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# Risk analysis critical, says super chief

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The collapse of the sub-prime market in the United States was foreseeable with basic risk analysis that should have been utilised by banks, fund managers and insurers, the chief executive of a major superannuation fund said.

Steve Gibbs, chief executive of Australian Reward Investment Alliance - which manages more than \$17 billion for members - said that while marginal borrowers made up only 6 per cent of the US mortgage market in 2003, by 2006 that figure had jumped to 40 per cent.

That provided a signal to investment adviser Innovest, which forecast the collapse of the sub-prime market in October 2006, a full 10 months before it happened, Mr Gibbs said.

"It should have been obvious to everyone that for this increase in sub-prime mortgages to be sustainable, it would have had to have been accompanied by a rise in real wages," he told a conference in Melbourne.

"But in fact the opposite was true. In the United States real wages, apart from CEOs and senior executives in the corporate world, were stagnant.

"And the only other way these loans could have been repaid would have been if savings rates in the US were positive. But again, the opposite was true."

Savings rates dropped from 4.9 per cent to 4.5 per cent in the US over the period and at the same time default rates doubled, Mr Gibbs said at the launch of a responsible investment package at the United Nations Environment Program Finance Initiative, which hosted an international conference in Melbourne this week.

Mr Gibbs said the sub-prime crisis was an example of how social risks as well as environmental and governance risks could be leading indicators of trends and opportunities for investors picking stock.

"For example, for an investor analyst, surely water risk is something that you would want to understand when you are looking at Coca-Cola," he said.

The UN predicts that by 2025, one-third of the world will not have access to adequate drinking water, yet Coca-Cola uses 288 billion litres of drinking water each year. That includes an average 2.5 litres

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of water for each litre of product produced globally and 3.68 litres for each litre of product produced in Africa, its fastest-growing market.

"It's no wonder that the S&P water index, for companies which invest in water technology, has grown 178 per cent since 2003," Mr Gibbs said.

The growth in global responsible investment has also been demonstrated by 250 institutional investors in 30 countries signing up to the United Nations Principles for Responsible Investment since April 2006.

The investors represent \$US10 trillion (\$11.1 trillion) in assets - roughly equivalent to 20 per cent of global capital market value.

The UNPRI was initiated by former UN secretary-general Kofi Annan in 2005 and its signatories include 36 Australian fund managers, including AMP Capital Investors, BT Financial Group and Colonial First State Global Asset Management.

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