



EDGA & EDGX STOCK EXCHANGES			
Regulatory Information Circular			
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**Subject:** FlexShares Morningstar Developed Markets ex-US Factor Tilt Index Fund  
FlexShares Morningstar Emerging Markets Factor Tilt Index Fund

### **Background Information on the Fund**

As more fully explained in the Registration Statements (Nos. 333-173967 and 811-22555), for the [FlexShares Morningstar Developed Markets ex-US Factor Tilt Index Fund](#) and the [FlexShares Morningstar Emerging Markets Factor Tilt Index Fund](#), the FlexShares Trust (the “Trust”) is a management investment company registered under the Investment Company Act of 1940, as amended (the “1940 Act”). The Trust consists of separate exchange-traded funds (each, a “Fund” and collectively, the “Funds”). This circular refers only to the Funds listed above. The shares of the Funds are referred to herein as “Shares.”

Northern Trust Investments, Inc. (the “Adviser”) serves as the investment adviser for the Funds. Foreside Fund Services, LLC (the “Distributor”) serves as the distributor of the Funds. J.P. Morgan Chase Bank, N.A. acts as Administrator, custodian and transfer agent to the Funds.

Ticker	Fund Name	CUSIP
TLTD	FlexShares Morningstar Developed Markets ex-US Factor Tilt Index Fund	33939L803
TLTE	FlexShares Morningstar Emerging Markets Factor Tilt Index Fund	33939L308

### **Description of the Fund**

#### *FlexShares Morningstar Developed Markets ex-US Factor Tilt Index Fund*

The FlexShares Morningstar Developed Markets ex-US Factor Tilt Index Fund (the “Fund”) seeks investment results that correspond generally to the price and yield performance, before fees and expenses, of the Morningstar Developed Markets ex-US Factor Tilt Index (the “Underlying Index”).

The Underlying Index reflects the performance of a selection of equity securities designed to provide broad exposure to the global developed equities markets, excluding the U.S., with increased exposure (or a “tilt”) to small-capitalization stocks and value stocks. Small-capitalization and value stocks in the Underlying Index are weighted slightly more than such stocks would be in an index that is solely market-capitalization weighted, all as determined by Morningstar, Inc. (the “Index Provider”) pursuant to its index methodology. In addition to

tracking the performance of the Underlying Index, the Adviser seeks to minimize portfolio turnover and tax inefficiencies. As of September 21, 2012, the Underlying Index comprised 3,064 stocks with market capitalizations ranging from \$14.56 million to \$206.97 billion. As of the same date, the Underlying Index's three largest constituents (by weighting) were Nestle SA, HSBC Holdings PLC and Novartis AG, and its three largest industries were Financials, Industrials and Consumer Discretionary. As of September 21, 2012, the top five countries (by weighting) represented in the Underlying Index were Japan, the United Kingdom, Canada, Australia and France and in the aggregate represented 65.31% of the Underlying Index. The Underlying Index is governed by published, objective rules for security selection, exclusion, rebalancing and adjustments for corporate actions and is reconstituted on a semi-annual basis and is rebalanced quarterly. The Index Provider's index methodology and other factors will cause the composition of the Underlying Index to change over time.

The Adviser uses a "passive" or indexing approach to try to achieve the Fund's investment objective. Unlike many investment companies, the Fund does not try to "beat" the index it tracks and does not seek temporary defensive positions when markets decline or appear overvalued. The Adviser uses a representative sampling strategy to manage the Fund. "Representative sampling" is investing in a representative sample of securities that collectively has an investment profile similar to the Underlying Index. Securities selected are expected to have, in the aggregate, investment characteristics (based on factors such as market capitalization and industry weightings), fundamental characteristics (such as return variability and yield) and liquidity measures similar to those of the Underlying Index. The Fund may or may not hold all of the securities that are included in the Underlying Index. Funds that employ a representative sampling strategy may incur tracking error risk to a greater extent than a fund that seeks to replicate an index. "Replication" is an indexing strategy in which a fund invests in substantially all of the securities in its underlying index in approximately the same proportions as in the underlying index. The Fund reserves the right to use a replication indexing strategy if the Adviser determines that it is in the best interests of the Fund.

For more information regarding the Fund's investment strategy, please read the [Registration Statement](#), [Prospectus](#) and [Statement of Additional Information](#) ("SAI") for the Fund.

#### *FlexShares Morningstar Emerging Markets Factor Tilt Index Fund*

The FlexShares Morningstar Emerging Markets Factor Tilt Index Fund (the "Fund") seeks investment results that correspond generally to the price and yield performance, before fees and expenses, of the Morningstar Emerging Markets Factor Tilt Index (the "EM Index").

The EM Index reflects the performance of a selection of equity securities designed to provide broad exposure to the global emerging equities markets, with increased exposure (or a "tilt") to small-capitalization stocks and value stocks. Small-capitalization and value stocks in the Underlying Index are weighted slightly more than such stocks would be in an index that is solely market-capitalization weighted, all as determined by the Index Provider pursuant to its index methodology. In addition to tracking the performance of the EM Index, the Adviser seeks to minimize portfolio turnover and tax inefficiencies. As of September 21, 2012, the EM Index

comprised 1,975 stocks with market capitalizations ranging from \$82.78 million to \$221.96 billion. As of the same date, the EM Index's three largest constituents (by weighting) were Samsung Electronics, Taiwan Semiconductor Manufacturing and China Mobile Ltd., and its three largest industries were Financials, Information Technology and Materials. As of September 21, 2012, the top five countries (by weighting) represented in the EM Index were China, South Korea, Taiwan, Brazil and South Africa and in the aggregate represented 65.74% of the Underlying Index. The EM Index is governed by published, objective rules for security selection, exclusion, rebalancing and adjustments for corporate actions and is reconstituted on a semi-annual basis and is rebalanced quarterly. The Index Provider's index methodology and other factors will cause the composition of the EM Index to change over time.

The Adviser uses a "passive" or indexing approach to try to achieve the Fund's investment objective. Unlike many investment companies, the Fund does not try to "beat" the index it tracks and does not seek temporary defensive positions when markets decline or appear overvalued. The Adviser uses a representative sampling strategy to manage the Fund. "Representative sampling" is investing in a representative sample of securities that collectively has an investment profile similar to the EM Index. Securities selected are expected to have, in the aggregate, investment characteristics (based on factors such as market capitalization and industry weightings), fundamental characteristics (such as return variability and yield) and liquidity measures similar to those of the EM Index. The Fund may or may not hold all of the securities that are included in the EM Index. Funds that employ a representative sampling strategy may incur tracking error risk to a greater extent than a fund that seeks to replicate an index. "Replication" is an indexing strategy in which a fund invests in substantially all of the securities in its underlying index in approximately the same proportions as in the underlying index. The Fund reserves the right to use a replication indexing strategy if the Adviser determines that it is in the best interests of the Fund.

For more information regarding the Fund's investment strategy, please read the [Registration Statement](#), [Prospectus](#) and [SAI](#) for the Fund.

As described more fully in each Fund's prospectus and SAI, the Funds issue and redeem Shares at net asset value ("NAV") only in large blocks of 200,000 Shares for the FlexShares Morningstar Developed Markets ex-US Factor Tilt Index Fund and 100,000 Shares for the FlexShares Morningstar Emerging Markets Factor Tilt Index Fund (each block of Shares called a "Creation Unit") or multiples thereof. As a practical matter, only broker-dealers or large institutional investors with creation and redemption agreements (called Authorized Participants) can purchase or redeem these Creation Units. Except when aggregated in Creation Units, the Shares may not be redeemed with the Funds.

Shares are held in book-entry form, which means that no Share certificates are issued. The Depository Trust Company or its nominee is the record owner of all outstanding Shares of the Funds and is recognized as the owner of all Shares for all purposes.

The NAV per Share for each Fund is computed by dividing the value of the net assets of the Fund (i.e., the value of its total assets less total liabilities) by the total number of Shares outstanding. Expenses and fees are accrued daily and taken into account for purposes of

determining NAV. The NAV per Share of the Funds will be determined as of the close of trading (normally, 4:00 p.m. Eastern Time (“ET”)) on each day that EDGA Exchange, Inc. and EDGX Exchange, Inc. (the “Exchanges”) are open for business (a “Business Day”). Any assets or liabilities denominated in currencies other than the U.S. dollar are converted into U.S. dollars at the current market rates on the date of valuation as quoted by one or more sources.

The registration statement for each Fund describes the various fees and expenses for the Fund’s Shares. For a more complete description of the Funds and the underlying indexes, visit the Funds’ website at [www.flexshares.com](http://www.flexshares.com).

### **Principal Risks**

Interested persons are referred to the discussion in the Prospectus of the principal risks of an investment in the Funds. These include: investment risk, market risk, capital controls risk, currency exchange rate risk, commodity exposure risk, emerging markets risk, energy investing, fiscal policy risk, foreign securities risk, geographic concentration risk, investment style risk, issuer-specific risk, small cap stock risk, mid cap stock risk, non-correlation risk and non-diversification risk. In addition, as noted in the Prospectus, the Shares may trade at market prices that may differ from their NAV. The NAV of the Shares will fluctuate with changes in the market value of a Fund’s holdings. The market prices of the Shares will fluctuate in accordance with changes in NAV as well as the supply and demand for the Shares.

For further information regarding correlation, leverage and other risks, please see the Funds’ website at [www.flexshares.com](http://www.flexshares.com).

### **Exchange Rules Applicable to Trading in the Shares**

The Shares are considered equity securities, thus rendering trading in the Shares subject to the Exchanges’ existing rules governing the trading of equity securities.

### **Trading Hours**

Trading in the Shares on the Exchanges is on a UTP basis and is subject to the Exchanges equity trading rules. The Shares will trade from 8:00 a.m. until 8:00 p.m. Eastern Time. Members trading the Shares during the Extended Market Sessions (Pre-opening and Post-closing sessions) are exposed to the risk of the lack of the calculation or dissemination of underlying index value or intraday indicative value (“IIV”). For certain derivative securities products, an updated underlying index value or IIV may not be calculated or publicly disseminated in the Extended Market hours. Since the underlying index value and IIV are not calculated or widely disseminated during Extended Market hours, an investor who is unable to calculate implied values for certain derivative securities products during Extended Market hours may be at a disadvantage to market professionals.

## **Trading Halts**

The Exchanges will halt trading in the Shares in accordance with Exchange Rules 14.1(c)(4). The grounds for a halt under this Rule include a halt by the primary market because it stops trading the Shares and/or a halt because dissemination of the IIV or applicable currency spot price has ceased, or a halt for other regulatory reasons. In addition, the Exchanges will stop trading the Shares if the primary market de-lists the Shares.

## **Suitability**

Trading in the Shares on the Exchanges will be subject to the provisions of Exchange Rules 3.7. Members recommending transactions in the Shares to customers should make a determination that the recommendation is suitable for the customer. In addition, Members must possess sufficient information to satisfy the “know your customer” obligation that is embedded in Exchange Rules 3.7.

Members also should review FINRA Notice to Members 03-71 for guidance on trading these products. The Notice reminds Members of their obligations to: (1) conduct adequate due diligence to understand the features of the product; (2) perform a reasonable-basis suitability analysis; (3) perform customer-specific suitability analysis in connection with any recommended transactions; (4) provide a balanced disclosure of both the risks and rewards associated with the particular product, especially when selling to retail investors; (5) implement appropriate internal controls; and (6) train registered persons regarding the features, risk and suitability of these products.

## **Delivery of a Prospectus**

Pursuant to federal securities laws, investors purchasing Shares must receive a prospectus prior to or concurrently with the confirmation of a transaction. Investors purchasing Shares directly from the Funds (by delivery of the Deposit Amount) must also receive a prospectus.

The prospectuses may be obtained through the Distributor or on the Funds’ website. The Prospectus does not contain all of the information set forth in the registration statement (including the exhibits to the registration statement), parts of which have been omitted in accordance with the rules and regulations of the SEC. For further information about the Funds, please refer to the Trust’s registration statement.

## **Exemptive, Interpretive and No-Action Relief Under Federal Securities Regulations**

The SEC has issued exemptive, interpretive or no-action relief from certain provisions of rules under the Securities Exchange Act of 1934 (the “Act”) regarding trading in the above mentioned exchange-traded Funds.

## **Regulation M Exemptions**

Generally, Rules 101 and 102 of Regulation M prohibit any "distribution participant" and

its "affiliated purchasers" from bidding for, purchasing, or attempting to induce any person to bid for or purchase any security which is the subject of a distribution until after the applicable restricted period, except as specifically permitted in Regulation M. The provisions of the Rules apply to underwriters, prospective underwriters, brokers, dealers, and other persons who have agreed to participate or are participating in a distribution of securities.

The Commission issued a No-Action Letter by which persons participating in a distribution of shares of a fund may engage in secondary market transactions in such shares during their participation in such a distribution, despite the requirements of from Rule 101 under Regulation M. In addition, the SEC has permitted persons who may be deemed to be participating in the distribution of shares of a fund (i) to purchase securities for the purpose of purchasing creation unit aggregations of fund shares and (ii) to tender securities for redemption in Creation Unit Aggregations. Further, the Commission has clarified that the tender of fund shares to the Fund for redemption does not constitute a bid for or purchase of any of the Fund's securities during the restricted period of Rule 101. The Commission has issued a No-Action Letter relating to paragraph (e) of Rule 102 under Regulation M which allow the redemption of fund shares in creation unit aggregations during the continuous offering of shares.

### **Customer Confirmations for Creation or Redemption of Fund Shares (SEC Rule 10b-10)**

Broker-dealers who handle purchases or redemptions of Fund shares in Creation Units for customers will be permitted to provide such customers with a statement of the number of Creation Unit Aggregations created or redeemed without providing a statement of the identity, number and price of shares of the individual securities tendered to the Fund for purposes of purchasing creation unit aggregations ("Deposit Securities") or the identity, number and price of shares to be delivered by the Trust to the redeeming holder ("Redemption Securities"). The composition of the securities required to be tendered to the Fund for creation purposes and of the securities to be delivered on redemption will be disseminated each business day and will be applicable to requests for creations or redemption, as the case may be, on that day. This exemptive relief under Rule 10b-10 with respect to creations and redemptions is subject to the following conditions:

1. Confirmations to customers engaging in creations or redemptions must state that all information required by Rule 10b-10 will be provided upon request;
2. Any such request by a customer for information required by Rule 10b-10 will be filed in a timely manner, in accordance with Rule 10b-10(c);
3. Except for the identity, number and price of shares of the component securities of the Deposit Securities and Redemption Securities, as described above, confirmations to customers must disclose all other information required by Rule 10b-10(a).

### **SEC Rule 14e-5**

The Commission has permitted any person acting as a dealer-manager of a tender offer for a component security of fund (1) to redeem fund shares in creation unit aggregations from the issuer that may include a security subject to such tender offer and (2) to purchase fund shares during such tender offer. In addition, a No-Action has been issued under Rule 14e-5 states that if

a broker-dealer acting as a dealer-manager of a tender offer for a security of the Fund purchases or arranges to purchase such securities in the secondary market for the purpose of tendering such securities to purchase one or more creation unit aggregations of shares, it must be made in conformance with the following:

- i. such bids or purchases are effected in the ordinary course of business, in connection with a basket of 20 or more securities in which any security that is the subject of a distribution, or any reference security, does not comprise more than 5% of the value of the basket purchased; or
- ii. purchases are effected as adjustments to such basket in the ordinary course of business as a result of a change in the composition of the underlying index; and
- iii. such bids or purchases are not affected for the purpose of facilitating such tender offer.

### **Section 11(d)(1); SEC Rules 11d1-1 and 11d1-2**

Section 11(d)(1) of the Act generally prohibits a person who is both a broker and a dealer from effecting any transaction in which the broker-dealer extends credit to a customer on any security which was part of a new issue in the distribution of which he participated as a member of a selling syndicate or group within thirty days prior to such transaction. The Commission has clarified that Section 11(d)(1) does not apply to broker-dealers that are not authorized participants (and, therefore, do not create creation unit aggregations) that engage in both proprietary and customer transactions in shares of a fund in the secondary market, and for broker-dealer authorized participants that engage in creations of creation unit aggregations. This relief is subject to specific conditions, including the condition that such broker-dealer (whether or not an authorized participant) does not, directly or indirectly, receive from the fund complex any payment, compensation or other economic incentive to promote or sell the shares of a fund to persons outside the fund complex, other than non-cash compensation permitted under NASD (now FINRA) Rule 2830 (D)(5)(A), (B) or (C). See letter dated November 22, 2005 from Brian A Bussey, Assistant Chief Counsel, SEC Division of Market Regulation, to Barclays Global Investors, N.A., dated November 22, 2005. The Commission has issued a No-Action Letter under Section 11(d)(1) of the Act now states that broker-dealers may treat shares of a fund, for purposes of Rule 11d1-2, as "securities issued by a registered open-end investment company as defined in the Investment Company Act" and thereby extend credit or maintain or arrange for the extension or maintenance of credit on shares that have been owned by the persons to whom credit is provided for more than 30 days, in reliance on the exemption contained in the rule.

### **SEC Rule 15c1-5 and 15c1-6**

The Commission has issued a No-Action letter with respect to Rule 15c1-5 and Rule 15c1-6 as to the required disclosure of control by a broker or dealer with respect to creations and redemptions of fund shares and secondary market transactions therein.

**This Regulatory Information Circular is not a statutory Prospectus. Members should consult the Trust's Registration Statement, SAI, Prospectus and the Funds' [website](#) for relevant information.**