FlexShares Strategic Models

Model Implementation of the 2021 Trends

ASSET ALLOCATION PROCESS:

Each year Northern Trust Asset Management's (NTAM) Investment Policy Committee (IPC) evaluates political, economic and financial market conditions to refresh long-term return and risk forecasts, known as Capital Market Assumptions (CMAs). We believe our CMAs are forward-looking but historically aware, and that they incorporate both quantitative forecasts and qualitative thematic views. The CMAs inform an organization-wide portfolio optimization process, which results in the asset allocations across five different risk tolerances found within the FlexShares Strategic Models.

Below is a summary of the asset allocation changes as of August 2020. The term "risk asset" refers to global equities (growth potential), real assets (potential for inflation mitigation), and high yield bonds (income potential). The term "risk-control asset" refers to investment grade bonds, Treasury Inflation-Protected Securities (TIPS), and cash. Within this context, the annual strategic asset allocation changes are shifts within the risk or risk-control asset buckets.

SUMMARY OF ASSET ALLOCATION UPDATES:

Across all five FlexShares Strategic Models, we reduced real assets and reallocated to global equities. We believe that return expectations for real assets have fallen, especially for natural resources, which in our thinking may face headwinds from continued focus on climate risk. Given our slow growth expectations, we believe that there will be continued pressure on the supply and demand balance notably in the energy sector. That said, our analysis suggests that the asset class may actually be inexpensive relative to broader equities and could still provide protection against unexpected inflation, which we believe remains a risk.

We also increased the allocation to High Yield bonds* in every model in order to take advantage of what we believe are potentially attractive risk/return profile of the general asset class, including potential yield, potential for expected total return and a potential lower risk relative to global equities. Our thinking is that high yield bonds may face some challenges from the slow economic growth environment, but may remain attractive to income-seeking investors given the very low level of interest rates in general, which we expect for the longer term. Our analysis suggests that lower levels of interest rates may also help high yield bond issuers to more easily service their debt.

SUMMARY OF TRENDS:

Retooling Global Growth

We believe companies may prioritize stability over profitability by re-routing their supply chains, moving production inside their home countries, and building healthier balance sheets. After the stimulus-induced surge, global growth may settle at low levels.

Massive Monetary Toolkit

In our opinion, the controversial Modern Monetary Theory (MMT)** — which may advocate for greater coordination between monetary and fiscal policy — is, in reality, already being applied. In our opinion, this evolution has given central banks (recently viewed as ineffective) a big new toolkit.

Stuckflation Tested

We believe inflation faces a test from many of this year's themes — notably *Retooling Global Growth; One World, Two Systems* and *Massive Monetary Toolkit* — but the effects of slow growth technology and automation may keep inflation at or below central bank targets.

One World, Two Systems

We believe that last year's *Irreconcilable Differences* theme is evolving to where the U.S. and China may learn to live on the same planet with their opposing views on economic policy. Collaboration may not be absent, but may not be optimal either — leading to inefficiencies.

Reimagining Capitalism

We believe that capitalism must evolve. Business leaders, the ultra-wealthy and politicians representing those left behind may find a way to forge a new capitalism that works better for all.

Stay Focused on Climate

In our opinion, the pandemic took focus off climate-related issues, the risks have not gone away. In some cases, they have intensified. Post-pandemic economic rebuilding may force leaders to re-engage with climate risk — a headwind for some industries but a tailwind for others.

ALLOCATION CHANGES BY MODEL AS OF AUGUST 2020:

Maximum Growth: This model represents a 100% risk asset model and changes at the asset class level were driven by shifts in the risk asset bucket. *Asset Allocation Changes: High Yield (+2%), Global Real Estate & Listed Infrastructure (+1%), Natural Resources (-3%).*

Growth with Moderate Income: Risk assets were unchanged compared to the prior year at 79%. *Asset Allocation Changes: High Yield (+2%), Global Real Estate & Listed Infrastructure (+1%), Natural Resources (-3%).*

Growth with Income: Risk assets increased slightly from 58% in 2019 to 59% in 2020. *Asset Allocation Changes: Global Equities (+2%), High Yield (+1%), Natural Resources (-2%), Investment Grade Fixed Income (-1%).*

Income with Moderate Growth: Risk assets were unchanged from the prior year at 36%. *Asset Allocation Changes: High Yield (+1%), TIPS (+1%), Natural Resources (-1%), Investment Grade Fixed Income (-1%).*

Income: Risk assets decreased slightly from 16% in 2019 to 15% in 2020. Asset *Allocation Changes: High Yield (+1%), TIPS (+1%), Global Equities (-2%).*

SUMMARY OF FUND IMPLEMENTATION CHANGES:

In conjunction with the annual strategic asset allocation update, we made an adjustment to the FlexShares Exchange Traded Funds (ETFs) we use to implement the asset allocation of the FlexShares Strategic Models. FlexShares Strategic Models seek targeted factor exposures--key drivers of long-term risk and return such as quality, value, momentum, low volatility and dividend yield—within the US equity allocation of each model. As of August 2020, we added the FlexShares US Quality Low Volatility Index Fund (QLV) and removed the FlexShares US Quality Large Cap Index Fund (QLC), as we believe the adjustment offers a more diversified factor approach. We continually look to improve our multi-asset portfolios, while ensuring our fund implementation choices meet appropriate thresholds of asset size and liquidity.

* High Yield securities are subject to greater credit risk, price volatility and risk of loss than if it invested primarily in investment grade securities. High yield securities are considered highly speculative and are subject to increased risk of an issuer's inability to make principal and interest payments.

** Modern Monetary Theory (MMT) is a macroeconomic theory that, for countries with complete control over their own currency, government spending cannot be thought of like a household budget. Instead of thinking of taxes as income and government spending as expenses in a checkbook, MMT proponents say that fiscal policy is merely a representation of how much money the government is putting into the economy or taking out.

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).

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.

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. 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.

The 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.