Inc. 5000

#554

Prime Meridian Capital Management

2017

BY THE NUMBERS

600 MILLION DOLLARS

ASSETS UNDER MANAGEMENT

400

NUMBER OF CLIENTS

$500 THOUSAND

MINIMUM INVESTMENT AMOUNT

ELEVEN

NUMBER OF EMPLOYEES

PRIME MERIDIAN Capital Management

HONOREE SPOTLIGHT

Access to a New Asset Class

Prime Meridian Capital Management enables high net worth individuals to invest in the burgeoning field of online marketplace loans.

WHEN THE SHARING ECONOMY began to take off in the mid-2000s, it was almost inevitable that lending would become part of the mix. If individuals could rent or lend out things like homes, cars, and talent, why not money?

Indeed, online peer-to-peer (P2P) lending—or marketplace lending as it's also known—started on sites such as Prosper and Lending Club as a way for borrowers and lenders to come together without the need for a bank. By eliminating banks as the "middleman," borrowers could get lower interest rates for typical credit needs such as refinancing a high-interest credit card or taking out a personal or small business loan. Lenders could earn higher returns—typically in the high single-digits—than they would if they kept their money parked in a checking or savings account.

Prime Meridian Capital Management saw promise in this newly emerging asset class. The Walnut Creek, California-based investment management firm was started in 2012 by veteran financial manager Don Davis to specialize precisely in the burgeoning P2P lending space. The company has a family of four funds that give investors access to short-duration, high interest rate loan portfolios by taking advantage of the efficiencies in the growing online P2P lending arena. Davis says the loans in Prime Meridian's funds include unsecured consumer debt consolidation, small business financing, real estate, and more. The funds are attractive to Prime Meridian's clients—mainly ultra high net worth individuals and asset management firms—because they are designed to create a steady stream of income. They also have a low correlation to other asset classes in a portfolio, meaning that they can perform differently than equities or bonds in the same economic climate.

Davis says he was attracted to the P2P lending space after researching various alternative income products such as real estate investment trusts (REITs) and certain oil and gas products. At the time he was running Novus Investments, an alternative asset management firm. He liked the online lending model because he says it was much more transparent and efficient than a bank. "If an individual wants to borrow money from a bank, to this day it's still a very archaic process," he says. "When you go to an online lender, they're utilizing technology in a much more efficient way, and the whole process can take two weeks or less. That's why they're so popular."

Indeed, P2P loan originations totaled more than $23 billion in the U.S. last year, according to Deloitte, with Lending Club the biggest player. So far, Prime Meridian is finding robust interest in its P2P-centric funds and claims assets under management have grown to $560 million. "We expect to be at $1 billion by next summer," Davis adds. The company makes money by charging clients a management fee and a performance fee for the funds it manages. As he looks ahead to other types of lending in the P2P space, Davis says auto loans interest him, but student loans do not.

"The interest rates are lower and also there are a lot of political issues surrounding student loans concerning extending payment cycles or giving students payment holidays," he says. "That's good for students and for society, but that also means there's a lot of uncertainty in this space. And our objective at Prime Meridian is to give our investors the best risk-adjusted returns."