

Adding the Missing Piece to ESG Ratings

FLEXSHARES EXCHANGE TRADED FUNDS

[MUSIC PLAYING]

When investment managers develop ESG strategies, they often compare companies by relying on ESG ratings. What many advisors and their clients don't realize: ESG ratings are limited. Taken alone, they provide only half the picture.

ESG ratings do take into account a range of sustainability issues, including environmental impacts, social policies and corporate governance. The problem is that ESG ratings measure performance using historical data. The rating does nothing to capture how a company might respond to future challenges.

Consider these two companies in the same industry. In the past, their ESG risks have been comparable, resulting in similar ESG scores. In fact, both have had almost identical health and safety issues through the years.

But a closer look reveals that company A has failed to make changes to its health and safety protocols, leaving it vulnerable to similar challenges in the future. Company B has developed new training programs, improved safety protocols, and established board-level oversight of employee safety issues.

From a sustainability perspective, the long-term outlook for company B is a lot more promising than company A. Its ESG rating doesn't show it, but it's taken concrete steps to safeguard its business from liability and work stoppages. This is the kind of consideration that a smart sustainable investing fund uses to go beyond historical ESG data when deciding which companies to hold in its portfolio. It's done through a variety of forward-looking sustainability tools and assessments, (beat) such as scoring systems to rate a company's future climate risk. And more.

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. FlexShares and Foreside are not related.

Please remember that all investments carry some level of risk, including the potential loss of principal invested. They do not typically grow at an even rate of return and may experience negative growth. As with any type of portfolio structuring, attempting to reduce risk and increase return could, at certain times, unintentionally reduce returns.