

FlexShares Strategic Models

# Asset Allocation Within a Strategic Model Framework

*The FlexShares Strategic Models combine Northern Trust's asset allocation, portfolio construction and risk management expertise with both passive and actively-managed exchange traded funds to provide globally diversified, risk-efficient models for a broad range of investor goals.*

In the aftermath of the global financial crisis, many individual investors were left questioning the effectiveness of their investment strategies. While many believed their portfolios to be well-diversified, as the financial system faltered, they saw a large portion of their investments decline simultaneously.

For many investors, however, investing remains an essential tactic for funding a life-time worth of goals. But now, we believe investors are more keenly focused on portfolio risk and efficient, cost-effective implementation. So given this focus, how can advisors help investors work toward their goals efficiently and effectively?

## START WITH INVESTORS' GOALS

We start with investors' goals but we believe that investors may need to deploy a different set of tools to achieve them in the long run. FlexShares employs both alternatively-weighted index and factor-based quantitative equity and fixed income strategies that systematically combine what we believe to be the optimal approach to active and passive investment management. Many of our funds offer targeted exposure to a combination of factors (e.g., quality, value, low volatility, size and dividend yield) that have historically demonstrated attractive risk-adjusted returns. We believe investors who are aiming to capture exposure to specific factors, either individually or in combination, may be able to potentially enhance their overall investment results by doing so. Our funds are designed to capture compensated risks that active management has traditionally sought, while delivering it efficiently and cost-effectively by directly targeting the intended risk factor(s) via an alternatively-weighted index approach.

*Growth, income and risk tolerance are essential building blocks of asset allocation, helping to provide robust diversification to facilitate the achievement of investment goals.*

## THE FLEXSHARES STRATEGIC MODELS

The FlexShares Strategic Models are cost-efficient hypothetical models that are designed to help financial advisors and investors view implementation through an enhanced lens in order to invest smarter through robust diversification, flexible asset allocation and compensated risk exposures. These models seek to provide solutions for five risk objectives, from maximum growth to income.

The Strategic Models are designed to maximize return potential while adhering to a specified risk tolerance. Ultimately, the focus is on the investor, and seeking to efficiently achieve improved investment outcomes and potentially enhance returns.

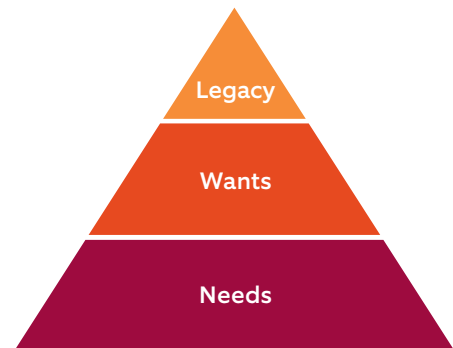
## INSTITUTIONAL-CALIBER INVESTMENT MANAGEMENT

Northern Trust is a leading global investment manager with a fiduciary heritage and a history of strength and stability that spans more than 125 years. Our asset management practice is grounded by a forward-looking, historically aware asset allocation discipline and informed by extensive empirical and capital markets analysis.

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## ALIGNING ASSETS WITH INVESTOR GOALS

- Growth
- Inflation Sensitive
- Income
- Cash & Short-Term



We believe that by including an optimized blend of growth, inflation sensitive, income and short-term assets within each model provides robust diversification while helping to target specific investor goals. Our in-depth analysis at both the asset class and investment component levels provides insights to facilitate the construction of optimized portfolios for a variety of market environments.

Quantitative equity strategies are employed in an effort to provide the potential for higher returns with less risk. Equity factors derived from this analysis are broad and persistent drivers of return that research has shown to be historically enduring. We believe that it is important that factors that have historically persisted within relatively longer time frames be deployed within high-risk, growth-oriented portfolios while other factors that have shown to historically persist during shorter time frames be deployed in lower-risk, income and capital preservation-oriented portfolios.

## AN EFFECTIVE MULTI-ASSET CLASS STRATEGY IN THREE STEPS

1

Establish the optimal strategic asset allocation

2

Adapt to a variety of market conditions

3

Implement with proven risk factor combinations

*TIPS, as defined on TreasuryDirect.gov, provides protection against inflation. The principal of a TIPS increases with inflation and decreases with deflation, as measured by the Consumer Price Index. When a TIPS matures, the investor is paid the adjusted principal or original principal, whichever is greater.*

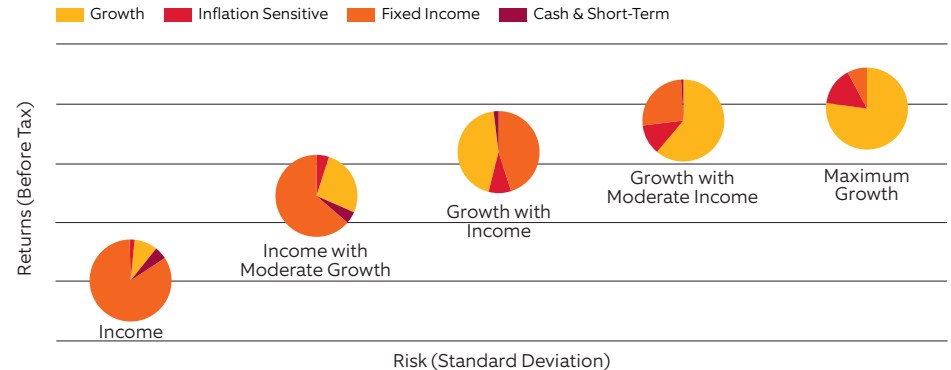
### MODEL HIGHLIGHTS

**Inflation-sensitive assets** include FlexShares Exchange Traded Funds (ETFs) invested in real assets—specifically natural resources, infrastructure and real estate—and Treasury Inflation-Protected Securities (TIPS). These asset classes have historically exhibited a low correlation with traditional stocks and bonds, and have historically helped defend against purchasing power erosion.

The **growth** component includes funds focused on quantitative factor analysis which offers the potential for long-term higher returns with less risk than traditional equity indexing, lower fees and greater transparency than fundamental active management.

The **fixed income** portion looks to capitalize on market inefficiencies by unearthing opportunities through extensive fundamental research across sectors and issuers, as well as relative value analysis. Our active management approach touches on opportunities related to yield curve positioning, credit analysis, sector rotation and issue selection.

### RISK/RETURN TRADE-OFF



FOR ILLUSTRATIVE PURPOSES ONLY

### A COST-EFFECTIVE MULTI-ASSET CLASS SOLUTION

FlexShares understands the challenges inherent in meeting the needs of today's increasingly sophisticated investors, including generating acceptable levels of return while providing appropriate levels of diversification—all in a cost-efficient manner. Achieving investment goals requires a carefully crafted and diligently executed strategy that can perform effectively in various market environments.

The Strategic Models feature globally diversified, research-based hypothetical models that are designed to seek consistency in performance and the potential for enhanced returns with less risk. The Strategic Models are crafted to meet today's challenges, efficiently and effectively.

## MODEL DESCRIPTIONS:

**Maximum Growth:** Designed for investors who want larger returns over a longer-term investing horizon and are willing to accept more risk

**Growth with Moderate Income:** Designed for investors who are seeking growth of capital with income

**Growth with Income:** Designed for investors who are interested in focusing on long-term wealth but at the same time need to be more cautious on the risk front while having a balance of assets that provide current income

**Income with Moderate Growth:** Designed for investors who wish to preserve a large portion of the portfolio's total value, but are willing to take on a higher amount of risk to get some inflation protection while also generating income

**Income:** Designed for investors who want to focus on generating income while also preserving capital

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## 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).

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

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

These hypothetical non-investable models are for informational purposes only. The models may not be suitable allocations for all investors. Your own investment experience will differ including the possibility of losing money. The hypothetical model is not intended to represent any specific type of investment.

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.

Asset allocation does not guarantee a profit or protection against a loss in declining markets.

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; authorized participant, calculation methodology; commodity; concentration; counterparty; currency; derivatives; dividend; emerging markets; equity securities; financial sector, fluctuation of yield; foreign securities; geographic; high portfolio turnover; income; industry concentration; inflation; infrastructure-related companies; interest rate; issuer; liquidity; large cap; management; market; market trading; mid cap stock; MLP; momentum; natural resources; new funds; non-diversification; passive investment; privatization; securities lending; small cap stock; tracking error; value investing; and volatility risk. A full description of risks is in the prospectus.

In addition FlexShares Fixed Income ETFs are generally subject to corporate bond; credit, debt extension, maturity, mortgage backed pass through securities, non us issuer, and valuation risks. A full description of risks is in the prospectus. Additionally, High Yield securities are considered highly speculative, and are subject to greater credit risk, price volatility and risk of loss than if it invested primarily in investment grade securities. There is a higher risk that an issuer will be unable to meet principal and interest rate payments on an obligation and may also be subject to more substantial price volatility due to such factors as interest rate sensitivity, market perception of credit worthiness of and general market liquidity than if the fund invested in investment grade securities. A full description of risks is in the prospectus.

## MANAGED BY NORTHERN TRUST