Equity | Fixed Income | Real Assets

GQRE | TDTF
GUNR | TDTT
NFRA

We'll get through this. Meanwhile…

Until inflation moderates, as we expect, investors might consider a few portfolio adjustments.

Having dominated headlines and conversations for much of the past year, news that inflation in the U.S. reached 7% in 2021— a 39-year high — was hardly a surprise. A spike in inflation was widely anticipated as part of the post-COVID recovery. But the scope and magnitude of this is once-in-a-lifetime phenomenon proved to be greater than most anticipated. And the most poignant question, sparking anxiety, conjecture, and heated opinions, remains: how long will this last?

LONGER TERM: THIS, TOO, WILL PASS

Our analysts expect inflation to moderate to an annualized rate of 1.7% over the next five years. They note, however, "that masks elevated inflation over the next year-plus that then falls to disappointing inflation in the back years." The unfortunate and unavoidable fact is that reconciling the confluence of disrupted supply chains, persistently high consumer demand, and the flood of money arising from rising wages, historically low interest rates and government stimulus payments is no simple task.

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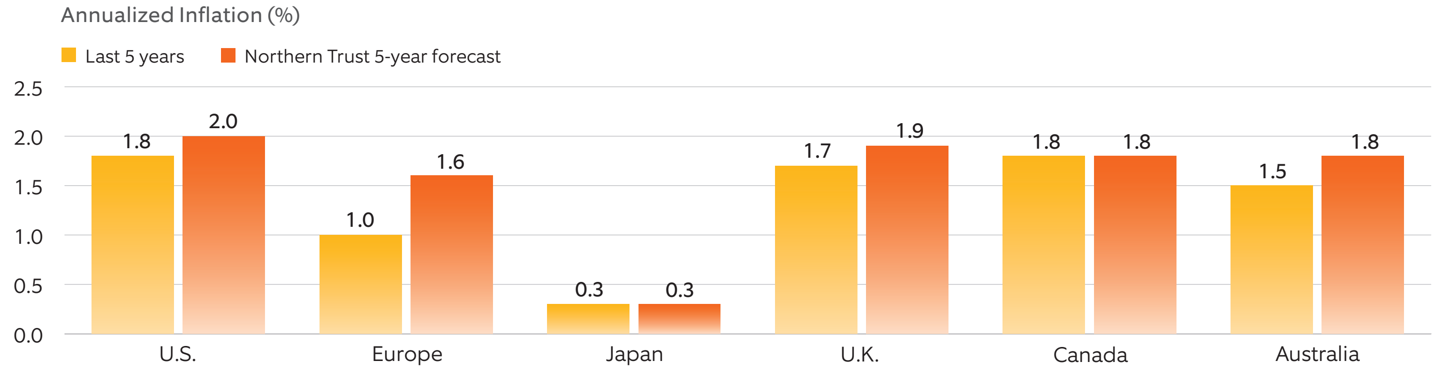
Against this backdrop, Northern Trust's Capital Markets Assumption Working Group sees reason for optimism: "While the 'demand drivers' witnessed over the past year — importantly the massive infusion of government stimulus — will not persist, the 'supply enablers' introduced during the pandemic will. These "supply enablers" include productivity enhancers the pandemic forced upon (and ultimately embraced by) companies and workers. Indeed, one pandemic outcome has been the fuller realization of the power of technology. For a sense of the productivity impact, U.S. real economic output eclipsed its pre-pandemic high in the second quarter of 2021 — achieved with 6.2 million (or 4.1%) fewer workers.

INFLATION FORECAST

Dislodging longer-term inflation will take a bolder action than we've seen thus far.



Source: Northern Trust Asset Management, Bloomberg. Data from 3/31/2021. All regions use headline CPI as the inflation metric.

SHORTER TERM: BUFFERING INFLATION'S IMPACT

Incorporating exposure to certain asset classes may help to mitigate the corrosive effects of inflation on a traditional stock and/or bond portfolio.

Different sectors of the economy will respond differently – at varying rates and timeframes.

Equity

Specific areas of the economy may experience longer-term benefits from rising demand.

A diversified allocation across real estate investment trust (REIT) sectors may provide an opportunity to capitalize on rising rents in residential properties, as well as changes that businesses are making to address changes triggered by the pandemic.

Inflation cycles tend to play out differently across different commodity/natural resources sectors. Concentration in one area may lead to unwanted volatility.

Fixed income

Certain fixed-income sectors may help to soften the negative impact on total returns.

Looking longer-term, high-yield bonds may help to mitigate the impact of persistent inflation because of their lower correlation to U.S. Treasury rates.

A strategic allocation to Treasury Inflation Protected Securities (TIPS) might make sense depending on your risk tolerance and long-term investment strategy.

We discourage investors from viewing any potential inflation-hedging component in isolation. Different sectors of the economy will respond differently – at varying rates and timeframes. For this reason, these strategies should be well diversified.

FlexShares' approach to inflation-hedging strategies, is described on the Fund pages on FlexShares.com:

- FlexShares iBoxx® 3-Year Target Duration TIPS Index Fund (TDTT)
- FlexShares iBoxx® 5-Year Target Duration TIPS Index Fund (TDTF)
- FlexShares Morningstar® Global Upstream Natural Resources Index Fund (GUNR)
- FlexShares Global Quality Real Estate Index Fund (GQRE)
- FlexShares STOXX® Global Broad Infrastructure Index Fund (NFRA)

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).

KEY TERMS

Correlation is the degree to which two variables move in coordination with one-another.

Hedging is strategically using financial instruments or market strategies to offset the risk of any adverse price movements.

High-yield bonds are corporate debt securities that pay higher interest rates because they have lower credit ratings than investment-grade bonds.

Real estate investment trusts (REITs) are companies that own, operate, or finance income-generating real estate.

Treasury Inflation-Protected Securities, or TIPS, are designed to provide protection against inflation. The principal of a TIPS increases with inflation and decreases with deflation, as measured by the Consumer Price Index.

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.

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.

FlexShares Global Quality Real Estate Index Fund (GQRE) 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 real estate sector risk in addition to the general risk of the stock market. Investments in foreign market securities involve certain risks such as currency volatility, political and social instability and reduced market liquidity. To the extent that the Fund invests in Emerging markets, those investments 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. Investing in securities of real estate companies will make the Fund more susceptible to risks associated with the ownership of real estate and with the real estate industry in general, as well as risks that relate specifically to the way in which real estate companies are organized and operated. Real estate companies may have lower trading volumes and may be subject to more abrupt or erratic price movements than the overall securities markets. The value of real estate securities may underperform other sectors of the economy or broader equity markets. To the extent that the Fund concentrates its investments in the real estate sector, it may be subject to greater risk of loss than if it were diversified across different industry sectors. The Fund is also subject to the risk that its investments will be affected by factors that impact REITs and the real estate sector generally. Investing in REITs involves certain unique risks in addition to those risks associated with investing in the real estate industry in general. REITs whose underlying properties are concentrated in a particular industry or geographic region are also subject to risks affecting such industries and regions. By investing in REITs through the Fund, a shareholder will bear proportionate expenses of the REITs in addition to expenses of the Fund.

FlexShares Morningstar Global Upstream Natural Resources Index Fund (GUNR) 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 the global natural resource industry. As the demand for or prices of natural resources increase, the Fund's equity investment generally would be expected to also increase. Conversely, declines in demand for or prices of natural resources generally would be expected to cause declines in value of such equity securities. Such declines may occur quickly and without warning and may negatively impact your investment in the Fund. Investments in foreign market securities involve certain risks such as currency volatility, political and social instability and reduced market liquidity. To the extent that the Fund invests in Emerging markets, those investments 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.

IMPORTANT INFORMATION

FlexShares STOXX Global Broad Infrastructure Index Fund (NFRA) 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 infrastructure-related companies risk and MLP risk. Risks associated with infrastructure-related companies include: realized revenue volume may be significantly lower than projected and/or there will be costs overruns; infrastructure project sponsors will alter their terms making a project no longer economical; macroeconomic factors such as low gross domestic product ("GDP") growth or high nominal interest rates will raise the average cost of infrastructure funding; government regulation may affect rates charged to infrastructure customers; government budgetary constraints will impact infrastructure projects; and special tariffs will be imposed. Investments in foreign market securities involve certain risks such as currency volatility, political and social instability and reduced market liquidity. To the extent that the Fund invests in Emerging markets, those investments 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.

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FlexShares iBoxx 3-Year Target Duration TIPS Fund (TDTT) and the FlexShares iBoxx 5-Year Target Duration TIPS Index Fund (TDTF) are passively managed and primarily use a replication strategy to track their underlying index. Use of a replication 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. They may invest in derivative instruments. Changes in the value of the derivative may not correlate with the underlying asset, rate or index and the Funds could lose more than the principal amount invested. The Funds are subject to fluctuation of yield risk, income risk, inflation protected security risk and interest rate/maturity risk. The Funds are non-diversified meaning the Funds' performance may depend on the performance of a small number of issuers because the Funds may invest a large percentage of its assets in securities issued by or representing a small number of issuers.

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