

## Quarterly Commentary - FlexShares Ready Access Variable Income Fund

### Objective and Strategy

FlexShares Ready Access Variable Income Fund (RAVI) seeks maximum current income consistent with the preservation of capital and liquidity.

### Performance Summary (as of 12/31/2018)

The Ready Access Variable Income Fund (RAVI) posted a total quarterly return of 0.26%, while the benchmark ended at 0.56%. The Fund's underperformance was driven by its overweight to Investment Grade Credit securities.

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

	1 Month	QTD	YTD	1 Year	Since Inception
Market Price	-0.07%	0.05%	1.65%	1.65%	1.01%
NAV	0.09%	0.26%	1.83%	1.83%	1.02%
Bloomberg Barclays 1-3 Month U.S. Treasury Bill Index	0.19%	0.56%	1.82%	1.82%	0.48%

The fund has a net (gross) expense ratio of 0.25% (0.26%). 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

- Yield Curve Positioning
- Duration

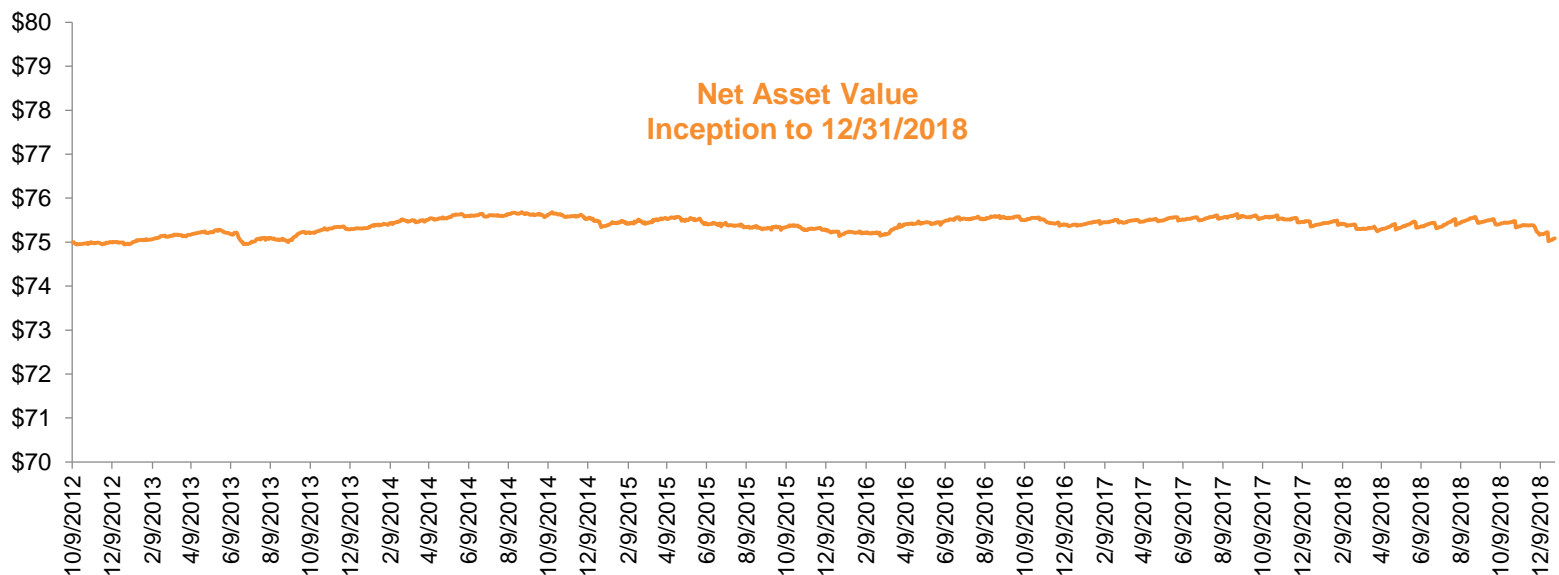
### Detractors

- Overweight Investment Grade Credit

### Commentary

The Federal Open Market Committee (FOMC) delivered its fourth rate hike of 2018 at its December meeting. In addition, the FOMC median dot plot <sup>1</sup> indicated 2 more 25 basis point (bps) <sup>2</sup> rate hikes in 2019. Financial market conditions were volatile throughout the quarter with a potential global slowdown, trade friction and the effects of rising US Federal Funds rates, were all potential factors.

U.S. Treasury yields moved lower during the quarter, with 2 year and 3 year Treasury yields lower by 33 and 43 bps respectively<sup>3</sup>. One year rates moved up slightly, going up 3 bps<sup>4</sup>. Credit spreads widened throughout the third quarter, as the 1-3 Year Average Options Adjusted Spread of the Bloomberg Barclays US IG Credit Index, went from 49bps to 86bps<sup>5</sup>. The fund's duration is positioned long to the 1-3 Month Treasury Bill benchmark, but neutral compared to the Morningstar Ultra Short Fund category. Given the large overweight to credit versus the benchmark, the fund performance was hurt by the widening in credit spreads.



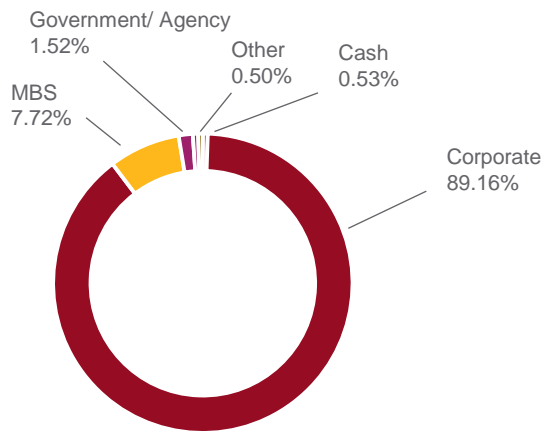
Performance information presented is historical, and is not indicative of future results. Investment returns and principal may vary, and at the time of sale an investment may be worth less than its original value. For most recent month end performance, please call 1-855-353-9383 (1-855-FlexETF). All 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	RAVI
Inception	10/09/2012
CUSIP	33939L886
Exchange	NYSE
IOPV Ticker	RAVI.IV

Net Assets	\$188,814,484.86
Shares Outstanding	3,350,001
No. of Holdings	255
Effective Duration (yrs)	0.38
Benchmark Duration (yrs)	0.17

## Sector Allocations (as of 12/31/2018)



## Explanation of Portfolio Characteristics

- The Fund is positioned neutral to its peer group.
- We remain positive on Investment Grade credit based on our belief that the US economy continues to perform well.

## Footnotes

1. A dot plot is a simple statistical chart that consists of data points plotted as dots on a graph with x- and y-axes. These types of charts are used to graphically depict certain data trends or groupings. Dot plots are well known as the method that the U.S. Federal Reserve (Fed) uses to convey its benchmark Federal Funds interest rate outlook at certain Federal Open Market Committee (FOMC) meetings. FOMC members place dots on the dot plot denoting their projections for future interest rates in subsequent years and in the longer run.
2. Basis Point (BPS) 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.
3. Bloomberg, In this analysis we are making a comparison of the 2-Year nominal Treasury rates and the 3-year Treasury rates using data available as of 01Oct2018– 31Dec2018.
4. Bloomberg 1-Year nominal Treasury rates using data available as of 01Oct2018-31Dec2018.
5. Credit spread is the difference in yield between one debt security and another debt security with the same maturity but of lesser quality. The option-adjusted spread (OAS) is the measurement of the spread of a fixed-income security rate and the risk-free rate of return, which is adjusted to take into account an embedded option. Typically, an analyst uses the Treasury securities yield for the risk-free rate. The spread is added to the fixed-income security price to make the risk-free bond price the same as the bond. 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.

**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](http://www.flexshares.com). Read the prospectus carefully before you invest.**

**Foreside Fund Services, LLC, distributor.**

FlexShares Ready Access Variable Income Fund (RAVI) is actively managed and does not seek to replicate a specified index. Additionally, the Fund may invest without limitation in the fixed income and debt securities of foreign issuers in both developed and emerging markets. The Fund is at 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 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. Also, the Fund is "non-diversified" under the Investment Company Act of 1940, and may invest more of its assets in fewer issuers than diversified funds. 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