Capital Appreciation | Risk Management | Income Generation | Liquidity Management

Investment Focus

# 2019 Outlook

FlexShares®

Built by investors, for investors

Risk asset is a term broadly used to describe any financial security or instrument that is not a risk-free asset — that is, a high quality government bond. Risk assets would therefore include equities, commodities, property and all areas of fixed income apart from high quality sovereign bonds, such as Treasuries.

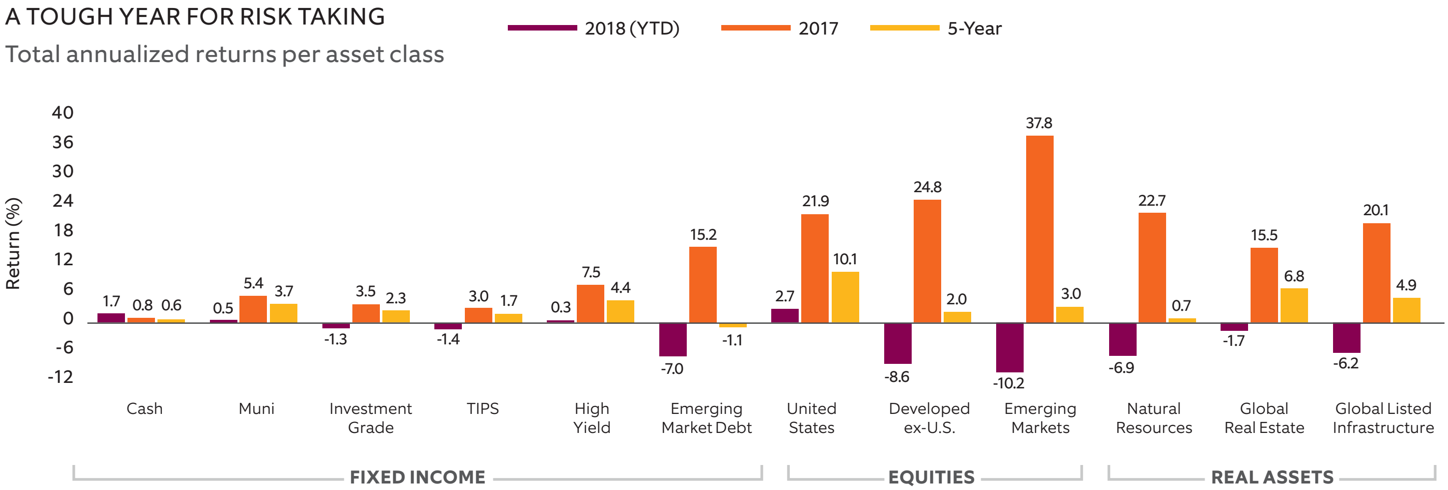
FIRST TO NEUTRAL

## We are neutral risk as we enter 2019 with the global economy slowing, U.S. monetary policy tightening and trade tensions introducing further risks to a slowing China. We don't expect a recession to unfold over the next year, but the current rise in volatility reflects the increasing risks to that outlook. In this lower return environment, we like the return prospects for U.S. high yield bonds, which may benefit from a relatively strong current yield and strong equity market fundamentals. We expect this to reduce downside risk but also offer potential upside market participation.

We entered 2018 with a significant overweight to risk assets such as U.S. equities, developed ex-U.S. equities and emerging market equities, but we steadily pared that back during the year as risks increased around growth and monetary policy. We moved to neutral risk before the Federal Reserve got to its "neutral" rate of interest, as our concerns built around the U.S. Federal Reserve (Fed) over-tightening. Our "first to neutral" approach also captures our view of risk taking today — as the outlook for 2019 is hazy, we have gone first to neutral as we assess our next move. Policy intentions from the Fed, along with the outlook for global growth, will be the key drivers of the move: increasing or decreasing recommended risk. Geopolitical risk will remain front-and-center in 2019, from Brexit to trade to a new head of the European Central Bank (ECB) in late 2019. While growth is slowing and will likely continue into the first half of 2019, the prospects for some improvement in Europe and China remain. Steady-but-unspectacular growth, alongside tame inflation, should not force the hands of central bankers into premature tightening. We believe this risk is greatest in the U.S., where the economic expansion has had the strongest momentum.

A TOUGH YEAR FOR RISK TAKING

Total annualized returns per asset class




Source: Northern Trust Investment Strategy, Bloomberg. Indexes are gross of fees and indexes cannot be invested in directly. **Past performance is no guarantee of future results.** Returns for various asset classes used in the chart above are either year-to-date through 12/4/2018, full year 2017 or 5-year annualized data from 12/31/2013 – 12/4/2018 basis.

*See index definitions on page 3*

## FIXED INCOME

**Cash:** Bloomberg Barclays (BBC) 1-3 Month US Treasury Index

**Muni:** Bloomberg Barclays Municipal Index

**Investment Grade:** Bloomberg Barclays Aggregate Index

**TIPS:** Bloomberg Barclays TIPS Index

**High Yield:** Bloomberg Barclays High Yield 2% Capped Index

**Emerging Market Debt:** JP Morgan GBI_EM Global Diversified Index

## EQUITIES

**United States:** MSCI U.S. Equities IMI Index

**Developed ex-U.S.:** MSCI World ex-U.S. IMI Index

**Emerging Markets:** MSCI Emerging Market Equities Index

## REAL ASSETS

**Natural Resources:** S&P Global Natural Resources Index

**Global Real Estate:** MSCI ACWI IMI Core Real Estate Index

**Global Listed Infrastructure:** S&P Global Infrastructure Index

## OUR FIRST VIEW FOR 2019

| | Asset Class / Suggested Portfolio Weighting | Key Views |
|---|---|---|
| EQUITIES | DEVELOPED MARKETS<br>**Neutral** | Despite somewhat elevated market valuations and potentially slowing economic growth, the lack of inflationary pressures keeps us neutral toward U.S. equities. We believe valuations in Europe and Japan are more attractive, where continued accommodative monetary policy may provide a floor for slowing growth. Brexit must be settled before we consider reasserting an overweight position. |
| | EMERGING MARKETS<br>**Underweight** | Our underweight position reflects the disproportionate hit emerging market equities may continue to take should the Fed continue its current rate hike trajectory. We believe the risk of continued tensions between the U.S. and China also weighs on emerging market equity prospects. Should these risks subside, potentially attractive valuations may argue for an increased allocation sometime in 2019. |
| REAL ASSETS | GLOBAL REAL ESTATE/ INFRASTRUCTURE<br>**Neutral** | We believe global real estate and listed infrastructure continue to offer high income and diversified risk exposures. We retain a strategic position as we do not expect interest rates to move much higher, which may potentially negatively impact returns of these types of assets. |
| | NATURAL RESOURCES<br>**Neutral** | We remained neutral throughout 2018. In the case of unanticipated inflation, equity-based natural resources may serve as potential protection. We believe inflation is unlikely to meaningfully accelerate over the next year but a strategic allocation may help to diversify the portfolio and potentially alleviate the effects of geopolitical risk. |
| FIXED INCOME | HIGH YIELD<br>**Overweight** | High yield fixed income represents our biggest overweight. We believe the nature of the asset class is attractive given our expectation for slowing, but positive, economic growth amid geopolitical distractions. Our analysis suggests that falling default rates and potentially reduced issuance make high yield attractive. |
| | INVESTMENT GRADE FIXED INCOME<br>**Overweight** | Throughout 2018, any time the 10-year Treasury yield moved higher than 3%, we believed it was an opportunity for investors to increase their position. Given our "Stuckflation" theme, we think interest rates will remain contained and inflation will stay "stuck." |
| | TIPS<br>**Underweight** | Our Stuckflation theme underlies our underweight position. Our analysis suggests that last year's cyclical uptick in inflation has fallen off, overcome by structural forces such as technology and demographic trends. Where inflation-linked bonds are used, we prefer targeted duration strategies to potentially maximize exposure to those inflation expectations and theoretically minimize exposure to the effect of interest rates on a portfolio. |
| CASH | CASH<br>**Underweight** | Following three rate hikes in 2018, we believe cash may be providing low but measurable returns above inflation. We only expect one more hike over the next year and suggest that investors primarily utilize for meeting near-term liquidity needs. |

## MACRO THEME REVIEW: SLOWING GROWTH

As part of our 2019 Outlook, we review our investing trends and how those trends are developing.

Mild Growth Myopia has driven our overall outlook. Just as we did not get too excited about the temporary acceleration in U.S. growth over the past two quarters — we are not overly concerned with the recent growth slowdown. We believe investors should head into 2019 looking for opportunities to reassert a positive stance.

The continued Stuckflation environment has also enabled our opportunistic approach. Continued low inflation gives central banks an excuse to either take their foot off the brake (in the U.S.) or continue easy money policies (in Europe and Japan). We believe earning positive investment returns is easier when not having to “fight the Fed” (or other central banks).

That said, it has taken the Fed in particular longer than we expected to appreciate the benign inflationary environment. And, up until recently, there were real concerns that the Fed would fail our Pass/Fail Monetarism theme. However more recent dovish comments from Fed Chairman Jerome Powell and Fed Vice Chairman Richard Clarida suggest that the Fed may squeak by with a passing grade after all (though risks remain).

Technology Slowzone has certainly slowed the pace of U.S. equity returns, as the tech sector — the main driver of equity returns throughout 2017 and into 2018 — turned into a drag the past few months. Meanwhile, Global (Re) Positioning System and Executive Power Drive were fairly benign views on protectionism and populism, and recent developments suggest both are playing out as expected.

## ANALYZING OUR TRENDS

| Trend | What we believe... | Our analysis so far... |
|---|---|---|
| MILD GROWTH MYOPIA | Subdued economic cycles and stronger financial systems will likely push out the next recession and limit its severity. The same forces keeping a lid on growth have also buffered downturns and extended the cycle itself. | After two quarters of post-tax-reform above-trend growth, we believe the U.S. economy may be showing signs of falling back toward the slower (but potentially still positive) growth profile found across most of the rest of the world. |
| STUCKFLATION | Low and durable structural inflation has altered both monetary policymaking and investor behaviors. Companies and consumers will continue to find ways to alleviate potential pricing pressures. | US core consumer prices, excluding volatile items such as food and energy, rose 2.2 percent from a year earlier in November 2018. Europe and Japan remain stubbornly low at 1.0% and 0.4%, respectively, while the U.S. as of November 1.8%. |
| PASS/ FAIL MONETARISM | Without a template for policy normalization, central banks' efforts cannot be graded — other than that we feel they must not fail. With stricter regulations this time around, a more cautious monetary path will be taken. | We believe the Fed flirted with a failing grade through its hawkish rhetoric before relenting more recently with a slightly softer stance. The Bank of Japan and European Central Bank remain firmly accommodative. |
| TECHNOLOGY SLOWZONE | Technology has been pulled into the orbit of government meddling but will remain a constructive economic force. Tech will regain its swagger by adhering to revamped rules of the road. | Government "curiosity" into tech firm practices has combined with tariff concerns to pressure technology stocks in the second half of the year. Social media stocks were hit especially hard. |
| GLOBAL (RE) POSITIONING SYSTEM | The irreversible fade of legacy multi-lateral institutions is creating as many investment opportunities as risks. The tug of war between free markets and managed capitalism will be resolved somewhere in the middle. | Following the recent G-20 meetings, member nations acknowledged the current multilateral trading system is "falling short of its objectives and there is room for improvement" and supported reforms to the World Trade Organization. |
| EXECUTIVE POWER DRIVE | Investors are accepting leaders who challenge political norms in order to favorably tilt the economic landscape. Investors will likely stay supportive until populism runs its course. | Recent U.S.-China interactions exemplify both Executive Power Drive and its predecessor theme — Populist Catharsis. Instead of being swept under the rug, conflicts are being addressed by talking openly. |

The “core” PCE price index is defined as personal consumption expenditures (PCE) prices excluding food and energy prices. The core PCE price index measures the prices paid by consumers for goods and services without the volatility caused by movements in food and energy prices to reveal underlying inflation trends.

## GROWTH & INFLATION: MILD & STUCK

Growth may be falling but low inflation, robust confidence and cheap oil should stabilize the global economy.

The synchronicity of global growth in 2017 gave way to wider variability in 2018, as U.S. growth outpaced expectations and growth in Europe and Asia slowed. Boosted by tax cuts and deregulation, U.S. growth hit a 4% pace mid-year before beginning to slow as the fourth quarter approached. Europe and Japan were both hurt by temporary factors in the third quarter, including emissions-related challenges for the German auto manufacturers and earthquake and typhoon disruptions for the Japanese economy.  The slowdown in China, visible more through the scope of stimulus measures than official statistics, has been exacerbated by trade-related tensions and should generate continued policy response in 2019.

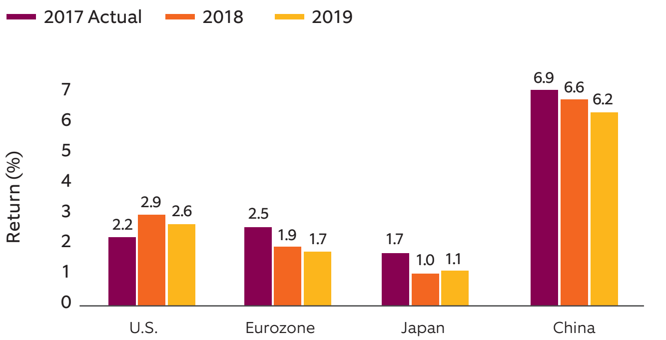
We don’t see current conditions pointing to a significant fall in growth, resulting in recession, in the developed world. U.S. growth will clearly slow in 2019, as the positive boost from tax cuts fade and the tighter labor market constrains growth to a range of 2.0%-2.5%. We look for Eurozone growth to stabilize between 1.5% and 2.0%, as the positive impact of low interest rates, robust confidence, cheap oil and continued credit growth offset the negative impact of political upheaval and a slowdown in global growth. Japan’s growth should be modest, but positive, supported by domestic consumption. We expect Chinese growth to continue slowing in the first half of the year. As long as trade frictions do not significantly ramp up from here, we expect Chinese growth to reaccelerate in the second half of the year.

The long-awaited pickup in inflation finally started to appear in 2018, but only in the headline figures — and for different reasons than many economists expected. While unemployment rates across the developed world have steadily fallen since 2013, the resulting increase in wages has been fairly tempered. Instead, the near doubling in oil prices from June 2017 to October 2018 has worked its way into the inflation numbers. With oil subsequently falling by 30% over the ensuing months, this pressure is set to somewhat subside. The negative impact on U.S. growth from falling oil prices should be more muted than in 2016, as energy sector capital expenditures have decreased from over 1.3% of gross domestic product back then to roughly 0.8% today.

An overriding influence on the inflation outlook remains with our Stuckflation theme, where the impact of technology in increasing supply has capped overall pricing power. In fact, U.S. core inflation seems “stuck” below 2%, while Europe and Japan are “stuck” at 1% and 0.4%, respectively. Wages in the U.S. may creep up in 2019, but strong pricing power remains elusive and we do not expect core inflation to sustain above the Fed’s 2% target. We expect European inflation to be constrained by limited upside growth risk, as is also the case in Japan.

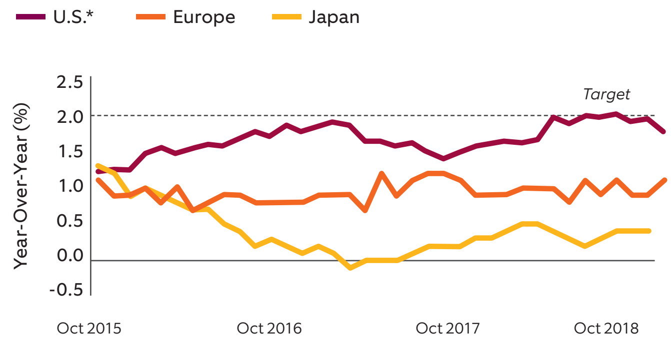
## GROWTH MAY SLOW, RELIEVING POTENTIAL INFLATION CONCERNS

### Forecasted Real GDP




Source: Forecasted Real GDP chart source: Blue Chip Economic Indicators December edition.

### Core Inflation

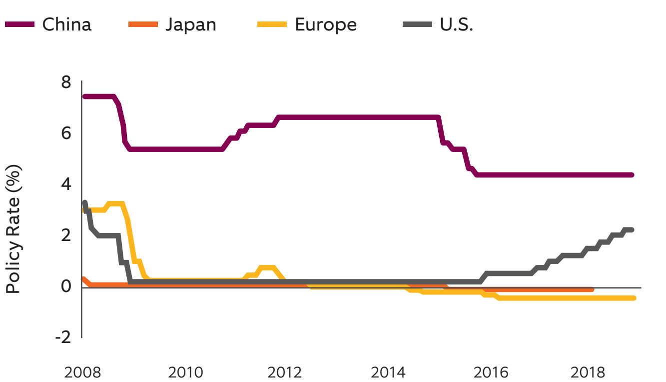



Source: Core Inflation chart source: Bloomberg. 12-Month Percentage Change – Core Personal Consumption 10/31/2015 – 10/31/2018. U.S. uses core PCE while Europe and Japan use core CPI.

## THE FED HAS BEEN A LONE RANGER

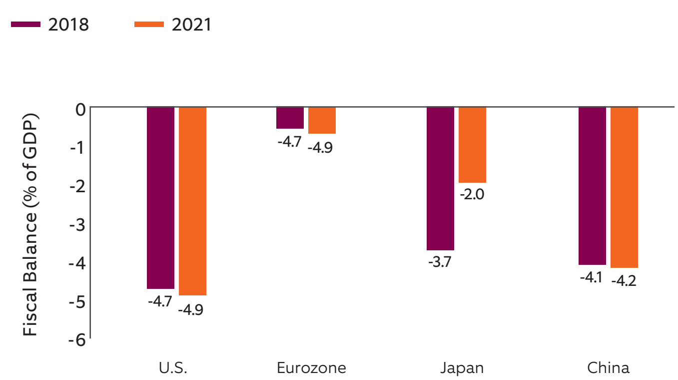
We believe fiscal policy is more important as monetary stimulus fades.

### Central Bank Policy Rates




Source: Bloomberg. Central bank policy rate monthly data from 12/31/2007 – 11/30/2018.

### Fiscal Deficit Forecast




Source: Fiscal Deficit Forecast chart source: Bloomberg. IMF Fiscal Monitor: October 2018.

## MONETARY AND FISCAL POLICY: ALL EYES ON THE FED

Actions and messaging from the Federal Reserve could move markets.

After being a central driver of market action since the global financial crisis, monetary policy has moved somewhat to the sideline. Among the developed world's major central banks, the Fed is the most likely to move markets in 2019. This may start in late 2018, as the Fed faces a key policy challenge at its December 19 meeting to set the tone for the coming year. As of this writing, the meeting had not yet occurred, but we argue that the Fed should pause. Still, an acceptable outcome would be a 0.25% policy rate hike accompanied by dovish forward guidance. Our outlook for slowing growth, and constrained inflation, should limit the Fed to just one hike in 2019 — which is roughly in line with market expectations.

The ECB announced it will end quantitative easing by year-end 2018, but we expect the ECB to avoid any interest rate hikes in 2019 by keeping the policy rate at -0.40%. We expect little change out of the Bank of Japan, as modest growth and core inflation below 1% will likely encourage steady policy. Finally, the People's Bank of China will remain part of the toolbox Chinese policy makers can access should they need to ease further in the first half of 2019 to support growth.

Fiscal policy has historically been easiest at the start of economic cycles and tightens as the cycle matures. Like many things this cycle, it hasn't followed the usual script. After being a headwind to growth from 2010-2015, fiscal policy has been roughly neutral globally from 2016-2018 when the tide started to shift. The U.S. started the trend among developed economies with the significant boost from tax reform in 2018, which is estimated to have boosted growth by around 0.5%. The contribution should be similar in 2019, which is constructive but should not lead to acceleration in growth.

We expect Europe to see a boost from fiscal policy in 2019 after a modest drag in 2018, including contribution from the controversial jump in the projected deficit in Italy. The recent U-turn by French President Emmanuel Macron, from considering a petrol tax to proposing tax cuts, is a reflection of the trend toward looser fiscal policy in reaction to voter unrest. China is also forecasted to swing from a fiscal headwind of 0.4% in 2018, as it sought to rein in credit creation, to a fiscal tailwind of 0.6% in 2019 as it seeks to offset slowing growth and the risk of trade friction. As shown in Exhibit 5, Japan is the only major economy forecasted to see an improvement in the fiscal deficit, which history suggests is likely wishful thinking.

## INTEREST RATES: A FLATTER CURVE

Dovish central banks may help avoid the dreaded inverted yield curve.

The Treasury yield curve continued to flatten in 2018. At the end of 2013, the difference between the 10-year and 2-year yields was more than 2.6%. Today, that difference is just barely 0.1% — with some parts of the yield curve (the section between the 2-year and 5-year yields, for instance) inverted. This is what we strongly believe the Fed should avoid (see our Pass/Fail Monetarism theme). We are looking for signs of a more dovish Fed in 2019.

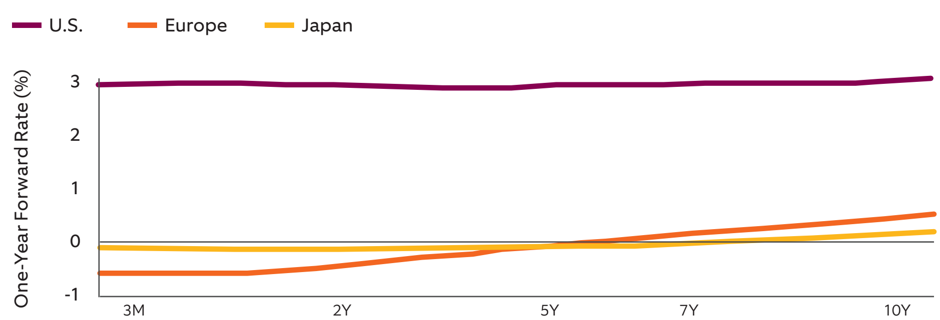
Yield Curve is constructed by plotting a session's final yields for various maturities including 1-month, 3-month, 6-month, 1-year, 2-year, 3-year, 5-year, 7-year, 10-year, 20-year and 30-year maturities. A flat yield curve would show similar interest rates between the various maturities.

We believe other major central banks, specifically the ECB and Bank of Japan (BoJ), will retain their dovish approach in 2019, putting even more pressure on the Fed to do so. Market expectations for the yield curve one year from now can be found in the chart. Currently, these expectations suggest just one additional Fed rate hike in 2019 (in addition to one this December). We believe that is the absolute most the Fed should hike. Regarding how many times the Fed will hike, the communication surrounding the decision at the upcoming Fed meeting (December 19) will be key.

A more dovish Fed, combined with muted global growth and a lack of inflation, will continue to keep long-term rates mostly range bound. As such, portfolios remain positioned with a neutral-to-long duration, relative to their benchmarks.

### THE WORLD IS FLAT

Market Yield Curve Forecasts




Source: Bloomberg, Northern Trust Investment Strategy. One year forward rates as of 12/4/2018. The Forward Rate Curve can be defined as the way the market is feeling about the future movements of interest rates. Bloomberg calculates a forward rate curve at any given time by extrapolating from the risk-free theoretical spot rate which is impacted by fixed-income market movements including supply and demand and economic factors. Forward rates are also known as implied forward rates and actual results may vary.

- Financial markets, through equity market weakness and yield curve flatness, are telling the Fed it is time to take a pause from its rate-hiking campaign.
- Other major central banks, both the ECB and BoJ, already look set to be on hold throughout 2019 as growth disappoints and inflation remains below target.
- We expect interest rates to remain near current levels through 2019.

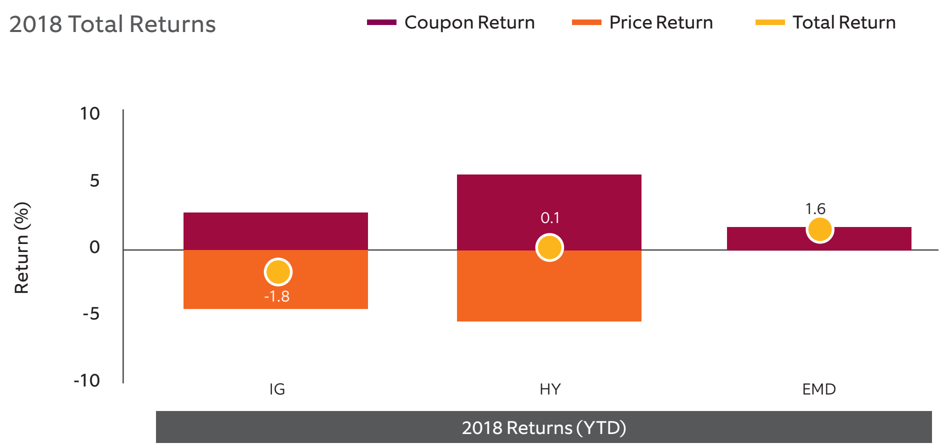
Fundamentals should back high yield bonds for a potentially strong 2019 recovery.

Fixed-income returns were hit by higher interest rates and wider credit spreads throughout most of 2018, leading to flat-to-slightly-negative returns year-to-date. Interestingly, high yield outperformed investment grade debt given a higher starting point yield, which has cushioned against higher interest rates. However, investment grade returns are catching up with high yield given the recent fall in both interest rates and equity markets (to which high yield returns are exposed).

We expect fairly constructive returns from both investment grade and high yield debt in 2019, as interest rates remain range bound (with inflation stuck) and credit spreads tighten (as investors realize a slowing global economy does not mean a global recession). In fact, investment grade fixed income and high yield represent the only two asset classes to which we have an overweight position heading into 2019.

## FIXED INCOME INDICES

2018 Total Returns




Source: Northern Trust Investment Strategy, Bloomberg, Barclays. Index data for the various return calculations above are as follows: IG (Investment Grade) – BBG U.S. Aggregate; HY (High Yield) – BBG High Yield 2% Capped; USD cash – BBG U.S. Treasury Bills 1 – 3 months. Indexes are gross of fees and indexes cannot be invested in directly. **Past returns are no guarantee of future results.** Charts and returns are as of 01/02/2018- 11/30/2018.

- High yield provided somewhat of a safe haven in 2018, as the high yield starting point offset higher interest rates and wider credit spreads.
- Our expectation that the Fed will pause and the global economy will still generate growth in 2019 potentially bodes well for fixed income asset classes, especially high yield.
- Investment grade and high yield fixed income represent our only overweights in the global policy model.

## EQUITIES: MORE CLARITY NEEDED

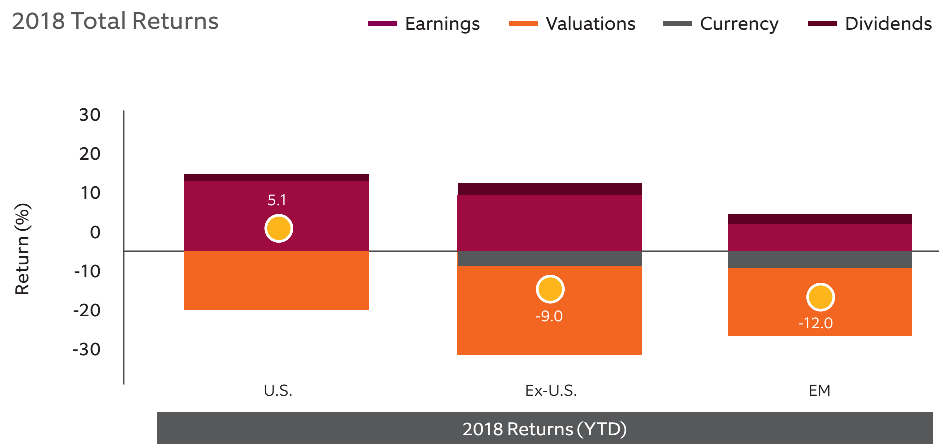
We're neutral, but a lot rides on the Fed, trade and Brexit.

Equity markets remain largely tethered to the news flow on trade and the Fed, amid slowing global growth. A pause by the Fed on December 19 — driven by tighter financial conditions, slowing global growth and Stuckflation — would be met with positive global equity performance. Conversely, a Fed that fails to credibly adjust its message could lead to further equity weakness, especially in emerging markets. We're sticking with our underweight to emerging market equities, and a neutral risk position more broadly, until we get more clarity.

European equities should benefit from earnings growth of 5%-10% in 2019, and enter the year with attractive valuations. Clarity on the path for Brexit will be necessary for the stocks to become more attractive. The potential of a delay to the October 2019 Value Added Tax (VAT) increase would be a positive for Japanese equities, where growth is slow but stable  and valuations are slightly cheap. Finally, emerging market equities will need reduced uncertainty around the Fed, trade and Chinese growth to improve their outlook.

### REGIONAL EQUITY INDICES

2018 Total Returns




Source: Northern Trust Investment Strategy, Bloomberg. Index data for the various return calculations above are as follows: U.S. is the MSCI U.S. Equities IMI; Dev. ex-U.S. is the MSCI World ex-U.S. IMI; Emerging Markets is the MSCI Emerging Market Equities Index. Indexes are gross of fees and indexes cannot be invested in directly. **Past returns are no guarantee of future results.** Charts and returns are as of 01/02/2018 - 11/30/2018.

- Beyond the general growth and inflation outlook, we believe the markets are most focused on the Fed, U.S./China relations and Brexit, in that order.
- The December 19 Fed meeting will set the tone for 2019 global equity performance. The messaging matters more than the decision whether to increase the Fed funds rate.
- We are neutral developed markets and underweight emerging markets, with an overall neutral risk profile, until we get more clarity on the Fed's 2019 plans.

## REAL ASSETS: BETTER OUTLOOK FOR 2019

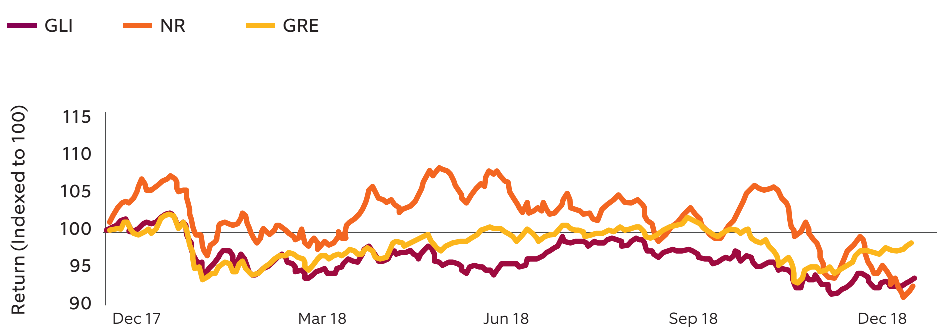
Global real estate may be attractive given our constructive outlook on high yield and credit.

Real assets underperformed the broader global equity market in 2018. Higher interest rates through the first nine months of the year represented a drag to interest-rate sensitive global real estate and listed infrastructure. Meanwhile, the fall in oil prices dragged down natural resource returns over the past few months. The latter served as a good reminder of the humility needed in this business. For example: Many investors saw $75/barrel oil as just a stop along the road to $100; instead, oil fell to nearly $50. It also served as an example of our Stuckflation theme — the ability for supply to constantly meet demand.

As with global equities, the Fed's December 19 meeting will set the tone for real assets in 2019. Should the Fed indicate a pause in its rate hike campaign, and inflation remains stuck, global real estate and listed infrastructure could show strong outperformance. Global real estate could be an especially attractive asset class given our constructive outlook for high yield and global real estate's high exposure to credit risk. Natural resources could also benefit from a new-look Fed, as any move toward more dovishness would likely weigh on the dollar and support dollar-based commodity prices. We sit neutral across all real assets while we wait.

### REAL ASSET INDICES

2018 Total Returns




Source: Northern Trust Investment Strategy, Bloomberg. Index data for the various return calculations above are as follows: GLI (Global Listed Infrastructure) – S&P Global Infrastructure; NR (Natural Resources) – S&P Global Natural Resources; GRE (Global Real Estate) – MSCI ACWI IMI Core Real Estate. Indexes are gross of fees and indexes cannot be invested in directly. **Past returns are no guarantee of future results.** Charts and returns through 11/30/2018.

- Real assets struggled in 2018 because of a combination of the early-year interest rate increases and later-year commodity price collapse.
- As with many parts of the markets, the outlook for 2019 is very much tied to what happens in the Fed's December 19 meeting.
- We remain neutrally weighted across all real assets. A more dovish Fed would have positive implications across the real asset spectrum.

## CONCLUSION: VERY RISK AWARE

The fundamentals point to continued global growth in 2019, but the way forward holds increased uncertainty.

Equity markets don't directly track economic developments, as 2018 clearly demonstrated. Despite relatively strong global growth and corporate profits, investors instead have focused on the adverse risks to those trends continuing into 2019.

U.S. corporate activity, between share buybacks and dividends, has provided a 5% return as corporations bought back over $750 billion in shares over the last year — an increase of 40% from 2017. The funding of those buybacks has shifted from roughly two-thirds cash in 2017 to more than 85% in 2018 because of higher interest rates and cash repatriation.

Fund flows have continued to favor fixed income over equities, with $171 billion flowing into investment grade bonds over the last year while $96 billion entered the equity markets. As a reminder, fund flows into equities at the end of the last two market cycles (1999 and 2007) were much higher than those into fixed income. The vibrant animal spirits that typically emerge at market peaks remain in hibernation.

Business cycles have tended to end when the economy overheats and monetary policy becomes significantly restrictive. The current economic cycle is distinguished by its length, but not its magnitude.

We haven't seen the surge in commodity prices typical at the end of cycles, and a broad index of commodity prices is actually down 6% so far this year. Cycle peaks have also usually seen average hourly earnings increasing in the neighborhood of 4%, and we have just recently cracked the 3% level.

These factors favor the economic expansion continuing through 2019, with monetary policy being the primary risk case. The other is the potential of disappointing growth from China exacerbated by the impact of increasing tariffs. While logic says that neither side will benefit from a full-blown trade war, predicting the way forward is fraught with uncertainty as the dispute is as much about geopolitical leadership as it is current trade deficits.

As we look into 2019, we are very risk aware as we are overweight the lowest-risk risk asset (high yield bonds) and underweight the highest-risk risk asset (emerging market equities). We also remain comfortable with significant bond allocations as we forecast the potential for attractive risk adjusted returns for fixed income in 2019.

## 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).

## IMPORTANT INFORMATION

The opinions expressed herein are those of the author and do not necessarily represent the views of Northern Trust. Northern Trust does not warrant the accuracy or completeness of information contained herein. Such information is subject to change and is not intended to influence your investment decisions.

Past performance is no guarantee of future results. Performance returns and the principal value of an investment will fluctuate. Performance returns contained herein are subject to revision by FlexShares. Comparative indices shown are provided as an indication of the performance of a particular segment of the capital markets and/or alternative strategies in general. Index performance returns do not reflect any management fees, transaction costs or expenses. It is not possible to invest directly in any index.

*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.*

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. The Funds are subject to the following principal risks: asset class; commodity; concentration; counterparty; currency; derivatives; dividend; emerging markets; equity securities; fluctuation of yield; foreign securities; geographic; income; industry concentration; inflation-protected securities; infrastructure-related companies; interest rate / maturity risk; issuer; large cap; management; market; market trading; mid cap stock; MLP; momentum; natural resources; new funds; non-diversification; passive investment; privatization; small cap stock; tracking error; value investing; and volatility risk. A full description of risks is in the prospectus.

**MANAGED BY NORTHERN TRUST**

## CONTACT US

### FINANCIAL PROFESSIONALS

**By Phone Consult**
Consultants are available
Monday–Friday: 9AM to 5PM ET
1-855-FlexETF (1-855-353-9383)

**By Mail/Overnight Delivery**
FlexShares ETFs
c/o Foreside Fund Services, LLC
3 Canal Plaza, Suite 100
Portland, ME 04101

**Follow Us on LinkedIn**
FlexShares

### INDIVIDUAL INVESTORS

**Your Financial Professional**