



SEPTEMBER 2026

Laying the foundations for cleaner construction



Kimon Demetriades
Stewardship Analyst

Building materials and construction generate nearly 40% of global greenhouse gas emissions.¹ We explore key trends shaping decarbonisation of the sector, including Scope 3 emissions, low-carbon products, infrastructure constraints and execution challenges.

Decarbonising heavy industry is essential to the energy transition. By engaging with building materials companies, we have identified four ways in which the sector can play its part:

1. Embedding decarbonisation

Decarbonisation is being embedded into core strategy, capital allocation and operating models. We noted how these are being connected to climate goals,

commercial growth and portfolio positioning through governance frameworks, executive accountability and incentive structures. But integration is uneven, and some firms are still transitioning from target-setting to operational delivery due to the challenges of complex business models, hard-to-abate processes and monetisation of low-carbon products.

2. Green to lean

Encouragingly, companies are moving beyond “green products” to focus on performance, lifecycle benefits and integrated solutions. These include: bundling such offerings and lower-carbon product categories that provide more durability and efficiency. With a cost premium for low carbon products, their rising demand is primarily driven by regulation, building standards and customer requirements.

Ambition and the ability to execute through change will be differentiators as companies address investor expectations for project-level transition plans supported by robust reporting and capital allocation.

¹ UN Environment Programme, 2023

This is coinciding with ongoing portfolio optimisation – where M&A, divestments, and business mix changes can materially influence reported emissions. This makes it important to separate real operational decarbonisation from changes driven by corporate actions.

3. Constraints and dependencies

We see the next phase of decarbonisation as structurally more challenging and increasingly shaped by regulation, infrastructure and technology – much of which is outside of companies' control. While lower cost levers exist in certain areas – eg, efficiency, fuel and material switching – transformative solutions are capital intensive and more exposed to dependencies, effectively creating a two-speed transition.

Moreover, decarbonisation challenges differ across the sector. Process-heavy producers, like cement, require significant investment in fuels, materials, electrification and carbon capture, while facing external constraints eg, permits. These challenges also include grid access, CO₂, transport infrastructure and availability of alternative inputs – which differ across regions. Meanwhile, product manufacturers and solutions providers (eg, insulation producers) are focused more on product design, supplier decarbonisation and embodied carbon – defined as the emissions associated with a building before, up to and after its construction.

However, all businesses depend on maturity of policy support, carbon pricing, and public funding, which are critical to large-scale decarbonisation investments.

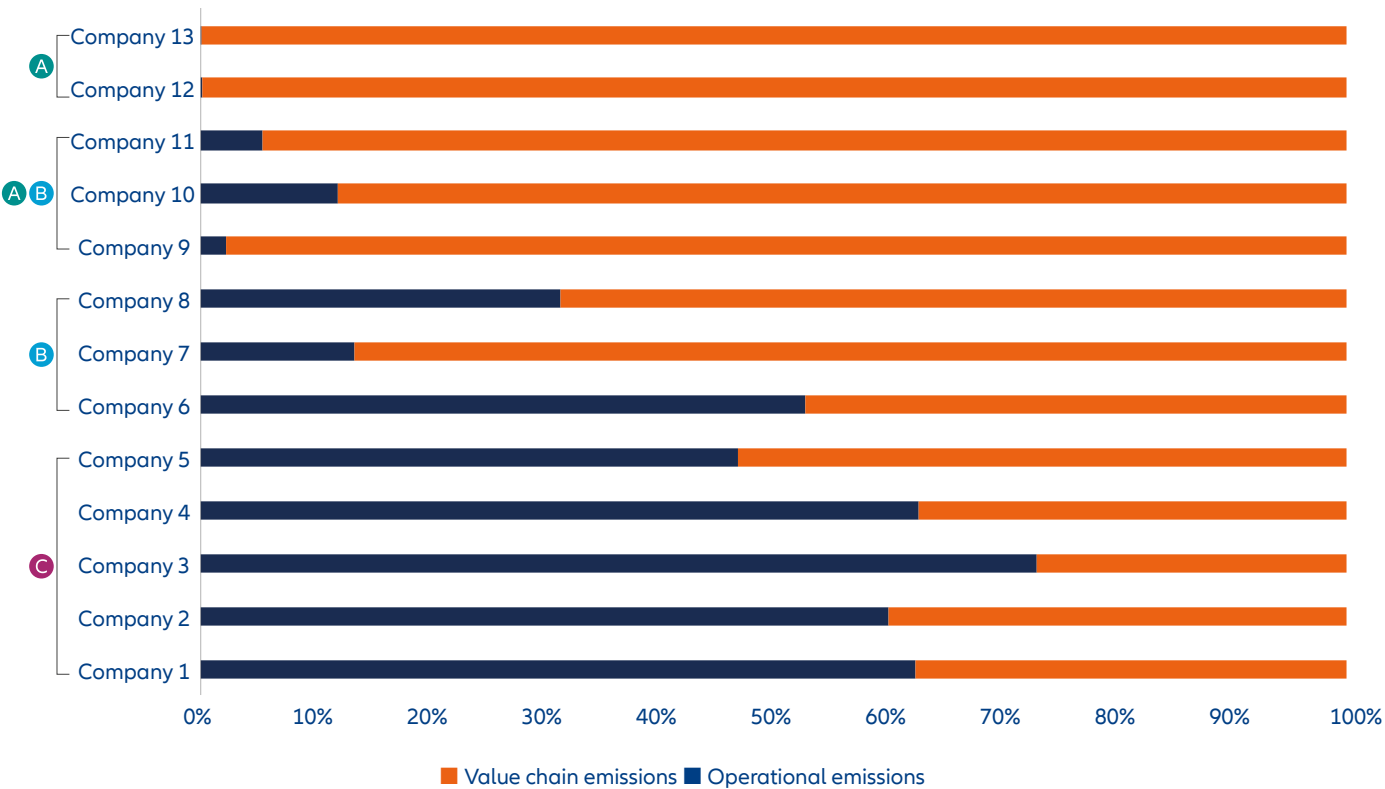
4. Scope 3 integration

There is a rising interest in Scope 3 emissions (see chart below), placing them as central to the sector's decarbonisation strategies. For solution providers use-phase emissions dominate, making efficiency and electrification especially relevant. Across the sector, purchased good represent a material source of upstream emissions, requiring supplier engagement, procurement changes and improved product-level carbon data.

Product-level decarbonisation is a key topic, including redesigned materials, and improved lifecycle performance. Limited value-chain control, uneven data and evolving methodologies remain hurdles, and progress depends heavily on collaboration.



Operational vs value chain emissions for companies we have engaged in this sector



- A Solutions providers:** Firms that integrate products, services, and expertise to deliver performance-driven outcomes for customers (e.g. efficiency, sustainability, system-level benefits).
- B Product/materials:** Companies that primarily manufacture and sell tangible materials or components used as inputs into construction or industrial applications.
- C Process-heavy:** Asset-intensive businesses where value is driven by large-scale industrial production and transformation processes.

Operational emissions refer to:

Scope 1, derived from a company’s own controlled operations and **Scope 2**, indirectly generated from purchased energy for the company’s own consumption.

Scope 3, emissions are the indirect greenhouse gas emissions generated across a company’s value chain – before and after its’s own operations: including upstream suppliers and downstream customers.

Source: Allianz Global Investors, 2026.

System-level change

Further lowering emissions in this sector will become more capital-intensive with a focus on product design, lifecycle emissions and integrated solutions, while delivering measurable impacts. We believe it will increasingly be defined by systemic constraints as much as company strategy, and we anticipate uneven near-term progress with ability to execute defining sector leaders while longer-term outcomes hinge on the development of enabling ecosystems.

Firms can continue to drive operational improvements, product innovation, and more disciplined capital allocation, but the pace and scale of transition are ultimately shaped by external dependencies – particularly technology maturity, infrastructure availability, policy support, and value chain coordination.

This reinforces a duality: companies can lead on what is within their control, but full decarbonisation requires coordinated, system-level change.



Building materials companies have a pivotal role to play in reducing emissions across the economy, but the next phase of decarbonisation will require coordinated action well beyond individual firms. This makes active engagement essential in assessing how companies are managing transition risks, positioning themselves in a sector context to achieve a competitive advantage and allocating capital for long-term value creation.

Stefan Raetzer, Lead Portfolio Manager, Conviction/SRI Core

Investing involves risk. The value of an investment and the income from it may fall as well as rise and investors might not get back the full amount invested.

Past performance does not predict future returns. If the currency in which the past performance is displayed differs from the currency of the country in which the investor resides, then the investor should be aware that due to the exchange rate fluctuations the performance shown may be higher or lower if converted into the investor's local currency.

This is for information only and not to be construed as a solicitation or an invitation to make an offer to buy or sell any securities. The views and opinions expressed herein, which are subject to change without notice, are those of the issuer or its affiliated companies at the time of publication. The data used is derived from various sources and assumed to be accurate and reliable at the time of publication, but it has not been independently verified; its accuracy or completeness is not guaranteed and no liability is assumed for any direct or consequential losses arising from its use, unless caused by gross negligence or willful misconduct. The duplication, publication, extraction or transmission of the contents, irrespective of the form, is not permitted, except for the case of explicit permission by Allianz Global Investors.

This material has not been reviewed by any regulatory authorities.

This document is being distributed by the following Allianz Global Investors companies: In Australia, this material is presented by Allianz Global Investors Asia Pacific Limited ("AllianzGI AP") and is intended for the use of investment consultants and other institutional/professional investors only, and is not directed to the public or individual retail investors. AllianzGI AP is not licensed to provide financial services to retail clients in Australia. AllianzGI AP is exempt from the requirement to hold an Australian Foreign Financial Service License under the Corporations Act 2001 (Cth) pursuant to ASIC Class Order (CO 03/1103) with respect to the provision of financial services to wholesale clients only. AllianzGI AP is licensed and regulated by Hong Kong Securities and Futures Commission under Hong Kong laws, which differ from Australian laws; in the European Union, by Allianz Global Investors GmbH, an investment company in Germany, authorized by the German Bundesanstalt für Finanzdienstleistungs-aufsicht (BaFin) and is authorized and regulated in South Africa by the Financial Sector Conduct Authority; in the UK, by Allianz Global Investors (UK) Ltd. company number 11516839, authorised and regulated by the Financial Conduct Authority (FCA); in Switzerland, by Allianz Global Investors (Schweiz) AG, authorised by the Swiss financial markets regulator (FINMA); in HK, by Allianz Global Investors Asia Pacific Ltd., licensed by the Hong Kong Securities and Futures Commission; in Singapore, by Allianz Global Investors Singapore Ltd., regulated by the Monetary Authority of Singapore [Company Registration No. 199907169Z]; in Japan, by Allianz Global Investors Japan Co., Ltd., registered in Japan as a Financial Instruments Business Operator [Registered No. The Director of Kanto Local Finance Bureau (Financial Instruments Business Operator), No. 424], Member of Investment Management Association of Japan and Type II Financial Instruments Firms Association; In mainland China, it is for Qualified Domestic Institutional Investors scheme pursuant to applicable rules and regulations and is for information purpose only. in Taiwan, by Allianz Global Investors Taiwan Ltd., licensed by Financial Supervisory Commission in Taiwan; and in Indonesia, by PT. Allianz Global Investors Asset Management Indonesia licensed by Indonesia Financial Services Authority (OJK) and in the Abu Dhabi Global Market by Allianz Global Investors Middle East Limited, which is authorised and regulated by the ADGM Financial Services Regulatory Authority.