



®

O'Shaughnessy
ASSET MANAGEMENT

Franklin Regional Retirement System
O'Shaughnessy Market Leaders Value
QUARTERLY REPORT ENDING JUNE 30, 2014

Franklin Regional Retirement System

(As of 6/30/14)

Relationship Summary

Market Value (6/30/14):	\$7,456,195.14
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 6/30/14)

	Current Month	Quarter to Date	Year to Date	1-Year	Since Inception (Annualized)	* Inception Date	2013
Franklin Regional Retirement System (Gross)	1.44	2.88	6.29	31.66	24.04	3/1/2012	48.17
(Net)	1.39	2.74	6.00	30.95	23.37		47.38
Russell 1000® Value Index	2.61	5.10	8.28	23.81	20.76		32.53

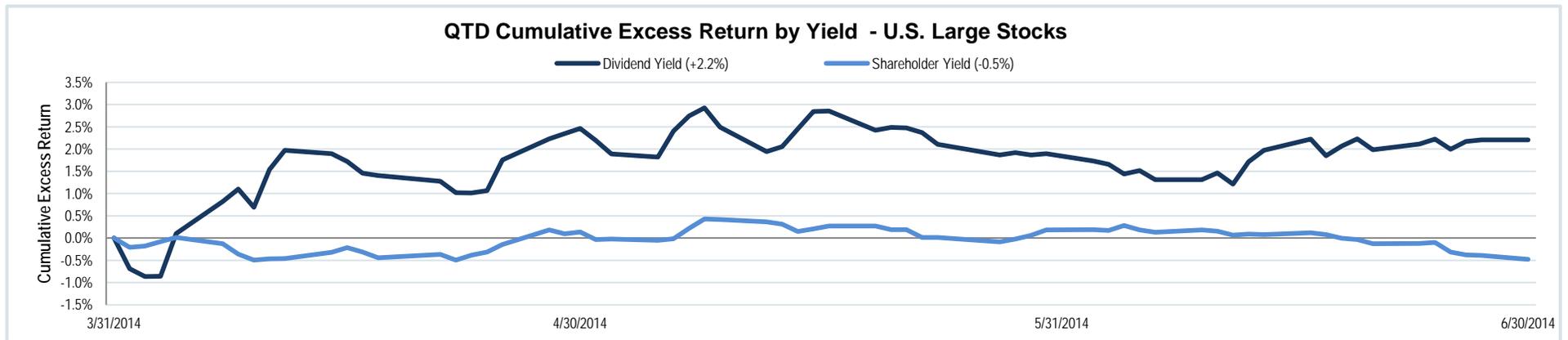
Past performance is no guarantee of future results.

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

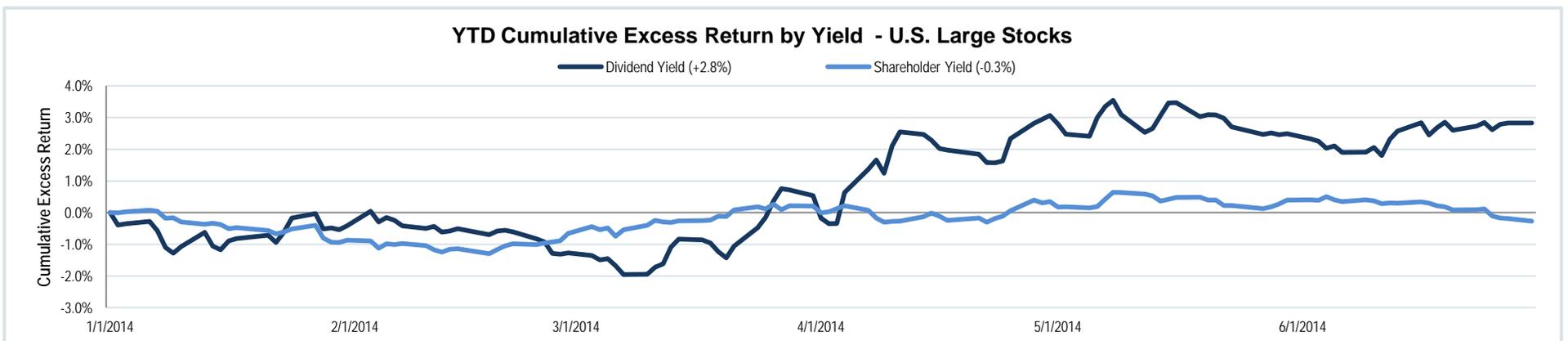
Franklin Regional Retirement System: Factor Performance

(As of 6/30/14)

- During the second quarter, the performance of yield factors was mixed. Dividend Yield was the stronger of the two yield characteristics at +2.2%, and outperformed the U.S. large stocks universe. Shareholder Yield underperformed by -0.5%.



- Year to date, the performance of yield factors was mixed. Dividend Yield finished the period as the stronger characteristic outperforming by +2.8%. Shareholder Yield underperformed by -0.3%.



Franklin Regional Retirement System: Commentary

(As of 6/30/14)

Positive Contributing Factors for 2Q14:

- The Value factor composite performed well for the period.
- An underweight allocation to Financials 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
Financials	7.72	4.60	0.35	28.48	1.92	0.52	0.66	0.23	0.89
Health Care	9.60	3.30	0.33	13.34	3.40	0.44	0.05	0.01	0.06

Negative Contributing Factors for 2Q14:

- Shareholder Yield, the final ranking and selection factor, detracted from performance.
- Our quality composites – Financial Strength, Earnings Quality, and Earnings Growth – underperformed and detracted from returns.
- Security selection within the Energy and Consumer Discretionary 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
Energy	7.57	4.09	0.26	15.14	10.40	1.55	-0.42	-0.49	-0.91
Consumer Discretionary	24.45	2.02	0.47	6.40	6.13	0.39	0.18	-1.00	-0.83

Franklin Regional Retirement System: Commentary

(As of 6/30/14)

Market Outlook:

Markets performed well in the second quarter. The major indexes were up roughly 5.0% while market volatility remains extremely low. It has been, by all accounts, one of the most boring markets in memory. Small intra-day swings, benign news, and a steady upward trajectory have all sedated investors.

Nothing has changed about our general outlook: equities in the U.S. remain richly valued relative to their own history and relative to other global regions. Historically, when valuations are high, returns over the subsequent 10-year period are lower than average— and vice versa. However, our research shows that market level valuations are not an effective tool for timing markets. In a more expensive market, we believe that investors should own stocks with certain key proven factors— cheaper valuations, high quality balance sheets and earnings, and strong shareholder yields—as we continue to do in our portfolios.

We do not know what will happen in the third quarter and prefer to focus on longer investment horizons. Instead, we revisit several evergreen rules for active portfolio management to which we subscribe:

To beat the benchmark, be different

Portfolios designed to outperform the market must be very different than the market to succeed. The modern term for such differentiation is “active share,” and we are believers that higher active share increases the odds of earning unique returns (both good and bad). For example, Market Leaders Value has an active share of 91%, meaning that 91% of the portfolios holdings are distinct from the Russell 1000® Value Index benchmark.

Be different with purpose

While being different from the benchmark is essential, there are prudent and imprudent ways to do so. Owning a concentrated portfolio of expensive, over-levered companies may result in a differentiated portfolio, but a rather senseless one. We believe that portfolios should be built using proven stock selection factors like valuation, yield and quality. We believe that these factors have and will continue to work because investors— emotional beings at their core— systematically misprice stocks. They are overly pessimistic on the downside, euphoric on the upside, are slow to digest new information, and neglect important information (e.g. focus myopically on earnings but ignore cash flows). These persistent errors create opportunities for disciplined investors to exploit.

Maintain discipline to thoughtfully constructed strategies

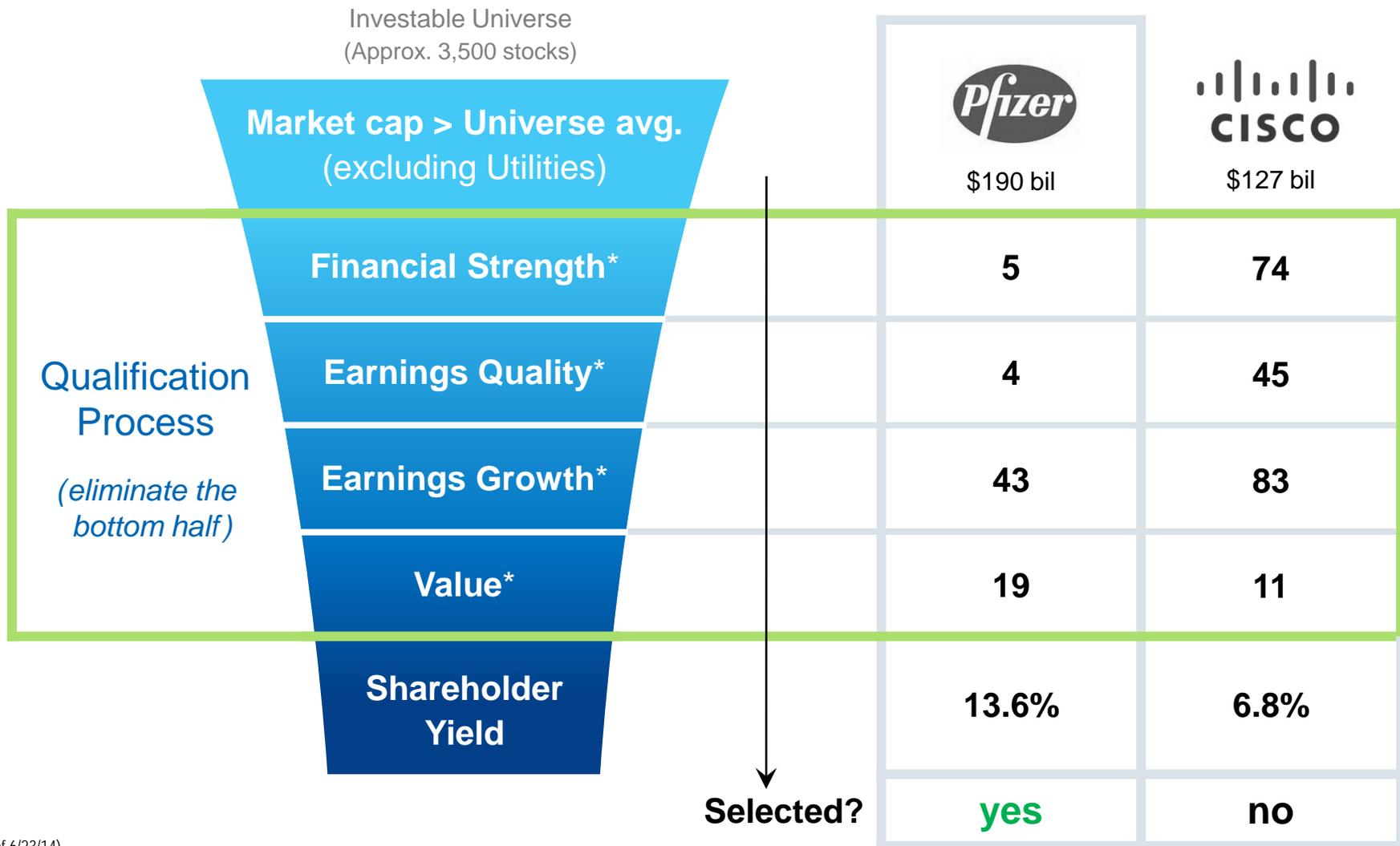
Constructing portfolios that are different from the benchmark can be painful at times because periods of weak performance can occur. Therefore, maintaining discipline can be as important as having a good strategy. Even the most effective strategies will have periods of difficult underperformance. Our discipline has always been unwavering, and will continue to be in the third quarter.

Franklin Regional Retirement System: Attribution QTD as of June 30, 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	24.45	2.02	0.47	6.40	6.13	0.39	0.18	-1.00	-0.83
Consumer Staples	4.59	1.59	0.02	5.75	1.75	0.11	0.07	-0.08	-0.01
Energy	7.57	4.09	0.26	15.14	10.40	1.55	-0.42	-0.49	-0.91
Financials	7.72	4.60	0.35	28.48	1.92	0.52	0.66	0.23	0.89
Health Care	9.60	3.30	0.33	13.34	3.40	0.44	0.05	0.01	0.06
Industrials	14.58	0.40	0.03	10.25	4.08	0.42	-0.04	-0.56	-0.60
Information Technology	17.88	4.68	0.80	9.06	11.08	0.98	0.49	-1.10	-0.61
Materials	3.85	0.54	0.03	2.94	5.67	0.16	0.01	-0.20	-0.19
Telecommunication Services	9.75	5.46	0.52	2.48	2.91	0.08	-0.23	0.27	0.03
Utilities	0.00	0.00	0.00	6.16	7.85	0.48	-0.16	0.00	-0.16
Total	100.00	2.81	2.81	100.00	5.15	5.15	0.59	-2.93	-2.34

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.

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



(As of 6/23/14)

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.

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* The lower the number the better the score.

Franklin Regional Retirement System

(As of 6/30/14)

Holdings-Based Characteristics

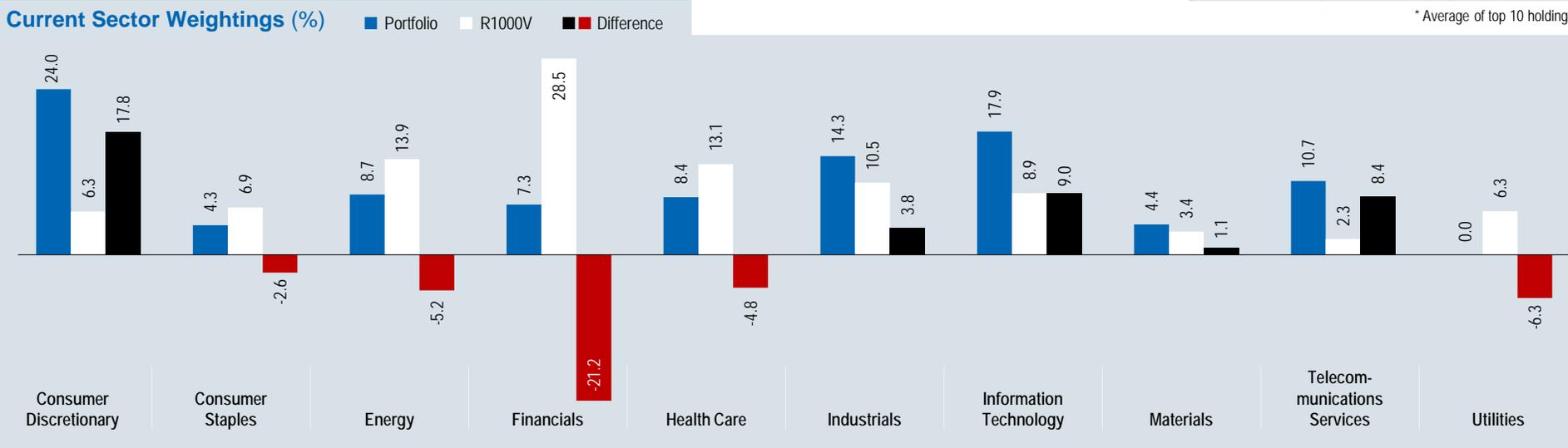
	Franklin Regional Retirement System	Russell 1000® Value Index
Price/Earnings Ratio	15.0	16.8
Price/Sales Ratio	1.1	1.4
1-Year Historical Earnings Growth Rate (%)	22.7	27.7
Weighted Average Market Capitalization (\$ mil)	37,583	110,000
Median Market Capitalization (\$ mil)	19,111	7,122
Number of Holdings	62	685
Foreign Content (%)	12.2	0.3
Turnover (% LTM)	55.1	—
Active Share (%)	92.1	—
Cash (%)	1.8	—

Top 10 Holdings

	Percent of Portfolio	Dividend Yield (%) ²	Buyback Yield (%)	Shareholder Yield (%)
DIRECTV	4.4	0.0	8.0	8.0
Northrop Grumman Corp.	4.2	2.3	6.9	9.2
Coca Cola Enterprises Inc.	4.2	2.1	5.9	8.0
Seagate Technology	4.2	3.0	8.1	11.1
L-3 Communications Hlodings Inc.	3.7	2.0	3.3	5.3
Viacom Inc.	3.3	1.5	9.8	11.3
Marathon Petroleum Corp.	3.3	2.1	8.5	10.6
Kohls Corp.	3.1	2.9	5.9	8.8
Lowe's Inc.	3.0	1.5	7.0	8.5
AT&T Inc.	3.0	5.2	2.6	7.8
Total	36.4	2.3*	6.6*	8.9*
Franklin Regional Retirement System		2.3	5.1	7.5
Russell 1000® Value Index		2.3	0.7	3.0

* 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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