ALTERNATIVES

How Infrastructure Companies Could Rebuild the World

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While it seems US politicians rarely see eye-to-eye on anything, the fact that America's aging infrastructure needs attention is one issue that has attracted clear bipartisan agreement. Yet, it's unclear who is going to foot the bill for the sweeping improvements that seem to be needed. Wilson Magee, director of global real estate and infrastructure securities, Franklin Real Asset Advisors, and portfolio manager, Franklin Global Listed Infrastructure Fund, builds a case for listed infrastructure companies providing the capital and expertise needed to get the job done. He also explains why he thinks infrastructure projects around the world will likely require more private funding.

In the US Congress, there seems to be bipartisan support for improving the dire state of the nation's aging infrastructure. It was a main talking point during the 2016 US presidential election. That same year, the American Society of Civil Engineers gave US infrastructure a "D+" overall grade.

In February of this year, US President Donald Trump unveiled a $1.5 trillion plan to rebuild America's roads, bridges, airports and water-treatment facilities. The plan calls for federal spending of $200 billion over the next 10 years and for state and local governments and the private sector to fund the remaining $1.3 trillion.

However, there has been some disagreement on who should pick up the tab for the bulk of the proposed infrastructure improvements. Many Democrats say Trump's plan puts too much pressure on state and local government budgets and are calling for $1 trillion in federal spending. Yet Republican deficit hawks are balking at an increase in federal spending after the recent passage of the tax reform plan and 2019 fiscal year budget.

Given these budget constraints at the local, state and federal levels, we think the private sector will likely play a crucial role in Trump's infrastructure plan. In our view, listed infrastructure companies, such as airport, toll road and water-treatment operators, are likely to provide both their capital and their operational expertise.

That said, we don't expect to see an infrastructure bill moving swiftly through the US Congress in the near term. Immigration reform seems to be the current focus in the House and Senate.

Whether a US infrastructure bill passes or not, infrastructure spending is ongoing. For example, we've seen US power utilities continue to invest in growth initiatives that favor the transition to cleaner forms of energy, such as natural gas and renewables. In our view, the increasing use of renewables will help support further investments in power transmission grids, both in the United States and throughout the world.

Emerging Markets: Building for the Future

Emerging markets have been demanding an increasing share of global resources, and we anticipate that trend to persist. We believe these markets will require adequate infrastructure to meet population growth, increasing wealth and economic expansion, as well as to keep pace with urbanization trends.

Both of the two largest developing economies, China and India, have ambitious infrastructure plans. China already has infrastructure-related policies in place that we view as very supportive. Chinese Premier Xi Jinping's "One Belt One Road" initiative would potentially build and enhance transportation infrastructure to mimic the old Silk Road trade route.

In India, the Ministry of Road Transport and Highways reportedly has plans to increase its highway network by 20,000 kilometers over the next couple of years.[1] That planned increase is roughly four times the distance from New York to San Francisco. When completed, India's national highway network will total about 50,000 kilometers.[2]

In Mexico, we are excited about the long-term growth prospects for the nation's airport system. Based on our analysis of government data, the average annual air passenger trips per year in Mexico is 0.4 per person, while in the United States it's about 2.4.[3] That shows us the enormous growth potential as Mexico sees increased passenger traffic on its airlines and into its airports.

Investing for the Future

In our view, financing infrastructure projects across the globe will likely require increasing levels of private funding. Many developed countries need to repair, upgrade or completely replace aging infrastructure. And, many emerging countries need new infrastructure to meet the needs of their growing populations, economies and cities.

We see listed infrastructure companies as providing that funding and the services for economies to operate, prosper and grow. In particular, we are excited about the growth prospects for global toll road operators, US liquefied natural gas (LNG) export facilities and water utilities. Our team focuses on the degree of change in overall projected trends within these areas to look beyond current performance to understand directionally where opportunities and challenges may reside.

In the transportation sector, Australia-based Transurban Group is a leader in tolling technology and operates toll roads in Australia and the United States.[4] In our view, Transurban appears likely to benefit from a US infrastructure bill.

Another example is Vinci, a French-based concessions and construction company that operates toll roads and airports globally.[5] The company's toll roads in France are currently benefiting from positive and accelerating gross domestic product growth trends in the country.

In the energy sector, we think companies that build and operate gas pipelines and LNG export facilities in the United States are likely to benefit from the streamlining of federal permits. One example we see is Cheniere Energy Partners, which develops and operates the first LNG export facility in the United States and continues to expand its capacity.[6]

In the utilities sector, we think American Water Works is well-positioned to improve US water systems.[7] In our view, the lead water crisis in Flint, Michigan, underscores the need to invest in US municipal water systems to keep them operating safely.

Overall, we think the outlook for listed infrastructure companies is strong, based on our analysis of revenue and dividend growth rates. We find the growth rates for these companies to be fairly predictable. They typically operate under long-term contracts, regulated return models or have monopolistic assets.

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What Are the Risks?

Franklin Global Listed Infrastructure Fund

All investments involve risks, including possible loss of principal. Investments in infrastructure-related securities involve special risks, such as high interest costs, high leverage and increased susceptibility to adverse economic or regulatory developments affecting the sector. Special risks are associated with foreign investing, including currency rate fluctuations, economic instability and political developments. Because the Fund may invest at least a significant portion of its assets in companies in a specific region, including Europe, the Fund is subject to greater risks of adverse developments in that region and/or the surrounding regions than a fund that is more broadly diversified geographically. Investments in utility company securities, if purchased for dividend yield, involve additional interest rate risks. When interest rates have risen, the stock prices of these companies have tended to fall. Thus, as the prices of utility company stocks in the fund adjust to a rise in interest rates, the fund's share price may decline. By focusing on an industry or group of industries, the fund carries much greater risk of adverse developments and price movements in such industries than a fund that invests in a wider variety of industries. These and other risk considerations are discussed in the fund's prospectus.

Investors should carefully consider a fund's investment goals, risks, charges and expenses before investing. To obtain a summary prospectus and/or prospectus, which contains this and other information, talk to your financial advisor, call us at ***(800) DIAL BEN/342-5236*** *or visit* **franklintempleton.com.** *Please carefully read a prospectus before you invest or send money*

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1. Source: Economic Times of India, "India will have 50,000 km highways network in 2 years: Government," September 27, 2017.

2. Ibid.

3. Sources: Mexico Communications and Transport Ministry; US Department of Transportation, Bureau of Transportation Statistics.

4. As of January 31, 2018, Transurban Group represented 6.35% of total net assets of Franklin Global Listed Infrastructure Fund. Holdings subject to change.

5. As of January 31, 2018, Vinci represented 1.11% of total net assets of Franklin Global Listed Infrastructure Fund. Holdings subject to change.

6. As of January 31, 2018, Cheniere Energy Partners represented 2.89% of total net assets of Franklin Global Listed Infrastructure Fund. Holdings subject to change.

7. As of January 31, 2018, American Water Works represented 1.39% of total net assets of Franklin Global Listed Infrastructure Fund. Holdings subject to change.