



®

O'Shaughnessy
ASSET MANAGEMENT

Franklin Regional Retirement System
O'Shaughnessy Market Leaders Value
QUARTERLY REPORT ENDING MARCH 31, 2014

Franklin Regional Retirement System

(As of 3/31/14)

Relationship Summary

Market Value (3/31/14):	\$7,704,242.36
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 the highest "shareholder yield"— which combines a company's annual dividend and its annual rate of stock buybacks. A portfolio typically holds approximately 45 to 80 stocks.

Performance Review

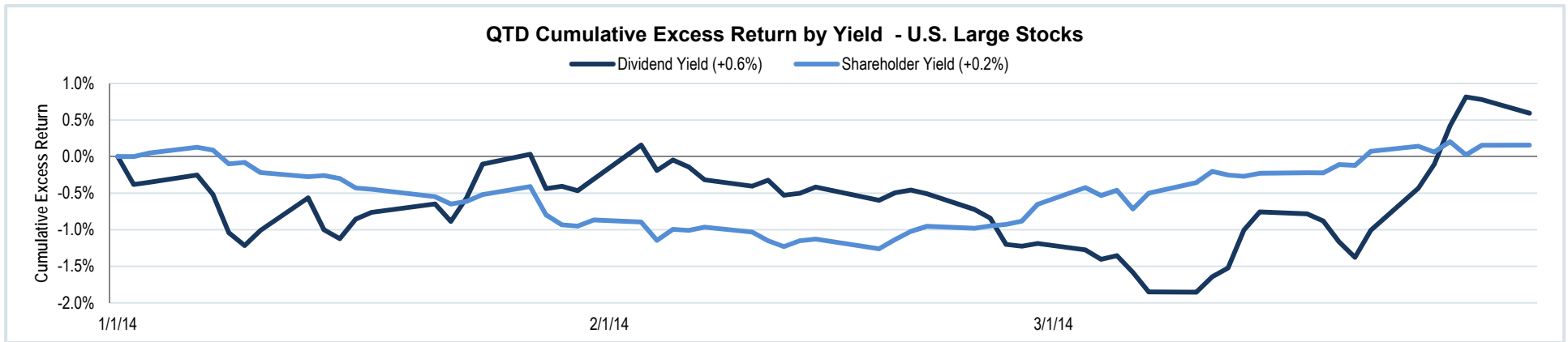
(As of 3/31/14)

	Current Month	Quarter to Date	Year to Date	1-Year	Since Inception (Annualized)	* Inception Date	2013
Franklin Regional (Gross)	1.03	3.31	3.31	36.70	25.56	3/1/2012	48.17
Retirement System (Net)	0.98	3.17	3.17	35.97	24.89		47.38
Russell 1000® Value Index	2.39	3.02	3.02	21.57	20.61		32.53

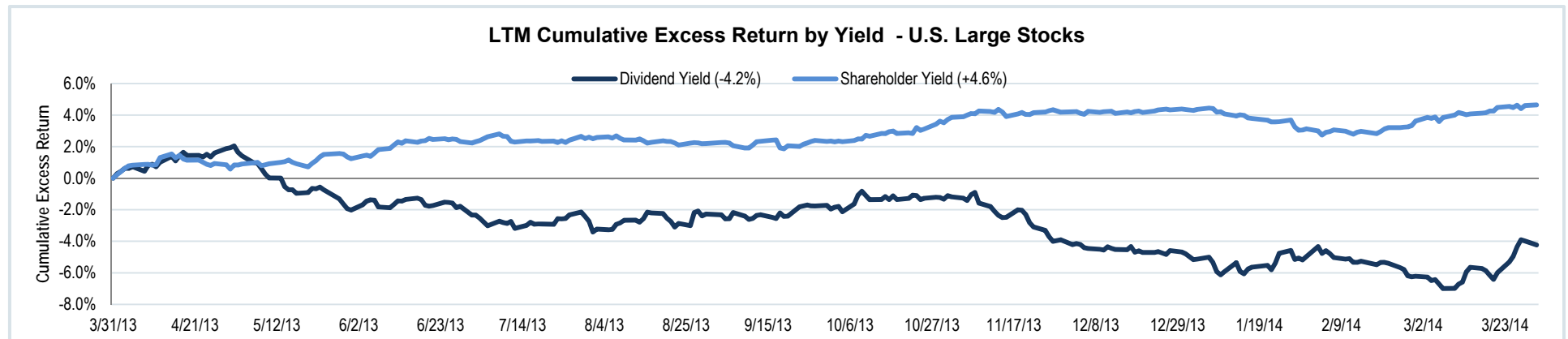
Franklin Regional Retirement System: Commentary

(As of 3/31/14)

- During the first quarter, yield factors performed well. Dividend Yield was the stronger of the two yield characteristics at +0.6%, and outperformed the U.S. large stocks universe. Shareholder Yield also outperformed by +0.2%.



- Over the last twelve months, the performance of yield factors was mixed. Shareholder Yield finished the period as the stronger characteristic outperforming by +4.6%. Dividend Yield underperformed by -4.2%.



Franklin Regional Retirement System: Commentary

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Positive Contributing Factors for 1Q14:

- Shareholder Yield, the final ranking and selection factor, added positively to performance.
- The Value factor composite also helped returns.
- Security selection in the Consumer Staples and Consumer Discretionary sectors contributed to returns.
- 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
Consumer Discretionary	25.88	5.65	1.52	6.48	-2.02	-0.13	-0.96	2.01	1.05
Consumer Staples	6.22	8.85	0.55	5.84	1.80	0.10	-0.00	0.44	0.44

Negative Contributing Factors for 1Q14:

- Our quality composites – Financial Strength, Earnings Quality, and Earnings Growth – performed all screened out underperforming stocks.
- Security selection within the Financials and Information Technology 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
Information Technology	19.46	-0.16	-0.12	8.99	3.65	0.33	0.10	-0.81	-0.71
Financials	7.52	-2.33	-0.17	29.12	3.54	1.02	-0.10	-0.44	-0.54

Franklin Regional Retirement System: Commentary

(As of 3/31/14)

Market Outlook:

During the first quarter, the market finally took a breather. The major indexes were flat or slightly up. The S&P 500 Index was up 1.8% and the Russell 3000® Index was up 2.0% during the first quarter. As we noted in last quarter's market outlook, the U.S. stock market has become much more expensive over the past two years.

Market valuation levels are not a good timing tool, but they are a good way to evaluate the market opportunity. The market exploded upward in 2013, but earnings and sales did not, so the market as a whole looks somewhat expensive. At the generational buying opportunity in early 2009, the median U.S. stock traded for roughly 14 times trailing earnings and 1 times sales. Now, in 2014, the median U.S. stock trades for roughly 25 times trailing earnings and 2.1 times sales.

We believe these elevated valuations mean investors should pay special attention to valuation characteristics when selecting stocks. While the median stock trades for 25 times trailing earnings, stocks in the cheapest 25% of the stock market trade for roughly 17 times trailing earnings. This is still more expensive than 2009, but much cheaper than the market median.

Again, timing the market based on valuation is difficult, but current valuation levels act as a decent bellwether for returns in the years to come. Current elevated levels in the U.S. suggest that returns won't be anywhere near as impressive in the next five years as they have been in the last five. While stocks appear very expensive relative to the late 1970's and early 1980's, stock valuations cannot be evaluated in a vacuum. In the early 80's, fixed income offered yields in the mid-teens and stocks had gone nowhere since 1968. Now, no such return alternative is available so stocks are understandably more expensive. Stocks remain much more attractive than bonds and cash, which we believe offer weak prospective real returns.

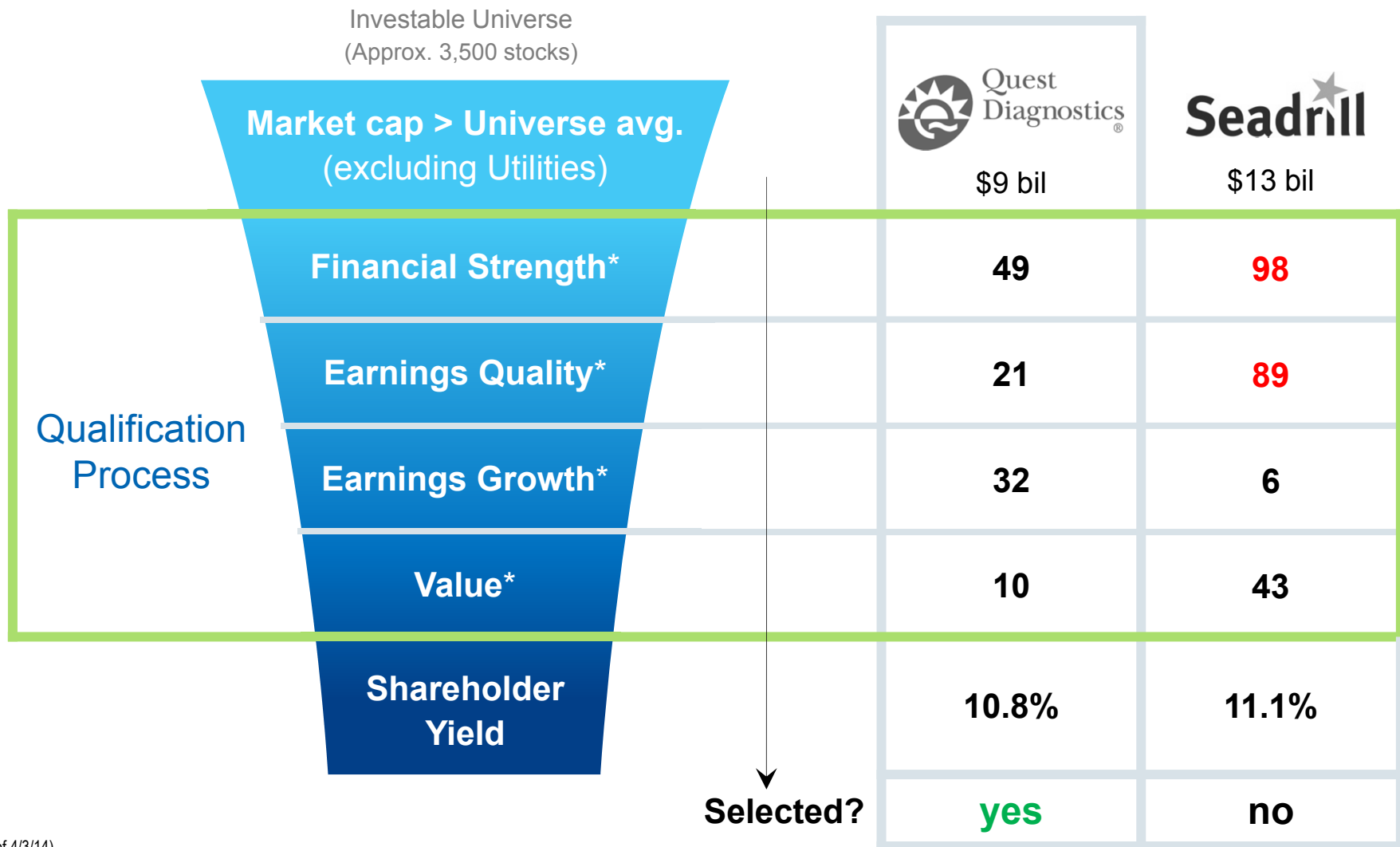
If we are correct that returns in the next five years will be lower than what investors have recently experienced, then excess returns become especially important for client portfolios. We believe that our disciplined emphasis on quality, valuation, and yield will deliver strong excess returns in the years to come, and that by building portfolios around these characteristics, we will deliver higher returns than the market as a whole.

Franklin Regional Retirement System: Attribution QTD as of March 31, 2014

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	25.88	5.65	1.52	6.48	-2.02	-0.13	-0.96	2.01	1.05
Consumer Staples	6.22	8.85	0.55	5.84	1.80	0.10	0.00	0.44	0.44
Energy	5.40	1.18	0.09	14.56	-0.17	-0.07	0.34	0.07	0.41
Financials	7.52	-2.33	-0.17	29.12	3.54	1.02	-0.10	-0.44	-0.54
Health Care	10.01	4.20	0.44	13.41	8.15	1.09	-0.17	-0.38	-0.54
Industrials	14.83	2.99	0.46	10.32	-0.07	-0.02	-0.13	0.45	0.32
Information Technology	19.46	-0.16	-0.12	8.99	3.65	0.33	0.10	-0.81	-0.71
Materials	2.98	7.06	0.21	2.93	3.26	0.10	0.01	0.08	0.09
Telecommunication Services	7.71	4.69	0.37	2.41	1.54	0.03	-0.04	0.21	0.17
Utilities	0.00	0.00	0.00	5.95	9.66	0.57	-0.37	0.00	-0.37
Total	100.00	3.35	3.35	100.00	3.02	3.02	-1.32	1.64	0.32

Source: Analytics are performed through OSAM Workbench, a proprietary tool. Security level data is from Thomson QAI Direct, a third-party subscription-based information service provider. Past performance is no assurance of future results.

I O'Shaughnessy Market Leaders Value: Portfolio Construction — Stock Screening Examples



(As of 4/3/14)

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.

* The lower the number the better the score.

Franklin Regional Retirement System: Characteristics¹

(As of 3/31/14)

Holdings-Based Characteristics

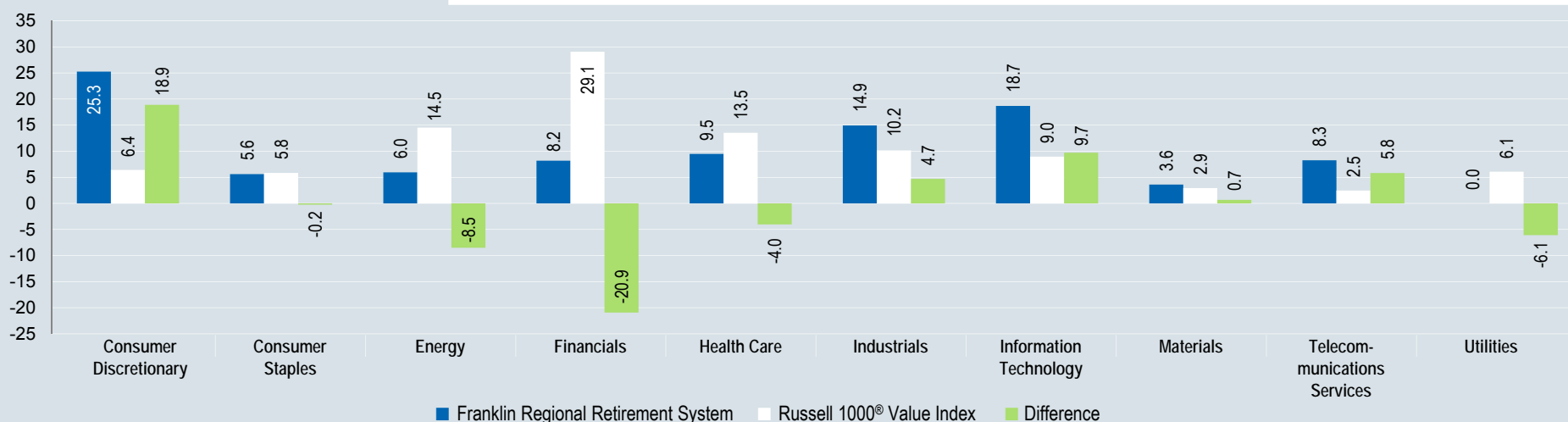
	Franklin Regional Retirement System	Russell 1000® Value Index
Price/Earnings Ratio	15.6	16.3
Price/Sales Ratio	1.1	1.4
1-Year Historical Earnings Growth Rate (%)	10.5	29.7
Weighted Average Market Capitalization (\$ mil)	31,934	112,088
Median Market Capitalization (\$ mil)	18,447	6,666
Number of Holdings	59	664
Foreign Content (%)	12.1	0.2
Turnover (% previous 12 months)	50.1	—
Active Share (%)	92.0	—
Cash (%)	1.8	—

Top Ten Holdings

	Percent of Portfolio	Dividend Yield (%) ²	Buyback Yield (%)	Shareholder Yield (%)
DIRECTV	4.5	0.0	7.7	7.7
L-3 Communications Holdings, Inc.	4.4	2.0	4.9	6.9
Northrop Grumman Corporation	4.2	2.0	7.4	9.4
Seagate Technology PLC	4.1	3.1	7.0	10.1
Coca-Cola Enterprises, Inc.	4.1	2.1	6.0	8.1
Kohl's Corporation	3.5	2.7	5.0	7.7
Flowserve Corp.	3.3	0.8	3.5	4.3
O'Reilly Automotive Inc.	3.2	0.0	4.6	4.6
Ameriprise Financial, Inc.	3.2	1.9	5.1	7.0
AmerisourceBergen Corporation	3.1	1.4	0.2	1.6
Total	37.7	1.6*	5.1*	6.7*
Franklin Regional Retirement System		2.2	4.9	7.1
Russell 1000® Value Index		2.2	1.0	3.2

* Average of top 10 holdings.

Current Sector Weightings (%)



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 OSAM Workbench, a proprietary 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.

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