While uncertainty abounds over how President-Elect Donald Trump will govern and what policies he will pursue, he has been remarkably consistent in touting his plans to rebuild the nation’s infrastructure. Indeed, even before the final vote totals were in on election night, Trump proclaimed to a gathering of his supporters that, “We are going to fix our inner cities and rebuild our highways, bridges, tunnels, airports, schools, hospitals. We’re going to rebuild our infrastructure, which will become, by the way, second to none. And we will put millions of our people to work as we rebuild it.”

The need to repair and upgrade the U.S.’s systems that transport people, goods and services was an issue that both presidential candidates showed rare agreement on during the campaign. Despite possessing the world’s largest economy, the U.S. ranks 12th on the World Economic Forum’s (WEF) Global Competitiveness Index in terms of the overall quality of its infrastructure. The WEF also rates the

EXECUTIVE SUMMARY

• U.S. voters have shown support for improving the country’s infrastructure.
• While Donald Trump has called for expanding federal efforts to incentivize infrastructure projects, states and local governments fund 80% of the projects.
• $3.6 trillion in spending will be required by 2020.
• New municipal bond issuance will play a key role in ensuring the safety and economic competitiveness of America’s systems and structures.
• New project financings will provide opportunities for U.S. and global investors to obtain attractive yield potential with investment grade credit quality and low volatility.

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President
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U.S. 13th in the world for the quality of its road and rail systems and an embarrassing 21st in the world for the quality of its electrical and communications systems, trailing Iceland and Barbados, among others.

**ROOM FOR IMPROVEMENT**

The WEF ranks 138 countries on the quality of their infrastructure. The table below shows how the U.S. compares to other major developed market countries.

According to figures cited by Trump’s campaign, more than 60,000 U.S. bridges are “structurally deficient,” traffic delays cost the economy more than $50 billion annually and almost 2,000 public water systems in all 50 states show excessive levels of lead contamination. For his part, Trump has promised to “double” his rival Hillary Clinton’s campaign proposal to spend $275 billion on infrastructure improvements.

While campaign promises may be cheap, rebuilding and upgrading the U.S.’s infrastructure will not be. Trump’s proposed spending does not come close to the estimated $3.6 trillion in infrastructure spending that will be needed through 2020, according to the American Society of Civil Engineers. He will need to rely heavily upon the U.S. municipal bond market to make a difference.

**SICK TRANSIT**

Roads, bridges and passenger trains face the greatest gulf between funding needs and available funds (see chart on next page).

**A CRITICAL ROLE FOR MUNICIPAL BONDS**

At least part of Trump’s strategy to fund infrastructure is known. During the campaign, his policy advisors proposed using federal tax credits to promote private sector equity investment in infrastructure, targeting a $1 trillion capital infusion over 10 years. Their plan would give the private sector a greater role in financing projects, but it would be

<table>
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<tr>
<th>Quality of Overall Infrastructure</th>
<th>U.S.</th>
<th>Japan</th>
<th>France</th>
<th>Germany</th>
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</thead>
<tbody>
<tr>
<td>12th (tie)</td>
<td>13th</td>
<td>13th</td>
<td>10th</td>
<td>12th (tie)</td>
</tr>
<tr>
<td>Quality of Roads</td>
<td>13th</td>
<td>13th</td>
<td>10th</td>
<td>16th</td>
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<tr>
<td>Quality of Railroads</td>
<td>5th</td>
<td>1st</td>
<td>4th</td>
<td>11th</td>
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<td>Quality of Ports</td>
<td>22nd</td>
<td>23rd</td>
<td>11th</td>
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<td>Quality of Electricity and</td>
<td>21st</td>
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<td>Communication Infrastructure</td>
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Source: World Economic Forum, Global Competitiveness Index as of September 28, 2016
only one part of the solution. Trump’s plan acknowledges that private sector involvement would only “serve as a critical supplement to existing financing programs.”

State and local governments currently fund 80% of infrastructure maintenance and development in the U.S. and we expect this to continue, regardless of what policies the new administration pursues. Indeed, according to Congressional Budget Office research, states and municipalities have been assuming a larger responsibility for infrastructure delivery, accounting for three-quarters of public spending on transportation and water infrastructure in 2014.

Municipalities commonly finance infrastructure development by issuing bonds and Standish expects municipal infrastructure bond issuance to increase to more than $450 billion annually. We expect these new bonds will be absorbed by high demand in the U.S. as well as by global investors who seek portfolio diversification, attractive yield potential, investment grade credit quality and relatively low volatility.

We also expect increased issuance of taxable muni bonds, which currently make up only 15% of the overall municipal bond market. Many of these were issued under the Obama administration’s Build America Bonds (BAB) program, which permitted governments to issue taxable municipal bonds instead of the more common tax-exempt coupons. While Trump’s advisors expressed support for “the concept of” Build America Bonds during the campaign, they have also described them as “simply tools, not solutions in and of themselves.” Regardless, tax-exempt and taxable municipal infrastructure bond issuance is likely to remain the primary funding source for capital needs in the U.S.

The growth in infrastructure bond issuance and the opportunity it presents for investors result from citizens and governments recognizing the need to repair and modernize the country’s transportation, energy, water and social infrastructure.
citizens and governments recognizing the need to repair and modernize the country’s transportation, energy, water and social infrastructure. That understanding is visible not only in the victory of a presidential candidate who called for more spending, but also in the success of ballot proposals nationwide. According to a Brookings Institution study, voters have approved three-quarters of all transit funding ballot measures proposed since 2012. The 2016 election continues this trend with voters across the country approving at least $55 billion worth of bond issuance, as well as tax increases and other sources of revenue for this purpose.

The U.S. municipal bond market is likely to provide investors with a growing and continuing investment opportunity. In our opinion, U.S. municipal infrastructure bonds, both taxable and tax-exempt, deserve to be included in asset allocation plans of non-U.S. investors from around the globe.

RISKS

All investments contain risk and may lose value. There is no guarantee that these investment strategies will work under all market conditions or are suitable for all investors and each investor should evaluate their ability to invest long-term, especially during periods of downturn in the market. Investors should consult their investment professional prior to making an investment decision. Bonds are subject to interest-rate, credit, liquidity, call and market risks, to varying degrees. Generally, all other factors being equal, bond prices are inversely related to interest-rate changes and rate increases can cause price declines. Municipal income may be subject to state and local taxes for out-of-state residents. Some income may be subject to the federal alternative minimum tax for certain investors. Capital gains, if any, are taxable.

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