

Harnessing the Power of ETFs for Inflation Hedging

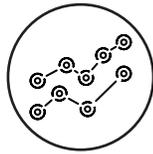
TDTT

TDTF

GUNR

NFRA

GQRE



Many advisors and investors have begun to believe that analyzing the impact of inflation on their portfolios is key to funding their overall investment goals. Investors seeking to capitalize on the changing investment landscape can find a variety of innovative solutions that can potentially enhance their portfolios reaction to inflation. Below are insights that contributed to the creation of alternatively-weighted index solutions that may offer an innovative approach to managing your portfolios inflation sensitivity.

CATEGORY	INNOVATION	INNOVATIVE FUND
Treasury Inflation-Protected Securities (TIPS)	Designed to target TIPS durations* through changing interest rate and economic cycles utilizing a rules-based process for portfolio construction and monthly rebalancing.	FlexShares iBoxx® Target Duration TIPS Index Funds (TDTT & TDTF)
Natural Resources	Focus on the upstream segment of the resource supply chain which refers to the beginning of the supply chain, when resources are extracted from the ground and sold to producers. By adding focused exposure to the upstream market – potentially minimizing the risk of rising resource prices to downstream investments.	FlexShares Morningstar® Global Upstream Natural Resources Index Fund (GUNR)
Infrastructure	Identify a broader universe of companies and industries involved in the infrastructure space which could include cellular towers, data centers, government projects and social infrastructure.	FlexShares STOXX® Global Broad Infrastructure Index Fund (NFRA)
Real Estate	Incorporate a quality approach to real estate investing utilizing an empirically-tested quantitative model that assigns each security a quality ranking based on management efficiency, profitability, and cash levels.	FlexShares Global Quality Real Estate Index Fund (GQRE)

* Duration is how sensitive your investment or a portfolio is to a change in interest rates. You will often see it expressed as a number of years – the higher the number the more volatile will be the expected change. Historically, rising interest rates have often meant falling bond prices, while declining interest rates have meant rising bond prices.

Whether you believe that inflation is a future threat to your investment portfolios will depend on many factors. We offer several investment solutions that may help investors as they decide what is right for them. This guide takes a look at five FlexShares funds built to help investors achieve their financial goals in the midst of inflation.



FlexShares® iBoxx® Target Duration TIPS Index Funds (TDTT & TDTF) targets Modified Adjusted Duration (MAD) which takes into account the duration component of TIPS securities.

LINKING TO INFLATION

The introduction in 1997 of Treasury inflation-protected securities (TIPS) in the United States offered investors multiple potential benefits. First, the development was intended to offer investors a security that would enable them to hedge inflation. Second, by taking on the risk of inflation, the U.S. Treasury Department would not have to pay an inflation risk premium on its securities, thereby lowering its expected borrowing costs. Finally, the securities would provide a market-based measure of inflation expectations. It would be possible to gauge market expectations of inflation by comparing the yields on nominal Treasury securities with yields on inflation-protected securities of comparable maturities.

For some investors, however, that hedging has come with an unanticipated expense — the added time, effort, and fees incurred by investors attempting to target the “duration” of their investments to match the risk exposure of their portfolio. But first, what is “duration”? Duration is how sensitive your investment is to a change in interest rates. You will often see it expressed as a number of years — the higher the number the more volatile will be the expected change. Historically, rising interest rates have often meant falling bond prices, while declining interest rates have meant rising bond prices. So the ability to target a specific duration based on your exposure is key to successfully protecting yourself against the threat of inflation. FlexShares® iBoxx® Target Duration TIPS Index Funds (TDTT & TDTF) targets Modified Adjusted Duration (MAD[†]) which takes into account the duration component of TIPS securities.

POTENTIAL PORTFOLIO BENEFITS – TDTT & TDTF

Inflation hedging
benefits of TIPS

Duration management
with effective interest
rate risk management

Purchasing power
hedging

[†] Modified Adjusted Duration is the market’s estimate of the duration on a TIPS bond based on inflation expectations at that point in time.



FlexShares Morningstar® Global Upstream Natural Resources Index Fund (GUNR) is designed to give investors a focused and convenient way to participate in this potential rising global demand for natural resources.

MOVING UPSTREAM

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.

FlexShares Morningstar® Global Upstream Natural Resources Index Fund (GUNR) is designed to give investors a focused and convenient way to participate in this potential rising global demand for natural resources. Unlike some funds, we do this by focusing on the upstream segment of the resource supply chain. The upstream segment refers to the beginning of the supply chain, when resources are extracted from the ground and sold to producers. By adding focused exposure to the upstream market, we believe investors can minimize the risk of rising resource prices to their downstream investments.

This fund is built by focusing on global companies in the key upstream sectors – energy, metals and agriculture – balanced with core investments in the timber and water industries. By taking a diversified approach,‡ the Fund seeks to prevent overexposure to any one area in the natural resources field. As the global economies revive from the pandemic and demand for natural resources rise, we think our upstream index fund provides a great way to build your exposure to the growth potential of the natural resources market while playing an important role in helping your portfolio adjust to inflation.

POTENTIAL PORTFOLIO BENEFITS – GUNR

Inflation hedging benefits of natural resources

Continually rebalanced using a rules-based methodology

Focus on global companies in five upstream sectors



MISSION-CRITICAL PROJECTS

After decades of neglect, the need to ramp up spending on infrastructure is coming to the forefront as economic growth is being realized globally. Increasingly, institutional investors, sovereign wealth funds and others have been allocating assets to infrastructure.

The term infrastructure refers to fundamental facilities and systems that serve a city, an area, or a country. Infrastructure assets are mission-critical capital projects that move people, energy, goods and data and earn fees for their use through contracts and concessions. Some examples of traditional infrastructure projects are bridges, tunnels and toll roads; airports; pipelines; and electric, gas or water and sewage utilities.

‡ Diversification does not assure a profit.

Investors interested in ways to diversify and hedge portfolios may want to consider the FlexShares STOXX® Global Broad Infrastructure Index Fund (NFRA) as both a real asset and as an equity holding.

We believe infrastructure presents a long-term inflation hedge as the revenues infrastructure projects derive are heavily regulated and often tied to the Consumer Price Index (CPI). Investors interested in ways to diversify and hedge portfolios may want to consider the FlexShares STOXX® Global Broad Infrastructure Index Fund (NFRA) as both a real asset and as an equity holding.

POTENTIAL PORTFOLIO BENEFITS – NFRA

“Bottoms up” universe definition for improved category depth

Greater breadth with a focus on sub-sector representation

Wide spectrum of infrastructure asset classes including communications and government outsourcing



The FlexShares Global Quality Real Estate Index Fund (GQRE) is an ETF that may provide an alternative source of income to investors searching for yield in a low interest rate environment.

GLOBAL PROPERTY

Investing in the real estate sector offers the potential to add growth, diversification, income along with potential hedging against the risk of long-term inflation to a portfolio. We believe that a well-diversified and global approach to real estate investing is a key factor in unlocking the full range of these potential benefits.

Our research suggests that real estate equities have been used traditionally as a potential hedge against long-term inflation, as some types of real estate stocks have been shown to be less resistant to rising interest rates. Historically, our opinion is that real estate investments also have paid higher dividend yields than other equity classes, offering an alternative source of potential income. Finally, we believe that real estate historically has had a low correlation to both fixed income and other equity asset classes. As a result, a global approach to real estate investing can offer additional diversification opportunities and we believe may also include less volatility than U.S. real estate alone.

The FlexShares Global Quality Real Estate Index Fund (GQRE) is an ETF that may provide an alternative source of income to investors searching for yield in a low interest rate environment. The Fund tracks the Northern Trust Global Quality Real Estate Index which is designed to maximize exposure to a multi-factor approach including quality, value and momentum factors, within a universe of companies operating in the real estate sector. Northern Trust Investments Inc. (NTI) is the investment adviser for FlexShares ETFs.

POTENTIAL PORTFOLIO BENEFITS – GQRE

Takes a global approach to improve overall diversification

May serve as a potential hedge against inflation while offering income potential

Utilizes a multi-factor approach including quality, value and momentum factors

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](http://www.FlexShares.com).

DEFINITION

Correlation is a statistic that measures the degree to which two securities move in relation to each other.

IMPORTANT INFORMATION

Before investing, carefully consider the FlexShares investment objectives, risks, charges and expenses. This and other information is in the full prospectus and summary prospectus, a copy of which may be obtained by visiting www.flexshares.com. Read the prospectus carefully before you invest.

Forside 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 iBoxx[®] 3-Year Target Duration TIPS Fund (TDTT) and the FlexShares iBoxx[®] 5-Year Target Duration TIPS Index Fund (TDTF) may invest in derivative instruments. Changes in the value of the derivative may not correlate with the underlying asset, rate or index and the Funds could lose more than the principal amount invested. The Funds are subject to fluctuation of yield risk, income risk, inflation protected security risk and interest rate/maturity risk. The Funds are non-diversified meaning the Funds' performance may depend on the performance of a small number of issuers because the Funds may invest a large percentage of its assets in securities issued by or representing a small number of issuers.

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.

FlexShares STOXX® Global Broad Infrastructure Index Fund (NFRA) is subject to infrastructure-related companies risk and MLP risk. Risks associated with infrastructure-related companies include: realized revenue volume may be significantly lower than projected and/or there will be costs overruns; infrastructure project sponsors will alter their terms making a project no longer economical; macroeconomic factors such as low gross domestic product (“GDP”) growth or high nominal interest rates will raise the average cost of infrastructure funding; government regulation may affect rates charged to infrastructure customers; government budgetary constraints will impact infrastructure projects; and special tariffs will be imposed.

FlexShares Global Quality Real Estate Index Fund (GQRE) 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 real estate sector risk in addition to the general risk of the stock market. 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. Investing in securities of real estate companies will make the Fund more susceptible to risks associated with the ownership of real estate and with the real estate industry in general, as well as risks that relate specifically to the way in which real estate companies are organized and operated. Real estate companies may have lower trading volumes and may be subject to more abrupt or erratic price movements than the overall securities markets. The value of real estate securities may underperform other sectors of the economy or broader equity markets. To the extent that the Fund concentrates its investments in the real estate sector, it may be subject to greater risk of loss than if it were diversified across different industry sectors. The Fund is also subject to the risk that its investments will be affected by factors that impact REITs and the real estate sector generally. Investing in REITs involves certain unique risks in addition to those risks associated with investing in the real estate industry in general. REITs whose underlying properties are concentrated in a particular industry or geographic region are also subject to risks affecting such industries and regions. By investing in REITs through the Fund, a shareholder will bear proportionate expenses of the REITs in addition to expenses of the Fund.

The iBoxx® 3-Year Target Duration TIPS Index and the iBoxx® 5-Year Target Duration TIPS Index are the intellectual property (including registered trademarks) of Markit iBoxx® 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 Markit iBoxx® and its Licensors and neither of the Licensors shall have any liability with respect thereto.

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