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Fund Investors Are Betting Big on Infrastructure.

The payoff might be years away, and there are risks, but proponents see the trend on their side

Emboldened by President Donald Trump's campaign promise of a $1 trillion infrastructure-spending package, investors have plowed more than $460 million into related U.S. mutual funds and exchange-traded funds so far this year, according to data from Morningstar Inc.

At the end of the first quarter, the amount sitting in such funds stood at $16.1 billion, up 12% from a year earlier, though the euphoria has eased as the market begins to digest just how much stands in the way of an infrastructure package—from shifting priorities in the White House to opposition in Congress.

Still, those who focus on infrastructure investing say things are looking up, even if it takes a few years for Washington to deliver a big spending package.

Blackstone buys in

The Fixing America's Surface Transportation (FAST) Act, passed by Congress and signed into law by President Barack Obama at the end of 2015, sets up the next five years of spending for federal transportation projects. Meanwhile, voters approved some $200 billion of infrastructure-related ballot initiatives during November's election, Mr. Welo says, adding that such projects are as close to a slam dunk as a government-backed project can get.

So while Washington negotiates its spending plans, investors can position themselves to take advantage of these FAST Act-funded efforts, as well as those at the state and local level, the pros say.

Indeed, last month private-equity firm Blackstone Group BX -0.64% LP announced that it was preparing to launch a unit that would invest in toll roads, bridges and other infrastructure projects.

The U.S. isn't the only country getting ready to write fat checks. Sectors associated with infrastructure have seen valuations creep up globally as governments seek to expand airports, bridges and road in response to growing populations. Many infrastructure ETFs are constructed with this global view in mind, says Brandon Rakszawski, a New York-based product manager at Van Eck Global who oversees the firm's hard-assets ETF product lines.

"Most infrastructure ETFs are global in nature, so investors need to realize that if they are choosing that option for their portfolios, they may only be getting 40% or so U.S.-specific names," Mr. Rakszawski says. Taking a global approach can help diversify a portfolio, he says.

Beyond geography, the key to succeeding in this sector is knowing what it means to you, says Mr. Rakszawski.

"It is important for investors to decide what they see as infrastructure—is it energy, transportation, utilities, or some combination of those?" he asks. "Once they decide, they can start to target more specific exposures and products that are going to give them what they want."

As investors weigh specific subsectors, they need to be mindful of risk.

If you invest in engineering and construction companies, for example, "you need to factor in a certain amount of commodities risk," because many of the companies also are heavily tied to volatile oil-and-gas or mining-related capital spending, says Andrew J. Wittmann, a Milwaukee-based senior analyst at Robert W. Baird & Co, which manages $171 billion in assets.

Another red flag is turnover within mutual funds and ETFs.

Infrastructure projects are large and slow-moving. Once contracts are awarded for projects, it's relatively easy to forecast what the next three to five years will look like. Tayfun Icten, a Chicago-based analyst with Morningstar, says a high level of turnover within a fund could signal a manager or strategy that isn't operating with conviction.

"Investors in infrastructure mutual funds need to be clear about what types of opportunities they are getting access to," Mr. Icten says.

Trillion watch

So, what of Mr. Trump's trillion? Fidelity's Mr. Welo expects to see a more-nuanced approach emerge from Congress. That could mean several billion dollars in project financing annually over the next 10 years, plus changes in tax policy, he says.

"The gas tax could be a key policy area to watch both at the state and federal level as policy makers start looking at ways to pay for these projects."

Municipal-bond investors may also see a rise in new issuance, as the asset class has historically been the go-to place for project financing. State and local governments have been using low interest rates to refinance existing debt, but issuance isn't keeping up with maintenance needs or expansion plans.

John Miller, co-head of fixed income and head of the municipal-bond investing team at Nuveen Asset Management in Chicago, says the muni market is showing signs of recovery and default risk is lower.

"Investors who have been skewed toward short duration and high quality can benefit from considering longer durations or slightly lower credit quality in this environment," he says.

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