For Professional Investors Only

Equity Fixed Income Real Assets

QDFD

Don't take any unnecessary risks

LOWER RISK HIGHER RISK

Typically **lower** rewards Typically **higher** rewards

1	2	3	4	5	6	7

Risk indicator

Read the Key Investor Information Document

THIS IS A MANDATORY ANNOUNCEMENT

Fund Focus

FlexShares Developed Markets High Dividend Climate ESG UCITS ETF

Sustaining Income

For professional investors seeking an investment that emphasizes sustainability, quality and income

Investors traditionally have looked to dividend paying stocks for the opportunity to enhance a portfolio's risk-adjusted returns and provide a source of income. Without careful construction, however, high-dividend portfolios may expose investors to both unintended and uncompensated risks that potentially impair the investor's objective to produce consistent income and enhance returns—while also failing to meet sustainable investing objectives.

When investing in any strategy, we feel it is essential to focus on areas where investors are getting paid to take risks, and to avoid taking risks where investors are not getting paid. We believe that incorporating the return-enhancing potential of factor investing alongside the risk-mitigation characteristics of sustainability can potentially strengthen a dividend investing strategy.

In this paper, we offer a closer look at some of the risks of dividend investing strategies in the context of a changing economy. We then explain the proprietary methodology that Northern Trust Global Investments Limited used to assemble an index of high-quality dividend paying companies that also have favorable sustainability profiles and are managing well the risks and opportunities arising from the transition to a low-carbon economy.

FlexShares® EXCHANGE TRADED FUNDS | MANAGED BY NORTHERN TRUST ASSET MANAGEMENT

THE SEARCH FOR SUSTAINABLE YIELDS IN A LOW-INCOME WORLD

For decades, investors have looked to stock dividends to provide income in their equity portfolios. The recent trend of persistently low interest rates has made dividend paying stocks even more valuable as a diversifier to traditional fixed-income investments.

Successful dividend investing requires identifying companies that can consistently pay and grow dividends over the long term. However, many funds that track traditional dividend-focused indexes expose investors to unintended risks that may threaten the sustainability of those dividend payments and impair risk-adjusted returns. These funds also may not meet investors' sustainability goals.

In order to achieve income objectives, dividend strategies have often focused on companies that traditionally are considered high-dividend payers. High-dividend payers tend to be concentrated in mature industries, so certain sectors and regions tend to have higher payouts than others. This results in a significant concentration of sector and regional allocations that may add to a portfolio's risks, but not necessarily to its returns.

These allocations may also result in a portfolio that holds companies that are poorly managing their ESG risks and opportunities, or that demonstrate a higher carbon footprint such as found in mature industries like energy and utilities. The companies in these sectors tend to have a higher carbon footprint relative to other parts of the economy—thereby exacerbating the potential impact of climate risk.

Many times, a higher dividend yield also is the result of a price decline—what are often referred to as "dividend traps." Seemingly cheap high-dividend stocks may be traps, as their attractive dividend yield may be the result of markets pricing in their impaired fundamentals. Our research suggests that such price declines generally precede dividend cuts.

In our view, a dividend investing strategy must take a holistic view to help assess the potential sustainability of dividend payments and avoid dividend traps. To do that, investors can apply two investment lenses that help reduce the risk inherent in traditional dividend indexes:

Focus on high quality companies by looking at their management efficiency, profitability and cash flow to help assess financial sustainability.

Integrate a holistic view of sustainability to assess how well companies are performing on non-financial dimensions like climate change, carbon emissions, privacy and data security, corporate governance and diversity.

THE FLEXSHARES SOLUTION: INVESTING AT THE INTERSECTION OF HIGH QUALITY AND HIGHLY RANKED ESG COMPANIES

The FlexShares Developed Markets High Dividend Climate ESG UCITS ETF is intended to avoid common risks involved with dividend investing by featuring stocks that exhibit high potential to generate income, while avoiding yield traps and unintended sector, region and style biases.

The Fund tracks the iSTOXX® Northern Trust Developed Markets High Dividend Climate ESG Index.[1] Northern Trust Global Investments Limited (NTGIL) is the investment manager for FlexShares ETFs. The underlying index is focused on delivering consistent returns and an above-benchmark dividend yield by combining a proprietary view of quality designed to enhance income, along with a holistic approach to sustainability to target an improved sustainability score, a lower carbon footprint and a portfolio, that we believe will be better aligned to manage the transition to a low-carbon economy relative to the benchmark.

Starting with the STOXX Global 1800 Index[2], NTGIL first applies a sustainability screen to exclude companies for violations of international norms around environmental, social and governance issues, along with those involved in controversial business lines such as weapons, tobacco and thermal coal. Next, non-dividend paying stocks are excluded, subject to constraints designed to avoid taking excessive individual stock level allocations relative to the STOXX Global 1800.

Working within this screened universe, NTGIL then applies the proprietary Northern Trust Quality Factor to derive a score that we believe measures a company's core financial health and helps evaluate the financial sustainability of its dividends.

THE QUALITY FACTOR METHODOLOGY EXAMINES COMPANIES THROUGH THREE LENSES:

1 MANAGEMENT EFFICIENCY

Firms that make prudent and efficient decisions around capex outlay, investment growth and other capital decisions tend to have lower exposure to distressed market conditions.

2 PROFITABILITY

We believe companies with higher levels of profitability are more likely to generate free cash that can be distributed to shareholders while maintaining the ability to invest in the business to support total returns.

3 CASH FLOW

Higher cash flows may provide a cushion from short-term shocks, allow companies to internally finance their operations should they so choose, and potentially help to maintain dividend payments in difficult economic environments.

NTGIL evaluates all dividend paying companies in each sector and region across these lenses to calculate each company's overall quality score. We believe this methodology helps to substantiate an "apples-to-apples" comparison and supports diversification in the index construction process. Then, the stocks in each sector and region are divided into quintiles, with quintile 1 comprising companies with the highest quality scores and quintile 5 comprising companies with the lowest quality scores.

The index eliminates all stocks in quintile 5 (subject to stock level bounds), and then NTGIL applies its proprietary sustainability scoring methodology to assess and rank the remaining stocks. This methodology includes:

- Identifying the sustainability issues that are most likely to affect the financial or operating performance of firms in a given industry.

- Utilizing frameworks put forth by the Sustainability Accounting Standards Board (SASB) and the Task Force on Climate-related Financial Disclosures (TCFD) to arrive at a comprehensive, robust proprietary view steeped in financial materiality.

NTGIL then constructs the index to include 125-250 stocks that are intended to maximize index's overall exposure to quality, improve sustainability scores, and enhance dividend yield. The index also applies constraints to maintain sector and regional exposure in line with the original STOXX Global 1800 Index, which helps further bolster diversification and reduce portfolio turnover and transaction costs.

THE FINAL INDEX HAS THE FOLLOWING CHARACTERISTICS:

Targets a dividend yield that's 1.75 times higher than the benchmark's.

Intends for a sustainability score improvement of at least 20% relative to the benchmark.

Aims for a 50% reduction in carbon footprint and 20% improvement in forward-looking carbon risk profile relative to the benchmark.

Through ongoing review and monitoring of selected stocks, NTGIL helps maintain the index's exposure to high-quality dividend paying companies while maintaining its improved sustainability profile. Regular rebalancing also helps maintain the index's expected risk and return profile.

OPTIMIZING A DIVIDEND STRATEGY THROUGH A MULTI-FACTOR MODEL

Dividend investors are navigating a low return environment as well as need to position their portfolios to manage risks and opportunities arising from sustainability issues. We believe these conditions make it increasingly important to identify companies that are likely to maintain or grow their dividends. Our opinion is that investors can benefit from using a multi-dimensional view of sustainability from quality and ESG to identify dividend Payers that can sustain or grow their dividends.

Targeting the intersection between quality and sustainability may help create a portfolio that's focused on companies that can sustain their dividend payments in the long term and improve risk-adjusted returns. Our analysis suggests that high-quality companies tend to be more profitable, have more conservative balance sheets, and generate higher cash flows—all of which may help protect a company's dividend relative to lower quality peers.

Similarly, further analysis shows that companies that are sustainability leaders tend to be better at managing risks and opportunities arising from environmental, social and governance themes such as physical climate risk, climate transition risk and regulatory risk. Effective management of these issues may improve the likelihood of sustained long-term profitability, while potentially protecting firms from significant drawdowns in cash flows.

By applying sector and region constraints to maintain similar exposures to the global benchmark, our dividend investing strategy helps avoid unintended concentrations in sectors or regions that have a higher percentage of dividend paying companies. This greater diversification may help support total returns during times when specific sectors or countries strongly underperform the broad global market.

CONCLUSION

Dividend investing strategies that rely solely on past dividend history to select stocks and that don't account for the potential impact of sustainability issues can expose investors to higher unintended risks and lower level of a dividend yield of a company than expected. We believe that our holistic, forward-looking approach to assessing financial and non-financial risks can help identify companies that are better positioned to support future dividend payments to meet investor's objectives.

The FlexShares Developed Markets High Dividend Climate ESG UCITS ETF helps investors avoid common risks of dividend investing by screening and ranking dividend paying stocks for both quality and sustainability. We believe this multi-factor approach offers a quantitative, repeatable methodology for pursuing a dividend investing strategy that emphasizes dividend yields that are high, and likely to be sustainable over the long term.

FOR MORE INFORMATION

Please visit www.flexshares.com, email to EMEA_FlexShares@ntrs.com or contact your local Northern Trust representative using the information below.

UK + 44 20 7982 1866 | EUROPE + 31 20 794 1049 | NORDICS + 46 10 555 5160 | DACH + 31 20 794 1027

FOOTNOTES

1 The iSTOXX Northern Trust Developed Markets High Dividend Climate ESG Index is designed to provide exposure to a high-quality income-oriented universe of developed-market equity securities, with an emphasis on long-term capital growth, and to achieve climate and sustainability targets.

2 The STOXX® Global 1800 Index provides a broad yet liquid representation of the world's most developed markets with a fixed number of 1,800 components.

IMPORTANT INFORMATION

This material is directed to eligible counterparties and professional clients only and is not intended for retail clients. For Asia-Pacific markets, it is directed to expert, institutional, professional and wholesale investors only and should not be relied upon by retail clients or investors. For legal and regulatory information about our offices and legal entities visit flexshares.com/disclosures.

Information contained herein has been obtained from sources believed to be reliable, but its accuracy and completeness are not guaranteed. Information is only current as of the date stated and is subject to change without notice. Fund performance data provided herein should not be relied upon as a basis for investment decisions; performance data may be revised. This information does not constitute a recommendation for any investment strategy or product described herein. This information is not intended as investment advice and does not take into account an investor's individual circumstances. The prospectus and the key investor information document is available at www.flexshares.com/funds.

Investing involves risk- no investment strategy or risk management technique can guarantee returns or eliminate risk in any market environment.

The Funds are sub-funds of FlexShares ICAV which is a regulated collective investment scheme in Ireland under Central Bank of Ireland UCITS regulations. FlexShares® Developed Markets Low Volatility Climate ESG UCITS ETF and the FlexShares® Developed Market High Dividend Climate ESG UCITS ETF have been categorized in accordance with the Sustainable Finance Disclosure Regulation, for detailed information please visit flexshares.com/disclosures.

FlexShares® Developed Markets Low Volatility Climate ESG UCITS ETF (QVFD) and the FlexShares® Developed Market High Dividend Climate ESG UCITS ETF (QDFD) are registered for marketing and sales in Ireland, United Kingdom, the Netherlands, Germany and Sweden.

Northern Trust Asset Management is composed of Northern Trust Investments, Inc. Northern Trust Global Investments Limited, Northern Trust Fund Managers (Ireland) Limited, Northern Trust Global Investments Japan, K.K, NT Global Advisors Inc., 50 South Capital Advisors, LLC and investment personnel of The Northern Trust Company of Hong Kong Limited, Belvedere Advisors, LLC and The Northern Trust Company. Issued in the United Kingdom by Northern Trust Global Investments Limited. Issued in the EEA by Northern Trust Fund Managers (Ireland) Limited.

Sustainable Finance Regulation (SFDR)

Our UCITS Funds have been categorized in accordance with the SFDR categorisation.
For more information please visit: https://advisors.flexshares.com/euro/sustainable-finance-disclosures-regulation.

The iSTOXX® Northern Trust Developed Markets High Dividend Climate ESG Index and the iSTOXX® Northern Trust Developed Markets Low Volatility Climate ESG Index are the intellectual property (including registered trademarks) of STOXX® Limited, Zurich, Switzerland and/or its licensors ("Licensors"), which is used under license. The securities based on the Index are in no way sponsored, endorsed, sold or promoted by STOXX® and its Licensors and neither of the Licensors shall have any liability with respect thereto.