Fund Vision

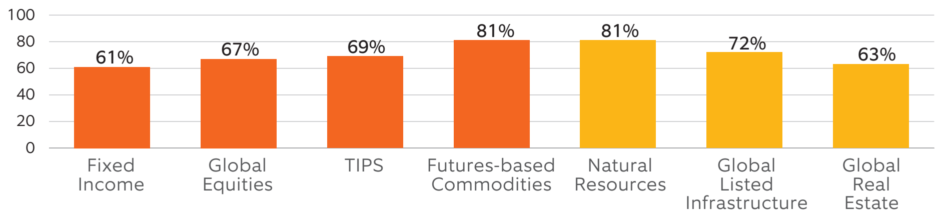
Real Assets Investing: Equity-Based or Futures-Based Approach?

The industry term "real assets" is a bit clumsily defined. Our primary asset classes in this category — natural resources, global real estate and listed infrastructure — aren't technically real assets (like physical gold). Instead, they are equity based. But we believe they can provide real benefits to the portfolio, including diversified risk exposures and, in some cases, inflation protection (see Exhibit 1).

"Performance Match" refers to monthly investment performance gross of fees and expenses of those asset classes that matched the same level as the monthly publically announced rate of inflation during that time frame. "High inflation" refers to a publically announced rate of inflation above 2.98% which is in the 75th percentile of data and "normal inflation" refers to a publically announced rate of inflation below 2.98%.

EXHIBIT 1: PERFORMANCE MATCH

Percentage of the time since 2001 Asset Class Performance Matched the Publically Announced Rate of Inflation



Annualized return during:	Fixed Income	Global Equities	TIPS	Futures-based Commodities	Natural Resources	Global Listed Infrastructure	Global Real Estate
High Inflation	4.2	7.6	7.4	13.5	21.5	14.0	9.1
Normal Inflation	4.5	7.7	3.9	-4.9	2.3	7.4	8.2

Source: Bloomberg. Data is from 12/31/2001 to 12/31/2020. Fixed Income is represented by the Bloomberg Barclays Aggregate Index; Global Equities is represented by the MSCI ACWI (All Country World Index); TIPS is represented by the Bloomberg Barclays TIPS Index; Futures-based Commodities is represented by the Bloomberg Commodity Index; Natural Resources are represented by the S&P Global Natural Resources Index; Global Listed Infrastructure is represented by the S&P Global Infrastructure Index; and Global Real Estate is represented by the FTSE EPRA/NAREIT Global Index. Indexes are gross of fees and cannot be invested in directly. **Past performance is no guarantee of future results.**
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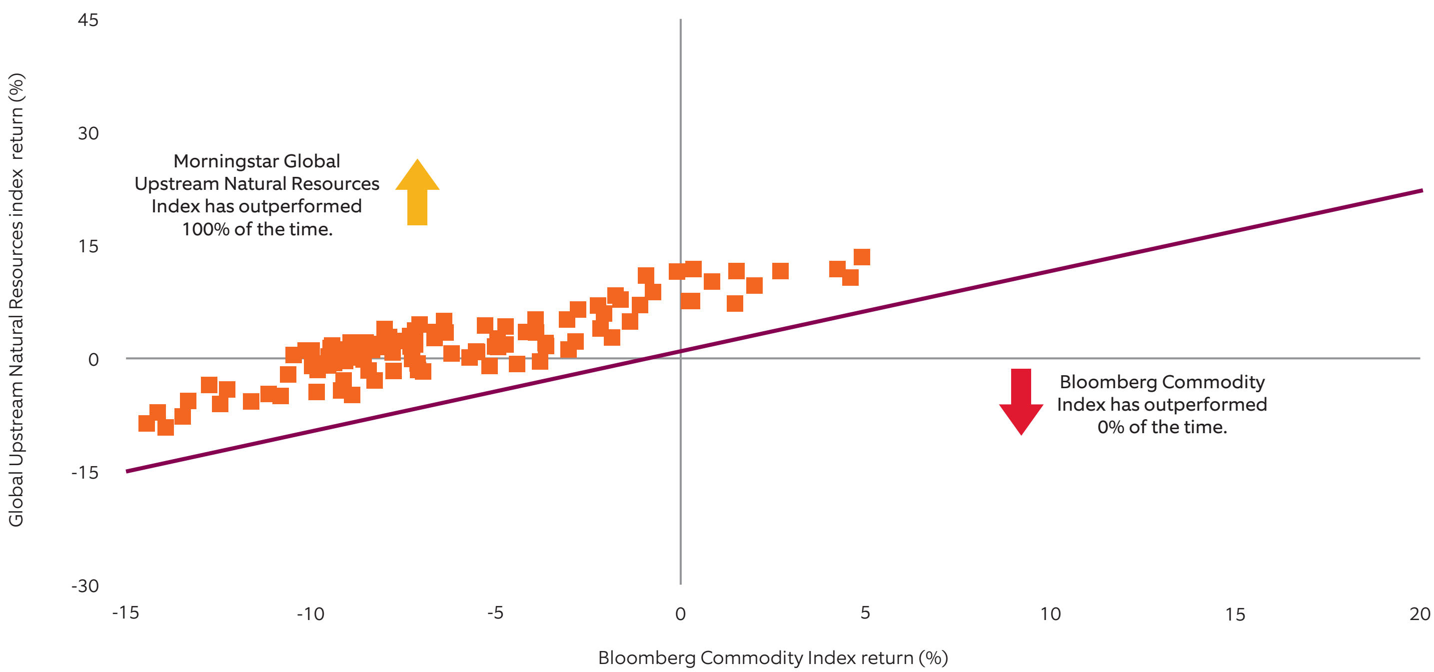
The three "real asset" asset classes all have equity market exposure. In addition, Natural Resources have Emerging market equity and commodity exposure; Real Estate and listed Infrastructure have term interest rate exposure, and Real Estate has credit exposure.

We believe an equity-based approach to natural resources may be a good alternative way to gain commodity exposure versus a futures-based approach. Historically speaking, it has materially and persistently outperformed a futures-based approach. In Exhibit 2, we compare the 5-year rolling returns of two indexes, the Bloomberg Commodity Index and the Morningstar Global Upstream Natural Resources Index, and plot both which index exhibited the projected higher 5-year rolling return for that month and the return of that index. As seen in the chart, because in every case during the 07/31/2011 to 12/31/2020 time frame, the monthly projected 5-year rolling returns of the Morningstar Global Upstream Natural Resources Index were higher, we never posted the Bloomberg Commodity Index nor its corresponding return.

EXHIBIT 2: WHICH APPROACH WORKED BEST?

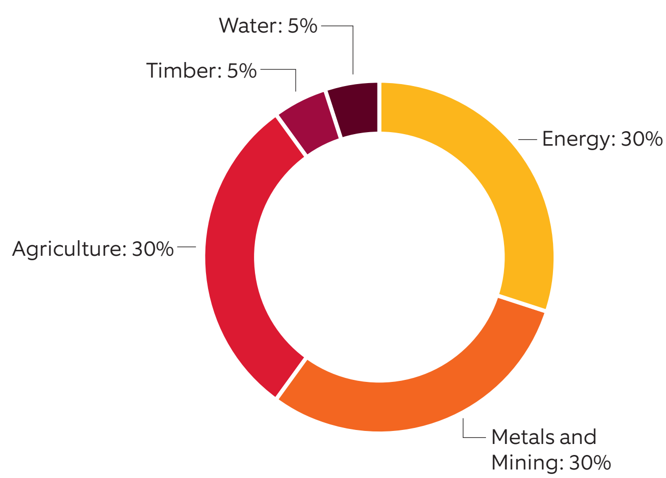


Source: Bloomberg. Data is from 07/31/2011 to 12/31/2020. Comparison of the Morningstar Global Upstream Natural Resources Index versus the Bloomberg Commodity Index. Indexes are gross of fees and cannot be invested in directly. **Past performance is no guarantee of future results.**

Driving this outperformance was the equity market exposure, but commodity prices still played a large part in the return expectation. The modest growth environment during the time frame — combined with OPEC-controlled supply — which steadily removed the oil glut of the prior decade also played a role. We believe that the continued rise of the Emerging market middle class should support commodity demand more broadly in the years ahead.

Investors seeking potential inflation protection through an equity-based approach may want to consider the FlexShares Morningstar® Global Upstream Natural Resources Index fund (GUNR) which is designed to give investors exposure to global equity securities with an emphasis on the "upstream" portion - referring to the very beginning of the supply chain where the resources are "in the ground." It is a focused, convenient way for investors seeking to potentially capture the favorable growth and price impacts of the global demand for natural resources.

EXHIBIT 3: SECTOR ALLOCATIONS FOR THE FLEXSHARES MORNINGSTAR® GLOBAL UPSTREAM NATURAL RESOURCES INDEX



Allocations are subject to change.

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 broad 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).

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.