Capital Appreciation | Risk Management | Income Generation | Liquidity Management

Investment Focus

Five-Year Investing Trends Application Guide

Aligning the 2018 Trends & Funds

FlexShares®

Built by investors, for investors

Risk asset is a term broadly used to describe any financial security or instrument that is not a risk-free asset — that is, a high quality government bond. Risk assets would therefore include equities, commodities, property and all areas of fixed income apart from high quality sovereign bonds, such as Treasuries.

Although we have had a year of volatile risk asset returns and increases in global interest rates, we believe six key themes have emerged. We expect continued economic growth, controlled inflation and accommodative monetary policy to result in good-but-not- great risk asset returns and low-but-mostly-positive fixed income returns.

MARKET INSIGHTS

EQUITIES

P/E ratio is the average share price of the firms in an index divided by their average earnings per share for the preceding 12 months. Forward P/E is similar except that the index's current average price is divided by the average earnings expected from all the companies within the index for the next 12 months.

We believe that overall equity returns will be below long-term historical averages, but higher than what current valuations such as price-earnings (P/E) ratio or forward price-earnings ratio would predict.

We believe that developed market equities will provide investors with mild gains over the next five years. Valuations, while still elevated, retreated this past year as per share earnings grew faster than equity prices.

FIXED INCOME

The end of the 30-year-plus bull market does not mean the start of the next bear market. We believe Interest rates will remain low. Over the next five years we anticipate interest rates will remain below investor expectations, driven by the Stuckflation trend below. With long-term interest rates anchored, the current Federal Reserve rate hike cycle should end earlier and at a lower level than is priced into the markets. Also controlling short-term U.S. rates is the ongoing accommodation from other major central banks in response to low inflation. The expected result will likely be a nearly flat U.S. yield curve and a very small shift upward in other yield curves around the world.

REAL ASSETS

We expect real asset returns will be mostly in line with equities, providing potential diversification through different "flavors" of market risk. Exposure to interest rate and credit risk is expected to support global real estate. But negative investor sentiment remains as the real estate market is forced to respond to the more digitally based economy.

Mild Growth Myopia

Subdued economic cycles and stronger financial systems will potentially push out the next recession and limit its severity.

Many lament that the global economy seems stuck on a slow growth trajectory. We believe they me be short-sighted. The same forces keeping a lid on growth have also buffered downturns and extended the cycle itself. The service economy's steady expansion smooths out cycle peaks and valleys the same way that gradually removing monetary stimulus balances fiscal policy limitations. Nearly 10 years into the U.S. expansion, the cycle has matured and recession odds have risen — but the onset of a slowdown will likely be later and less threatening than suggested by the standard playbook.

FUNDS POTENTIALLY ALIGNED WITH TREND:

QDF | QDEF | QDYN | ESG

Stuckflation

Low and durable structural inflation has altered both monetary policymaking and investor behaviors.

Most major central banks have fallen well short of their 2% annual inflation targets over the past decade — and many of the supply-side forces behind the shortfall are only gaining traction. This is reflected in low interest rates and flattening yield curves. Technological innovations combined with vast troves of data are enhancing price discovery and optimization techniques globally. Monetary policy adjustments and trade frictions may produce uncertainties and pockets of inflation, but companies and consumers will likely continue to find ways to alleviate such pricing pressures.

FUNDS POTENTIALLY ALIGNED WITH TREND:

HYGV | BNDC | LKOR | SKOR

Pass/Fail Monetarism

Without a template for policy normalization, central banks' efforts cannot be graded — other than that we feel they must not fail.

Stuckflation and a boisterous political backdrop argue for under-the-radar monetary policymaking, but operating with uber-large financial market footprints makes this challenging. This is new territory, where only two grades exist: Pass or Fail. Monetary experts know recent business cycles ended because of financial instability — not high inflation. With stricter regulations this time around, a more cautious monetary path will be taken. Increasing interest rates too fast, only to increase the odds that interest rates will need to be taken lower, is self-defeating.

FUNDS POTENTIALLY ALIGNED WITH TREND:

ASSET | RAVI

Technology Slowzone

Technology has been pulled into the orbit of government meddling but will remain a constructive economic force.

After being allowed to flourish without governmental interference in its business models and data collection endeavors, technology now finds itself in the political cross hairs. Social media data mining for political purposes has sparked deep angst over the integrity of democratic elections just as it is increasingly leveraged by politicians on a global level. A period of political maneuvering is now underway but technology's benefits are too great to be throttled for long. Tech may regain its swagger by adhering to revamped rules of the road.

FUNDS POTENTIALLY ALIGNED WITH TREND:

TILT | TLTD | TLDH

Global (RE) Positioning System

The irreversible fade of legacy multi-lateral institutions is creating as many investment opportunities as risks.

Those left behind by globalism and information technology question whether western-style democracy can right the ship; they also have weak attachment to the post World War II institutional frameworks led by the United States. Global engagement will continue, but based on transactions-oriented instead of ideological frameworks. Investors appreciate that these new approaches will likely favor tech savvy and globally integrated corporate structures. Over time, the tug of war between free markets and managed capitalism will be resolved somewhere in the middle.

FUNDS POTENTIALLY ALIGNED WITH TREND:

GUNR | NFRA | GQRE | ESGG | IQDF | IQDE | IQDY

Executive Power Drive

Investors are accepting leaders who challenge political norms in order to favorably tilt the economic landscape.

Mainstream, rules-compliant politicians are in retreat everywhere as tech-enabled populists push strong leaders and new agendas onto the political stage. One truism embraced by all sides is that control of executive political power and technology are the most important levers for shaping the future economic landscape. Populism has often been described as a road to economic dysfunction. But for now, asset owners have accepted the movement and been rewarded with strong returns. Investors will likely stay supportive until populism runs its course.

FUNDS POTENTIALLY ALIGNED WITH TREND:

TILT | TLTD | TLDH | TLTE | TLEH

FIND OUT MORE

The FlexShares approach to 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).

The opinions expressed herein are those of the author and do not necessarily represent the views of Northern Trust. Northern Trust does not warrant the accuracy or completeness of information contained herein. Such information is subject to change and is not intended to influence your investment decisions.

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 Equity ETFs are generally subject to numerous risks, including possible loss of principal. Fund returns may not match the return of the respective indexes. The Funds are subject to the following principal risks: asset class; authorized participant, calculation methodology; commodity; concentration; counterparty; currency; derivatives; dividend; emerging markets; equity securities; financial sector, fluctuation of yield; foreign securities; geographic; high portfolio turnover; income; industry concentration; inflation; infrastructure-related companies; interest rate; issuer; liquidity; large cap; management; market; market trading; mid cap stock; MLP; momentum; natural resources; new funds; non-diversification; passive investment; privatization; securities lending; small cap stock; tracking error; value investing; and volatility risk. A full description of risks is in the prospectus.

In addition FlexShares Fixed Income ETFs are generally subject to corporate bond; credit, debt extension, maturity, mortgage backed pass through securities, non us issuer, and valuation risks. A full description of risks is in the prospectus. Additionally, High Yield securities are considered highly speculative, and are subject to greater credit risk, price volatility and risk of loss than if it invested primarily in investment grade securities. There is a higher risk that an issuer will be unable to meet principal and interest rate payments on an obligation and may also be subject to more substantial price volatility due to such factors as interest rate sensitivity, market perception of credit worthiness of and general market liquidity than if the fund invested in investment grade securities. A full description of risks is in the prospectus.

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