



April 2017

INFLATION – LOW & SLOW OR SET TO BOIL

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INFLATION – FRONT & CENTER ON INVESTORS' MINDS

Inflation now the concern versus disinflation/deflation

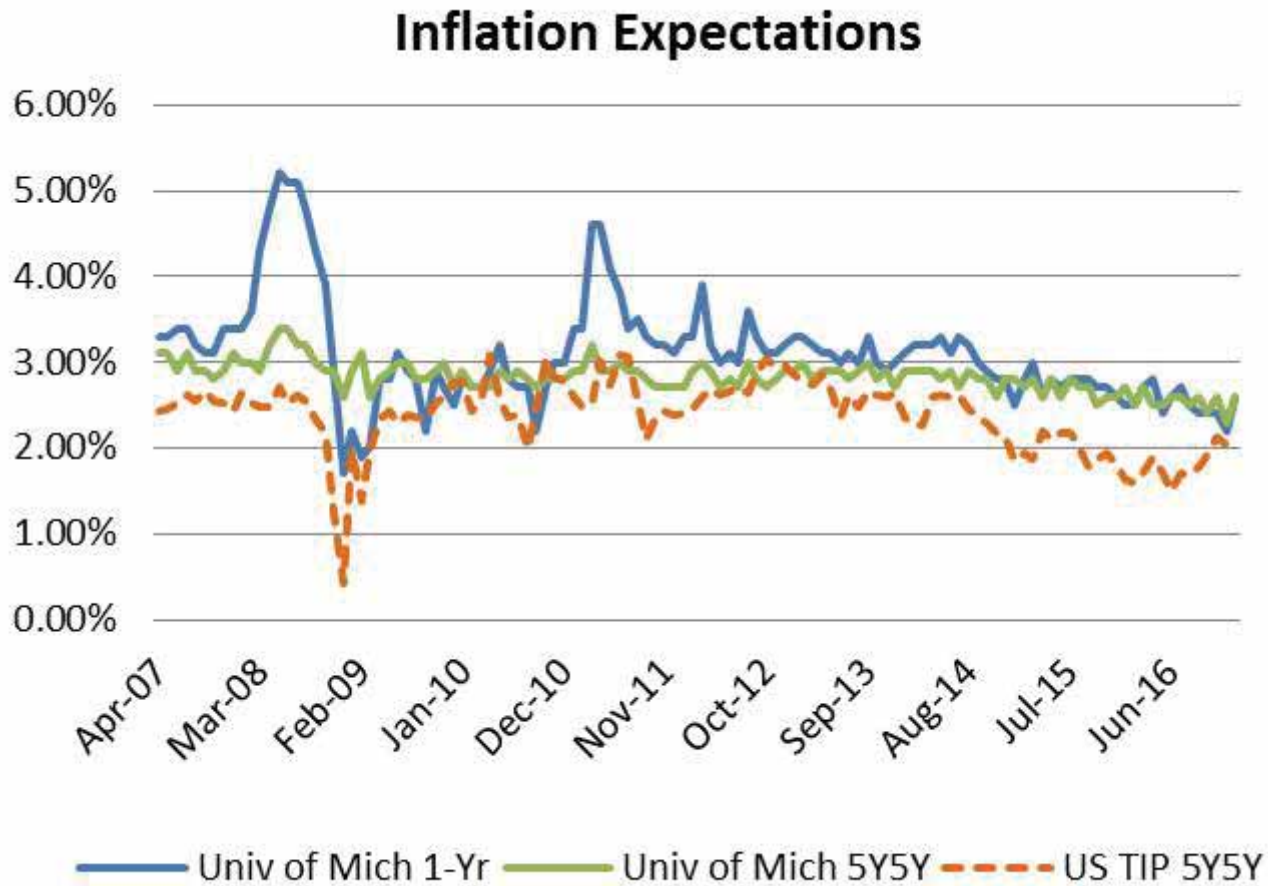
Price Levels - Annual % Change



Source: As of 12/01/2000 – 12/31/2016 Bloomberg, Bureau of Labor Statistics, Department of Commerce & Eurostat

INFLATION – FRONT & CENTER ON INVESTORS' MINDS

Actual and Expected Inflation Converging



Source: As of 04/01/2007 – 12/31/2016 Source: Bloomberg & University of Michigan

FUELING THE FIRE – HARDWOOD OR KEROSENE



Long-term inflation fuel - the slow burn of lingering inflationary issues

- Monetary Policy
- Availability of Credit
- Demographic Driven Demand



Turning up the heat

- Fiscal / tax agenda
- Global populism movement
- OPEC vs US Shale Industry

WHAT INGREDIENTS CONTRIBUTE TO INFLATION

Inflation is a product of economic, monetary, social and political events



Economic

Supply and Demand 101



Monetary

Money supply and turnover



Social

Holistic control of resources



Political

Lighting the fuse or kicking the can

INFLATION – DEMAND DRIVEN INFLATION

Reflects economic growth

Positive impacts on supply chains

Stimulates supply



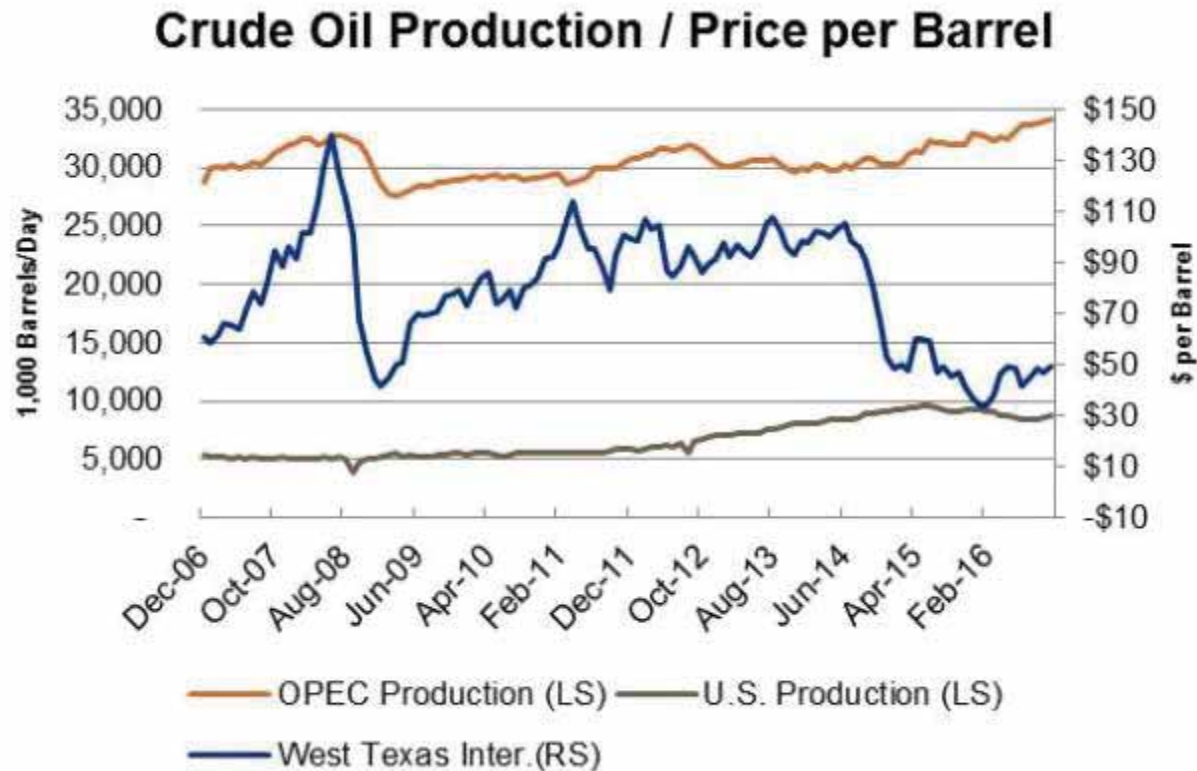
Source: As of 03/01/2007 – 12/31/2016 Source: Bloomberg, Bureau of Labor Statistics

INFLATION – SUPPLY DRIVEN INFLATION

Often reflects non-economic issues

Negative impacts on supply chains

Cuts demand



Source: As of 12/01/2006 – 12/31/2016 Source: Bloomberg

MONETARY POLICY – MONEY SUPPLY

Money levels, velocity - both needed

Current environment – unprecedented



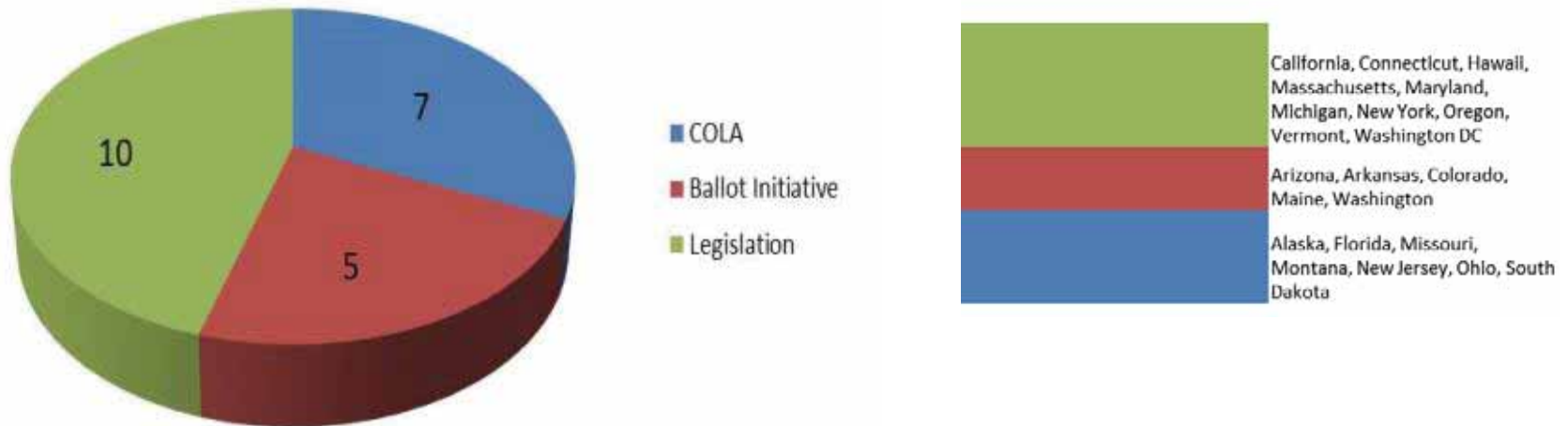
Source: As of 01/01/2003 – 09/30/2016 Source: Federal Reserve Bank of St Louis

SOCIAL – THE CONTROL OVER RESOURCES

Fundamental factors plus alternative policies

Control over resources – physical assets and labor

States Raising Minimum Wage in 2017



Source: As of 12/31/2016 Source: National Conference of State Legislatures

POLITICAL – PICKING WINNERS AND LOSERS



Who benefits from inflation?

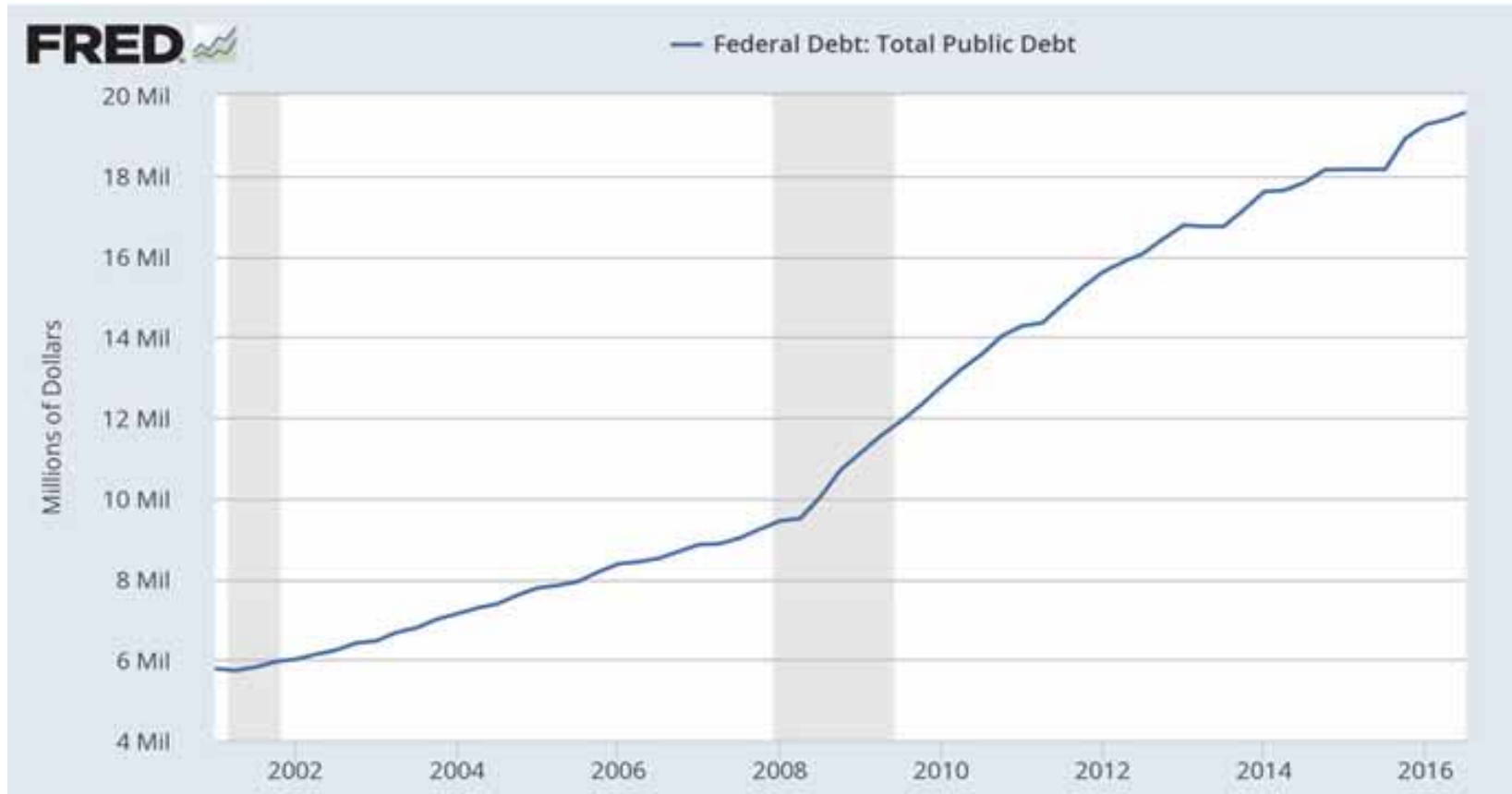
- Debtor governments
- Levered entities
- Resource asset owners



Who is negatively impacted by inflation?

- Savers
- Net taxpayers
- Resource buyers

POLITICAL – IS IT DIFFERENT THIS TIME?

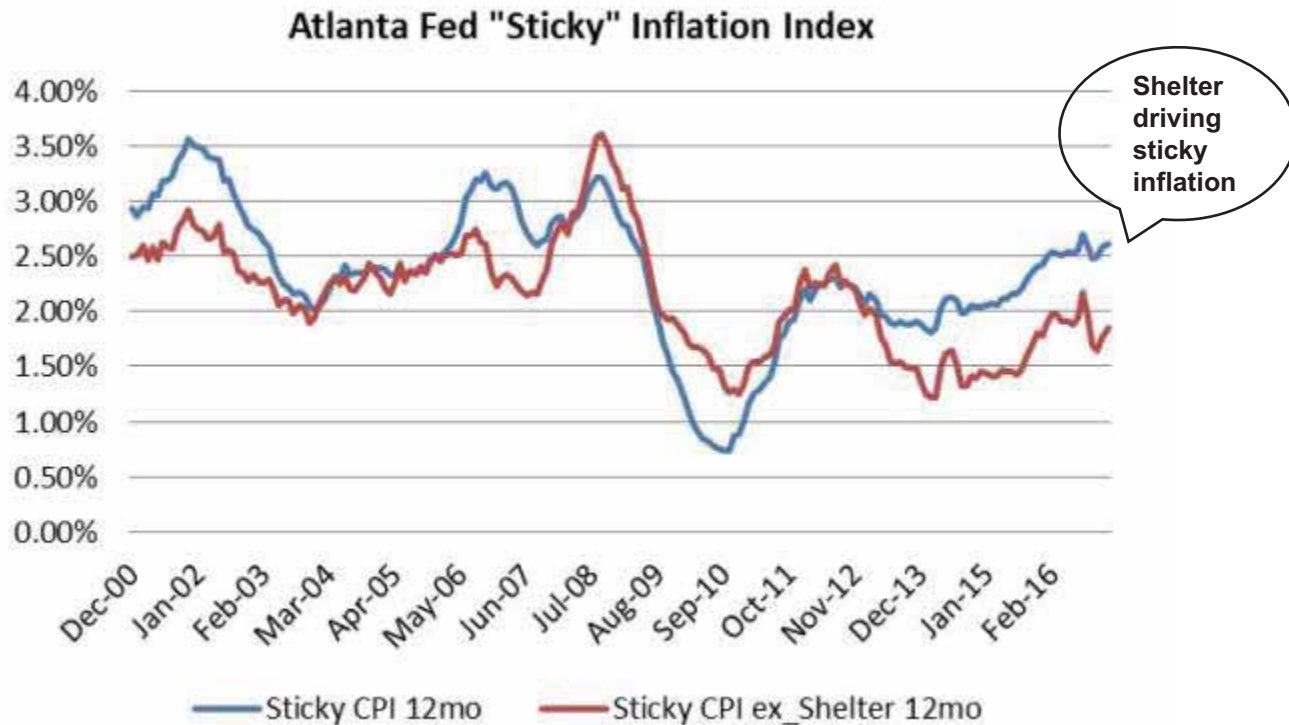


Source: As of 01/01/2002 – 9/30/2016 Source: Federal Reserve Bank of St Louis

CORE INFLATION – LONG-TERM STICKY?

“Sticky” inflation – prices adjustments over months/years

- Rent
- Public transportation
- Insurance



Source: As of 12/01/2000 – 03/01/2017 Source: Federal Reserve Bank of Atlanta

INFLATION TIMETABLE

Different Factors, Different Time Periods, Different Ways



Short-term (1-5 Years) abrupt changes most disruptive

- Commodity shocks
- Policy changes
- Geo-political



Intermediate-term (5-15 Years) tied to business cycles

- Early, Growth, Peak, Recession, Rinse/Repeat
- Capital spending/investment
- Income trends



Long-term (15+ Years) mega-cycles

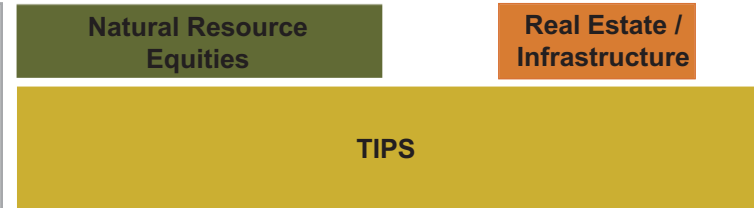
- Innovation
- Productivity
- Demographics

We believe investors should look at inflation in three time stages, combining hedges as needed

FLEXSHARES – TIME PERIOD APPROACH

Short Term: 1-5 years

- **U.S. Treasury Inflation Protected Securities**
 - Effective capturing near term unexpected inflation
 - Correlation to near-term CPI
 - Captures shelter inflation



Intermediate Term: 5-15 years

- **Global Natural Resource Public Equities**
 - Longer-term correlation to CPI
 - Liquid, transparent, tax efficient



Long Term: 15+ years

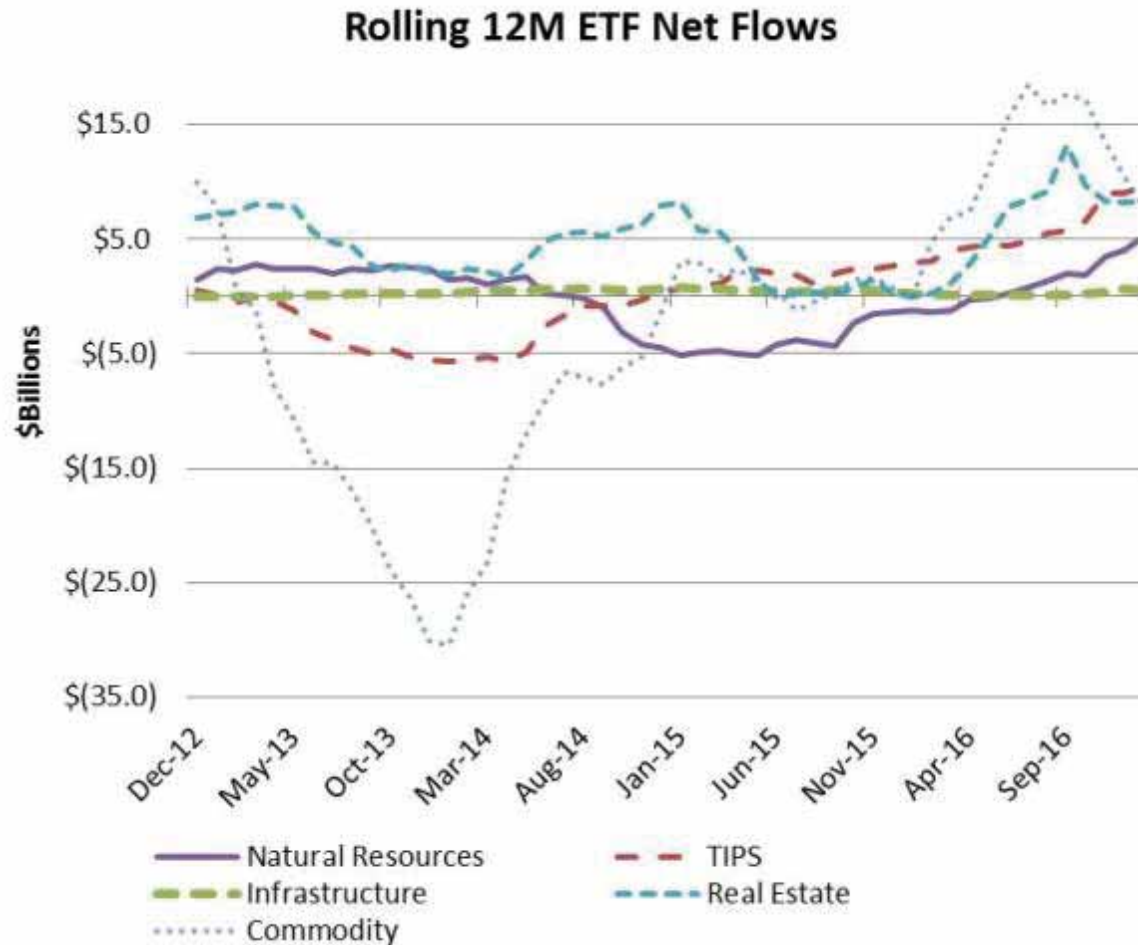
- **Real Estate and Infrastructure**
 - Correlations to long-term inflation
 - Long-lived, Barriers to entry
 - Contracted cash flows



For demonstration purposes only.

INFLATION – WHERE ARE THE ASSET FLOWS?

ETF AUM flows to inflation “friendly” sectors



Source: As of 12/01/2012 – 12/31/2016 Morningstar

SHORT-TERM INFLATION INVESTING – TIPS



Liquid, government bonds

Low risk



Inflation protection

Fixed coupon plus returns linked to CPI-NSA



Inflation correlation

Short-term, short duration more efficient

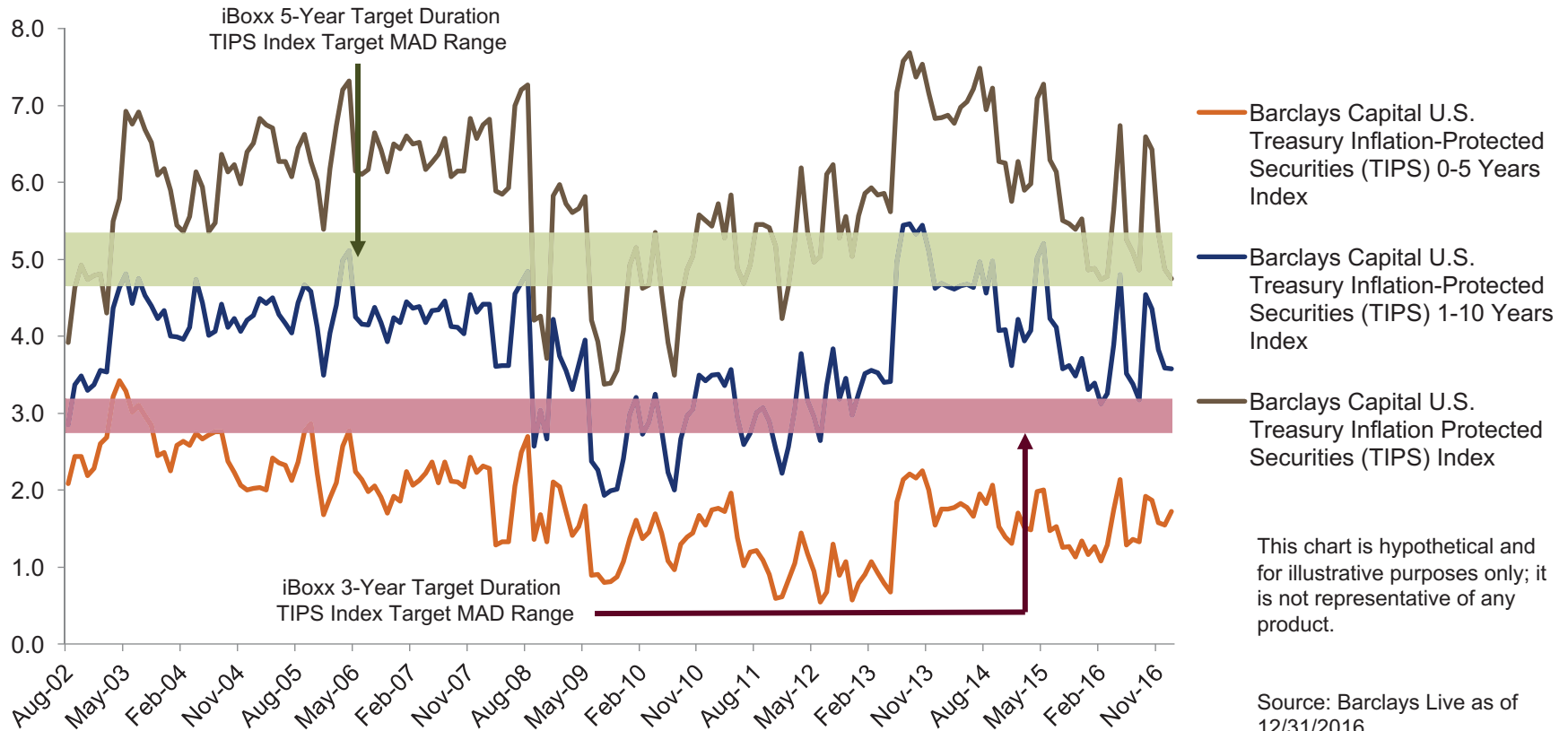


What is your duration exposure?

Modified Adjusted Duration



TIPS MODIFIED ADJUSTED DURATION (MAD)



This chart is hypothetical and for illustrative purposes only; it is not representative of any product.

Barclays Capital U.S. TIPS Indices: Market-weighted indices
Modified Adjusted Duration: Changing inflation expectations
Targeted Duration: FlexShares' focused approach

Past performance is not indicative of future results. Indices are unmanaged, are not investable and are not reduced by fees or expenses.

A NEW WAY IN TIPS INVESTING

Develop a strategy that:



**Exposure to
inflation
protection of TIPS**



**Address duration
issues**



**Target duration,
manage interest
rate risk**

IBOXX[®] TARGET DURATION TIPS SUITE



Two products

- FlexShares iBoxx[®] 3-Year Target Duration TIPS Index Fund
- FlexShares iBoxx[®] 5-Year Target Duration TIPS Index Fund



Modified Adjusted Duration

Takes into account changes in inflation expectations



ETF – Economic, liquid access to TIPS

INTERMEDIATE-TERM INFLATION INVESTING – NATURAL RESOURCES



**Raw materials for
producing goods
and services**



**Good historical
correlations to
inflation**



**Diversifying asset
class in a traditional
portfolio**

A NEW WAY IN NATURAL RESOURCES

Develop a strategy with:



**Equity exposure to
natural resource
supply chain**

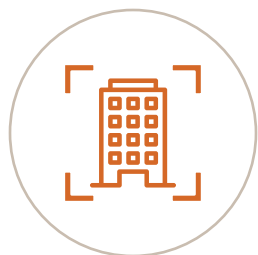


**Upstream versus
downstream focus**



**Include non-
traditional natural
resource sectors**

FLEXSHARES MORNINGSTAR® GLOBAL UPSTREAM NATURAL RESOURCES INDEX FUND (GUNR)



Global universe of natural resource stocks

Focus on five natural resource sectors emphasizing upstream exposure



Target sectors

- 30% Energy
- 30% Metals
- 30% Agriculture
- 5% Timber
- 5% Water



LONG-TERM INFLATION INVESTING – INFRASTRUCTURE

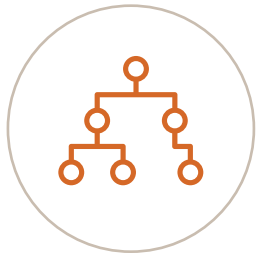


**Vital economic “backbones” -
movement of goods, people,
energy and information**



**Significant correlation
to inflation historically**

Inflation adjustments
often built into contracts

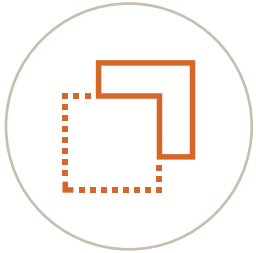


Diversifier in a traditional portfolio

- Unique assets
- Predictable cash flows



INFRASTRUCTURE INVESTING CONCERNS



Traditional investment vehicles

- Private, illiquid
- Often non-diversified
- Ignore “new” economy



Susceptible to macro risks

- Political
- Regulatory
- Natural Disaster



Limited liquidity, lack of market valuation

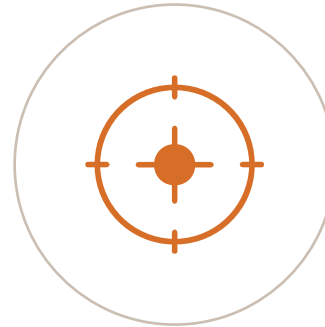


A NEW WAY IN INFRASTRUCTURE

Develop a strategy with:



Exposure to infrastructure assets
Bottoms up approach



Broadest exposure
Include new economy infrastructure sectors



Geographic diversification



Listed equity - improved liquidity vs. private infrastructure

FLEXSHARES STOXX® GLOBAL BROAD INFRASTRUCTURE INDEX FUND (NFRA)



Global universe of infrastructure stocks

- Include:
 - Traditional sectors (Utilities, Energy and Transportation)
 - Newer (Data, Communications and Government Outsourcing)
- Analytical review of revenue derived from infrastructure operations



Diversification to manage unique risks of infrastructure

- Sector
- Country
- Company

LONG-TERM INFLATION INVESTING – REAL ESTATE



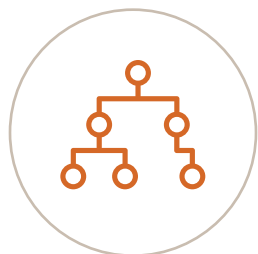
Historical use as inflation hedge

Scarcity and ability to reprice leases and pass thru expenses



We believe great total return potential

We believe income (rent) is a strong component and buffer in volatile markets



A potential diversifier in a traditional portfolio

Equity and debt attributes



A NEW WAY IN REAL ESTATE



Develop a strategy with:

- Diversification
 - Geographic
 - Property Type
- Potential improved liquidity vs. Private real estate
- Designed to provide access to companies with real estate exposure
 - More than REITs
 - Removing financing and transactional businesses
- Managed the equity exposure in real estate stocks



FLEXSHARES GLOBAL QUALITY REAL ESTATE INDEX FUND (GQRE)



Start with a global universe of real estate stocks



Remove financing and real estate intermediaries



Score firms based on quality



Maximize exposure to quality, value and momentum



Diversification measures to address overall risk

REAL ASSETS – POWER OF COMBINATION



Basic building blocks for a functioning economy

- Natural Resources
- Infrastructure
- Real Estate



We believe a strong correlation to inflation historically

- Sector correlations vary, can be complementary



Income potential



Diversification

REAL ASSET INVESTING CONCERNS



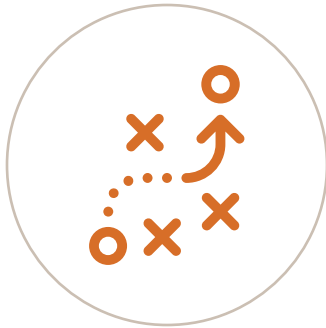
Allocation conundrum
Optimal balance versus
investment objectives



Volatility

- Diversification addresses volatility in sectors:
 - Oil and Gas
 - Metals
 - Real Estate

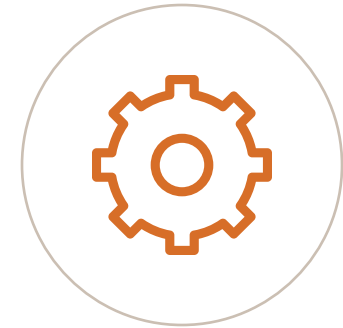
A NEW WAY IN REAL ASSETS



**Develop
a strategy with
Exposure
to real assets,
optimize for
investment
objective**



**Designed to
minimize volatility
of the overall real
asset allocation
portfolio**



**Bonus: Simplify
into one turnkey
solution**

FLEXSHARES REAL ASSETS ALLOCATION INDEX FUND (ASET) PROCESS



Invest in the Real Asset ETFs

- FlexShares Morningstar® Global Upstream Natural Resources Index Fund (GUNR)
- FlexShares STOXX® Global Broad Infrastructure Index Fund (NFRA)
- FlexShares Global Quality Real Estate Index Fund (GQRE)



Optimize portfolio in an effort to reduce portfolio volatility of returns

Diversification measures incorporated



INFLATION - WHAT INGREDIENTS CONTRIBUTE

Inflation is a product of economic, monetary, social and political events



Economic

Fundamentals of inflation



Monetary

Central Bank two-step



Social

When macro meets Main Street



Political

It's all about the voters

SUMMARY

Low & slow or set to boil?



We believe that the markets/environment favors Low and Slow; with ever-present potential catalysts for Boil Overs



Important to define the inflation horizon



Attempt to blend & balance inflation hedging assets



Seek out investment products that best fit objectives/expectations



Be prepared to eat your own cooking

BUILT ON A FOUNDATION OF INVESTMENT OBJECTIVES

CAPITAL APPRECIATION

RISK MANAGEMENT

INVESTOR

LIQUIDITY MANAGEMENT

INCOME GENERATION

FLEXSHARES FUNDS



THE FLEXSHARES MISSION IS TO PROVIDE EXCHANGE TRADED FUNDS THAT SERVE AS THE BUILDING BLOCKS FOR OUTCOME-ORIENTED PORTFOLIOS. THIS FOCUS ON “INVESTING WITH PURPOSE” IS AT THE HEART OF OUR UNIQUE BRAND OF ETFS.



IMPORTANT INFORMATION

Before investing, carefully consider the FlexShares investment objectives, risks, charges and expenses. This and other information is in the 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 investment risk, including the possible loss of principal amount invested. Funds' returns may not match the returns of their respective Indexes. The Funds may invest in emerging and foreign markets, derivatives and concentrated sectors. In addition, the Funds may be subject to asset class risk, small cap stock risk, value investing risk, non-diversification risk, fluctuation of yield, income risk, interest rate/maturity risk, currency risk, passive investment risk, inflation protected security risk, market risk and manager risk. For a complete description of risks associated with each Fund please refer to the prospectus.

IMPORTANT FUND INFORMATION

FlexShares Global Quality Real Estate Index Fund (GQRE) is subject to real estate sector risk in addition to the general risk of the stock market. 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 FlexShares Real Assets Allocation Index Fund (ASET) is subject to commodity exposure risk, the risk of investing in economies that are susceptible to fluctuations in certain commodity markets. The Fund is subject to counterparty risk, which is the risk that counterparty to a financial instrument may default on its payment obligation to an Underlying Fund. Investments in foreign and emerging market securities involve certain risks such as currency volatility, political and social instability and reduced market liquidity. The Fund's investments are concentrated in the securities of issuers in a particular 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 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.

IMPORTANT FUND INFORMATION

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.

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.

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