



®

O'Shaughnessy
ASSET MANAGEMENT

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

Franklin Regional Retirement System

(As of 9/30/14)

Relationship Summary

Market Value (9/30/14):	\$7,081,136.91
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

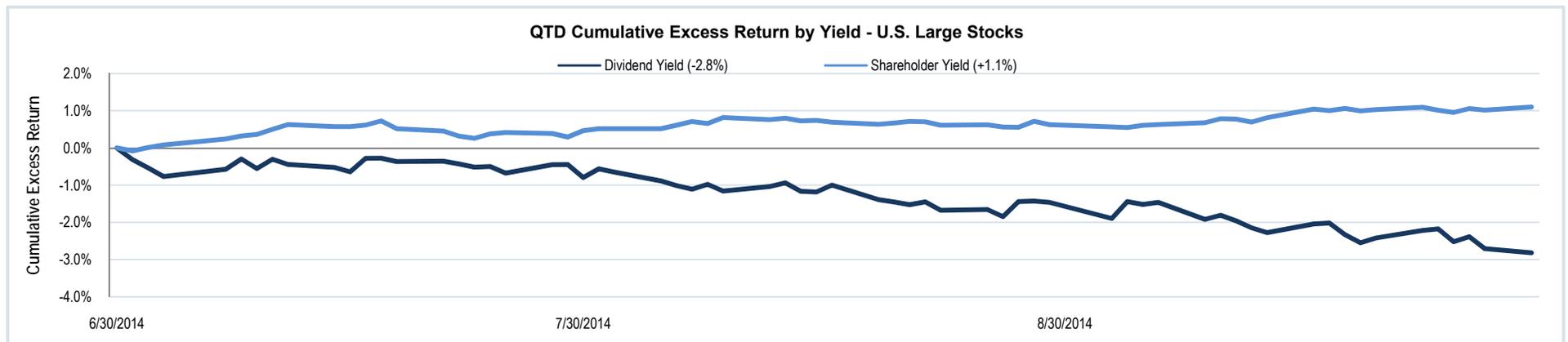
(As of 9/30/14)

	Current Month	Quarter to Date	Year to Date	1-Year	Since Inception (Annualized)	* Inception Date	2013
Franklin Regional (Gross)	-2.01	2.37	8.81	22.08	22.59	3/1/2012	48.17
Retirement System (Net)	-2.06	2.23	8.37	21.42	21.93		47.38
Russell 1000® Value Index	-2.06	-0.19	8.07	18.89	18.48		32.53

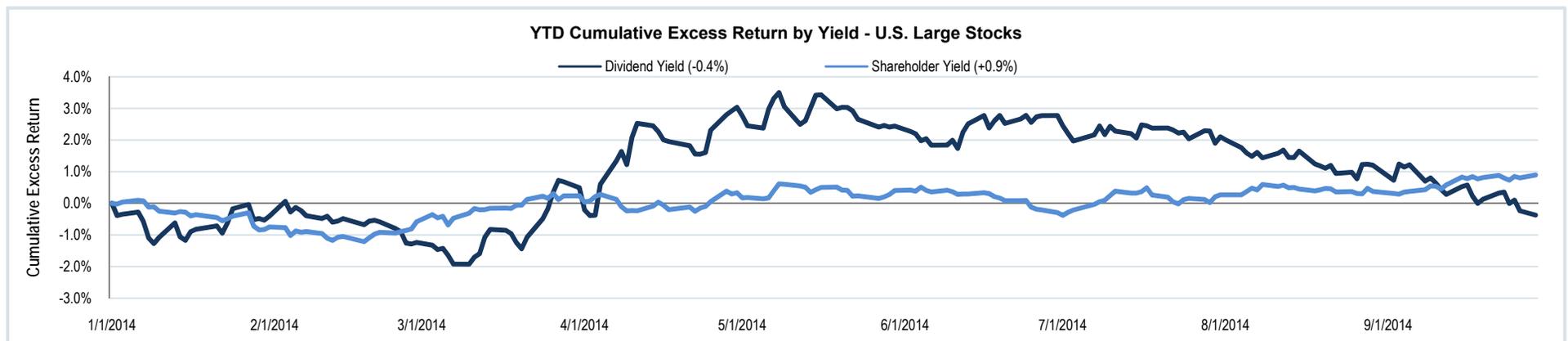
Franklin Regional Retirement System: Factor Performance

(As of 9/30/14)

- During the third quarter, the performance of yield factors was mixed. Shareholder Yield was the stronger of the two yield characteristics at +1.1%, and outperformed the U.S. large stocks universe. Dividend Yield underperformed by -2.8%.



- Year to date, the performance of yield factors was mixed. Shareholder Yield finished the period as the stronger characteristic outperforming by +0.9%. Dividend Yield underperformed by -0.4%.



Franklin Regional Retirement System: Commentary

(As of 9/30/14)

Positive Contributing Factors for 3Q14:

- Shareholder Yield, the final ranking and selection factor, contributed to performance.
- The Value factor composite performed well for the period.
- Our Financial Strength and Earnings Growth quality composites also aided 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	21.91	5.29	1.18	6.36	-1.29	-0.08	-0.08	1.31	1.24
Energy	10.35	-1.79	-0.26	13.57	-7.70	-1.05	0.20	0.61	0.80

Negative Contributing Factors for 3Q14:

- Our Earnings Quality composite underperformed and detracted from returns.
- Security selection within the Consumer Staples sector 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
Consumer Staples	4.32	-6.84	-0.30	6.97	2.88	0.20	-0.09	-0.42	-0.51
Financials	7.92	1.82	0.12	28.68	2.02	0.56	-0.45	-0.01	-0.47

Franklin Regional Retirement System: Commentary

(As of 9/30/14)

Market Outlook:

Our broad market outlook remains unchanged from quarters past: equities in the U.S. as a whole remain richly valued relative to their own history and relative to other global regions. There are still pockets of attractive value in the U.S., but indexes like the S&P 500 Index remain somewhat expensive. Though market level valuations are not an effective tool for timing markets, when valuations are high, returns over the subsequent 10-year period are generally lower than average. In more expensive markets, we believe that investors should utilize active management to own stocks with proven factors—cheaper valuations, high quality balance sheets and earnings, and strong shareholder yields—as we continue to do in our portfolios.

Active management has been under the microscope lately. It has been an especially bad run for active managers according to S&P's SPIVA report card. Through June 2014, just 40% of all domestic equity funds were outperforming their benchmarks over the prior twelve months. Just 27% were outperforming over the previous five years. This poor track record is somewhat inevitable. After including the higher costs of active management (transaction costs and fees), the majority of active managers cannot earn their keep. What's more, even some great strategies will have five year periods when they underperform, because not even the best strategies work all the time. In light of these underwhelming results, many investors have opted out of active management and into low cost index funds.

Bill Gross's departure from PIMCO has reignited the debate over the future of active management, with many speculating that the time of "star managers" is passing. We believe that active management has worked and will continue to work under these key conditions:

- The strategy must be consistent and disciplined. Finding a winning strategy and sticking to it over the long term is much easier said than done. Most great strategies have long runs of underperformance at some point, so the key is persistence through market cycles.
- The strategy must buy companies with certain proven characteristics, namely value, quality, and yield. Stocks with these attributes have done very well across history.
- The strategy must have a contrarian streak, buying stocks for which the market has lower expectations (value).
- The strategy must be mindful of transaction costs (especially market impact) and taxes (where relevant).

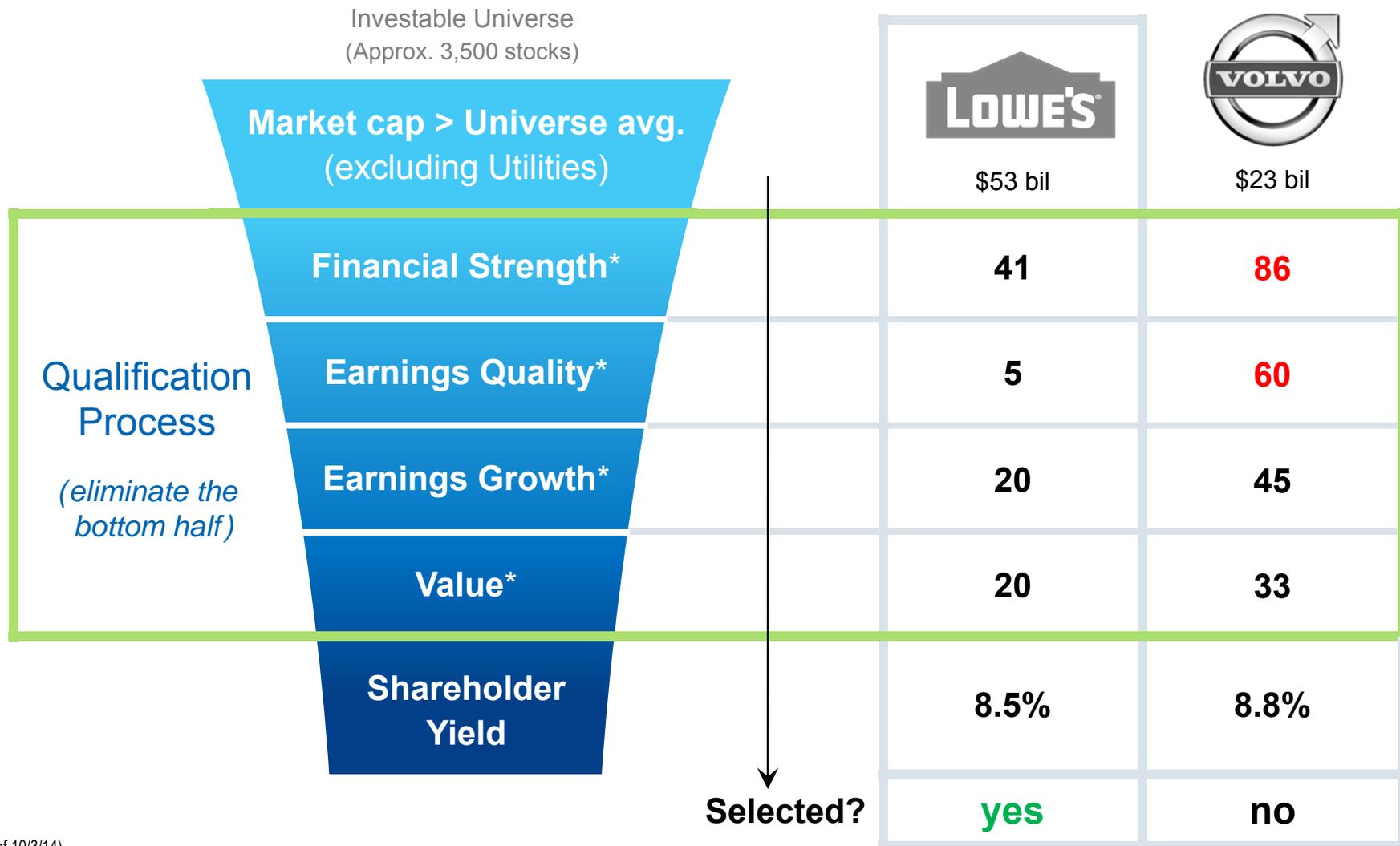
If you are different from the benchmark, employ a consistent strategy that uses proven factors to find mispriced stocks, and are mindful of costs, you can outperform the market over the long-term. While these criteria may appear straightforward, strategies that do them all at once are rare. But for those that do, the future of active management remains bright.

Franklin Regional Retirement System: Attribution QTD as of September 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	21.91	5.29	1.18	6.36	-1.29	-0.08	-0.08	1.31	1.24
Consumer Staples	4.32	-6.84	-0.30	6.97	2.88	0.20	-0.09	-0.42	-0.51
Energy	10.35	-1.79	-0.26	13.57	-7.70	-1.05	0.20	0.61	0.80
Financials	7.92	1.82	0.12	28.68	2.02	0.56	-0.45	-0.01	-0.47
Health Care	7.13	1.80	0.11	13.27	2.54	0.31	-0.18	-0.02	-0.20
Industrials	13.65	1.88	0.22	10.27	-2.89	-0.28	-0.09	0.63	0.54
Information Technology	16.70	1.30	0.28	9.22	5.16	0.45	0.43	-0.63	-0.20
Materials	6.14	6.02	0.43	3.39	-1.60	-0.05	-0.09	0.59	0.50
Telecommunication Services	11.89	4.80	0.53	2.26	1.01	0.02	0.09	0.44	0.53
Utilities	0.00	0.00	0.00	6.01	-4.41	-0.27	0.27	0.00	0.27
Total	100.00	2.31	2.31	100.00	-0.19	-0.19	0.01	2.50	2.51

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 10/3/14)

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

(As of 9/30/14)

Holdings-Based Characteristics

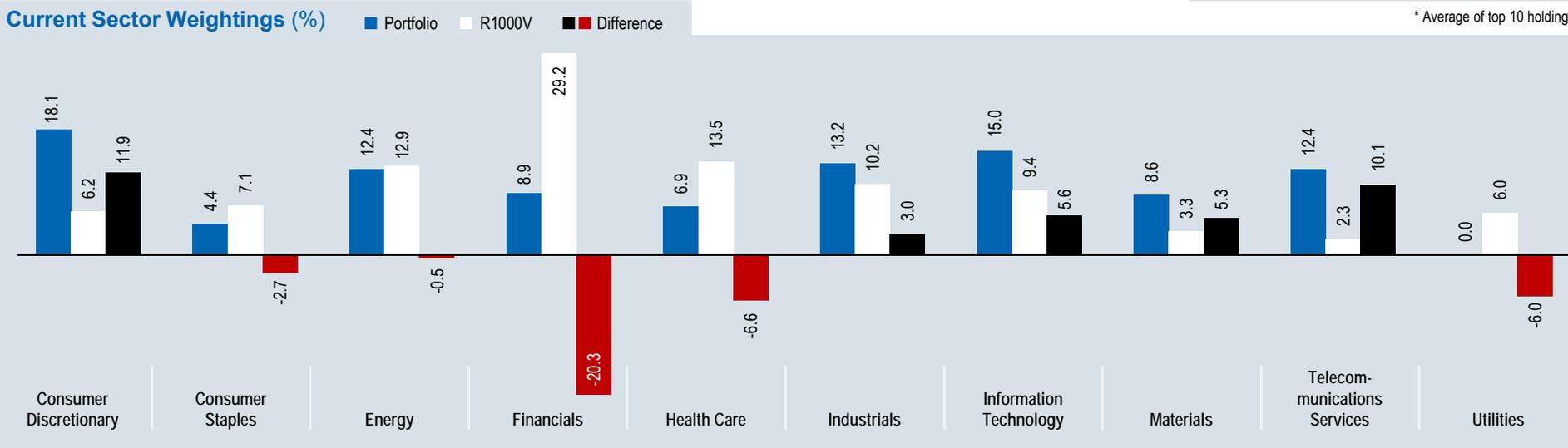
	Franklin Regional Retirement System	Russell 1000® Value Index
Price/Earnings Ratio	14.5	16.6
Price/Sales Ratio	1.2	1.4
Price/Book Ratio	2.4	1.8
1-Year Historical Earnings Growth Rate (%)	12.4	29.6
Weighted Average Market Capitalization (\$ mil)	43,391	111,426
Median Market Capitalization (\$ mil)	21,037	6,878
Number of Holdings	61	690
Foreign Content (%)	9.0	0.3
Active Share (%)	91.2	—
Cash (%)	1.3	—

Top 10 Holdings

	Percent of Portfolio	Dividend Yield (%) ²	Buyback Yield (%)	Shareholder Yield (%)
Northrop Grumman Corp.	4.5	2.1	6.5	8.6
Coca Cola Enterprises Inc.	4.1	2.2	5.4	7.6
Marathon Petroleum Corp.	4.1	2.4	5.9	8.3
CF Industries Holdings Inc.	4.0	2.2	13.3	15.5
Seagate Technology	3.8	3.0	8.9	11.9
CenturyLink Inc.	3.7	5.3	3.8	9.1
Viacom Inc.	3.2	1.7	5.6	7.3
Halliburton Co.	3.1	0.9	-0.4	0.5
Travelers Companies Inc.	3.1	2.3	6.9	9.2
Pfizer Inc.	3.0	3.5	2.2	5.7
Total	36.6	2.6*	5.8*	8.4*
Franklin Regional Retirement System		2.2	5.1	7.3
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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| General Legal Disclosure/Disclaimer

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