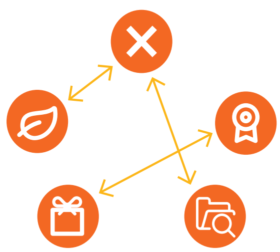
The 5 key approaches to sustainable investing

Choosing the right investment options starts by understanding the different methods for building sustainable portfolios.

There are more than 500 sustainable or ESG-focused* mutual funds and ETFs on the market. But they don't all follow the same approach. Fund managers use a number of methods to build sustainable portfolios.

By understanding these ***five common approaches*** to sustainable investing, you can work with your advisor to build a portfolio that truly reflects your goals.

These approaches can be used separately or in conjunction with each other.



Negative screening

This approach rejects companies based on the investor's values or major sustainability risks — for example, excluding companies involved in tobacco, or eliminating companies that produce thermal coal.

Negative screening can help avoid the "worst offenders" from a sustainability perspective, but exclusions should be applied thoughtfully. Negative screening can reduce a portfolio's diversification and alter its risk/return profile.

Best-in-class screening

This method is the "positive" side of screening. It selects companies with higher ESG scores than their industry peers, with a goal of choosing companies that are better at managing their sustainability risks.

This can help build broadly diversified portfolios that offer sustainability advantages over the wider market. However, this approach may not allow portfolio managers to fully consider other fundamental metrics when selecting investments.

ESG integration

This comprehensive approach includes sustainability considerations alongside other financial analysis. For example, portfolio managers have more discretion to balance sustainability metrics with, say, exposure to factors like value and quality.

ESG integration can help create funds that manage sustainability goals in the context of other important objectives.

Thematic investing

These strategies build portfolios to pursue a specific sustainability goal — for example, investing in businesses involved in alternative energy.

This can appeal to investors who want to put their money behind a cause they care about. But thematic funds may carry higher risks due to their narrow focus.

Stewardship

Investment companies with significant assets under management in sustainable funds can use their influence to encourage companies to adopt sustainable business practices. Stewardship techniques include using shareholder proxy voting rights to enact changes or engaging with company boards on sustainability themes.

A stewardship approach can complement other sustainable investing methods to help further improve a fund's long-term risk/reward profile.

*ESG investing is defined as utilizing environmental, social, and governance (ESG) criteria as a set of standards for a company's operations that socially conscious investors use to screen potential investments.

A multidimensional approach to sustainable investing

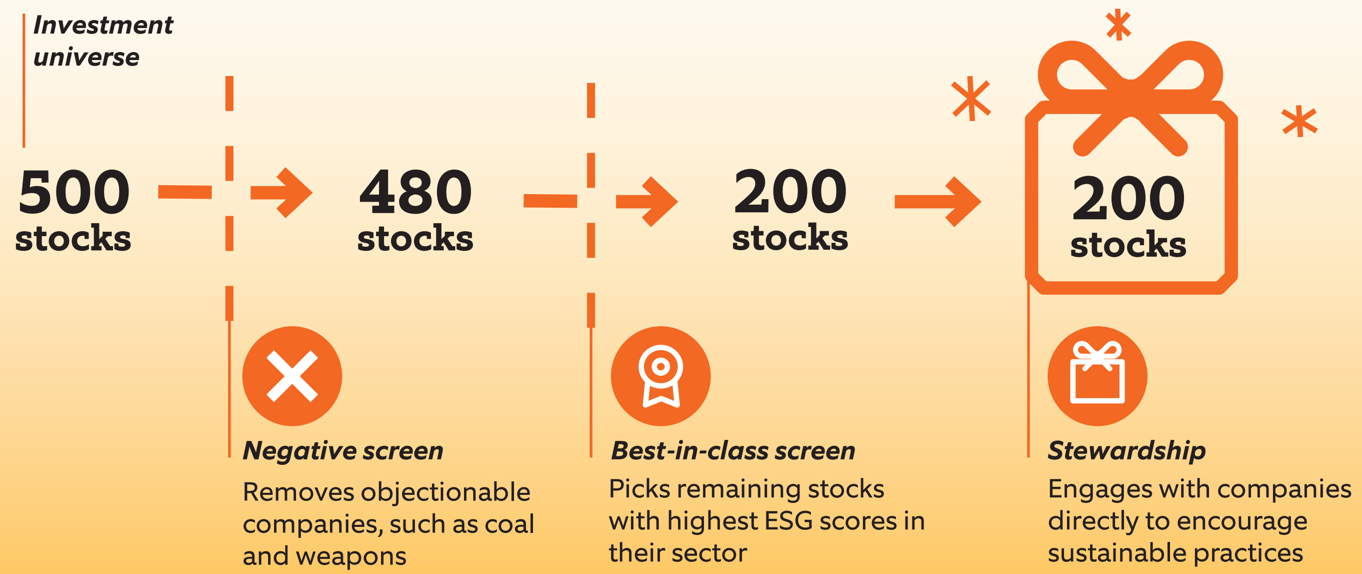
While each of these approaches are different, they are not mutually exclusive. Sustainable funds can employ multiple methods within the same portfolio.

For example, a strategy might start with a limited negative screen to exclude types of companies that are objectionable to most investors, but only represent a small slice of the overall market. Then, the managers can use best-in-class screening or ESG integration to build out a portfolio that aligns with their sustainability philosophy and overall investment objectives.

These strategies may also include thematic objectives, such as a carbon footprint reduction, integrating multiple sustainable investing objectives into one approach. All strategies can enhance their focus on long-term sustainability through aligning the use of stewardship efforts.

This modern approach has helped create the wide range of options now available to investors who want to address sustainability issues while pursuing their other long-term financial goals.

How one fund can apply different strategies



Talk to your advisor about the sustainable investing approaches that align with your values and financial goals.

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.

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Please remember that all investments carry some level of risk, including the potential loss of principal invested. They do not typically grow at an even rate of return and may experience negative growth. As with any type of portfolio structuring, attempting to reduce risk and increase return could, at certain times, unintentionally reduce returns. An ESG investment methodology that includes and excludes issuers and assigns weights to issuers by applying non-financial factors, such as ESG factors, such ESG investment methodology may underperform the broader equity market or other investment products that do or do not use ESG investment criteria. An ESG investment methodology will influence exposure to certain companies and sectors.

Currently, there is a lack of common industry standards relating to the development and application of ESG criteria, which may make it difficult to compare an ESG investment methodology with the investment strategies of other investment products or funds that integrate certain ESG criteria. The subjective value that investors may assign to certain types of ESG characteristics may differ substantially from that of an ESG investment methodology or a data provider.

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