

square 1 asset management

Square 1 Asset Management, Inc.

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Part 2A of Form ADV: Firm Brochure October 24, 2013

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This brochure provides information about the qualifications and business practices of Square 1 Asset Management, Inc. If you have any questions about the contents of this brochure, please contact us at 650-543-2702 or adean@square1am.com. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

Additional information about Square 1 Asset Management, Inc. is also available on the SEC's website at www.adviserinfo.sec.gov.

Square 1 Asset Management, Inc. is an investment adviser registered with the SEC under the Investment Advisers Act of 1940, as amended. Registration with the SEC does not in any way constitute an endorsement by the SEC of an investment adviser's ability. Moreover, registration does not imply that a registered adviser has achieved a certain level of skill, competency, expertise or training in providing professional advisory services to its clients.

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Item 2 Material Changes

This Form ADV Part 2A brochure (the “Brochure”) is a document which Square 1 Asset Management, Inc. provides to its clients as required by SEC Rules. This Brochure is the initial Brochure prepared by Square 1 Asset Management, Inc.

The material change that we have made to this Brochure since the filing of the previous annual update on March 18, 2013 was changing the disclosure regarding custody to reflect the fact that we are now able to provide our reporting platform through more than one third party custodian.

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Item 4 Advisory Business

General Information

Square 1 Asset Management, Inc. (the “Adviser”, “S1AM”, “us”, or “we”) is a North Carolina corporation with its principal place of business in Durham, North Carolina. The Adviser also has a place of business in Menlo Park, California. The Adviser was organized in January, 2013. The Adviser’s sole owner is Square 1 Bank, which is a wholly-owned subsidiary of Square 1 Financial, Inc.

Despite our affiliation with Square 1 Bank, client assets are not bank deposits and are not insured or guaranteed by the FDIC or any other agency.

Advisory Services

The Adviser’s clients are primarily institutional clients, such as corporations, that hold significant cash balances. The Adviser primarily manages the cash balances of its clients by investing in, without limitation, high credit quality, short maturity fixed income securities. The Adviser also frequently invests client assets in selected money market mutual funds offered by unaffiliated third-parties (“Money Market Funds”). The Adviser may also invest in any other securities on behalf of its clients, in its sole discretion.

After consulting with each client regarding the client’s investment objectives, the Adviser tailors its advisory services to the client’s stated investment objectives, investment policies, and liquidity needs. Most often, the investment objective of the Adviser’s client is to preserve capital, adhere to specific liquidity requirements, and seek a competitive return relative to an agreed upon performance benchmark. For example, a client may have received funding from a lender, venture investor, or equity underwriter and may intend to use the acquired funds for the benefit of the company’s long-term growth and development, but may also need a portion of the funds for ongoing, short-term expenses, such as payroll or rent. In such cases, the Adviser manages the cash portion of the client’s assets with an investment objective of capital preservation with a competitive risk-adjusted return, while providing liquidity to allow the client to pay its periodic expenses.

Investment Discretion

The Adviser works solely as a discretionary adviser. Each client can place a variety of restrictions on the Adviser’s discretionary investment activity in the client’s account, including restrictions on the term of investments, the types of securities permitted, the credit ratings allowed, and the liquidity of the account. The Adviser’s clients have the ability to change these restrictions upon written notice to the Adviser and such changes are only effective once acknowledged in writing by the Adviser. This ability for a client to change the restrictions on its account allows the Adviser to prudently invest the client’s portfolio pursuant to each client’s specific, and potentially changing, restrictions.

Client Assets

As of July 24, 2013, the Adviser had approximately \$103,000,000 in assets under management.

Item 5 Fees and Compensation

General Fee Structure

SIAM charges its clients a fee based on assets under management and does not receive any performance based compensation. The Adviser's fee schedule for its services is as follows:

Total Assets Under Management “Average Monthly Market Value”	Applicable Advisory Fee (Per annum)
Less than \$50 million	0.15%
\$50 million up to \$100 million	0.12%
\$100 million up to \$150 million	0.10%
\$150 million up to \$200 million	0.08%
\$200 million up to \$300 million	0.06%
\$300 million or more	0.04%

When the “average monthly market value” (defined below) of a client's total assets under management reaches one of the fee break points set forth above, all of that client's assets under our management are charged the lower applicable advisory fee. Client balances in money market funds or cash are excluded from paying any advisory fees, but are included in the “average monthly market value” calculation used to determine the applicable advisory fee. Fees are computed based on the average monthly market value for the Account and are payable in arrears on a monthly basis. The Adviser does not collect fees in advance from its clients.

For purposes of calculating a client's applicable advisory fee, the “average monthly market value” of an account is defined as the sum of the account's market value on the first day of the month and the account's market value on the last day of the month, divided by two (2). These fees will be deducted directly from the account at or around the tenth business (10th) day after the last day of the applicable month. The Adviser does not charge any minimum fees, transaction fees, or transfer related fees. Upon termination of any account, any earned, unpaid fees through the date of termination of the account fees will be due and payable.

The Adviser's fees may vary from the above due to the particular circumstances of a client or as otherwise negotiated with particular clients or intermediaries. From time to time, and in the Adviser's sole discretion, the Adviser may waive or reduce its fees.

Custodial Fees

Client assets are held in custody by third party custodians and are subject to the custodial fees charged by those custodians. These fees should be disclosed in the client's agreement with the applicable custodian. All custodial fees are in addition to the advisory fee.

Brokerage Fees

Clients that engage S1AM for discretionary asset management services generally incur no brokerage fees or costs. However, if any such brokerage fees or costs were to be charged, they would be the responsibility of the client. For more information see Item 12 below.

Money Market Fund Fees and Potential Conflicts of Interest

From time to time, S1AM may find it appropriate to direct a portion of a client's assets into Money Market Funds that have various risk profiles and/or are denominated in various currencies. Clients invested in Money Market Funds indirectly incur fees charged by such Money Market Funds ("Money Market Fees"). The Money Market Fees are set forth in each Money Market Fund's prospectus and are in addition to all other fees described in this Form ADV.

S1AM may enter into arrangements with the Third-Party Advisers under which S1AM may provide certain services on behalf of the Third-Party Advisers to clients whose accounts are invested in a particular Third-Party Adviser's Money Market Fund. These services include the delivery of fund communications, providing customer identification programs, providing account information, and responding to client inquiries and are provided to the Third-Party Advisers, not to our clients. In exchange for these services, S1AM may receive a service fee, payable in arrears, based on the average daily balance of the client assets invested in the applicable Money Market Funds. The Third-Party Advisers pay the service fees directly to S1AM.

Although S1AM may have a conflict of interest to the extent that it directs client accounts to invest in certain Money Market Funds rather than other funds with which the Adviser does not have these service arrangements in place, the Adviser's clients do not pay an advisory fee on assets invested in the Money Market Funds. The Adviser is not in a position to know whether the fees charged to its clients by the Money Market Funds would be lower absent the existence of arrangements like those described above with the Adviser and others. In any event, the Adviser periodically considers whether the Money Market Funds continue to offer yields that are competitive in the marketplace given the Adviser's perception of their risk.

In addition, because the service fees paid to S1AM by the Money Market Funds may differ or vary over time, the Adviser may be incentivized to direct daily cash balances into one Money Market Fund over another Money Market Fund based on what we may potentially earn rather than based on client needs. Despite the service fees that the Adviser receives from the Money Market Funds, the Adviser will periodically review and consider other available Funds to determine prudent recommendations to its clients.

Clients may have the ability to purchase these or similar investments at other financial services firms and pay lower fees and/or receive potentially higher returns where they may not have these compensation arrangements.

Item 6 Performance-Based Fees and Side-By-Side Management

S1AM does not charge any fees based on a share of capital gains, interest gains, on or capital appreciation of the assets of the client. Client fees are based solely upon assets under management.

Item 7 Types of Clients

S1AM specializes in managing cash portfolios of institutional clients, including public and private corporations, pooled investment vehicles (e.g., hedge funds), venture capital firms, or private equity firms. Typically, the primary objectives of the Adviser's clients with regard to the assets held in their accounts is to (1) avoid principal losses, (2) maintain a requisite amount of liquidity, and (3) achieve a return commensurate with the relatively low level of risk permitted by their investment policies. Therefore, the Adviser typically works closely with its clients to craft solutions that deliver an appropriate balance of these objectives. The Adviser currently does not have minimum capital requirements for opening or maintaining an account.

Item 8 Methods of Analysis, Investment Strategies and Risk

Methods of Analysis and Investment Strategies

The Adviser is generally a short term, high credit quality, fixed income asset manager focused on managing the operating, reserve, restricted, and strategic cash of its clients within the parameters of each client's investment policy. For most clients, the Adviser seeks to provide principal preservation, liquidity, and consistent income by investing in money market and other short maturity, fixed income securities. The Adviser often seeks to enhance short and intermediate duration yields with a diversified portfolio of high quality fixed income securities.

The Adviser manages portfolios based on each client's investment policy and a duration benchmark selected for and agreed to by each client. At all times the client's current investment policy determines the outer boundary of what the Adviser deems to be appropriate investments. That, coupled with the client's specific liquidity or risk concerns, can result in a benchmark and strategy that operate within the boundary of the client's investment policy parameters. With the client's specific needs in mind, an investment strategy is formulated that incorporates market factors such as the credit environment for short term fixed income, macroeconomic trends and our current view on the direction of interest rates. Depending on the market environment and our experience with a variety of these environments, S1AM will weigh both qualitative and quantitative factors when determining our overall investment strategy outlook. This consultative and interactive approach results in a portfolio that is structured to satisfy the client's short, intermediate, and long term investment objectives for their cash.

Risks

The Adviser primarily invests its client's assets in fixed income securities. Among many other risks, fixed income securities are subject to three primary risks: (1) interest rate risk, (2) credit risk, and (3) liquidity risk. The longer the duration of the fixed income securities held in an account, the more sensitive those securities and that account is likely to be to each of these risks. S1AM frequently monitors for the appropriate level of duration and credit exposure. Each of these risks is further discussed below.

Interest Rate Risk. Interest rate risk is the risk that the value of a fixed income security might decline in principal value as interest rates rise.

Credit Risk. Credit risk is the risk that the value of an investment might decline if the issuer of a fixed income instrument is considered at risk of default on its obligation or has its credit rating downgraded. This risk also applies to the creditworthiness of the underlying collateral for certain asset back securities.

Liquidity Risk. Liquidity risk is the risk that the Adviser may not be able to sell a security in a timely manner or at a desired price, or may be unable to sell the security at all because of a lack of demand in the market for the security or other reasons.

Additional material risks to which the client's assets may be subject are discussed below.

Market Risk. Market risk is the risk that market and/or geopolitical events occur which may impact an investment's risk profile.

Reinvestment Risk. Reinvestment risk is the risk that the proceeds from maturing principal or coupon payments may have to be reinvested into a lower yielding interest rate environment. A similar risk factor for asset-backed fixed-income securities is prepayment or extension risk where the duration of the investment may contract or extend as interest rates fall or rise respectively.

Counterparty Risk. Counterparty risk is the risk that any transaction counterparty or custodial agent fails to act as expected, contractually or otherwise, for any reason. This could include financial (*e.g.*, bankruptcy) or structural difficulties that may permanently impair their ability to transact as counterparties on our behalf.

The Adviser also purchases Money Market Funds for client accounts. Although Money Market Funds seek to continually preserve the value of their investment at \$1.00 per share, it is possible to lose money by investing in a Money Market Fund.

The foregoing are just some of the most significant risks that may apply to a client's investments. Clients should understand that investing in any securities, including fixed income securities and money market funds, involves a significant risk of loss of both income and principal and that they should be prepared to bear such losses. Investment safety and satisfactory performance is in no way guaranteed and no incremental protections are offered via an investment account with S1AM aside from the credit quality and short-term nature of the investments themselves.

Despite our affiliation with Square 1 Bank, client assets are not bank deposits and are not insured or guaranteed by the FDIC or any other agency.

Item 9 Disciplinary Information

Neither the Adviser nor any of the Adviser's owners or employees has reportable disciplinary events.

Item 10 Other Financial Industry Activities and Affiliations

While S1AM is not affiliated with any of the third party custodians that clients may utilize, the costs associated with the Adviser's reporting platform, Clearwater Analytics, are paid for by the applicable custodian. Through these arrangements, the Adviser's clients receive high quality daily, monthly, quarterly and annual investment reporting.

As discussed in Item 5 above, the Adviser may find it appropriate to direct a portion of a client's managed assets into Money Market Funds. Clients should be aware that the Money Market Funds are likely to be distributed through one or more third party custodians that clients may utilize and such custodians may permit the Money Market Funds to "sweep," or be reinvested daily on an automatic basis, to the benefit of such custodians. By virtue of this structure, it is possible that a custodian's willingness to pay for the Clearwater Analytics reporting platform could be related indirectly to the Adviser's continuing willingness to refer client assets to Money Market Funds. Again, however, the Adviser does periodically consider whether these Money Market Funds continue to offer yields that are competitive in the marketplace given the Adviser's perception of their risk. If the Adviser determines that the Money Market Funds offered via a particular custodian's platform are not offering competitive yields for the risk level compared to the marketplace, the Adviser will review other fund families to determine prudent recommendations to its clients.

The Adviser may engage with third party financial service providers and serve as a white label cash management solution for the clients of such third party financial service providers.

The Adviser has not and does not intend to register as a futures commission merchant, a commodity pool operator, a commodity-trading advisor, or an associated person.

Square 1 Bank, the Adviser's parent company and sole owner, provides a variety of support services to S1AM including human resources, information technology, facilities and administrative support.

Many, if not all, of the Adviser's clients are also customers of Square 1 Bank. From time to time, Square 1 Bank may offer cash management solutions that provide returns that exceed those offered by S1AM. To the extent this occurs, the Adviser may recommend that a client move some or all of its account to Square 1 Bank. If the client moves some or all of its account to Square 1 Bank, the applicable portion of the account held with Square 1 Bank would be subject to applicable banking regulations and would no longer be managed by the Adviser or subject to the discretionary account agreement between the client and the Adviser. Due to the affiliated relationship between the Adviser and Square 1 Bank, the Adviser may have a conflict of interest

in recommending Square 1 Bank to its clients. To help address this potential conflict of interest, the Adviser will only recommend Square 1 Bank to a client when it deems such a recommendation to be in the best interest of a client.

Item 11 Code of Ethics, Participation or Interest in Client Transactions and Personal Trading

S1AM has established and implemented a Code of Ethics (or “Code”) designed to educate all employees of the Adviser’s detailed ethical standards and prohibition of fraudulent, deceptive or manipulative conduct.

The Adviser and its personnel owe a duty of loyalty, fairness and good faith towards their clients, and have an obligation to adhere not only to the specific provisions of the Code of Ethics, but to the general principles that guide the Code. As a fiduciary, the Adviser will act at all times in its clients’ best interests and will avoid or disclose any actual or potential material conflicts of interests. The Adviser’s Code of Ethics emphasizes and implements these fundamental principles.

Our Code of Ethics includes prohibitions against the use of material non-public information. Employees are prohibited from trading for themselves or others in any security while in possession of material nonpublic information as well as communicating that information to anyone else. The Code of Ethics also covers the Adviser’s policy on giving or receiving gifts and entertainment in a business setting as well as protecting the confidentiality of client information and S1AM’s Privacy Policy. A copy of this Code of Ethics is available upon request to any client or prospective client. Requests should be directed to Adam Dean, Managing Director of the Adviser, at ADean@Square1AM.com.

The Code of Ethics also covers restrictions on personal securities transactions of employees. Given the highly liquid and large volume nature of the Adviser’s short-term, high credit quality investment universe, the officers or employees of the Adviser are permitted to invest in the same securities that are purchased on behalf of clients for their personal investment considerations. The Adviser does not foresee a conflict of interest due to the extreme liquidity and depth of the markets in which these securities trade, which we believe precludes the ability to profitably “front run” client purchases via purchases of the same securities for employee accounts. However, clients should be aware that this potential conflict of interest exists.

Item 12 Brokerage Practices

The Adviser does not have any formal or informal soft-dollar arrangements and does not receive any soft-dollar benefits. We do not execute transactions with any particular broker dealer based on any research or research related products. We derive our research through subscribed services, qualified resource interviews and generally available public sources.

The Adviser will seek to obtain best execution for all brokerage transactions. Broker-dealer counterparties are selected primarily on the basis of their quality of pricing, product availability, financial strength, ability and efficiency of execution, error resolution, and other factors determined by the Adviser in its sole discretion.

S1AM does not permit clients to direct their transactions to be executed by a particular broker-dealer. The Adviser also does not select or recommend a particular broker-dealer based on client referrals from that broker dealer or other third-party.

As mentioned in Item 5 above, the Adviser's clients generally do not incur any brokerage costs and the Adviser does not add any trading spreads nor charge any commissions or mark-ups to our clients.

Aggregation of Clients' Orders

The Adviser may aggregate securities sale and purchase orders for clients with similar orders being made contemporaneously for other accounts managed by the Adviser if, in the Adviser's judgment, aggregation is reasonably likely to result in an overall economic benefit to all of the accounts involved or at least result in no detriment to the accounts involved.

Item 13 Review of Accounts

The Adviser will periodically review each client's account(s) and on an as needed basis. These reviews generally will be conducted by the S1AM's Director of Investment Strategies and may include a review of the portfolio's asset allocation due to market movements, liquidity needs of the account, and upcoming maturities to prepare for reinvestment in other securities. Unexpected liquidity needs, changing market events, security offerings in the marketplace, and new financial information regarding a client's cash situation are among the events that could trigger a client portfolio review.

Depending upon the third party custodian utilized by the client, client account reporting may be available through the Clearwater Analytics reporting platform. The reports are drawn from the activity in their custody account and include either the Adviser's branding or the branding of financial service providers to which the Adviser provides its cash management services. To the extent a client selects a custodian that does not utilize the Clearwater Analytics reporting platform; the Adviser will ensure that it has a reasonable belief that the custodian selected by that client sends the client written monthly statements.

Item 14 Client Referrals and Other Compensation

As discussed above, under Fees and Compensation, the Adviser may receive fees from Money Market Funds for services provided to the funds with respect to client assets placed into their funds. The Adviser does not pay referral fees to independent persons or firms for introducing clients to the Adviser, nor does the Adviser receive fees for the introduction of Clients to independent persons or firms.

Item 15 Custody

Other than the ability to deduct its fees directly from client accounts, the Adviser does not have actual or constructive custody of its clients' funds and all clients' funds and securities are held at a qualified third-party custodian. The Clearwater Analytics reporting platform is used by certain

custodians to prepare client statements, as described in Item 10 above, and these statements and any other custodial statements should be carefully reviewed by clients. Clients should contact the Adviser directly if they believe that there may be an error in their statement. Statements obtained by clients through the Clearwater Analytics reporting platform include the Adviser's branding. In addition, the Adviser distributes to its clients a monthly notification of the availability of their statements through Clearwater Analytics.

Item 16 Investment Discretion

Clients hire the Adviser to provide discretionary asset management services, in which case the Adviser places trades in a client's account without contacting the client prior to each trade to obtain the client's permission. The Adviser's clients execute a Discretionary Account Agreement, which allows the Adviser to determine the securities to buy or sell and/or determine the amount of the securities to buy or sell in the Adviser's discretion. As discussed above, the Adviser allows clients to place various restrictions on the Adviser's choice of allowable investments via their investment policy.

Item 17 Voting Client Securities

The Adviser has adopted policies and procedures with respect to the voting of proxies relating to securities held in client accounts. When a client has delegated responsibility for voting proxies to the Adviser, the firm evaluates and votes proxies in a manner consistent with the Client's best interests. When voting proxies, the Adviser considers that it acts in the best interest of clients when the firm votes in a manner that it determines best serves the interest of maximizing shareholder value for all clients. The policy of the Adviser is to vote all proxies from a specific issuer the same way for each client absent qualifying restrictions from a client.

The Adviser's clients are permitted to place reasonable restrictions on the Adviser's voting authority in the same manner that restrictions are applied to all other aspects of account investment as dictated through the client's unique investment policy. Further, there may be times when the Adviser's management determines that refraining from voting a proxy is in a client's best interest, such as when the cost of voting a proxy exceeds the expected benefit to the client.

If the Adviser determines that a material conflict of interest exists in voting a proxy, then the Adviser will review the matter with the client, who will then together determine whether to direct the affected client to vote their proxies themselves, or to address the voting issue through other objective means such as voting in a manner consistent with a predetermined voting policy or receiving an independent third party voting recommendation.

Clients may obtain information regarding how the Adviser voted their proxies, and/or request a copy of the Adviser's Proxy Voting Policies & Procedures, by contacting Adam Dean, Managing Director of the Adviser, at ADean@Square1AM.com.

Item 18 Financial Information

The Adviser does not solicit prepayment or accept prepayment of fees from its clients. As noted above, under Fees and Compensation, fees are deducted on a monthly basis in arrears directly from the clients' accounts held at the third party custodian. The Adviser currently does not have any financial condition that is reasonably likely to impair its ability to meet its contractual commitments to clients.

Requirements for State-Registered Advisers

Not applicable.