Commodity Investment Opportunity for Family Offices

With many analysts highlighting the merits of commodity investment, Geneva-based SCCF is keen to introduce more family offices to this asset class.

Despite recent fluctuations, commodities have retained their appeal as a means of portfolio diversification. As the world's population continues to increase rapidly and consumers in emerging markets become wealthier, their consumption of food and energy will inevitably rise.

Having spent more than 20 years in commodity trading and trade finance at BNP Paribas and André & Cie, Dimitri Rusca realised in the early 2000s that were was an opportunity for a firm that could facilitate investment in commodities. This assessment has been vindicated over the nine years since he founded SCCF (Structured Commodity & Corporate Finance) in Geneva, the main hub of physical commodities trading worldwide.

SCCF specialises in sourcing short term financing for the trading, production, processing, tolling, transportation and distribution of essential commodities throughout the world and also provides a full range of back office and middle office services for small to mid-size traders, including reviewing commercial contracts and drafting and reviewing letters of credits, bank guarantees and performance bonds.

Regulated by the Swiss AMLA authority, SCCF leverages long term relationships with leading international trade finance banks and private funds to arrange and facilitate short term loans for advance payment to producers, goods in transit, shipped cargo, inventories and discounting of receivables (factoring).

Loans are also arranged for cash margin required by banks (to issue letters of credit or finance short term transactions, for example) as well as repurchase agreements (repos) using special purpose vehicles to purchase and sell goods and corporate loans and working capital for commodities traders, producers and distributors.

> *'Family offices are investing in commodity funds for a number of reasons'*

Dimitri Rusca

"I decided to establish the business because it was becoming more and more difficult for traders – and especially small, niche traders – to access finance," Rusca explains. "The difficulties faced by traders in the aftermath of the global financial crisis demonstrated that we were in the right business with the right business model and new regulations such as Basel III are forcing banks to become even more selective."

Rusca's previous experience meant that he had a network of contacts he could access to arrange this finance and a base of customers who would require his services. Since 2004 he has built on these initial contacts to extend the network of traders SCCF deals with and the company now has clients in all the major emerging markets (CIS, central Asia, Latin America and the Middle East).

"The commodities we deal with are essential products such as oil, metals and grain. Our clients come from a wide range of backgrounds, including former traders looking to create their own companies and even a client who specialises in buying petrochemicals from well known producers and distributing to clients in Turkey and central Asia."

SCCF works closely with leading credit risk insurers and risk reduction is key to its proposition. Default rates for trade finance are already very low – data from the International Chamber of Commerce (ICC) shows that only 3000 defaults were reported from more than 11.4 million transactions of 14 international banks between 2005 and 2010, which is a default rate of less than 0.03%.

"Because the major banks have decided to finance only the larger traders, many traders need to find an alternative. What makes the service we provide different is that we supply a complete transaction package that includes KYC due diligence, credit memos, financial analysis and market reviews. We do the work that the banks or the private funds do within their credit risk division and we also handle daily follow-up enquiries from banks and product investors about the status of their transaction, the location of physical goods, the shipping documents and when they will be paid."

Interest from traders has increased year on year and SCCF has expanded its senior team to meet this increased demand. The company's trade finance managers have held senior positions with major trade finance banks or commodity trading majors in Geneva and spent more than a decade in trade and commodity finance (including Cargill, BNP Paribas, ING, BCV and BCP).

"It is important to point out that we only finance physical commodity traders, so we are not exposed to any speculation - our traders do not handle futures," Rusca continues. "They are dealing in real economy, physical trades. This means that in many cases we have the goods as collateral, which is a strong form of security. Even at the height of the global financial crisis we did not experience a single customer default."

He refers to a distinct increase in interest in commodity investment among family offices in particular. "Family offices and pension funds are investing in commodity funds for a number of reasons. For example, there is limited correlation with the equity and bond markets, so it is increasingly common for family offices to put 5% of their investments into commodity funds. Returns from the bond market are low at the moment, whereas commodities are a very liquid asset class that is generating stable returns of 5-6% with an attractive risk profile."

Geneva is a favourable location because it is home to a large number of commodity traders as well as family offices who want to diversify their portfolios, says Rusca. "We are an attractive conduit into the commodity market for family offices because we have known our customers for a long time and we also conduct all the necessary anti-money laundering and know-your-customer due diligence."

Another factor that distinguishes SCCF's approach is that it visits every one of its customers on site on a regular basis, which enables it to view all the assets that are connected to their trading, such as mines or refineries.

It also engages independent inspectors such as SGS to visit these sites and confirm that the goods are where they are supposed to be in the agreed quantity and quality. In the case of collateral management agreements (CMAs), the inspector is responsible for maintaining the inventory at the disposal of the investor or the bank.

"These checks provide an additional layer of assurance for investors," Rusca concludes. ■

STRUCTURED COMMODITY & CORPORATE FINANCE

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