Fund Vision

Moving Upstream

The Case for Global Upstream Natural Resources

A key consideration for investors is the distinction between the upstream and downstream components of the natural resource supply chain.

With growing populations and increasing per-capita income, global markets are in the early stages of what is expected to be an extended period of demand expansion for energy, food products, metals and other natural resources such as paper and water. These are the building blocks of flourishing economies.

Investors can participate in the benefits of rising prices of raw input materials via exposure to natural resources. These investments offer the additional potential advantage of offsetting some of the longer-term inflationary effects of economic expansion in emerging and established regions.

A CLOSER LOOK AT NATURAL RESOURCES

Natural resources can generally be grouped into five categories, four of which are fairly well known plus one new category that is gaining importance with investors.

1. Energy: Most investors know this natural resource group well. Raw or "upstream" natural resources include crude oil and natural gas, and processed or "downstream" commodities include natural gas liquids, heating oil and gasoline.
2. Agricultural: These include grains such as corn and wheat, soybeans, livestock, and "soft" products such as coffee and cocoa.
3. Metals: Precious metals include gold, silver and platinum. In addition, industrial metals such as copper, nickel and aluminum provide the skeletal framework for an economy.

4. **Forest:** The forest is the ultimate renewable natural resource of timberlands used for building and paper products.

5. **Water:** The newest commodity to be regarded as an asset class is water. World population and wealth growth have fueled demand for food and potable water through water rights, delivery and treatment. A fundamental building block of life, water is attracting heightened attention due to shortages of potable supplies in many geographic areas, set against rising water demand from consumer, farming and industrial users.

A focused investment in the upstream segment of specific resource supply chains may help investors to optimize exposure to natural resources.

THE NATURAL RESOURCES SUPPLY CHAIN

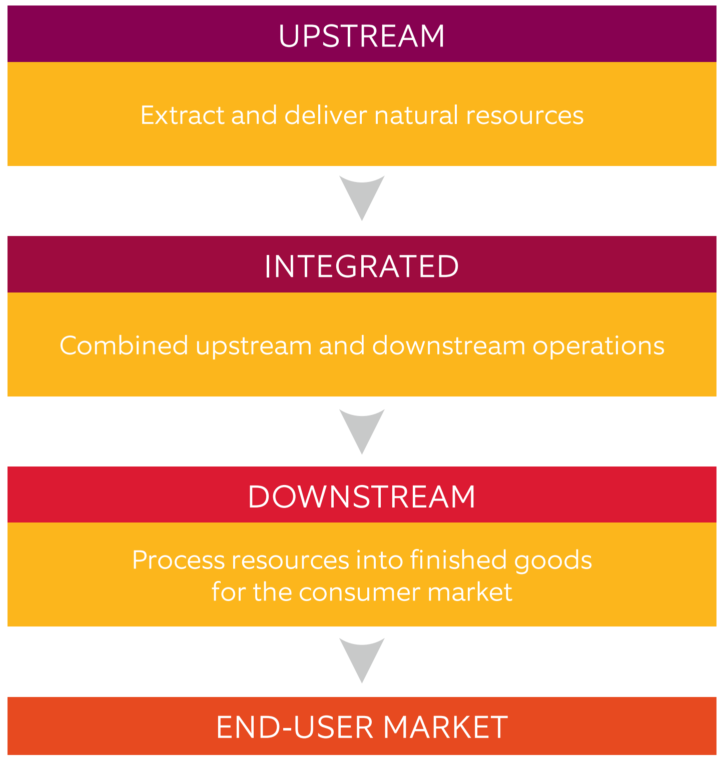
A key consideration for investors is the distinction between the upstream and downstream components of the natural resource supply chain.

The upstream segment refers to the very beginning of the supply chain, where the resources are “in the ground.” These resources can be natural gas fields in Oklahoma, acres of forest in rural Florida, fields of soybeans in Brazil or an aquifer in Saudi Arabia. The value to investors in the upstream segment is the market or futures price of the resource less the costs over time to extract the resource, process and deliver it to the downstream segment of the supply chain.

In the downstream segment, the resource is processed into intermediate or finished goods for delivery into the commercial or consumer markets. Companies operating in the downstream segments, after having paid for the resource, face innumerable challenges in dealing with packaging, distribution, marketing, branding, changing consumer tastes and other factors that can impact their profitability and cash flows.

Ownership interests in upstream natural resources segments offer investors profitability benefits from natural resource price increases, while the same price increases have a negative impact on the downstream segment of the supply chain (i.e., the cost of goods sold increases and operating margins decrease for companies that are *price takers* on natural resource supplies).

A focused investment in the upstream segment of specific resource supply chains may help investors to optimize exposure to natural resources. The FlexShares Morningstar Global Upstream Natural Resources Index Fund (ticker: GUNR) has been designed to provide this exposure, using an insightful, rules-based methodology.



ESTABLISHED NATURAL RESOURCES INVESTMENT OPTIONS

OPTIONS	WHAT'S INVOLVED	CONSIDERATIONS
Direct investment in physical commodities	Possession of the physical natural resource product.	Transportation, handling and storage issues (i.e., how does the average investor store one million cubic feet of natural gas?).
Futures	Many natural resource commodities have liquid, tradable future contracts that are available to qualified futures investors. Futures address the challenges regarding physical ownership, unless the investor holds the futures contract until maturity and then expects to take delivery of the physical commodity.	Expiring short-dated contracts or investments in volatile, illiquid, long-dated contracts are constantly rolling over. Both are subject to initial margin postings, ongoing margin calls and potentially high levels of market price volatility and/or dislocations from actual cash market prices.
	A. Natural resources futures exposure via ETFs that invest in near-term futures contracts attempting to track the spot price of a commodity.	Complexity and atypical futures market dynamics have the potential to cause futures-based investment options to fall short of stated objectives. The rolling of near-term futures contracts when the futures curve is in contango[1] leads to buying higher-priced futures contracts versus the sale of the near-term contract, providing a negative roll yield.
	B. Other investment vehicles, such as exchange traded notes (ETNs), that expose investors to potential counterparty risk because the notes are issued as debt instruments, with returns linked to some natural resource commodity through futures or forward contracts.	Because these ETNs are debt on the balance sheet of the issuing financial institution, the value of the ETN can be impacted by deterioration in the credit quality of the sponsoring institution.
Equities and equity-based strategies (investments in companies with significant direct or indirect security interest in the ownership and development of natural resource commodities)	Investors own the companies that own the natural resource assets. Investors essentially retain the company to manage the natural resources for their benefit. Investors gain indirect physical exposure to the natural resources, while outsourcing the management of the resources. Investment vehicles exist today that concentrate portfolio holdings on companies with business operations linked to natural resources.	May tend to focus on certain industries, using market-capitalization weightings to establish benchmarks. The skewing that results from this strategy has inherent risks: • A generic market-weighted index of natural resource equities would typically result in an index with very significant exposures to energy and metals, reflecting their prominence in global financial markets and the macro economy, while leaving little exposure to agriculture, timber and water. This lack of diversification may not provide for a well-balanced, long-term exposure to all the various sectors of natural resources. • Domination by mega-cap companies.

1 Contango refers to a situation where the future spot price is below the current price, and people are willing to pay more for a commodity at some point in the future than the actual expected price of the commodity.

FLEXSHARES MORNINGSTAR GLOBAL UPSTREAM NATURAL RESOURCES INDEX FUND (GUNR)

FlexShares Morningstar Global Upstream Natural Resources Index Fund is an ETF designed to give investors access to global equity securities with an emphasis on the upstream portion of the natural resources supply chain. It is a focused, convenient way for investors to participate in the rising global demand for natural resources, seeking to capture the favorable growth and price impacts of this trend.

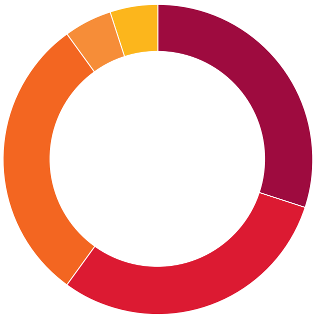
The Fund invests in global companies focused in the energy, metals and agriculture sectors, while maintaining a core exposure to equities in timberlands and water resources sectors. By allocating a dedicated exposure to timber and water resources, diversification within the natural resource space is increased. This provides investors with broader coverage of the upstream natural resource supply chain. The Fund's methodology seeks to prevent any one area in natural resources from dominating or skewing overall exposures and performance.

FIND OUT MORE

The FlexShares approach to index-based 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) or visit **www. FlexShares.com**.

GUNR: TARGET ALLOCATION

Allocations are subject to change.



- Energy: 30%
- Metals & Mining: 30%
- Agriculture: 30%
- Timber: 5%
- Water: 5%

INDUSTRY SECTOR ALLOCATIONS REFLECT A BALANCED, FOCUSED APPROACH

30%

Energy

Globally integrated exploration and production companies with crude oil and natural gas reserves

30%

Metals & Mining

Global industrial and precious metals companies that own or have lease rights to mineral deposits

30%

Agriculture

Producers of core agricultural products such as grains, seeds and seed oils, livestock and fertilizers

5%

Timber

Timberland REITS and companies with ownership or lease rights to timberlands

5%

Water

Global companies with business operations that control, supply and treat water resources

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.

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. A full description of risks is in the prospectus.

FlexShares Morningstar® Global Upstream Natural Resources Index Fund (GUNR) is passively managed and uses a representative sampling strategy to track its underlying index. Use of a representative sampling strategy creates tracking risk where the Fund's performance could vary substantially from the performance of the underlying index along with the risk of high portfolio turnover. It is subject to the global natural resource industry. As the demand for or prices of natural resources increase, the Fund's equity investment generally would be expected to also increase. Conversely, declines in demand for or prices of natural resources generally would be expected to cause declines in value of such equity securities. Such declines may occur quickly and without warning and may negatively impact your investment in the Fund. Investments in foreign market securities involve certain risks such as currency volatility, political and social instability and reduced market liquidity. To the extent that the Fund invests in Emerging markets, those investments may be subject to increased price volatility and may be more susceptible to adverse economic, market, political or regulatory occurrences affecting that country, market, industry, sector or asset class.

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