 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' interest in our operating company, we have reflected their membership interests as a non-controlling interest in our consolidated financial statements. As a result, our income is generated by our economic interest in our operating company's net income. As of December 31, 2013, the holders of our Class A common stock and the holders of Class B units of our operating company held approximately 18.7% and 81.3%, respectively, of the economic interests in the operations of our business.

Operating Results

Assets Under Management and Flows

As of December 31, 2013, our approximately $25.0 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, 2013 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 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, 2013, and in the five-year, three-year, and one-year periods ended December 31, 2013, relative to the performance of the market index which is most commonly used by our clients to compare the performance of the relevant investment strategy.

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Investment Strategy (Inception Date)	Period Ended December 31, 2013[1] Since Inception	5 Years	3 Years	1 Year
Large Cap Focused Value (October 2000)				
Annualized Gross Returns	7.1 %	20.2 %	15.9 %	41.8 %
Annualized Net Returns	6.6 %	19.6 %	15.4 %	41.3 %
Russell 1000® Value Index	6.2 %	16.7 %	16.1 %	32.5 %
Large Cap Expanded Value (July 2012)				
Annualized Gross Returns	33.3 %	— %	— %	41.5 %
Annualized Net Returns	33.1 %	— %	— %	41.3 %
Russell 1000® Value Index	27.1 %	— %	— %	32.5 %
Global Focused Value (January 2004)				
Annualized Gross Returns	6.2 %	18.5 %	14.2 %	40.0 %
Annualized Net Returns	5.5 %	17.7 %	13.5 %	39.2 %
MSCI® World Index – Net/U.S.$	7.0 %	15.0 %	11.5 %	26.7 %
International (ex-U.S.) Expanded Value (November 2008)				
Annualized Gross Returns	17.9 %	18.7 %	12.4 %	32.5 %
Annualized Net Returns	17.5 %	18.4 %	12.1 %	32.1 %
MSCI® EAFE Index – Net/U.S.$	12.1 %	12.4 %	8.2 %	22.8 %
Focused Value (January 1996)				
Annualized Gross Returns	11.4 %	21.3 %	17.4 %	43.8 %
Annualized Net Returns	10.6 %	20.5 %	16.7 %	43.0 %
Russell 1000® Value Index	9.0 %	16.7 %	16.1 %	32.5 %
Small Cap Focused Value (January 1996)				
Annualized Gross Returns	14.8 %	25.1 %	16.3 %	42.2 %
Annualized Net Returns	13.6 %	23.8 %	15.2 %	40.8 %
Russell 2000® Value Index	10.6 %	17.6 %	14.5 %	34.5 %
Global Expanded Value (January 2010)				
Annualized Gross Returns	12.8 %	— %	13.6 %	35.8 %
Annualized Net Returns	12.5 %	— %	13.2 %	35.4 %
MSCI® World Index – Net/U.S.$	11.6 %	— %	11.5 %	26.7 %
Emerging Markets Focused Value (January 2008)				
Annualized Gross Returns	3.2 %	18.2 %	2.2 %	10.0 %
Annualized Net Returns	2.2 %	17.3 %	1.7 %	9.3 %
MSCI® Emerging Markets Index – Net/U.S.$	(1.2)%	14.8 %	(2.1)%	(2.6)%
European Focused Value (August 2008)				
Annualized Gross Returns	8.9 %	20.2 %	15.0 %	35.9 %
Annualized Net Returns	8.5 %	19.7 %	14.6 %	35.5 %
MSCI® Europe Index – Net/U.S.$	3.1 %	13.4 %	9.9 %	25.2 %
Mid Cap Focused Value (September 1998)				
Annualized Gross Returns	13.8 %	26.2 %	20.9 %	42.7 %
Annualized Net Returns	13.0 %	25.3 %	20.0 %	41.8 %
Russell Mid Cap® Value Index	10.8 %	21.2 %	16.0 %	33.5 %

(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 Focused Value. This strategy reflects a portfolio composed of approximately 30 to 40 stocks drawn 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, 2013, the Large Cap Focused Value strategy generated a one-year annualized gross return of 41.8%, outperforming its benchmark. The outperformance was broad based and primarily driven by our overweight position and stock selection in both the financial service and technology sectors and secondarily by our exposure in the consumer discretionary sector and our underweight exposure to the utilities sector.
Large Cap Expanded Value. This strategy reflects a portfolio composed of approximately 50 to 80 stocks drawn 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, 2013, the Large Cap Expanded Value strategy generated a one-year annualized gross return of 41.5%, outperforming its benchmark. The outperformance was broad based and primarily driven by our overweight position and stock selection in both the financial service and technology sectors and secondarily by our exposure in the consumer discretionary sector and our underweight exposure to the utilities sector.
Global Focused Value. This strategy reflects a portfolio composed of approximately 40-60 stocks drawn 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, 2013, the Global Focused Value strategy generated a one-year annualized gross return of 40.0%, outperforming its benchmark. This outperformance was primarily driven by our stock selection and overweight positions in the financial services and technology sectors, along with our stock selection in the industrials and telecommunication services sectors.
International (ex-U.S.) Expanded Value. This strategy reflects a portfolio composed of approximately 60-80 stocks drawn 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, 2013, the International (ex-U.S.) Expanded Value strategy generated a one-year annualized gross return of 32.5%, outperforming its benchmark. The top contributors to relative performance were our stock selection in the financial services, industrials, and consumer discretionary sectors.
Focused Value. This strategy reflects a portfolio composed of a portfolio of approximately 30 to 40 stocks drawn 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, 2013, the Focused Value strategy generated a one-year annualized gross return of 43.8%, outperforming its benchmark. The outperformance was broad based and primarily driven by our overweight position and stock selection in both the financial service and technology sectors and secondarily by our exposure in the consumer discretionary sector and our underweight exposure to the utilities sector.
Small Cap Focused Value. This strategy reflects a portfolio composed of approximately 40 to 50 stocks drawn 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, 2013, the Small Cap Focused Value strategy generated a one-year annualized gross return of 42.2%, outperforming its benchmark. A broad number of holdings across a diverse range of industries contributed to this outperformance, specifically certain stocks in the financial services, and producer durables sectors.
Global Expanded Value. This strategy reflects a portfolio composed of approximately 60-95 stocks drawn 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, 2013, the Global Expanded Value strategy generated a one-year annualized gross return of 35.8%, outperforming its benchmark. This outperformance was primarily driven by our stock selection and overweight positions in the financial services and technology sectors, along with our stock selection in the industrials and consumer discretionary sectors.
Emerging Markets Focused Value. This strategy reflects a portfolio composed of approximately 40 to 80 stocks drawn 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, 2013, the Emerging Markets Focused Value strategy generated a one-year annualized gross return of 10.0%, outperforming its benchmark. The main contributors to this outperformance include holdings across a diverse range of industries, specifically certain positions in the materials, industrials and financial services sectors, as well as certain Korean stocks.

European Focused Value. This strategy reflects a portfolio composed of approximately 40-60 stocks drawn from a universe of 750 of the largest European companies, based on market capitalization. This strategy was launched in August 2008. At December 31, 2013, the European Focused Value strategy generated a one-year annualized gross return of 35.9%, outperforming its benchmark. This outperformance was driven primarily by our stock selection and overweight positions in the consumer discretionary, industrials, technology and financial services sectors.
Mid Cap Focused Value. This strategy reflects a portfolio composed of approximately 30 to 40 stocks drawn from a universe of U.S. listed companies ranked from the 201th to 1,200th largest, based on market capitalization. This strategy was launched in September 1998. At December 31, 2013, the Mid Cap Focused Value strategy generated a one-year annualized gross return of 42.7%, outperforming its benchmark. Financial services holdings were the largest contributors to this

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outperformance. The outperformance was also driven by positioning in the consumer discretionary sector, partially offset by certain stocks in the health care sector.

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

The change in AUM in our institutional accounts and our retail accounts for the years ended December 31, 2013, 2012, and 2011 is described below. During 2013, approximately $0.6 billion of assets under management that we had previously reported in 2013 in institutional accounts was reclassified to retail accounts. Historical information prior to 2013 is not impacted. Inflows are composed solely of the investment of new or additional assets by new or existing clients. Outflows consist solely of redemptions of assets by existing clients.

	For the Year Ended December 31,		
Assets Under Management	2013	2012	2011
	(in billions)		
Institutional Accounts			
Assets			
Beginning of Period			