



®

**O'Shaughnessy**  
ASSET MANAGEMENT

Franklin Regional Retirement System  
O'Shaughnessy Market Leaders Value  
QUARTERLY REPORT ENDING JUNE 30, 2013

## Franklin Regional Retirement System

(As of 6/30/13)

### Relationship Summary

|                         |                                    |
|-------------------------|------------------------------------|
| Market Value (6/30/13): | \$6,482,475.21                     |
| 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 6/30/13)

|                                     |         | Current Month | Quarter to Date | Year to Date | 1-Year | Annualized Since Inception | * Inception Date |
|-------------------------------------|---------|---------------|-----------------|--------------|--------|----------------------------|------------------|
| Franklin Regional Retirement System | (Gross) | 0.05          | 6.82            | 19.62        | 26.59  | 18.61                      | 3/1/2012         |
|                                     | (Net)   | 0.00          | 6.68            | 19.30        | 25.91  | 17.96                      |                  |
| Russell 1000® Value Index           |         | -0.88         | 3.20            | 15.90        | 25.32  | 18.51                      |                  |

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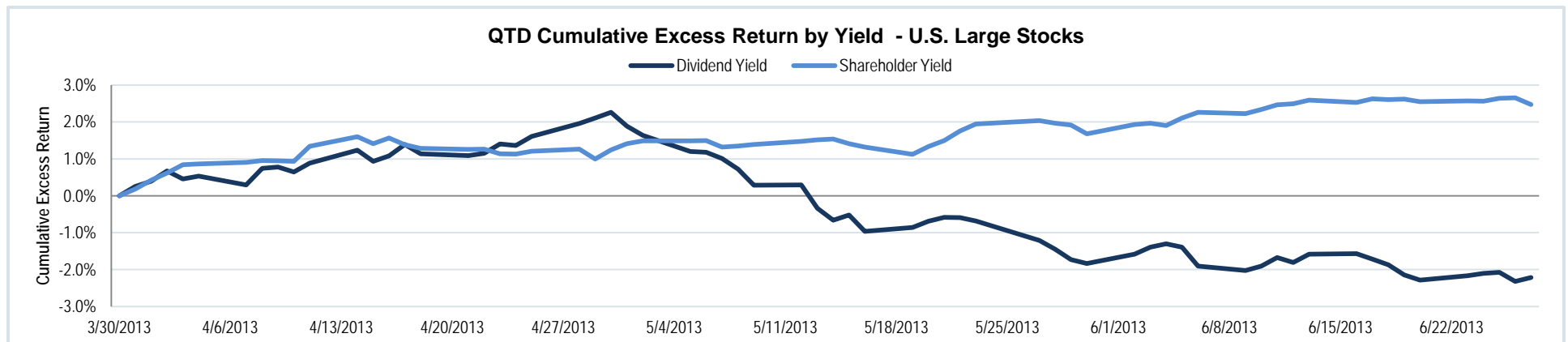
Past performance is no guarantee of future results.

Please see important disclosure information at the end of this presentation. Returns are in USD.

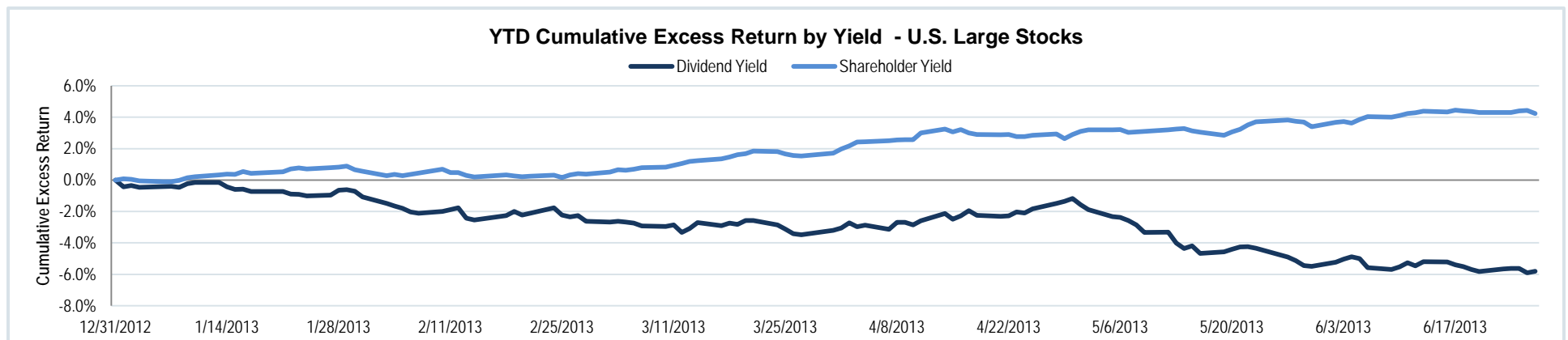
## Franklin Regional Retirement System: Commentary

(As of 6/30/13)

- During the second quarter, Shareholder Yield was the stronger of the two yield characteristics and outperformed the U.S. Large Stocks Universe by +2.5%. Dividend Yield underperformed by -2.2%.



- Year to date, the performance of yield factors was mixed. Shareholder Yield finished the period as the stronger characteristic outperforming by +4.2%, while Dividend Yield underperformed by -5.8%.



## Franklin Regional Retirement System: Commentary

(As of 6/30/13)

### Positive Contributing Factors for 2Q13:

- During our investment process, we build an investable universe of stocks with low valuation ratios, high earnings quality, earnings growth, and financial strength. 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 well as security selection, also helped performance.
- Our model worked best in these sectors:

|                        | 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 |
| OSAM GICS Sector       |                                     |              |                        |                           |              |                        |                         |                         |              |
| Consumer Discretionary | 28.07                               | 8.63         | 2.39                   | 8.51                      | 6.64         | 0.56                   | 0.69                    | 0.52                    | 1.21         |
| Information Technology | 14.59                               | 9.36         | 1.34                   | 6.70                      | 7.65         | 0.47                   | 0.38                    | 0.27                    | 0.66         |

### Negative Contributing Factors for 2Q13:

- Our model worked worst in these sectors:

|                            | 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 |
| OSAM GICS Sector           |                                     |              |                        |                           |              |                        |                         |                         |              |
| Financials                 | 16.72                               | 7.30         | 1.24                   | 28.10                     | 6.46         | 1.76                   | -0.36                   | 0.13                    | -0.23        |
| Telecommunication Services | 5.75                                | 2.56         | 0.15                   | 3.09                      | 0.61         | 0.04                   | -0.08                   | 0.12                    | 0.04         |

## Franklin Regional Retirement System: Commentary

(As of 6/30/13)

### Market Outlook:

Stock returns during the second quarter of 2013 were moderately strong in the U.S. and moderately weak in the rest of the world. The U.S. has continued its economic recovery, with GDP growing and unemployment following. Sequestration has been forgotten, home prices are rising, and the Dow Jones Economic Sentiment Indicator is at its highest level since July 2007. The news that the Federal Reserve may wind down its quantitative easing efforts finally triggered the “great rotation” trade that had been expected for nearly a year. In June alone, as the U.S. Government 10-year rate rose from 2.13 to 2.52, roughly \$80 billion left bond mutual funds and ETFs. That is a monthly outflow of nearly twice the previous monthly record - at the height of the crisis in 2008. We expect this aggressive trade out of bonds to continue as rates stabilize to more normal historical levels, and as a result equity flows will likely be significantly positive.

Equity market valuations are not exciting for most broad market indices, including the S&P 500, due in large part to the positive sentiment that has driven the market up. But opportunities remain to select high quality stocks trading at discounts to their peers and the overall market. It is vitally important to have portfolios different from the market as it becomes more expensive, so we believe high active share portfolios that emphasize proven characteristics like quality, momentum, yield, and valuation stand to do very well in the year to come.

Given the historical efficacy of using value and shareholder yield to select stocks, we believe that the Market Leaders Value strategy is very well positioned in the market for the coming year. The portfolio's Price/Earnings and Price/Sales ratios are both cheaper than the Russell 1000 Value Index. Its shareholder yield is significantly higher than the yield on the Russell 1000 Value. This means that through dividend and share buyback programs, stocks in the fund are returning cash to shareholders at roughly three times the rate of the index. We continue to believe that these characteristics will drive returns over time, and that the Market Leaders Value strategy represents a great opportunity for investors in the current market environment.

## Franklin Regional Retirement System: Attribution QTD as of June 30, 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     | 28.07                               | 8.63         | 2.39               | 8.51                     | 6.64         | 0.56               | 0.69                    | 0.52                    | 1.21         |
| Consumer Staples           | 5.52                                | 0.68         | 0.02               | 7.36                     | 0.13         | 0.03               | 0.03                    | 0.04                    | 0.07         |
| Energy                     | 5.71                                | -0.77        | -0.02              | 15.47                    | -0.52        | -0.09              | 0.38                    | 0.01                    | 0.39         |
| Financials                 | 16.72                               | 7.30         | 1.24               | 28.10                    | 6.46         | 1.76               | -0.36                   | 0.13                    | -0.23        |
| Health Care                | 10.66                               | 6.78         | 0.73               | 11.90                    | 4.76         | 0.56               | -0.02                   | 0.23                    | 0.21         |
| Industrials                | 12.99                               | 7.43         | 0.98               | 8.94                     | 2.00         | 0.15               | -0.08                   | 0.72                    | 0.65         |
| Information Technology     | 14.59                               | 9.36         | 1.34               | 6.70                     | 7.65         | 0.47               | 0.38                    | 0.27                    | 0.66         |
| Materials                  | 0.00                                | 0.00         | 0.00               | 3.45                     | -5.28        | -0.19              | 0.31                    | 0.00                    | 0.31         |
| Telecommunication Services | 5.75                                | 2.56         | 0.15               | 3.09                     | 0.61         | 0.04               | -0.08                   | 0.12                    | 0.04         |
| Utilities                  | 0.00                                | 0.00         | 0.00               | 6.49                     | -2.12        | -0.09              | 0.33                    | 0.00                    | 0.33         |
| <b>Total</b>               | <b>100.00</b>                       | <b>6.82</b>  | <b>6.82</b>        | <b>100.00</b>            | <b>3.20</b>  | <b>3.20</b>        | <b>1.58</b>             | <b>2.03</b>             | <b>3.62</b>  |

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

### Stock Screening Examples

(As of 7/8/13)

|  |                                 | <u>Seagate Technology</u><br>(STX) | <u>Seadrill Ltd.</u><br>(SDRL) |
|--|---------------------------------|------------------------------------|--------------------------------|
| Investable Universe<br>(Approx. 3,500 stocks)  |                                 |                                    |                                |
| Market cap > Universe average,<br>excluding Utilities  | Market cap (\$ bil)             | 14.6                               | 14.5                           |
| Top half by composited<br>score of Value,<br>Earnings Quality,<br>Earnings Growth, and<br>Financial Strength<br>Composites | Value*                          | 1                                  | 68                             |
|  | Earnings Quality*               | 8                                  | 46                             |
|  | Earnings Growth*                | 27                                 | 29                             |
|  | Financial Strength*             | 13                                 | 90                             |
|  | Composited score of composites* | 1                                  | 68                             |
| Top securities by<br>shareholder yield   | Shareholder yield               | 12.9%                              | 8.6%                           |
|  | 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.

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

(As of 6/30/13)

### Holdings-Based Characteristics

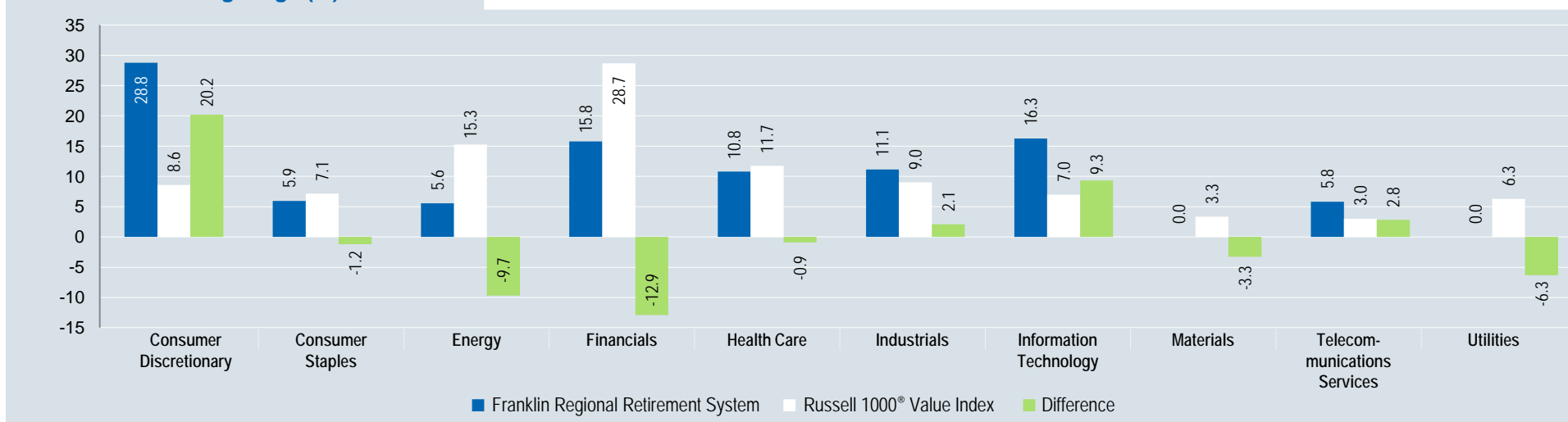
|   | Franklin Regional Retirement System | Russell 1000® Value Index |
|---|-------------------------------------|---------------------------|
| Price/Earnings Ratio                            | 12.9                                | 15.1                      |
| Price/Sales Ratio                               | 0.8                                 | 1.2                       |
| 1-Year Historical Earnings Growth Rate (%)      | 51.5                                | 73.1                      |
| Weighted Average Market Capitalization (\$ mil) | 27,189                              | 97,284                    |
| Median Market Capitalization (\$ mil)           | 16,375                              | 5,787                     |
| Number of Holdings                              | 51                                  | 696                       |
| Foreign Content (%)                             | 9.7                                 | 0.4                       |
| Turnover (% previous 12 months)                 | 57.0                                | —                         |
| Active Share (%)                                | 93.4                                | —                         |
| Cash (%)  | 1.1                                 | —                         |

### Top Ten Holdings

|  | Percent of Portfolio | Dividend Yield (%) <sup>2</sup> | Buyback Yield (%) | Shareholder Yield (%) |
|--|----------------------|---------------------------------|-------------------|-----------------------|
| Seagate Technology Inc.                    | 4.6                  | 3.4                             | 17.3              | 20.7                  |
| Ameriprise Financial Inc.                  | 4.5                  | 2.5                             | 7.8               | 10.3                  |
| DIRECTV                                    | 4.4                  | 0.0                             | 15.4              | 15.4                  |
| SLM Corp.                                  | 4.1                  | 2.6                             | 9.9               | 12.5                  |
| Viacom Inc. CI B                           | 4.1                  | 1.8                             | 8.2               | 10.0                  |
| L-3 Communications Holdings Inc.           | 4.1                  | 2.6                             | 8.1               | 10.7                  |
| ConocoPhillips                             | 3.9                  | 4.4                             | 3.3               | 7.7                   |
| Kohl's Corp.                               | 3.5                  | 2.8                             | 8.7               | 11.5                  |
| Northrop Grumman Corp.                     | 3.4                  | 2.9                             | 6.8               | 9.7                   |
| CA Inc.                                    | 3.4                  | 3.5                             | 3.9               | 7.4                   |
| <b>Total</b>                               | <b>40.0</b>          | <b>2.7*</b>                     | <b>8.9*</b>       | <b>11.4*</b>          |
| <b>Franklin Regional Retirement System</b> |                      | <b>2.6</b>                      | <b>7.0</b>        | <b>9.6</b>            |
| Russell 1000® Value Index                  |                      | 2.4                             | 0.7               | 3.1                   |

\* 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.



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