

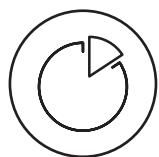
FlexShares Morningstar® Emerging Markets Factor Tilt Index Fund

RISING LEAN

For investors seeking a core portfolio that leans toward capturing the potential performance advantage of emerging market small cap and value stocks

Investors interested in the long-term capital appreciation potential of emerging-market stocks may be attracted to funds that offer total emerging equity market exposure. Many broad emerging market funds track market-weighted indices, however, which may create concentrations in the largest stocks. This concentration can mean that portfolios may miss out on the historic growth opportunities sometimes found in emerging market small-cap and value stocks.

In this paper, we explain why a portfolio that maintains exposures to emerging small-cap and value stocks has the potential to outperform a portfolio that only follows a market-weighted index. We then describe the index approach behind the FlexShares Morningstar Emerging Markets Factor Tilt Index Fund (TLTE), which is designed to provide broad emerging equity market exposure with a tilt toward small-cap and value stocks.



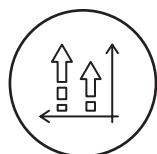
THE POTENTIAL IMPACT OF CONCENTRATION IN THE LARGEST STOCKS

Investors may look to broad emerging equity markets for their potential to generate long-term capital appreciation. Emerging market ETFs and mutual funds that track market indices designed to reflect the total emerging equity markets have provided investors a convenient vehicle to gain broad emerging equity market exposure. These indices are usually market-weighted, however, which means the number of shares they hold in any particular company is directly related to the size of that company's market capitalization.¹ As a result, big companies with pricier stocks may make up a greater proportion of the shares in a fund that matches an index following that approach.

As a result of this large-cap concentration, these portfolios may produce lower returns than the overall market they're attempting to reflect. The reason: They may miss out on the growth potential from small-cap and value stocks. Landmark research produced in the early 1990s by Eugene F. Fama and Kenneth R. French demonstrated that exposure to small-cap and value stocks produced consistently better long-term returns than following a market-weighted index.

What's more, we believe an overconcentration in emerging market large-cap stocks may put a portfolio at greater risk of stock market bubbles. When a bubble forms in a country, sector or group of stocks, investors may bid up the prices of those stocks and potentially inflate their overall market value. In turn, those stocks may then take up a greater portion of a market-weighted index—increasing the potential risk of steeper-than-market declines if, and when, a bubble were to burst.

To help meet investors' goals for potential returns while managing risk, we believe a total emerging market portfolio should judiciously maintain exposure to small-cap and value stocks while continuing to provide large-cap exposure.



THE FLEXSHARES SOLUTION: A TILT TOWARD SMALL-CAP AND VALUE STOCKS

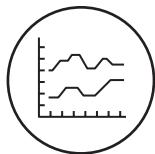
The FlexShares Morningstar Emerging Markets Factor Tilt Index Fund (TLTE) is an ETF that seeks long-term capital appreciation by tracking a custom index, the Morningstar Emerging Markets Factor Tilt Index.²

The index starts with a broad universe of emerging market stocks that trade on a qualified exchange which are then defined and divided by current market capitalization when Morningstar applies a multi-metric valuation analysis to determine appropriate style categorization. Based on those two filters, each stock in the index is assigned to one of 12 boxes corresponding to their size and style:



Morningstar then constitutes the index with an intentional tilt toward small-cap and value stocks. For example, the index will reduce weight in the large-cap growth and large-cap core boxes to increase weight across the smaller and value portions of the index.

To maintain this tilt, Morningstar makes adjustments on a quarterly basis. Twice a year, June and December, it reconstitutes the index to account for any shifts in the market that affect the size and style of the stocks in the investable universe. In March and September, Morningstar rebalances the index to ensure it stays within the parameters established in June and December.



BROAD EMERGING MARKET EXPOSURE PLUS THE POTENTIAL TO CAPTURE SMALL-CAP AND VALUE PREMIA

By starting with the broadest possible universe of emerging market stocks, we believe Morningstar's selection process offers investors the exposure they seek when pursuing the long-term capital appreciation potential of emerging equities. By tilting toward small-cap and value stocks, the index seeks to capture the potential for long-term return premia offered by those categories—which may be missed in traditional market-weighted indices.

Our research suggests exposure to both small-cap and value stocks may provide benefits because of the potential low correlation between the factors. A portfolio that tilts toward both small-cap stocks and value stocks may capture outperformance in one factor, even when the other underperforms. At the same time, we believe maintaining exposure to large-cap stocks may reduce tracking error versus the overall market compared to investment products that make larger bets on small-cap or value stocks.



CONCLUSION

Portfolios modeled on market-weighted indices seek long-term capital appreciation by tracking the performance of broader emerging equity markets. But market weighting may make these types of indices vulnerable to concentration in the largest stocks. Our opinion is that portfolios that track them may potentially miss out on the investment benefits provided by smaller stocks and value stocks.

The FlexShares Morningstar Emerging Markets Factor Tilt Index Fund (TLTE) is intended to provide deep exposure to the investable emerging equity universe while potentially providing investors a vehicle to track the performance of the broad emerging equity market. Strategic reweighting in the underlying index then is designed to provide a tilt toward the small-cap and value stocks that other market-weighted indices may have historically missed. The resulting fund seeks to reflect the experience of investing in the broad equity market, while reducing the risk of overconcentration in large-cap stocks and pursuing the excess return potential from the value and small size factors.

FIND OUT MORE

The FlexShares approach to investing is, first and foremost, investor-centric and goal oriented. We pride ourselves on our commitment to developing products that are designed to meet real-world objectives for both institutional and individual investors. If you would like to discuss the attributes of any of the ETFs discussed in this report in greater depth or find out more about the index methodology behind them please don't hesitate to call us at 1-855-FlexETF (1-855-353-9383).

FOOTNOTES

- 1 Market capitalization refers to the total dollar market value of a company's outstanding shares of stock. Commonly referred to as "market cap," it is calculated by multiplying the total number of a company's outstanding shares by the current market price of one share.
 - 2 The Morningstar Emerging Markets Factor Tilt Index is an index designed to provide deep exposure to stocks located in emerging countries across the world (as defined by Morningstar) while seeking to take advantage of the persistent, longer-term small-cap and value performance premiums.
-

IMPORTANT INFORMATION

Before investing, carefully consider the FlexShares investment objectives, risks, charges and expenses. This and other information is in the prospectus and a summary prospectus, copies of which may be obtained by visiting www.flexshares.com. Read the prospectus carefully before you invest.

Foreside Fund Services, LLC, distributor.

An investment in FlexShares is subject to numerous risks, including possible loss of principal. Fund returns may not match the return of the respective indexes. A full description of risks is in the prospectus.

FlexShares Morningstar Emerging Markets Factor Tilt Index Fund (TLTE) is passively managed and uses a representative sampling strategy to track its underlying index. Use of a representative sampling strategy creates tracking risk where the Fund's performance could vary substantially from the performance of the underlying index along with the risk of high portfolio turnover. It is subject to concentration risk. The Fund's investments are concentrated in the securities of issuers in a particular country, market, industry, sector or asset class. Investments in foreign market securities involve certain risks such as currency volatility, political and social instability and reduced market liquidity. Investments in Emerging markets may be subject to increased price volatility and may be more susceptible to adverse economic, market, political or regulatory occurrences affecting that country, market, industry, sector or asset class. The Fund may be subject to increased price volatility and may be more susceptible to adverse economic, market, political or regulatory occurrences affecting that country, market, industry, sector or asset class. The Fund may also invest in derivative instruments. Changes in the value of the derivative may not correlate with the underlying asset, rate or index and the Fund could lose more than the principal amount invested.

The Morningstar Emerging Markets Factor Tilt Index is the intellectual property (including registered trademarks) of Morningstar and/or its licensors ("Licensors"), which is used under license. The securities based on the Index are in no way sponsored, endorsed, sold or promoted by Morningstar and its Licensors and neither of the Licensors shall have any liability with respect thereto.