

Quarterly Commentary - FlexShares Core Select Bond Fund

Objective and Strategy

FlexShares Core Select Bond Fund (BNDC) seeks total return and preservation of capital.

Performance Summary (as of 12/31/2018)

The Core Select Bond Fund (BNDC) generated a return of 0.93%, gross of fees for the quarter, underperforming the index's total return of 1.64%. The Fund's underperformance was driven by its overweight to investment grade credit and duration¹ -constrained MBS.

Quarter End Performance (as of 12/31/2018)

	1 Month	QTD	YTD	1 Year	Since Inception
Market Price	1.34%	0.76%	-1.31%	-1.31%	0.89%
NAV	1.34%	0.93%	-1.27%	-1.27%	0.89%
Bloomberg Barclays Aggregate Bond Index	1.84%	1.64%	0.01%	0.01%	1.72%

The fund has a net (gross) expense ratio of 0.35% (0.67%). NTI has contractually agreed to reimburse the fees and expenses of the Fund's independent trustees and independent legal counsel until March 1, 2019.

Contributors

- Long Duration Bias
- Security Selection within the Credit Universe

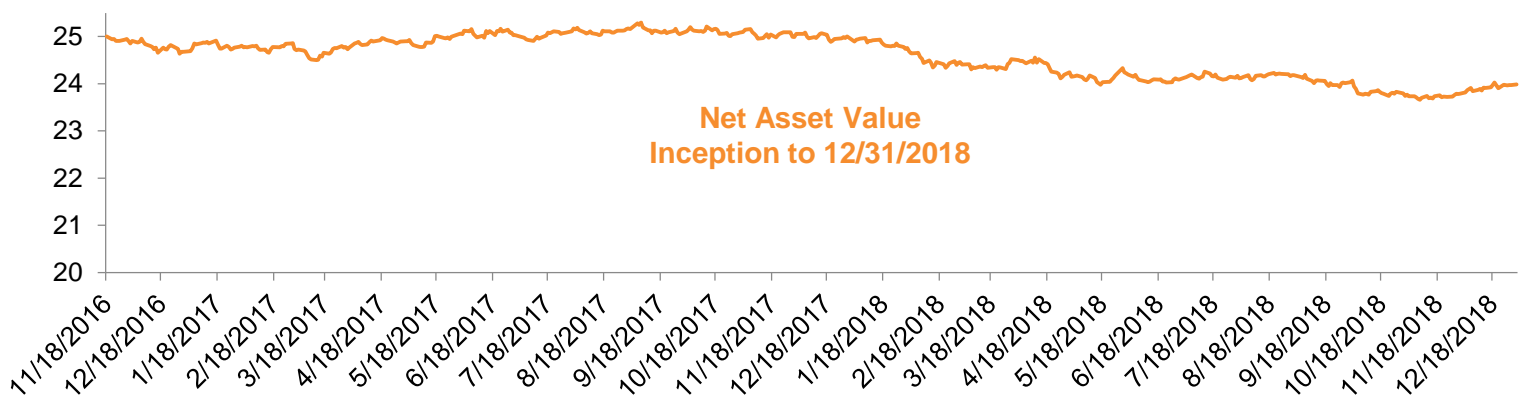
Detractors

- Overweight to IG Credit
- Overweight the FlexShares Mortgage Backed Securities Disciplined Duration fund (MBSD) which underperformed the broader Mortgage Backed Securities (MBS) universe²

Commentary

We believe 4Q2018 saw the return of market volatility driven by an overly aggressive Federal Reserve (Fed) in October and then followed by slowing global growth expectations. We believe the herd-like shift in trades from riskier investments to potentially safer ones, caused the 10-year US Treasury yield to fall to 2.68% from 3.24%³. U.S. political conflict throughout the quarter, including a potential trade war, cabinet turnover and a government shutdown, were all potential factors in the varying market changes.

Investment-grade (IG) spreads widened 43 basis points (bps) during the period⁴. The Barclays US Credit Index, generated a total return of 0.01% during the quarter, but when compared directly to comparable US Treasuries, investors saw a -2.85% for the time period.⁵ Despite a significant drop in IG fixed income new issue supply during the quarter (-32% year over year)⁶, we believe economic concerns caused investor demand to completely decline.



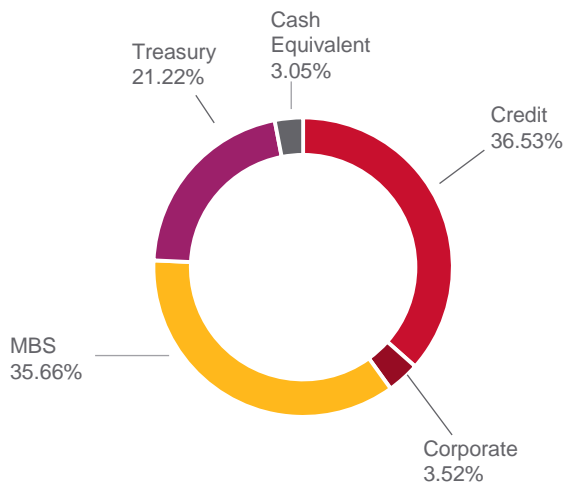
Performance information presented is historical, and is not indicative of future results. Investment returns and principal may vary, and at the time of sale an investment may be worth less than its original value. For most recent month end performance, please call 1-855-353-9383 (1-855-FlexETF). All performance figures assume reinvestment of dividend and capital gains at net asset value; actual returns may differ. Performance 1-year and less are cumulative; performance over 1-year are average annualized total returns. The fund inception date is generally several days prior to when the fund begins trading. NAV prices are used to calculate market price performance prior to 11/21/2016 when the fund first traded on the New York Stock Exchange. Market performance is determined using the bid/ask midpoint at 4:00pm Eastern time, when the NAV is typically calculated. They do not represent the returns you would receive if you traded shares at other times. Index performance does not represent FlexShares fund performance. It is not possible to invest directly in an index.

Fund Facts

Ticker	BNDC
Inception	11/18/2016
CUSIP	339369L670
Exchange	NYSE
IOPV Ticker	BNDC.IV

Net Assets	\$34,213,538.10
Shares Outstanding	1,850,001
No. of Holdings	10
Effective Duration (yrs)	5.91
Benchmark Duration (yrs)	5.87

Sector Allocations (as of 12/31/2018)



Explanation of Portfolio Characteristics

- The fund has slightly overinvested in bonds that have longer duration to its benchmark.
- The fund is slightly overweight to income and we are prepared to add more in the near term
- We anticipate a steady interest rate environment, which may benefit this asset class.

Footnotes

1. Duration is a measure of the sensitivity of the price -- the value of principal -- of a fixed-income investment to a change in interest rates and is expressed as a number of years. Bond prices are said to have an inverse relationship with interest rates. Therefore, rising interest rates indicate bond prices are likely to fall, while declining interest rates indicate bond prices are likely to rise.
2. A mortgage-backed security (MBS) is a type of asset-backed security that is secured by a mortgage or collection of mortgages.
3. Bloomberg. In this analysis we are making a comparison of the 10-Year nominal Treasury rates using data available as of 01Oct2018 – 31Dec2018.
4. Bloomberg. In this analysis we are making a comparison of the difference in yield between one debt security and another debt security with the same maturity but of lesser quality using the Bloomberg Barclays Credit Index 01Oct2018 – 31Dec2018. We are making the comparison in basis points, or BPS, which refers to a common unit of measure for interest rates and other percentages in finance. One basis point is equal to 1/100th of 1%, or 0.01%, or 0.0001, and is used to denote the percentage change in a financial instrument.
5. Bloomberg. In this instance we are comparing the Bloomberg Barclays US Credit Index returns and the Bloomberg Barclays US Treasury Index returns as of 01Oct2018 - 31Dec2018.
6. Wilkes, T. & Virginia Furness. Reuters. "Corporate bond issuance shrinks to 7-year low as selloff deepens."

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

FlexShares Core Select Bond Fund is actively managed and does not seek to replicate a specified index. The Fund is subject to increased credit and default risk, where there is an inability or unwillingness by the issuer of a fixed income security to meet its financial obligations, debt extension risk, where an issuer may exercise its right to pay principal on an obligation later than expected, as well as interest rate/maturity risk, where the value of the Fund's fixed income assets will decline because of rising interest rates. The Fund is subject to increased underlying fund risk, where the Fund's investment performance and its ability to achieve its investment objective may be directly related to the performance of the Underlying Funds in which it invests. The Fund may also be subject to increased concentration risk as it may invest more than 25% of its assets into the securities of a single developed market. Additionally, the Fund may invest without limitation in mortgage or asset-backed securities, which puts it at increased risk for interest rate/maturity risk, debt extension risk, and prepayment (or call) risk.

Shares are bought and sold at market price (not NAV) and are not individually redeemed from the Fund.

All data provided by: Northern Trust, J.P. Morgan, and Thomson Reuters.