



Sustainability
Initiative



Aggregate Confusion Project: MIT Sloan Sustainability Initiative and Mass PRIM announce collaboration to improve the quality of ESG measurement in the financial sector

Membership opportunities for asset owners and managers

Cambridge and Boston, Mass., September 8, 2020— Sustainable investing has entered the mainstream in the investment industry with more than \$30 trillion of assets worldwide relying on Environmental, Social, and Governance (ESG) data, a figure that has grown 34% since 2016. Measurement, however, remains a significant challenge. ESG ratings that gauge a firm’s socially responsible behavior diverge substantially from rating agency to rating agency. Significant, real-world consequences can flow from this discrepancy. Corporate stock and bond prices may not correctly reflect ESG performance as investors struggle to accurately identify outperformers and laggards. Divergence can also dampen companies’ ambition to improve their ESG performance due to the mixed signals they receive from rating agencies.

The launch of the [Aggregate Confusion Project](#), spearheaded by the [MIT Sloan Sustainability Initiative](#), aims to address this. Joining the project as the founding member is the [Massachusetts Pension Reserves Investment Management \(Mass PRIM\) Board](#). Mass PRIM manages the \$75 billion [Pension Reserves Investment Trust PRIT Fund](#), a pooled investment fund that invests the pension assets of the Massachusetts Teachers’, the State Employees’ Retirement Systems, as well as many other public retirement systems in Massachusetts that elect to invest in the PRIT Fund. The collaboration aims to build on [research](#) by a team of scholars at [MIT Sloan School of Management](#) to improve the quality of ESG measurement.

The project is now charting a course toward more rigorous, coherent methods for ESG integration, with four key goals that are relevant to asset owners and managers, as well as regulators:

- Reduce the level of noise in measuring specific ESG categories such as labor treatment, carbon emissions, and product safety;
- Understand the effect of ESG-driven investment flows on stock price and firm behavior;
- Develop smarter ways to aggregate ESG factors into composite indices;

- Reliably assess investor preferences to enable ESG indices to be more customized and attuned to investors' values.

“Working with Mass PRIM will significantly advance the Aggregate Confusion Project,” said [Jason Jay](#), senior lecturer and director of the MIT Sloan Sustainability Initiative. “Pension funds like PRIM have a unique vantage point on the challenges of integrating ESG into the investment process, and the importance of solving the measurement problem. They can help inform our research questions and methodology and be a testbed for innovative approaches.”

“We are very excited to partner with MIT Sloan on this project,” said [Michael Trotsky](#), CFA, executive director and chief investment officer at Mass PRIM. “As an investor, the discrepancies in ratings from agency to agency makes evaluating a company’s ESG impact extremely challenging. We hope that this project will reinvigorate the debate on how to improve those ratings, and we’re looking forward to being a part of the membership council, which will collaborate on implementation strategies.”

The MIT Sloan Sustainability Initiative is currently looking for corporate member participation by asset owners and managers. Firms that participate will be at the vanguard of a rigorous, more robust approach to sustainable investing. Members will have access to MIT Sloan’s leading researchers in the field of sustainability, along with early access to exclusive findings.

[Roberto Rigobon](#), professor of Applied Economics at the MIT Sloan School of Management, added, “How can we eliminate discrimination in the labor force if we always measure too late? How can industries produce safer goods and services for consumers and the environment if we can’t agree on how to size their impact? If businesses, consumers, governments, and investors want to make decisions based on ESG, we need to provide them with unified guidance. This is the purpose of the Aggregate Confusion Project.”

To learn more about membership opportunities, please visit [here](#).

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