Capital Appreciation | Risk Management | Income Generation | Liquidity Management

IQDF
IQDE
IQDY
TLTE

GUNR

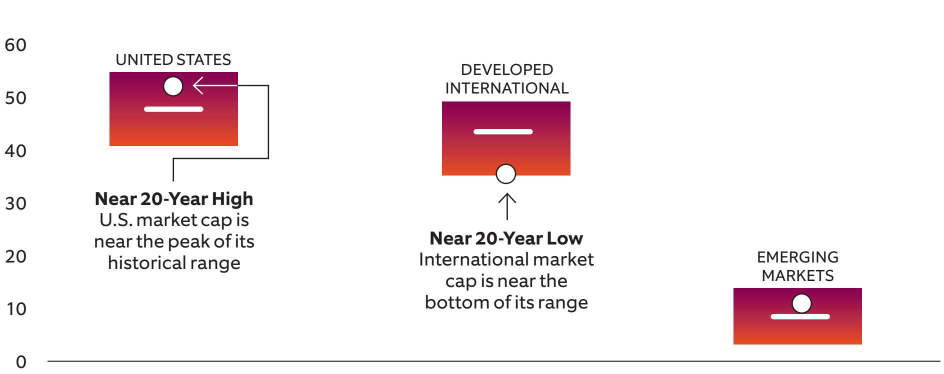
Scenario Planning

Preparing for International Growth

For the first time since 2007, the world's major economies are growing in sync with all 45 countries tracked by the Organization for Economic Cooperation and Development (OECD) on track to grow this year.[1] Nowhere, however, in our opinion is that more apparent than in the U.S. which has been driven by continued and increased consumer spending. This has propelled market capitalizations to ever higher levels for U.S. equities with U.S. stocks nearing the top of their historical range. [2]

Market capitalization ranges represent each region's percentage of the total market capitalization for the MSCI All Country World Index for the 20 Years ended 5/3/2017. The MSCI All Country World Index is an index designed to provide a broad measure of equity-market performance throughout the world and is comprised of stocks from both developed and emerging markets. This index contains stocks from 46 different countries — 23 countries classified as developed markets and 23 countries considered emerging markets.

MARKET CAPITALIZATION AS A % OF MSCI ACWI



[1] Zumbrun, Josh. "Global Economies Grow in Sync." Wall Street Journal. 23Aug2017.
[2] MSCI All Country World Index.

This guide takes a look at three FlexShares strategies built to help investors pursue their financial goals while increasing their international exposure.

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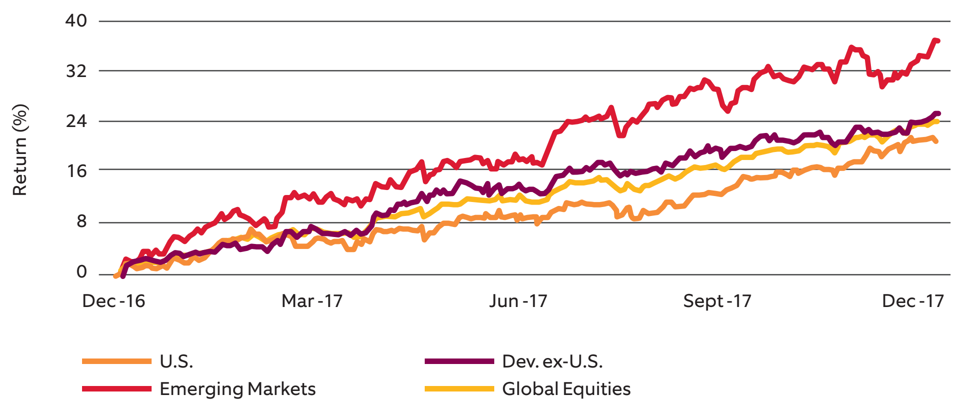
FACTORS DRIVING UNIFIED EXPANSION

Economic Growth We believe that earnings across Europe, Astralasia and Far East (EAFE) are still well below their prior cycle high which is generally tied to the delayed economic cycle across Europe, where earnings are still roughly 40% below their prior peak.[3] In many advanced economies, the aftereffects of the financial crisis are finally fading. Long-troubled Eurozone economies, even Greece, show signs of finally turning a corner. [4]

Political Risk After several years of big political surprises such as Brexit, investors appear to be feeling increasing confidence in the global landscape. We believe many investors have turned more favorable to investment outside of the US due to a variety of factors including the diminished prospects for significant legislative progress for both tax and healthcare reform here in the US.

Inflation Our research shows that the world is benefiting from a reversal from a global commodity bust that began in 2014. Such new approaches to increasing energy supply, such as through fracking here in the US, initially caused prices to tumble. We believe that prices have firmed overall and investment continues to pick up. Yet broader inflation is low world-wide, which may provide central bankers an incentive to proceed slowly in pulling back a variety of stimulus implemented since 2008.

REGIONAL EQUITY INDICES TWO WAYS TO INVEST



Source: Northern Trust Investment Strategy, Index data for the various return calculations above are as follows: U.S. is the MSCI U.S. Equities IMI; Emerging Markets is the MSCI Emerging Market Equities Index; Dev. ex-U.S. is the MSCI World ex-U.S. IMI; Global Equities is the MSCI ACWI (All Country World Index) and is a market capitalization weighted index designed to provide a broad measure of equity-market performance throughout the world. Indexes are gross of fees and indexes cannot be invested in directly. **Past returns are no guarantee of future results.** Charts are as of December 31, 2017.

[3] McDonald, James & Daniel Phillips. "The Other Half: Non-U.S. Markets Move to the Fore." Northern Trust, July 7, 2017.
[4] Zumbrun, Josh. "Global Economies Grow in Sync." Wall Street Journal. 23 Aug 2017.

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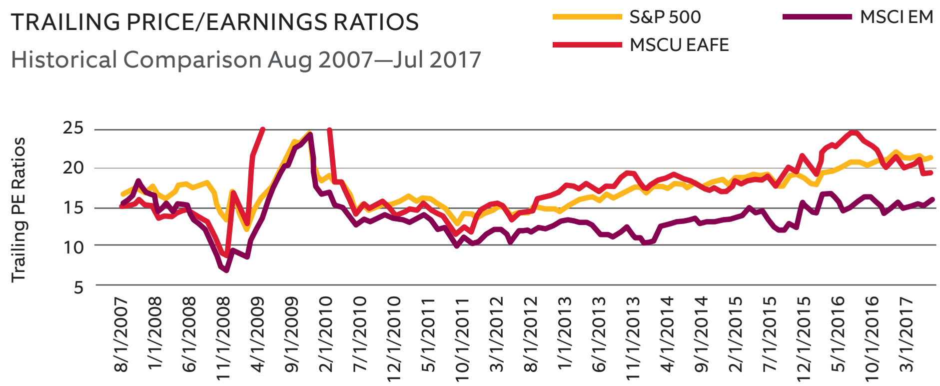
FINDING SUSTAINABLE INTERNATIONAL QUALITY DIVIDENDS

For investors, valuation is not everything, but it is not a bad place to begin. The price-earnings ratio (P/E ratio) is the ratio for valuing a company that measures its current share price relative to its per-share earnings. The P/E ratio can be calculated as: Market Value per Share / Earnings per Share. The chart below shows trailing PE ratios for the US, Developed Countries and Emerging Market Countries through the S&P 500 index, MSCI EAFA index and the MSCI Emerging Markets indices, respectively, since Aug 2007.

TRAILING PRICE/EARNINGS RATIOS

Historical Comparison Aug 2007—Jul 2017



Past performance is not indicative of future results. The Standard & Poor's 500 Index (S&P 500) is an index of 500 stocks seen as a leading indicator of U.S. equities and a reflection of the performance of the large cap universe, made up of companies selected by economists. The EAFE Index is an index that serves as a benchmark of the performance in major international equity markets as represented by 21 major MSCI indexes from Europe, Australia and Southeast Asia. The MSCI Emerging Markets Index is an index designed to measure equity market performance in global emerging markets that consists of indices in 23 emerging economies. Source: Bloomberg, 08/01/2007 – 07/31/2017.

We believe, however, even in the face of this earnings growth that investors in international dividend stocks must be confident that the dividend being paid is sustainable over the long term, meaning that the payout is well covered and the payer company has the potential to grow it over time. Measuring a company's core financial health makes it possible to evaluate the likelihood of future dividends increasing or decreasing. By using several lenses to evaluate the actual financial health of the organization, the FlexShares' Dividend Quality Score (DQS) is designed to provide insight into how well positioned a dividend-paying company is for success, and the expectations for future dividends under the current market/economic environments.

For international dividend payers, the DQS score evaluates dividend-paying equities across all of these lenses, ranks companies on a sector basis and evaluates firms on both a regional and sector basis. This not only ensures an "apples-to-apples" comparison – profiling like firms against each other – it also serves to identify quality companies in every sector and country, supporting diversification through the construction process and opportunity set.

POTENTIAL PORTFOLIO BENEFITS – INTL QUALITY SUITE – IQDF, IQDE, IQDY

- Innovative DQS – helping to evaluate the long-term viability of the company's dividend paying ability
- New dividend payers can be evaluated similarly to stocks that have paid dividends for decades
- Apples to apples comparison on a regional and sector basis

TLTE

TILTING TOWARDS EMERGING MARKETS

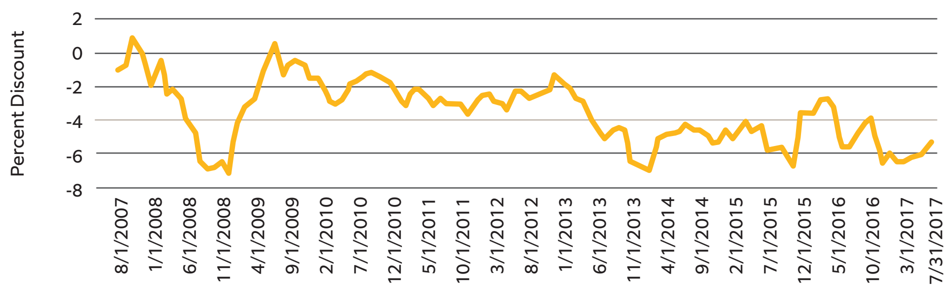
Our analysis shows that when investors decide to invest internationally, they usually do so through large-cap companies. We believe by tilting the portfolio to the mid- and small-cap international companies an investor could reap potential diversification and total return benefits.

Recent U.S. equity market research showed small-cap stocks have historically outperformed large caps across long periods of time, even when controlling for beta. Research also demonstrated there is a value effect on performance. Stocks with favorable valuations – meaning low price-to-earnings ratios or high dividend yields – tended to outperform those with unfavorable ratios, again, even after controlling for beta which is a measure of the volatility, or systematic risk, of a security or a portfolio in comparison to the market as a whole. Later studies proved that the value and size factors may also explain differences in returns for equities in international markets.[5]

Beta: A statistical measure of the volatility, or sensitivity, of rates of return on a portfolio or security compared to a market index. The beta for an ETF measures the expected change in return of the ETF relative to the return of a designated index. By definition, the beta of the Standard & Poor's (S&P) 500 Index is 1.00. Accordingly, a fund with a 1.10 beta is expected to perform 10% better than the S&P 500 Index in rising markets and 10% worse in falling markets.

PRICE TO EARNINGS DISCOUNT

COMPARISON OF S&P 500 VERSUS MSCI EMERGING MARKETS: Aug 2007—Jul 2017



Past performance is not indicative of future results. The Standard & Poor's 500 Index (S&P 500) is an index of 500 stocks seen as a leading indicator of U.S. equities and a reflection of the performance of the large cap universe, made up of companies selected by economists. The MSCI Emerging Markets Index is an index designed to measure equity market performance in global emerging markets that consists of indices in 23 emerging economies. Source: Bloomberg, 08/01/2007 – 07/31/2017.

This ETF tracks the Morningstar® Emerging Markets Factor Tilt Index, a benchmark Morningstar® developed to invest in Emerging Markets, while giving the portfolio an emphasis or tilt toward small cap and value stocks. Research by Eugene Fama and Ken French has shown that size and value were important factors, with a combination of beta and exposure to these factors, in adding value to portfolios over time.[6]

POTENTIAL PORTFOLIO BENEFITS –TLTE

- Potential performance advantage of tilting a core equity portfolio to smaller cap and value stocks.
- Morningstar® approach incorporates both forward-looking and historical factors into its classification methodology.
- Exposure to 97% of the investable market in 23 countries outside the US while minimizing turnover.

[5] Kaplan, Paul D. and Magnus, Gideon. "Investing at Full Tilt." Morningstar®. 2016.

[6] Fama, Eugene and Kenneth French. Journal of Financial Economics. "Common Risk Factors in the Returns on Stocks and Bonds." February 1993.

A GLOBAL OPPORTUNITY FOR A REVERSION TO THE HISTORICAL MEAN

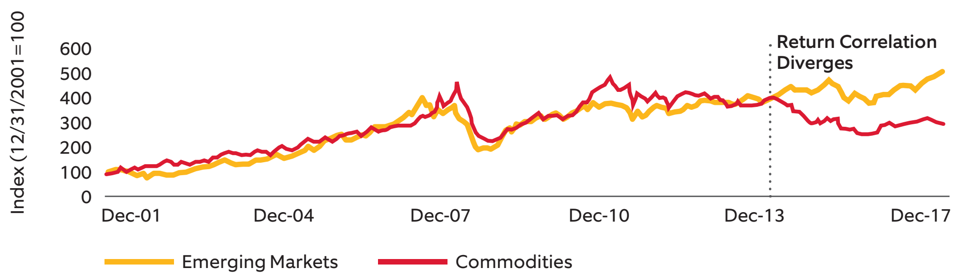
Natural resources provide the potential advantage of offsetting some of the l onger-term inflationary effects of economic expansion.

As China, India and other emerging markets move toward more developed economies, population growth, urbanization and rising incomes all fuel an increase in infrastructure spending as well as basic commodities. The need for energy, food products, metals and other natural resources such as paper and water are the building blocks of flourishing economies. As non-U.S. economies gain economic share, U.S. investors in natural resources can participate in the benefits of rising prices of raw input materials and we believe help to alleviate exposure to US-denominated investments while potentially offsetting inflation.

Our analysis shows that we expect the modest global growth environment to continue to temper natural resource demand in the short term. Also, the continued emerging-market shift to the consumer, away from investment-driven growth, has reduced natural resources' link to emerging market equity returns after a long period of tight correlation (see chart). However, we believe that natural resource demand is not dead, and underinvestment will eventually pressure supply.

ESTRANGED RELATIONSHIP

The Tight Return Correlation Between Commodities and Emerging Market Equities has Been Fading.



Source: Northern Trust Investment Strategy, Bloomberg. Emerging Markets = MSCI Emerging Markets Index. Commodities = Bloomberg Commodity Spot Index

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 global prosperity and demand for natural resources rise, our upstream index fund provides a great way to build your exposure to the growth potential of the natural resources market.

POTENTIAL PORTFOLIO BENEFITS – GUNR

- Potential inflation hedging benefits of natural resources
- Continually rebalanced using a rules-based methodology
- Focus on global companies in five upstream sectors

FlexShares Fund Lineup

EQUITY

- **TILT** FlexShares Morningstar® U.S. Market Factor Tilt Index Fund
- **TLTD** FlexShares Morningstar® Developed Markets ex-U.S. Market Factor Tilt Index Fund
- **TLDH** FlexShares Currency Hedged Morningstar® DM ex-U.S. Factor Tilt Index Fund
- **TLTE** FlexShares Morningstar® Emerging Markets Factor Tilt Index Fund
- **TLEH** FlexShares Currency Hedged Morningstar® EM Factor Tilt Index Fund
- **ESG** FlexShares STOXX® US ESG Impact Index Fund
- **ESGG** FlexShares STOXX® Global ESG Impact Index Fund
- **QLC** FlexShares U.S. Quality Large Cap Index Fund
- **QDF** FlexShares Quality Dividend Index Fund
- **QDEF** FlexShares Quality Dividend Defensive
- **QDYN** FlexShares Quality Dividend Dynamic Index FundIndex Fund
- **IQDF** FlexShares International Quality Dividend Index Fund
- **IQDE** FlexShares International Quality Dividend Defensive Index Fund
- **IQDY** FlexShares International Quality Dividend Dynamic Index Fund

FIXED INCOME

- **TDTT** FlexShares iBoxx® 3-Year Target Duration TIPS Index Fund
- **TDTF** FlexShares iBoxx® 5-Year Target Duration TIPS Index Fund
- **MBSD** FlexShares Disciplined Duration MBS Index Fund Index Fund
- **SKOR** FlexShares Credit-Scored U.S. Corporate Bond Index Fund
- **LKOR** FlexShares Credit-Scored U.S. Long Corporate Bond Index Fund
- **BNDC** FlexShares Core Select Bond Fun
- **RAVI** FlexShares Ready Access Variable Fund

REAL ASSETS

- **GUNR** FlexShares Morningstar® Global Upstream Natural Resources Index Fund
- **NFRA** FlexShares STOXX® Global Broad Infrastructure Index Fund
- **GQRE** FlexShares Global Quality Real Estate Index Fund
- **ASET** FlexShares Real Assets Allocation Index Fund

REAL WORLD GOAL

- CAPITAL APPRECIATION
- INCOME GENERATION
- RISK MANAGEMENT
- LIQUIDITY MANAGEMENT

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.

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.

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 International Quality Dividend Index Fund (IQDF), FlexShares International Quality Dividend Defensive Index Fund (IQDE) and the FlexShares International Quality Dividend Dynamic Index Fund (IQDY) are passively managed and use a representative sampling strategy to track their 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. Additionally, the Funds are at increased dividend risk, as the issuers of the underlying stock might not declare a dividend, or the dividend rate may not remain at current levels. The Funds are also at increased risk of industry concentration, where it may be more than 25% invested in the assets of a single industry. The Funds may be more susceptible to adverse economic, market, political or regulatory occurrences affecting that country, market, industry, sector or asset class. Finally, the Funds may also be subject to increased volatility risk, where volatility may not equal the target of the underlying index.

FlexShares Morningstar® Emerging Markets Factor Tilt Index Fund (TLTE) is subject to concentration risk. The Fund's investments are concentrated in the securities of issuers in a particular country, market, industry, sector or asset class. The Fund 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. The Fund may also invest in derivative instruments. Changes in the value of the derivative may not correlate with the underlying asset, rate or index and the Fund could lose more than the principal amount invested.

FlexShares Morningstar® Global Upstream Natural Resources Index Fund (GUNR) 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.

The Morningstar® Emerging Markets Factor Tilt Index is the intellectual property (including registered trademarks) of Morningstar® 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 Morningstar® and its Licensors and neither of the Licensors shall have any liability with respect thereto.

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CONTACT US

FINANCIAL PROFESSIONALS

By Phone Consult
Consultants are available
Monday–Friday: 9AM to 5PM ET
1-855-FlexETF (1-855-353-9383)

By Mail/Overnight Delivery
FlexShares ETFs
c/o Foreside Fund Services, LLC
3 Canal Plaza, Suite 100
Portland, ME 04101

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