



®

**O'Shaughnessy**  
ASSET MANAGEMENT

Franklin Regional Retirement System  
O'Shaughnessy Market Leaders Value  
QUARTERLY REPORT ENDING MARCH 31, 2013

## Franklin Regional Retirement System

(As of 3/31/13)

### Relationship Summary

|                         |                                    |
|-------------------------|------------------------------------|
| Market Value (3/31/13): | \$6,354,066.39                     |
| Strategy:               | O'Shaughnessy Market Leaders Value |
| Inception Date:         | March 1, 2012                      |
| Custodian:              | Comerica                           |

### Strategy Summary

O'Shaughnessy Market Leaders Value generally seeks to provide long-term growth and some current income by investing in market leading companies with attractive valuations. First, we screen for stocks with greater than average market capitalizations and exclude Utilities. We then screen for securities with greater than average scores in our Value, Earnings Quality, Earnings Growth, and Financial Strength composites. From the remaining pool of stocks, we select those with the highest "shareholder yield"— which combines a company's annual dividend and its annual rate of stock buybacks. A portfolio typically holds approximately 50 to 80 stocks.

### Performance Review

(As of 3/31/13)

|                                     |         |      | Current Month | Quarter to Date | Year to Date | 1-Year | Annualized Since Inception | * Inception Date |
|-------------------------------------|---------|------|---------------|-----------------|--------------|--------|----------------------------|------------------|
| Franklin Regional Retirement System | (Gross) | 6.70 | 11.98         | 11.98           | 15.06        | 16.07  | 3/1/2012                   |                  |
|                                     | (Net)   | 6.65 | 11.83         | 11.83           | 14.43        | 15.44  |                            |                  |
| Russell 1000® Value Index           |         | 3.96 | 12.31         | 12.31           | 18.77        | 19.72  |                            |                  |

### OSAM Client Representatives

#### Chris Loveless

President and COO  
Institutional Sales and Service  
Office: (203) 975-3304  
Cell: (203) 550-7085  
chris.loveless@osam.com

#### David Baeckelandt

Institutional Sales and Service  
Office: (312) 448-6029  
Cell: (312) 543-7221  
david.baeckelandt@osam.com

#### Michael Hatstrup

Institutional Client Service Specialist  
Office: (203) 975-3343  
michael.hatrump@osam.com

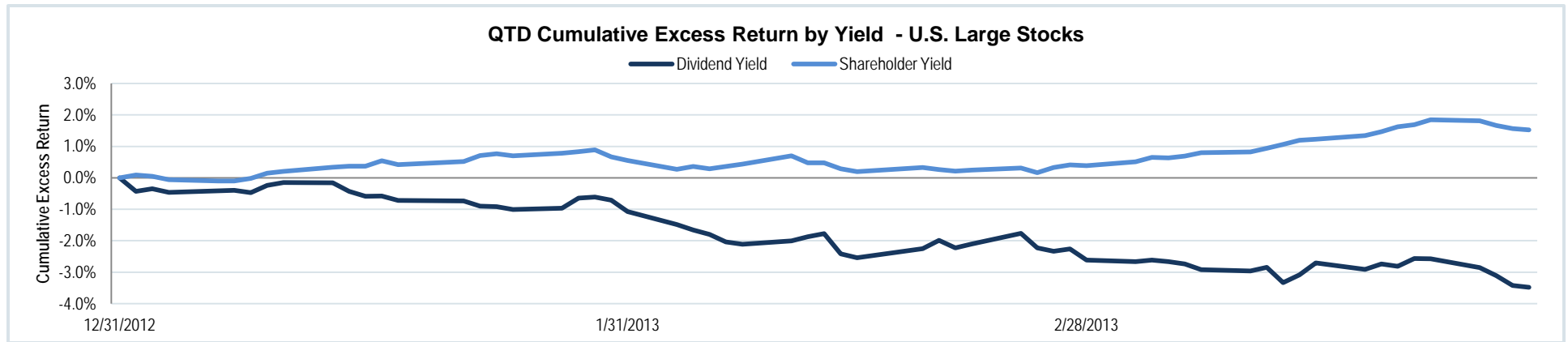
#### Beth Ryan

Institutional Client Service Specialist  
Office: (203) 975-3348  
beth.ryan@osam.com

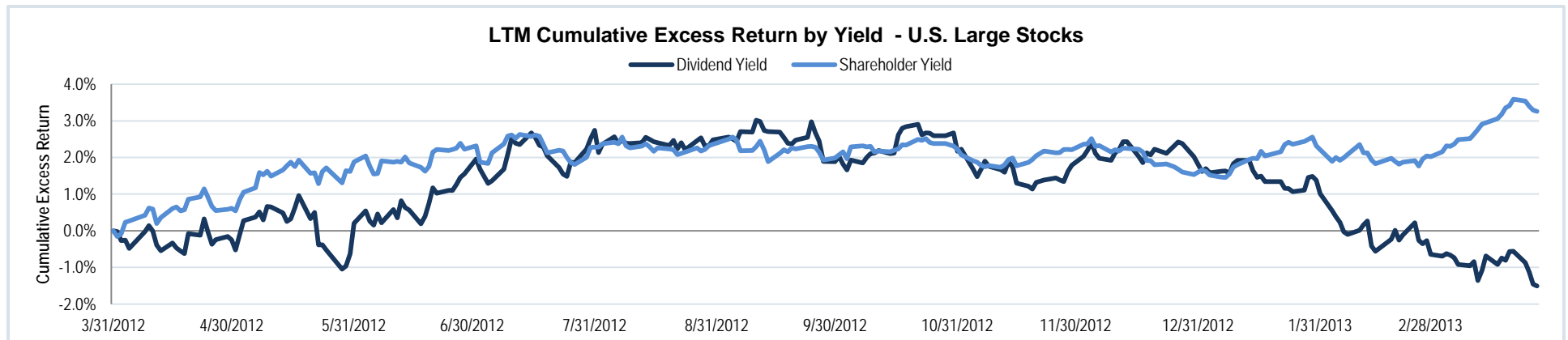
## Franklin Regional Retirement System: Commentary

(As of 3/31/13)

- During the first quarter, Shareholder Yield was the stronger of the two yield characteristics and outperformed the U.S. Large Stocks Universe by +1.5%. Dividend Yield underperformed by -3.5%.



- Over the last twelve months, the performance of yield factors was mixed. Shareholder Yield finished the period as the stronger characteristic outperforming by +3.3%, while Dividend Yield underperformed by -1.5%.



## Franklin Regional Retirement System: Commentary

(As of 3/31/13)

### Positive Contributing Factors for 1Q13:

- During our investment process, we build an investable universe of stocks with high earnings quality and earnings growth. These types of stocks outperformed and contributed positively to returns during the first quarter.
- Shareholder Yield, the final ranking and selection factor, added positively to performance.
- Our allocation among various economic sectors, as a result of our investment process, also helped performance.
- Our model worked best in these sectors:

| OSAM GICS Sector       | Franklin Regional Retirement System |              |                        | Russell 1000® Value Index |              |                        | Performance Attribution |                         |              |
|------------------------|-------------------------------------|--------------|------------------------|---------------------------|--------------|------------------------|-------------------------|-------------------------|--------------|
|                        | Weight                              | Total Return | Contribution to Return | Weight                    | Total Return | Contribution to Return | Allocation Effect       | Selection + Interaction | Total Effect |
| Financials             | 17.97                               | 17.63        | 3.11                   | 27.68                     | 12.10        | 3.35                   | 0.03                    | 0.90                    | 0.93         |
| Consumer Discretionary | 31.41                               | 13.67        | 4.43                   | 8.27                      | 12.46        | 1.03                   | 0.04                    | 0.35                    | 0.38         |

### Negative Contributing Factors for 1Q13:

- Our investment process emphasizes stocks with low valuation ratios and high financial strength. These stocks detracted from returns during the quarter.
- Security selection within sectors held back performance.
- Our model worked worst in these sectors:

| OSAM GICS Sector           | Franklin Regional Retirement System |              |                        | Russell 1000® Value Index |              |                        | Performance Attribution |                         |              |
|----------------------------|-------------------------------------|--------------|------------------------|---------------------------|--------------|------------------------|-------------------------|-------------------------|--------------|
|                            | Weight                              | Total Return | Contribution to Return | Weight                    | Total Return | Contribution to Return | Allocation Effect       | Selection + Interaction | Total Effect |
| Industrials                | 15.29                               | 8.25         | 1.24                   | 9.12                      | 12.50        | 1.14                   | 0.04                    | -0.74                   | -0.70        |
| Telecommunication Services | 4.78                                | -4.22        | -0.15                  | 3.30                      | 7.50         | 0.26                   | -0.07                   | -0.48                   | -0.55        |

## Franklin Regional Retirement System: Commentary

(As of 3/31/13)

### Market Outlook:

Stock returns during the first quarter of 2013 were very strong in the U.S. The market shrugged off the fiscal cliff and sequestration en route to new highs for several major indices, including the Dow Jones Industrial Average and the S&P 500. Concurrent with this strong quarterly return was a marked shift in the appetite for equities as an asset class. Through March 29th, U.S. Focus Equity Mutual funds had cumulative net inflows of +\$23.1B, which is a huge change from the first quarter of 2012, when U.S. funds had a net outflow of -\$16B. Bond mutual funds still significantly outpaced equity funds, with +\$90B in net inflows, but the positive flows to equity funds indicate a significant change in attitude towards equity markets in general.

As investors continue to rethink their asset allocations, we expect flows into equities to be consistently positive if market volatility remains relatively low. With new market highs, however, have come more expensive valuations for stocks, especially in the U.S. We believe that when the market as a whole becomes more expensive, it is especially important to own high quality stocks that remain very cheap relative to the overall market, but still have high shareholder yields. Building portfolios with these characteristics has been a powerful way to beat the market over time. The cheapest stocks by our value composite, for example, have outperformed the market by roughly 6% per year, annualized, since 1963. Similarly, large stocks with the highest shareholder yields have outperformed by roughly 4% per year. We believe that high quality companies with great valuations and yield are poised to do well in the future.

Given the historical effectiveness of using value and yield to select stocks, we believe that the Market Leaders Value portfolio is well positioned for the coming year. Its Price/Earnings ratio is 12.2X, a discount from the 14.8X multiple for the Russell 1000<sup>®</sup> Value Index. The portfolio is also 33% cheaper based on Price/Sales, with a 0.8x multiple compared to a 1.2x multiple for the index. Its shareholder yield is 9.2%, significantly higher than the 2.7% yield on the Russell 1000<sup>®</sup> Value Index. We continue to believe that these characteristics will drive future returns, and that the Market Leaders Value portfolio serves well as the cornerstone of our investors' equity portfolios.

## Franklin Regional Retirement System: Attribution QTD as of March 31, 2013

| Sectors                    | Franklin Regional Retirement System |              |                    | Russell 1000 Value Index |              |                    | Performance Attribution |                         |              |
|----------------------------|-------------------------------------|--------------|--------------------|--------------------------|--------------|--------------------|-------------------------|-------------------------|--------------|
|                            | Average Weight                      | Total Return | Contrib. to Return | Average Weight           | Total Return | Contrib. to Return | Allocation Effect       | Selection + Interaction | Total Effect |
| Consumer Discretionary     | 31.41                               | 13.67        | 4.43               | 8.27                     | 12.46        | 1.03               | 0.04                    | 0.35                    | 0.38         |
| Consumer Staples           | 4.22                                | 24.87        | 1.00               | 7.23                     | 16.79        | 1.18               | -0.11                   | 0.31                    | 0.20         |
| Energy                     | 5.94                                | -0.07        | -0.05              | 16.04                    | 9.78         | 1.60               | 0.24                    | -0.61                   | -0.36        |
| Financials                 | 17.97                               | 17.63        | 3.11               | 27.68                    | 12.10        | 3.35               | 0.03                    | 0.90                    | 0.93         |
| Health Care                | 9.10                                | 12.41        | 1.15               | 11.61                    | 14.60        | 1.67               | -0.03                   | -0.17                   | -0.20        |
| Industrials                | 15.29                               | 8.25         | 1.24               | 9.12                     | 12.50        | 1.14               | 0.04                    | -0.74                   | -0.70        |
| Information Technology     | 11.28                               | 16.56        | 1.66               | 6.55                     | 16.89        | 1.08               | 0.19                    | -0.09                   | 0.10         |
| Materials                  | 0.00                                | 0.00         | 0.00               | 3.76                     | 2.96         | 0.13               | 0.35                    | 0.00                    | 0.35         |
| Telecommunication Services | 4.78                                | -4.22        | -0.15              | 3.30                     | 7.50         | 0.26               | -0.07                   | -0.48                   | -0.55        |
| Utilities                  | 0.00                                | 0.00         | 0.00               | 6.43                     | 13.60        | 0.86               | -0.06                   | 0.00                    | -0.06        |
| <b>Total</b>               | <b>100.00</b>                       | <b>12.40</b> | <b>12.40</b>       | <b>100.00</b>            | <b>12.30</b> | <b>12.30</b>       | <b>0.61</b>             | <b>-0.52</b>            | <b>0.09</b>  |

Source: FactSet Portfolio Analytics is a third-party subscription-based tool which may base output on data provided by other databases and information service providers. Past performance is no assurance of future results.

## O'Shaughnessy Market Leaders Value: Buy & Sell Examples

### Stock Screening Examples

(As of 3/28/13)

|  |                                 | <u>AstraZeneca PLC-Spons ADR (AZN)</u> | <u>Marriott International Inc. (MAR)</u> |
|--|---------------------------------|--|--|
| Investable Universe<br>(Approx. 3,500 stocks)  |                                 |  |  |
| Market cap > Universe average,<br>excluding Utilities  | Market cap (\$ bil)             | 62.3                                   | 10.3                                     |
| Top half by composited<br>score of Value,<br>Earnings Quality,<br>Earnings Growth, and<br>Financial Strength<br>Composites | Value*                          | 9                                      | 48                                       |
|  | Earnings Quality*               | 12                                     | 96                                       |
|  | Earnings Growth*                | 43                                     | 44                                       |
|  | Financial Strength*             | 13                                     | 61                                       |
|  | Composited score of composites* | 3                                      | 76                                       |
| Top securities by<br>shareholder yield   | Shareholder yield               | 10.0%                                  | 7.9%                                     |
|  | Selected?                       | yes                                    | no                                       |

\* The lower the number the better the score.

Please be advised that the information regarding our models are subject to change and is provided for informational purposes only and should not be deemed as a recommendation to purchase or sell the securities mentioned. Moreover, there can be no assurance, as of the date of publication, that the securities purchased remain in a strategy's portfolio or that securities sold have not been repurchased. Additionally, it is noted that the securities purchased do not represent a strategy's entire portfolio and in the aggregate may represent a small percentage of a strategy's portfolio.

Past performance is no guarantee of future results. Please see important disclosure information at the end of this presentation.

## Franklin Regional Retirement System: Characteristics<sup>1</sup>

(As of 3/31/13)

### Holdings-Based Characteristics

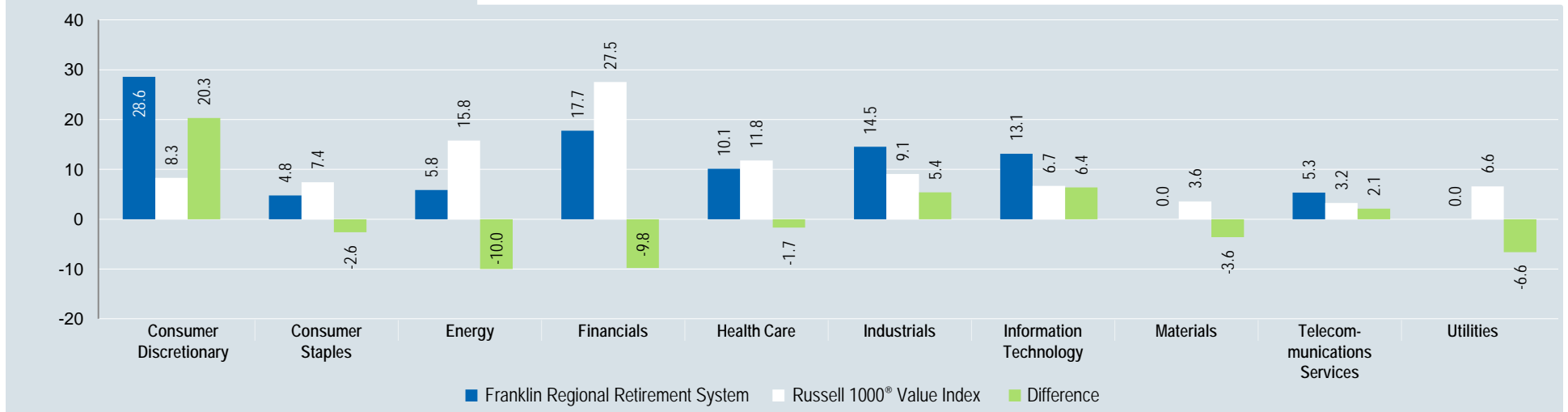
|   | Franklin Regional Retirement System | Russell 1000® Value Index |
|---|-------------------------------------|---------------------------|
| Price/Earnings Ratio                            | 12.2                                | 14.8                      |
| Price/Sales Ratio                               | 0.8                                 | 1.2                       |
| 1-Year Historical Earnings Growth Rate (%)      | 50.2                                | 72.8                      |
| Weighted Average Market Capitalization (\$ mil) | 26,554                              | 95,269                    |
| Median Market Capitalization (\$ mil)           | 16,390                              | 5,792                     |
| Number of Holdings                              | 51                                  | 695                       |
| Foreign Content (%)                             | 10.0                                | 0.6                       |
| Turnover (% previous 12 months)                 | 58.4                                | —                         |
| Active Share (%)                                | 94.5                                | —                         |
| Cash (%)  | 1.6                                 | —                         |

### Top Ten Holdings

|   | Percent of Portfolio | Dividend Yield (%) <sup>2</sup> | Buyback Yield (%) | Shareholder Yield (%) |
|---|----------------------|---------------------------------|-------------------|-----------------------|
| Ameriprise Financial Inc.   | 4.5                  | 2.4                             | 8.1               | 10.5                  |
| Travelers Cos. Inc.   | 4.1                  | 2.2                             | 3.9               | 6.1                   |
| DIRECTV   | 4.1                  | 0.0                             | 15.1              | 15.1                  |
| Seagate Technology Inc.   | 4.0                  | 4.2                             | 5.3               | 9.5                   |
| ConocoPhillips  | 4.0                  | 4.4                             | 5.1               | 9.5                   |
| L-3 Communications Holdings Inc.  | 3.9                  | 2.7                             | 8.6               | 11.3                  |
| Viacom Inc. CI B  | 3.8                  | 1.8                             | 8.6               | 10.4                  |
| Motorola Solutions Inc.   | 3.7                  | 1.6                             | 13.4              | 15.0                  |
| Wynn Resorts Ltd.   | 3.7                  | 3.2                             | 19.4              | 22.6                  |
| Kohl's Corp.  | 3.2                  | 3.0                             | 10.1              | 13.1                  |
| <b>Total</b>  | <b>39.0</b>          | <b>2.6*</b>                     | <b>9.8*</b>       | <b>12.3*</b>          |
| <b>O'Shaughnessy Market Leaders Value</b><br>(Based on model portfolio) |                      | <b>3.3</b>                      | <b>6.1</b>        | <b>9.4</b>            |
| Russell 1000® Value Index   |                      | 2.2                             | -0.1              | 2.1                   |

\* Average of top 10 holdings.

### Current Sector Weightings (%)



<sup>1</sup> Top ten holdings and number of holdings are provided for informational purposes only and should not be deemed as a recommendation to purchase or sell the securities mentioned. Top ten holdings do not represent all of the securities that would be purchased, sold or recommended for an account and the reader should not assume that investments in the securities identified were or will be profitable. Holdings-based valuation metrics are derived from actual holdings utilizing the Factset Portfolio Analytics tool. The price/earnings and price/sales ratios are weighted harmonic averages.

Stocks with small and mid-sized market capitalizations (those defined by OSAM as less than \$10 billion) may have greater risk and volatility than those with larger market capitalizations.



## I General Legal Disclosure/Disclaimer

Please remember that past performance is no guarantee of future results. Different types of investments involve varying degrees of risk, and there can be no assurance that the future performance of any specific investment, investment strategy, or product made reference to directly or indirectly in this presentation, will be profitable, equal any corresponding indicated historical performance level(s), or be suitable for any portfolio. Gross of fee performance computations are reflected prior to OSAM's investment advisory fee (as described in OSAM's written disclosure statement), the application of which will have the effect of decreasing the composite performance results (for example: an advisory fee of 1% compounded over a 10-year period would reduce a 10% return to an 8.9% annual return). Due to various factors, including changing market conditions, the content may no longer be reflective of current opinions or positions. Moreover, you should not assume that any discussion or information contained in this presentation serves as the receipt of, or as a substitute for, individualized investment advice from OSAM. Historical performance results for investment indices and/or categories have been provided for general comparison purposes only, and generally do not reflect the deduction of transaction and/or custodial charges, the deduction of an investment management fee, nor the impact of taxes, the incurrence of which would have the effect of decreasing historical performance results. It should not be assumed that any account holdings would correspond directly to any comparative indices. Account information has been compiled solely by OSAM, has not been independently verified, and does not reflect the impact of taxes on non-qualified accounts. In preparing this presentation, OSAM has relied upon information provided by the account custodian and/or other third party service providers. OSAM is a Registered Investment Adviser with the SEC and a copy of our current written disclosure statement discussing our advisory services and fees remains available for your review upon request.