



®

O'Shaughnessy
ASSET MANAGEMENT

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

Franklin Regional Retirement System

(As of 9/30/13)

Relationship Summary

Market Value (9/30/13):	\$7,018,590.79
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 45 to 80 stocks.

Performance Review

(As of 9/30/13)

		Current Month	Quarter to Date	Year to Date	1-Year	Annualized Since Inception	* Inception Date
Franklin Regional Retirement System	(Gross)	5.62	10.41	32.07	33.18	22.91	3/1/2012
	(Net)	5.58	10.26	31.54	32.47	22.25	
Russell 1000® Value Index		2.51	3.94	20.47	22.30	18.23	

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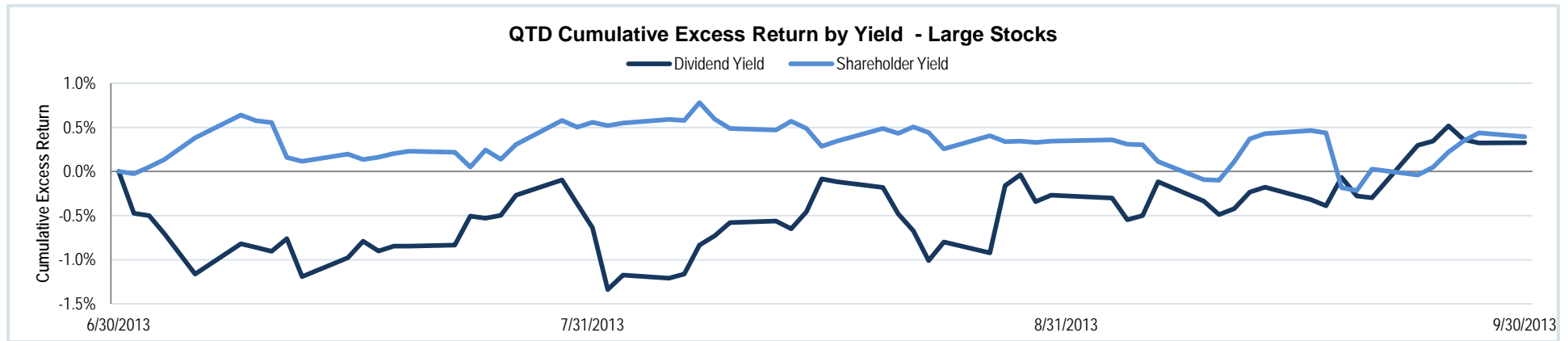
Past performance is no guarantee of future results.

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

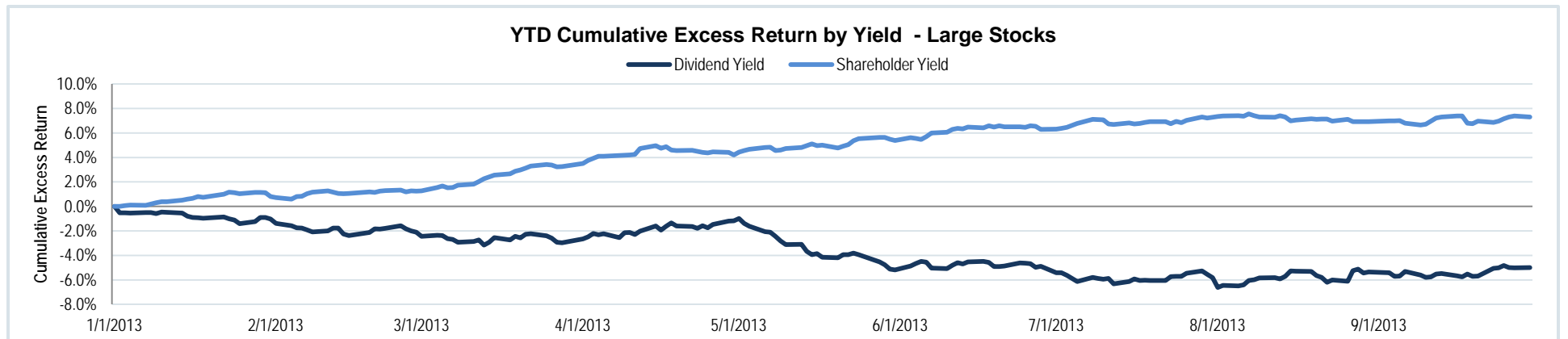
Franklin Regional Retirement System: Commentary

(As of 9/30/13)

- During the third quarter, yield performed well. Shareholder Yield was the stronger of the two yield characteristics at +0.4%. Dividend Yield also outperformed by +0.3%.



- Year-to-date, yield exhibited mixed performance. Shareholder Yield finished the period as the stronger characteristic outperforming by +7.3%. Dividend Yield underperformed by -5.0%.



Franklin Regional Retirement System: Commentary

(As of 9/30/13)

Positive Contributing Factors for 3Q13:

- Shareholder Yield, the final ranking and selection factor, added positively to performance.
- The Value factor composite also helped returns.
- While our factors performed well, security selection was the largest contributor to outperformance.
- 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	13.57	11.76	1.76	29.27	2.39	0.74	0.26	1.28	1.54
Consumer Discretionary	28.56	9.22	2.70	6.34	8.15	0.50	0.94	0.29	1.23

Negative Contributing Factors for 3Q13:

- During our investment process, we build an investable universe of stocks with high earnings quality, earnings growth, and financial strength. While stocks with these characteristics typically outperform, they underperformed during the third quarter.
- 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
Materials	0.00	0.00	0.00	2.78	11.63	0.30	-0.19	0.00	-0.19
Utilities	0.00	0.00	0.00	6.28	-0.09	-0.01	0.29	0.00	0.29

Franklin Regional Retirement System: Commentary

(As of 9/30/13)

Market Outlook:

In the third quarter, equity markets continued their incredible year with positive returns around the world. In a reversal of the prior trend, U.S. markets were not as impressive as international markets. The S&P 500 was up 5.2% - an impressive quarter – but the MSCI ACWI ex. U.S. was up 9.4%. Because of huge annual returns, markets have become considerably more expensive in the past four years. During that time, we've moved from equity valuations in 2009 that represented a generational buying opportunity to valuations that are rather expensive on average. As of October 1, 2013, the average stock in the S&P 500 is trading at 23 times trailing earnings and the index as a whole is trading for roughly 20 times trailing earnings. Both are considerably higher than historical norms, which is remarkable considering the litany of issues with our government and our economy. Still, corporate profits have been impressive and quantitative easing has continued to propel equity values upwards.

Looking forward, we believe that investors should expect much lower returns from stocks than they have seen in recent years. History teaches us that the broad market has lower returns following periods of richer valuations like those the market is offering today. We still believe that equities are the best available financial asset for the years to come. Cash offers no return, and we believe that we are in the midst of a generational selling opportunity in long bonds. Long term mean reversion is a powerful force in financial markets, and long bonds have capped a 30-year period of their strongest absolute returns in history and their strongest returns relative to stocks in history. Bond's 30-year rate of return has been phenomenal, and since 2009 investors have piled into bond mutual funds at a record clip. But the fact remains that in all 30-year periods since 1900, bonds have only outperformed equities 0.84% of the time! Fixed income yields are low and are artificially suppressed thanks to quantitative easing. Equities represent a much greater opportunity for the future, despite richer valuations.

Because the equity markets have become expensive, it is essential that investors build portfolios that are very different from the benchmark, focusing on high quality, cheap stocks that also have strong market momentum and attractive yields. Concentrated portfolios of stocks with these characteristics have performed considerably better than the market throughout market history. Because the market is expensive, we believe these types of stocks stand to perform very well relative to the overall market in years to come. Our emphasis on valuation means we will be well positioned for both portfolio growth and for protection in the case of major market corrections.

Franklin Regional Retirement System: Attribution QTD as of September 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	28.56	9.22	2.70	6.34	8.15	0.50	0.94	0.29	1.23
Consumer Staples	6.89	16.51	1.05	5.98	1.96	0.12	-0.02	0.97	0.95
Energy	5.60	14.98	0.83	14.98	3.36	0.53	0.07	0.63	0.70
Financials	13.57	11.76	1.76	29.27	2.39	0.74	0.26	1.28	1.54
Health Care	10.91	10.30	1.11	13.02	4.46	0.57	0.01	0.61	0.62
Industrials	10.57	14.05	1.46	9.76	8.64	0.80	0.04	0.55	0.59
Information Technology	17.84	6.36	1.11	8.94	5.24	0.45	0.09	0.27	0.37
Materials	0.00	0.00	0.00	2.78	11.63	0.30	-0.19	0.00	-0.19
Telecommunication Services	6.06	9.96	0.59	2.66	-2.79	-0.07	-0.20	0.78	0.58
Utilities	0.00	0.00	0.00	6.28	-0.09	-0.01	0.29	0.00	0.29
Total	100.00	10.61	10.61	100.00	3.94	3.94	1.30	5.38	6.67

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 10/3/13)

		<u>Lowe's Companies, Inc. (LOW)</u>	<u>St. Jude Medical, Inc. (STJ)</u>
Investable Universe (Approx. 3,500 stocks)			
Market cap > Universe average, excluding Utilities	Market cap (\$ bil)	51	16
Top half by composited score of Value, Earnings Quality, Earnings Growth, and Financial Strength Composites	Value*	20	45
	Earnings Quality*	2	32
	Earnings Growth*	9	86
	Financial Strength*	23	77
	Composited score of composites*	2	70
Top securities by shareholder yield	Shareholder yield	9.2%	11.7%
	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: Characteristics¹

(As of 9/30/13)

Holdings-Based Characteristics

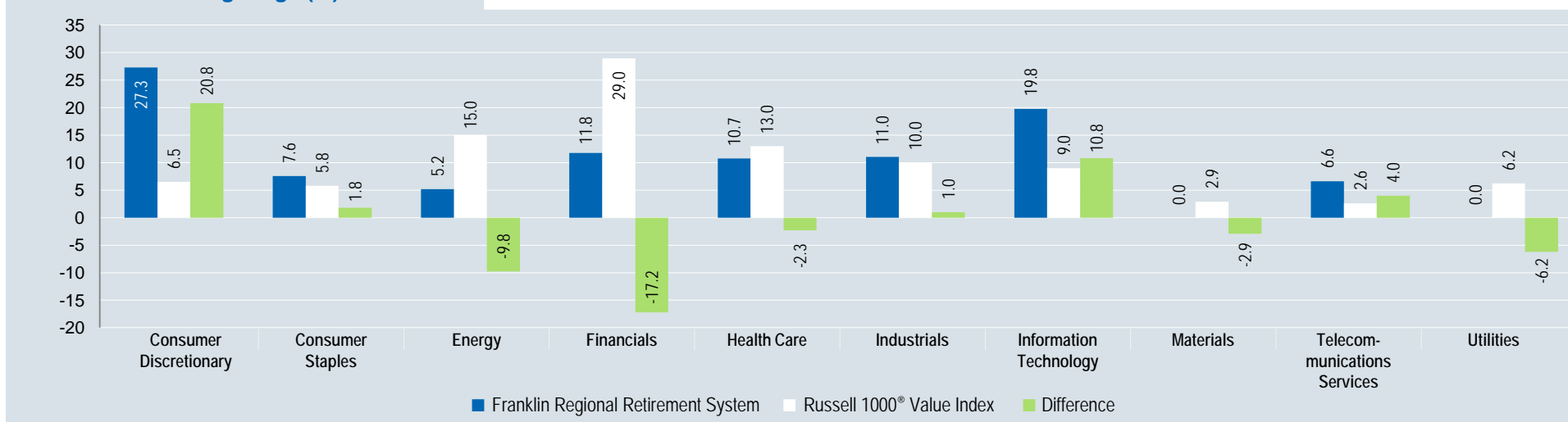
	Franklin Regional Retirement System	Russell 1000® Value Index
Price/Earnings Ratio	14.3	15.0
Price/Sales Ratio	0.9	1.2
1-Year Historical Earnings Growth Rate (%)	45.8	78.5
Weighted Average Market Capitalization (\$ mil)	29,717	102,206
Median Market Capitalization (\$ mil)	16,500	6,057
Number of Holdings	54	648
Foreign Content (%)	10.3	0.3
Turnover (% previous 12 months)	56.5	—
Active Share (%)	93.0	—
Cash (%)	1.4	—

Top Ten Holdings

	Percent of Portfolio	Dividend Yield (%) ²	Buyback Yield (%)	Shareholder Yield (%)
Viacom Inc. Class B	4.5	1.4	7.5	8.9
Ameriprise Financial, Inc.	4.4	2.3	6.7	9.0
Seagate Technology PLC	4.1	3.5	9.2	12.7
L-3 Communications Holdings, Inc.	4.1	2.3	7.2	9.5
SLM Corporation	4.0	2.4	7.1	9.5
DIRECTV	3.9	0.0	13.2	13.2
Northrop Grumman Corporation	3.6	2.5	6.9	9.4
Lowe's Companies, Inc.	3.5	1.5	7.7	9.2
O'Reilly Automotive, Inc.	3.4	0.0	10.8	10.8
Coca-Cola Enterprises, Inc.	3.4	2.0	9.2	11.2
Total	38.9	1.8*	8.6*	10.3*
Franklin Regional Retirement System		2.5	4.6	7.1
Russell 1000® Value Index		2.4	0.4	2.8

* Average of top 10 holdings.

Current Sector Weightings (%)



¹ 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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