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Riverstone leads talks on $1bn commodities venture

By Javier Blas, Commodities Editor

US private equity group Riverstone is leading talks on an investment of as much as $1bn in a new commodities investment venture to be run by a former Deutsche Bank executive who aims to plug a funding gap left by the banks.

David Silbert, the head of commodities at Deutsche Bank between 2007 and 2012, plans to launch TrailStone this year. He said the negotiations with Riverstone and other strategic investors had not been finalised, adding that “TrailStone will begin with minimum [equity investment] of $500m and a maximum of $1bn”.

The new venture plans to acquire or lease refineries, power plants and midstream assets such as terminals, pipelines and storage.

“TrailStone is not a pure-play trading company, or a commodities hedge fund. We will be a global asset-backed merchant and logistics company,” Mr Silbert told the Financial Times.

He said many natural resources companies were “in need of capital” and cannot access it through conventional sources. “We believe that there are ways for us to extend capital to companies in need and for us to secure supply that is mutually beneficial.”

The new venture signals that senior commodities bankers are looking for new capital backers after investment banks took a step back from the sector.

Morgan Stanley is considering a sale or a joint venture for its commodities business in the face of the Dodd-Frank financial reform that will make it harder for banks to make a profit in the sector. James Gorman, Morgan Stanley’s chief executive, last October said the bank was exploring “all form of structures” for its commodities business.

Riverstone is an energy-focused private equity house founded by two former Goldman Sachs partners, which counts among its top executives Lord Browne, the former chief executive of BP.

The talks with Riverstone reflect growing interest from private equity and sovereign wealth groups in the natural resources sector. Industry executives note that several private equity groups, such as Carlyle, KKR, Apollo Global Management and Blackstone, are stepping in to buy non-core assets from miners and oil groups.

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The private equity industry has ventured into merchant commodities business only in a few occasions. First Reserve Corporation invested into Glencore through a convertible bond in 2009 and later was a cornerstone investor in the trading house’s multibillion-dollar initial public listing in 2011. Stone Point Capital, a US-based private equity group, backed energy trader Freepoint Commodities in 2011, while Resource Capital Funds invested into US-based metals merchant Traxys.

Glenn Dubin, Paul Tudor Jones and a group of other commodity hedge fund investors last year bought the energy trading business from Louis Dreyfus Group and Highbridge Capital, the hedge fund owned by JPMorgan Chase. The parties later renamed the business Castleton Commodities International.

Mr Silbert previously worked at Merrill Lynch as its European head of commodities and before that at Koch Trading, the US-based commodities house. He transformed Deutsche from a bit player to the fourth-largest bank by commodity revenues in 2012 with $1bn in sales.

TrailStone will open its main offices in Austin, London and Sydney.

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