



®

O'Shaughnessy
ASSET MANAGEMENT

Franklin Regional Retirement System
O'Shaughnessy Market Leaders Value
QUARTERLY REPORT ENDING MARCH 31, 2012

Franklin Regional Retirement System

(As of 3/31/12)

Relationship Summary

Market Value (3/31/12):	\$5,105,071.59
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 3/31/12)

		Current Month	Quarter to Date	Year to Date	Annualized Since Inception	* Inception Date
Franklin Regional Retirement System	(Gross)	2.10	2.10	2.10	2.10	3/1/2012
	(Net)	2.06	2.06	2.06	2.06	
Russell 1000® Value Index		2.28	2.28	2.28	2.28	

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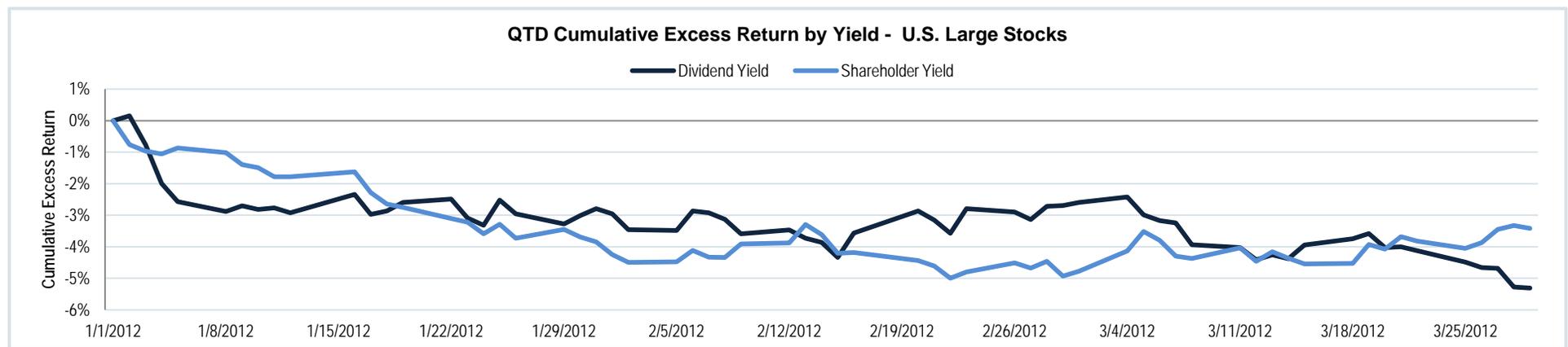
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Franklin Regional Retirement System: Commentary

(As of 3/31/12)

- Both Dividend Yield and Shareholder Yield are used as standalone factors in OSAM's Large Cap strategies. Looking at yield within U.S. Large Stocks, both factors struggled during the quarter. Shareholder Yield was the stronger characteristic (-3.4%), but underperformed the U.S. Large Stocks universe. Portfolios based on Dividend Yield also underperformed (-5.3%).



- Looking at performance over the last twelve months, yield strategies were mixed. Shareholder Yield was the stronger characteristic, outperforming the U.S. large Stocks universe by +7.6%. Portfolios based on Dividend Yield underperformed (-2.4%).



Franklin Regional Retirement System: Commentary

(As of 3/31/12)

Positive Contributing Factors for 1Q12:

- Exposure to companies with low valuation ratios contributed positively to returns.
- For the quarter, the Value Composite had a neutral effect on 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
Energy	3.23	-2.00	-0.07	12.05	-2.86	-0.34	0.52	0.03	0.55
Consumer Discretionary	31.35	3.68	1.14	9.27	3.34	0.31	0.08	0.10	0.18

Negative Contributing Factors for 1Q12:

- Our quality composites (Financial Strength, Earnings Quality, and Earnings Growth) detracted from excess returns as investors seemed to favor relatively lower quality names.
- Shareholder Yield, the final selection factor during the investment process, detracted from returns during the 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
Financials	11.58	2.70	0.31	26.40	6.75	1.73	-0.54	-0.46	-1.00
Consumer Staples	13.84	-0.37	-0.05	7.75	0.87	0.07	-0.13	-0.17	-0.30

Franklin Regional Retirement System: Commentary

(As of 3/31/12)

Market Outlook:

With a return of +12.6%, the market had an extremely strong first quarter – the strongest since 1998 and one of the strongest in history. For the S&P 500, there have been just 10 calendar years since 1926 that started the year with stronger returns. In a quarter that was influenced much less by the situation in Europe, the market began to catch up to the impressive earnings growth rates and profit margins that have dominated for the past several years. Performance this strong during a single quarter is unusual, and we do not expect similarly strong returns in the quarters to come. In the other 10 years with equally strong starts, the S&P 500 posted an average total return of 19.57%-- well in excess of the average. But, when comparing all first quarter returns in each year since 1926 and the returns the rest of the year, we observe a negative correlation-- meaning that stronger starts were followed by less impressive returns for the rest of the year, and vice versa.

History shows that the time to be most wary of the stock market is when investor sentiment is very high and when the market is very expensive. Neither of these describes today's market. In 2012, investors have continued to prefer bond funds to equity funds: \$104.2B has flown into bond mutual funds, but \$6.6B left U.S. equity mutual funds. The market's valuation is also reasonable: the S&P 500 is priced at 14.6x trailing earnings and 1.4x trailing sales.

Of course, as long term investors, we do not believe investors should make their decisions based on what may or may not happen in the near-term future. Instead, they should buy stocks with objectively measured, historically proven characteristics – stocks of high quality that are well priced and show strong recent market action. When focusing on these criteria, as we do in our strategies, valuations are much more appealing than the overall market: the All Cap Core portfolio has a Price to Earnings ratio of 13.7 and a Price to Sales ratio of 0.7. As always, we believe the prospects for these types of portfolios are better than for the overall market.

For the remainder of 2012, we anticipate certain global economic and political events will influence short term market returns. The debt saga in Europe and the corresponding issues in the United States, the 2012 U.S. presidential election, and continued volatility in the Middle East may all act as a boost or drag on equity prices. We suggest that investors ignore these influences and focus instead on buying stocks with key, proven stock selection factors.

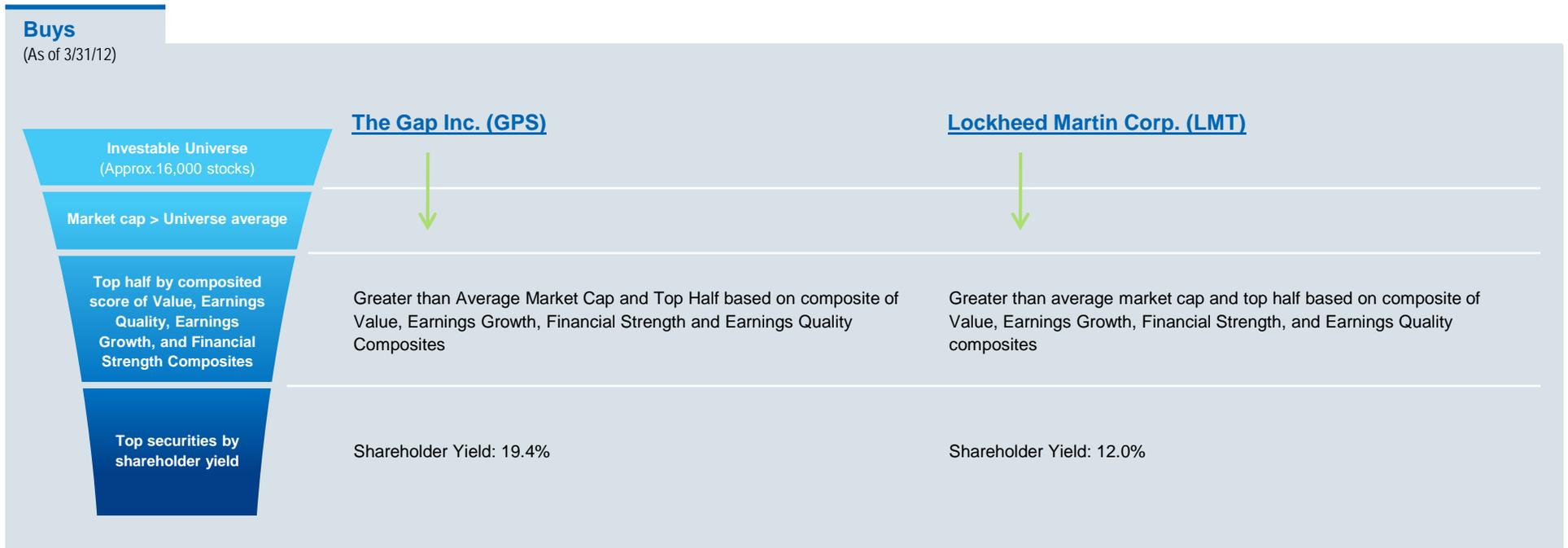
Investment Guidelines Compliance Statement:

The portfolio has operated within the Investment Guidelines for the period ended March 31, 2012.

Franklin Regional Retirement System: Attribution QTD as of March 31, 2012

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	31.35	3.68	1.14	9.27	3.34	0.31	0.08	0.10	0.18
Consumer Staples	13.84	-0.37	-0.05	7.75	0.87	0.07	-0.13	-0.17	-0.30
Energy	3.23	-2.00	-0.07	12.05	-2.86	-0.34	0.52	0.03	0.55
Financials	11.58	2.70	0.31	26.40	6.75	1.73	-0.54	-0.46	-1.00
Health Care	10.42	5.36	0.54	12.10	3.77	0.45	-0.02	0.15	0.14
Industrials	14.22	1.68	0.24	9.26	2.96	0.27	0.01	-0.19	-0.19
Information Technology	6.17	1.03	0.06	9.05	4.07	0.37	-0.03	-0.18	-0.21
Materials	0.56	8.04	0.04	2.68	0.65	0.02	0.05	0.04	0.09
Telecommunication Services	8.63	1.37	0.12	4.52	0.26	0.02	-0.10	0.09	-0.01
Utilities	0.00	0.00	0.00	6.93	0.97	0.07	0.14	0.00	0.14
Total	100.00	2.34	2.34	100.00	2.96	2.96	-0.02	-0.60	-0.62

O'Shaughnessy Market Leaders Value: Buy & Sell Examples



Sells
(As of 3/31/12)

	<u>The Chubb Corp. (CB)</u>	<u>Intel Corp. (INTC)</u>
Buy Rationale	Market Cap: \$18,099MM; Composite of Value, Earnings Growth, Financial Strength and Earnings Quality Composites: Top 10%	Market Cap: \$123,481MM; Composite of Value, Earnings Growth, Financial Strength and Earnings Quality Composites: Top 20%
Sell Rationale	No longer among the highest shareholder yields — now 9.2% versus minimum of 9.6% in the current model	No longer among the highest shareholder yields — now 9.3% versus minimum of 9.6% in the current model

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.

Franklin Regional Retirement System: Characteristics¹

(As of 3/31/12)

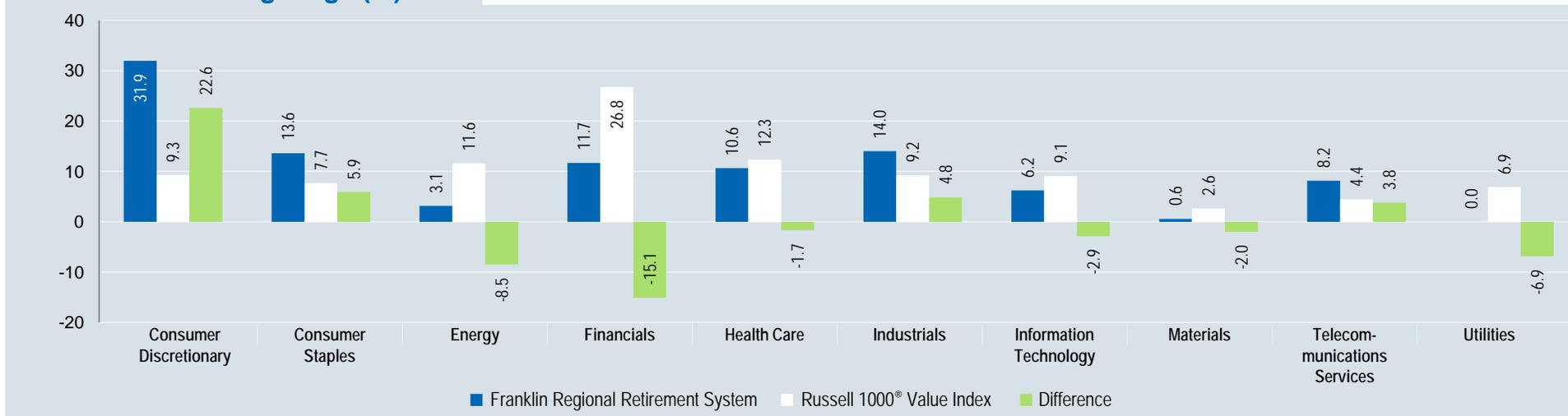
Holdings-Based Characteristics

	Franklin Regional Retirement System	Russell 1000® Value Index
Price/Earnings Ratio	12.1	14.2
Price/Sales Ratio	0.7	1.1
1-Year Historical Earnings Growth Rate (%)	8.2	27.3
Trailing 6-month Price Appreciation (%)	22.5	24.9
Trailing 12-month Price Appreciation (%)	6.9	5.0
Weighted Average Market Capitalization (\$ mil)	28,317	78,967
Median Market Capitalization (\$ mil)	17,328	4,988
Number of Holdings	62	654
ADR/ADS (%)	12.5	0.0
Dividend Yield (%)	3.0	2.5
Active Share (%)	90.1	—
Cash (%)	1.6	—

Top Ten Holdings

	Percent of Portfolio
Gap Inc.	4.7
Lowe's Cos.	4.2
Lockheed Martin Corp.	4.1
DIRECTV	4.0
Chubb Corp.	3.7
Travelers Cos. Inc.	3.6
Aetna Inc.	3.2
ConocoPhillips	3.1
Royal KPN N.V. ADS	3.0
Safeway Inc.	3.0
Total	36.6

Current Sector Weightings (%)



¹ Preliminary. 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.

I General Legal Disclosure/Disclaimer and Backtested Results

It should not be assumed that your account holdings correspond directly to any comparative indices. Individual accounts may experience greater dispersion than the composite level dispersion (which is an asset weighted standard deviation of the accounts in the composite for the full measurement period). This is due to a variety of factors, including but not limited to, the investment approach that OSAM employs and the fact that each account has its own customized rebalance frequency. Over time, dispersion should stabilize and track more closely to the composite level dispersion. Gross of fee performance computations are reflected prior to OSAM's investment advisory fee (as described in OSAM's written disclosure statement), the application of which will have the effect of decreasing the composite performance results (for example: an advisory fee of 1% compounded over a 10-year period would reduce a 10% return to an 8.9% annual return). Portfolios are managed to a target weight of 3% cash. Account information has been compiled by OSAM derived from information provided by the portfolio account systems maintained by the account custodian(s), and has not been independently verified. In calculating historical asset class performance, OSAM has relied upon information provided by the account custodian or other sources which OSAM believes to be reliable. OSAM maintains information supporting the performance results in accordance with regulatory requirements. Please remember that different types of investments involve varying degrees of risk, that past performance is no guarantee of future results, and there can be no assurance that any specific investment or investment strategy (including the investments purchased and/or investment strategies devised and/or implemented by OSAM) will be either suitable or profitable for a prospective client's portfolio. OSAM is a registered investment adviser with the SEC and a copy of our current written disclosure statement discussing our advisory services and fees continues to remain available for your review upon request.

The risk-free rate used in the calculation of Sortino, Sharpe, and Treynor ratios is 5%, consistently applied across time.

The universe of All Stocks consists of all securities in the Chicago Research in Security Prices (CRSP) dataset or S&P Compustat Database (as noted) with inflation-adjusted market capitalization greater than \$200 million as of most recent year-end. The stocks are equally weighted and generally rebalanced annually.

Hypothetical performance results shown on the preceding pages are backtested and do not represent the performance of any account managed by OSAM, but were achieved by means of the retroactive application of each of the previously referenced models, certain aspects of which may have been designed with the benefit of hindsight.

The hypothetical backtested performance does not represent the results of actual trading using client assets nor decision-making during the period and does not and is not intended to indicate the past performance or future performance of any account or investment strategy managed by OSAM. If actual accounts had been managed throughout the period, ongoing research might have resulted in changes to the strategy which might have altered returns. The performance of any account or investment strategy managed by OSAM will differ from the hypothetical backtested performance results for each factor shown herein for a number of reasons, including without limitation the following:

- Although OSAM may consider from time to time one or more of the factors noted herein in managing any account, it may not consider all or any of such factors. OSAM may (and will) from time to time consider factors in addition to those noted herein in managing any account.
- OSAM may rebalance an account more frequently or less frequently than annually and at times other than presented herein.
- OSAM may from time to time manage an account by using non-quantitative, subjective investment management methodologies in conjunction with the application of factors.
- The hypothetical backtested performance results assume full investment, whereas an account managed by OSAM may have a positive cash position upon rebalance. Had the hypothetical backtested performance results included a positive cash position, the results would have been different and generally would have been lower.
- The hypothetical backtested performance results for each factor do not reflect any transaction costs of buying and selling securities, investment management fees (including without limitation management fees and performance fees), custody and other costs, or taxes – all of which would be incurred by an investor in any account managed by OSAM. If such costs and fees were reflected, the hypothetical backtested performance results would be lower.
- The hypothetical performance does not reflect the reinvestment of dividends and distributions therefrom, interest, capital gains and withholding taxes.
- Accounts managed by OSAM are subject to additions and redemptions of assets under management, which may positively or negatively affect performance depending generally upon the timing of such events in relation to the market's direction.
- Simulated returns may be dependent on the market and economic conditions that existed during the period. Future market or economic conditions can adversely affect the returns.