

3Q2013 IAC Meeting Materials

IAC Meeting – November 19, 2013

Knelman Asset Management Group

Termination Memo

DATE: November 19, 2013

TO: Members, Investment Advisory Council

FROM: Tammy Brusehaver
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SUBJECT: Review of Knelman Asset Management Group LLC, a domestic equity manager

Organization

The SBI hired Knelman Asset Management Group LLC in January 2005 to manage a large cap growth portfolio.

Securities and Exchange Commission sanction

On October 28, SBI staff was informed that the Securities and Exchange Commission sanctioned Knelman for violating the "custody rule" that requires them to meet certain standards when maintaining custody of their clients' funds or securities. In consenting to a censure and cease-and-desist order KAMG (Knelman Asset Management Group) agreed to pay a \$60,000 penalty and Kip Knelman agreed to pay a \$75,000 penalty and is barred from acting as chief compliance officer for at least three years. All citations were related to a fund of private equity funds named Rancho Partners I, that the SBI did not invest in. Additionally, the SBI's equity mandate with Knelman is custodied at State Street.

Investment Staff

The investment staff has had significant turnover. At the beginning of the year, the staff included Kip Knelman, Senior Managing Director, David Lettenberger, Senior Portfolio Manager/Chief Compliance Officer, and Seth Heimermann, Analyst. Seth left in February 2013. David left in May 2013. Knelman hired Derek Jose as a Senior Portfolio Manager/Chief Compliance Officer and Minzhi Qiu as an intern in July 2013. Kip Knelman remains on the investment staff.

Performance

As of September 2013, the portfolio has underperformed its benchmark for all time periods shown below.

As of September 30, 2013

	One year	Two years	Three years	Four years	Five years	Since inception
Knelman	15.1	21.2	14.3	13.3	10.1	5.8
Russell 1000 Growth	19.3	24.1	16.9	15.9	12.1	7.0
Net performance	-4.2	-2.9	-2.6	-2.6	-2.0	-1.2

Calendar Year Ending

	2012	2011	2010	2009	2008
Knelman	16.6	-3.3	18.1	31.1	-39.9
Russell 1000 Growth	15.3	2.6	16.7	37.2	-38.4
Net performance	1.3	-5.9	1.4	-6.1	-1.5

RECOMMENDATION:

Due to the Securities and Exchange Commission sanction, the turnover in investment staff, and underperformance staff recommends that the SBI terminate the relationship with Knelman Asset Management Group LLC.