DISTRIBUTING LADDER ETFs

AN INNOVATIVE SOLUTION FOR CASH FLOW MANAGEMENT

A DEEP DIVE

NORTHERN TRUST
ASSET MANAGEMENT

AN INVESTMENT FOR CLIENTS' HIGH PRIORITY GOALS

Some of the most important goals for financial advisors' clients — retirement, college payments, philanthropy, lifestyle support — require regular cash distributions. Investors often fund these goals through diversified portfolios or fixed income investments.

However, these approaches come with equity and interest rate risks that may increase the likelihood of clients falling short of their goals. To generate liquidity at predetermined intervals, advisors may have to sell assets at losses in the middle of difficult markets, while interest rates are fluctuating, or when liquidity is low. Advisors may not possess the ability or capacity to manage these risks that threaten to deteriorate wealth as they manage cash distributions to fulfill their clients' financial goals.

> Distributing ladder ETFs — an innovative cash flow management solution — may prove a crucial planning tool to secure some of clients' most important goals while mitigating market, interest rate and liquidity risks.

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HOW DISTRIBUTING LADDER ETFs WORK

A distributing ladder ETF is a portfolio of bonds with staggered maturity dates. In the case of a one-to-10 year distributing ladder, each individual "rung" of the ladder within the ETF represents one year.

The investor receives monthly income the first year. Afterwards, each rung of the ladder pays income monthly and principal annually. This contrasts with traditional bond ladders, where proceeds from maturing bonds are continuously reinvested into another future rung of the ladder rather than returned to the investor.

Distributing ladder ETFs are professionally managed portfolios of high quality bonds, including municipal bonds that deliver tax-exempt income or Treasury inflation-protected securities (TIPS) to mitigate inflation risk. The annual return of principal, as shown in Exhibit 1, makes these products innovative among fixed income investments.

> **The annual return of principal makes these products innovative among fixed income investments.**

EXHIBIT 1
10-YEAR DISTRIBUTING LADDER

A $500,000 investment in a 10-year tax-exempt distributing ladder results in total monthly income and annual principal payments of $567,055.

Coupon and Principal Distributions over Tax-Exempt Distributing Ladder Life

Source: Northern Trust Asset Management, Perform. This illustration is intended to show how a distributing ladder ETF could function. It's based on a hypothetical portfolio of municipal bond securities representing a distributing bond ladder of nearly equal weighted par value across all maturity rungs. Premium bonds that would have been purchased above par value, assumed to be a 4% premium in this illustration, are amortized daily as part of coupon interest accrued. Coupon interest, assumed to be 3% in this illustration, and premium amortization would be distributed monthly while the principal of the maturing bonds is paid annually. The net asset value of the ETFs will decline over time as income payments are made to shareholders. Individual bonds carry an obligation to fully return principal to investors at maturity, but ETFs have no such obligation. For illustrative purposes only, actual performance will vary.

THE BENEFITS: A SIMPLE PLANNING TOOL FOR CASH FLOW MANAGEMENT

Distributing ladders can be a smart cash flow management solution for goal achievement, offering key features and benefits.

FEATURES	CHARACTERISTICS	BENEFITS
SIMPLICITY OF A SINGLE ETF INVESTMENT	• Fully transparent portfolios • Low fees • Ability to transact intra-day • No lockups • Deep liquidity • Monthly income and annual return of principal	Advisors avoid the potentially costly and time consuming process of building their own bond ladders
ANNUAL PRINCIPAL DISTRIBUTION	Return of principal each year from matured bonds	Annual principal distributions can be used to match liabilities for the duration of the ETF
VARIETY OF TIME HORIZONS	Short-, intermediate-, and long-maturity options up to 30 years	Ability to match investment outcomes with investor goals and time horizons
PROFESSIONAL INVESTMENT MANAGEMENT	Actively managed as a diversified portfolio of high-quality municipal bonds or TIPS	Advisors avoid the work of building and actively managing a portfolio of bonds
REDUCED INTEREST RATE RISK	Bonds are held to maturity, and ETF seeks to pay back principal in full	Reduces potential losses when interest rates rise
INFLATION PROTECTION	Portfolio of Treasury inflation-protected securities	Designed to mitigate the effects of inflation
TAX EFFICIENCY	Portfolio of investment-grade municipal bonds	Earn income exempt from federal taxes*

*Interest on municipals is exempt from federal income tax but may be subject to state and local tax. This communication is not intended to constitute tax advice. Investors are urged and advised to consult their own tax adviser with respect to the tax consequences of an investment in a fund.

EXHIBIT 2
HOW DISTRIBUTING LADDER ETFs COMPARE

	DISTRIBUTING LADDER ETF	BULLET LADDER	PERPETUAL LADDER ETF
SINGLE FUND INVESTMENT	✓	–	✓
PRINCIPAL DISTRIBUTION	Annually until ETF terminates	Annually	–
MONTHLY INCOME	✓	✓	✓
EXCHANGE-TRADED LIQUIDITY	✓	✓	✓
DAILY TRANSPARENCY	✓	✓	✓
CUSTOM MATURITY PROFILE	✓	✓	–

Source: Northern Trust

Bullet Ladder is a bond laddering strategy comprising bullet ETFs. These ETFs have a specific maturity date, making them suitable for investors who want to build a portfolio with a set of fixed income assets that mature in different years.

Perpetual Ladder ETF is a type of ETF designed to mimic the bond ladder investment strategy. It aims to provide a steady stream of income and manage interest rate risk by continuously reinvesting maturing bond proceeds into new bonds, essentially creating a never-ending ladder of bonds.

ALIGNING TO *YOUR* GOALS-DRIVEN INVESTMENT STRATEGY

Goals-driven investing matches a clients' financial assets to their unique goals and objectives to create a true reflection of the purpose that underlies their assets. This closer alignment of priorities and assets also can help clients avoid some common investment mistakes, as research has shown that behavioral biases tend to cause investors to buy high and sell low.

Rather than viewing investments as one diversified portfolio, with allocations based primarily on risk tolerance, the increasingly popular goals-driven approach aligns investment assets to safely secure the most important priorities in clients' lives. This approach forms the foundation of the investment philosophy for any advisor focused on goals-driven investing for high net-worth and ultra high net-worth clients.

Primarily, the focus of risk with goals-driven investing isn't on the variability of returns, but rather the risk of falling short of the goal. For goals that require predictable cash distributions, distributing ladder ETFs, built on the foundation of low-risk bonds and principal distributions, can be a strong solution to secure key goals.

Some goals-driven use cases may include:

COLLEGE TUITION: Many investors have a goal of covering annual college expenses for a child. Using a five-year tax-exempt distributing ladder ETF to manage annual cash flow, they stay invested and receive distributions of monthly tax-exempt income and annual principal to cover college expenses (Exhibit 3).

CHARITABLE GIVING: A philanthropist has a goal of donating $20,000 a year for the next 10 years to the local contemporary arts museum. By purchasing a 10-year tax-exempt distributing ladder ETF, the philanthropist can meet this goal while earning tax-exempt monthly income.

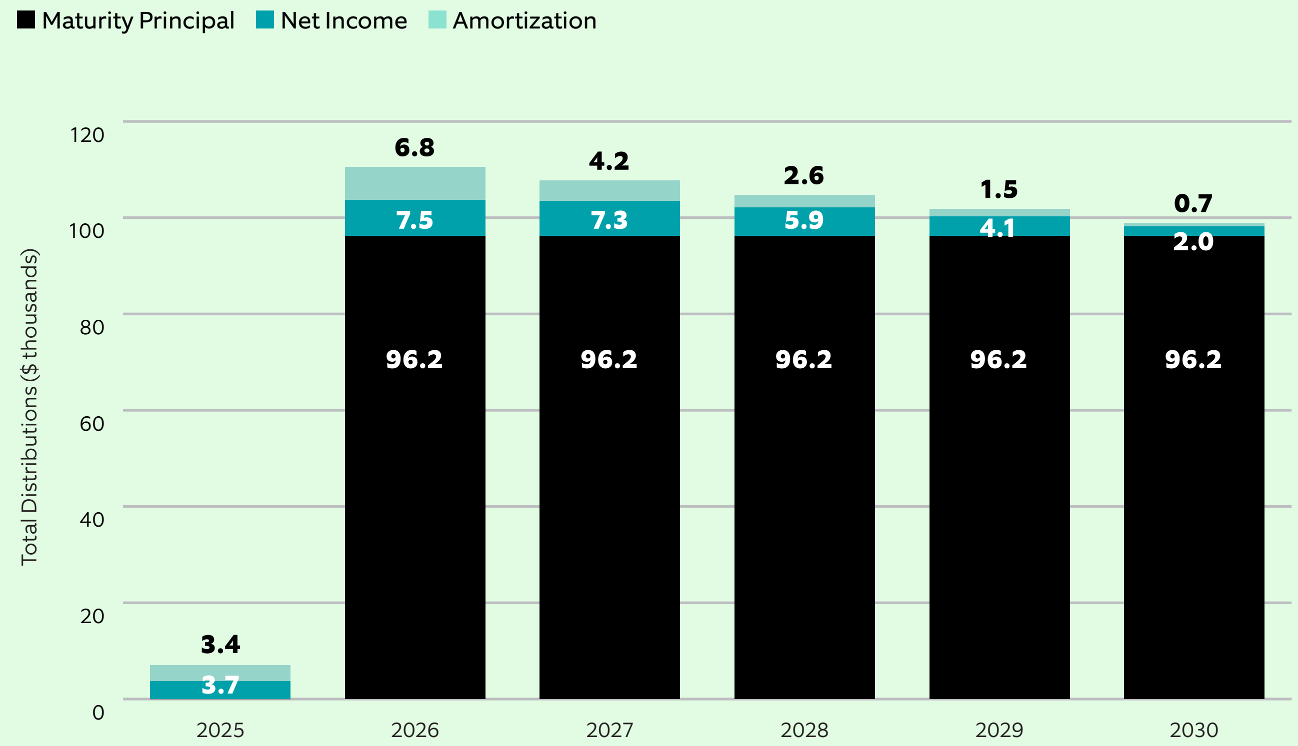
LIFESTYLE SUPPORT: Parents or grandparents want to assist a child or grandchild transitioning to independent living after graduating from college with $10,000 in financial support annually over the next five years. A five-year inflation-linked distributing ladder ETF could contribute to the child's financial needs and earn monthly income.

RETIREMENT: A retiree seeking income to complement social security payments and meet minimum required distributions from a retirement account may invest $1 million into a 30-year inflation-linked distributing ladder ETF. The retiree would receive monthly income and annual return of principal over 30 years to help cover lifestyle expenses during retirement (see *Funding Retirement* on page 6).

EXHIBIT 3
PAYING COLLEGE EXPENSES

A $500,000 investment in a five-year tax-exempt distributing ladder allows parents to cover more than $90,000 in college expenses a year, receiving a total of $530,473 in annual distributions and monthly income.

Coupon and Principal Distributions over Tax-Exempt 10-Year Distributing Ladder Life



Source: Northern Trust Asset Management. This illustration is intended to show how a distributing ladder ETF could function. It's based on a hypothetical portfolio of municipal bond securities representing a distributing bond ladder. Premium bonds, assumed to be purchased at a 4% premium in this illustration, are amortized daily as part of coupon interest accrued. Coupon interest, assumed to be 3% in this illustration, and premium amortization are distributed monthly while the principal of the maturing bonds is paid annually. The net asset value of the ETFs will decline over time as income payments are made to shareholders. Individual bonds carry an obligation to fully return principal to investors at maturity, but ETFs have no such obligation. For illustrative purposes only, actual performance will vary.

DISTRIBUTING LADDER ETFs IN ACTION

FUNDING RETIREMENT

Maintaining their lifestyle in retirement is a key goal for many clients. As part of a holistic plan, distributing ladder ETFs offer a way to stay fully invested while also maintaining cash flow to cover expenses. Distributing ladder ETFs can complement other retirement funding, such as Social Security, and be an important tool for complying with required minimum distributions.

CASE STUDY:
A 30-YEAR RETIREMENT PLAN

Daniel and Elizabeth Morgan are looking forward to retirement — a time to see family, travel, pursue hobbies and give back to their communities. They intend to retire soon and are reviewing their options.

CASH FLOW MANAGEMENT GOAL

- The Morgans are seeking minimum yearly income over the next 30 years to supplement Social Security income.

TOTAL RETIREMENT SAVINGS

- Over their working years, they accumulated $1 million in retirement savings through a defined contribution plan.
- At age 73, they will need to begin minimum required distributions.

MANAGING THEIR MONEY IN RETIREMENT

- The Morgans want to enjoy their retirement and are working with their wealth advisor to simplify their involvement in managing their money.
- Once they define their goals, set their risk parameters, make plans to leave a legacy and consider any other factors such as healthcare expenses, they will empower their advisor to manage their assets.

CREATING RETIREMENT PLAN

- As part of a holistic retirement plan, the Morgans can invest $1 million into a 30-year inflation-linked distributing ladder ETF to receive monthly income and annual return of principal over 30 years. This may help cover basic living expenses and comply with required minimum distributions.

THE RESULT

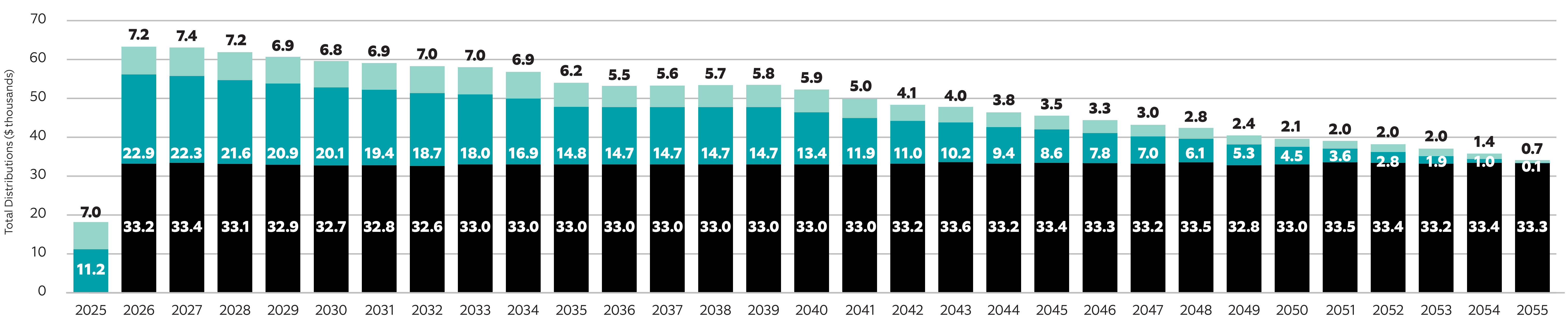
- With a potentially consistent source of annual and monthly income to complement Social Security, the Morgans can feel more comfortable that their investments will support their retirement goals.

EXHIBIT 4
FUNDING 30 YEARS OF RETIREMENT INCOME

With a $1 million investment in a 30-year inflation-linked distributing ladder, a retiree would receive annual principal distributions plus inflation-linked monthly income.

Coupon and Principal Distributions over 30-Year Inflation-Linked Distributing Ladder Life

Maturity Principal | Inflation Accrual | Income



Source: Northern Trust Asset Management. This illustration is intended to show how a distributing ladder ETF could function. It's based on a hypothetical portfolio of Treasury inflation-protected securities representing a distributing bond ladder. The illustration assumes a weighted average coupon payment of 1.28% and a weighted average bond price of $85.35. Inflation accrual is income based on the amount of inflation. The net asset value of the ETFs will decline over time as income payments are made to shareholders. Individual bonds carry an obligation to fully return principal to investors at maturity, but ETFs have no such obligation. For illustrative purposes only, actual performance will vary.

HEDGING GOAL RISK

RESEARCH REVEALS A *SIMPLER* SOLUTION

When the overriding investment objective is to fund goals, investors want to minimize the most significant investment risks of bonds, term (maturity) and default risk. This can be accomplished through what we call a "goal hedge", with a focus on duration-matching to goals with high quality bonds.

To illustrate the effectiveness of a goal hedge, we start with a client goal of funding minimal lifestyle expenses annually for 10 years. We fund this goal with a goal hedge of laddered municipal bonds that are duration-aligned to the consumption goal of 10-year annual payouts.

As a comparison, we alternatively fund the goal with short-term cash investments that are not duration-aligned to the timing of each payout. In Exhibit 5, we graph the dispersion (risk) in realized funding outcomes, or the surplus or shortfall to the goal funding, based on realized returns for the goal hedge and cash investments.

Cash (Treasury bills) is commonly viewed as the safe asset due to its minimal volatility. However, its goal-relative risk is significant due to reinvestment risk. The Treasury bills that mature prior to the annual payouts are reinvested at new yields and the difference between those yields and the initial cash yields is what causes the significant dispersion in funding outcomes in Exhibit 5. This is fundamentally due to a mismatch in duration.

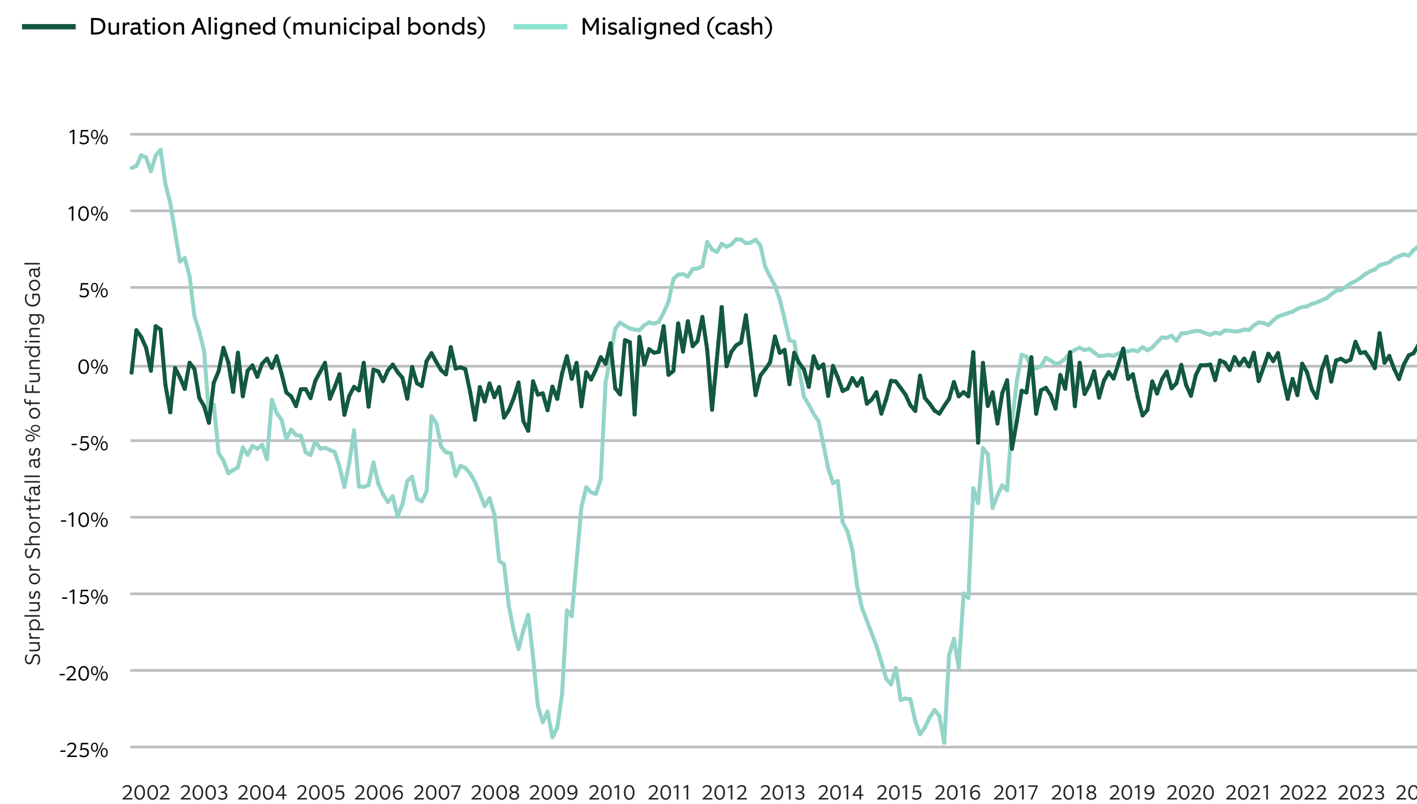
On the other hand, the portfolio of high-grade, duration-aligned municipal bonds shows minimal dispersion in funding outcomes in Exhibit 5 because they mature at approximately the same time as each of the 10 flows in the goal. The use of high-grade municipal bonds minimizes default risk while duration alignment minimizes goal-relative term risk.

> Tax-exempt or inflation-linked distributing ladder ETFs aligned to annual cash flow goals can provide this duration alignment while minimizing defaults — an enhanced and a much simpler solution.

EXHIBIT 5
THE RISK OF A DURATION MISMATCH

To fund a series of annual cash flow goals over 10 years, our research shows that the duration-aligned municipal bond portfolio had much lower dispersion around the funding goals than the duration-misaligned cash investments.

Future Surplus/Shortfall vs. Goal



Source: Northern Trust. The lines represent a surplus or shortfall for hypothetical municipal bond or cash portfolios versus 254 10-year annual goal (liabilities) periods, rolling on a monthly basis. Each data point that comprises the lines represents the surplus or shortfall at the end date for each goal period. The charts starts on July 2002, for the 10-year goal period ending July 2002, and finishes on the last 10-year goal period ending December 2024. The surplus/shortfall is the remaining portfolio value at the end of each 10-year period divided by the present value of the liabilities at the beginning of each period. The goals for the cash portfolio and municipal bond portfolios are the same, the theoretical payment of $1 a year. The cash portfolio is reinvested every three months at yields that will change from the initial yield. The municipal portfolio bond sub-indexes area also invested at the present value of the goals based on the initial yields for each sub-index, but each index better matches the duration/maturities of the 10 years of annual $1 goals, similar to a bond ladder. The index of high-grade and average duration aligned bonds is a municipal bond 1- to 10-year duration-matched portfolio that is a time varying blend of five sub-indexes of the Bloomberg U.S. Municipal Index [*Bloomberg Municipal Bond 1-Year (1-2) Total Return Index, Bloomberg Municipal Bond 3-Year (2-4) Total Return Index, Bloomberg Municipal Bond 5-Year (4-6) Total Return Index, Bloomberg Municipal Bond 7-Year (6-8) Total Return Index, Bloomberg Municipal Bond 10-Year (8-12) Total Return Index*] that is set-up to approximate distributing ladders. The weightings of the remaining indexes will increase as time moves on until only one index remains. Cash is the Bloomberg 1-3 Month Short Treasury Index. Data are monthly values since earliest common index inception of July 1993 and through December 2024.

ACHIEVING YOUR CLIENTS' *MOST* IMPORTANT GOALS

Assets should serve a purpose — to help investors secure their most important goals. Distributing ladder ETFs, an investment innovation for cash flow management, are designed to deliver on goals that require annual cash distributions while mitigating interest-rate risks. Consider the benefits of a single fund solution to cash flow management in a low-cost ETF, with potential for inflation protection and tax efficiency over a variety of time horizons.

INTRODUCING NORTHERN TRUST DISTRIBUTING LADDER ETFs

NORTHERN TRUST TAX-EXEMPT DISTRIBUTING LADDER ETFs	NORTHERN TRUST INFLATION-LINKED DISTRIBUTING LADDER ETFs
MUNA 5 years (2030)	**TIPA** 5 years (2030)
MUNB 10 years (2035)	**TIPB** 10 years (2035)
MUNC 20 years (2045)	**TIPC** 20 years (2045)
MUND 30 years (2055)	**TIPD** 30 years (2055)
Seeks tax-exempt income	Seeks inflation protection
LOW FEES: 18 BPS*	**LOW FEES: 10 BPS***

*18 BPS (basis points) and 10 BPS refers to both net and gross expense ratios. 18 BPS refers to fees for the tax-exempt suite and 10 BPS for fees related to the inflation-linked suite. Interest on municipals is exempt from federal income tax but may be subject to state and local tax. This information is general in nature and should not be construed as tax advice.

Explore how these innovative solutions can help investors manage income in retirement and other cash flow management needs.

LEARN MORE

GLOSSARY

Amortization: The action or process of gradually writing off the initial cost of an asset.

Bloomberg Municipal Bond 1-Year (1-2) Total Return Index: A sub-index of the Bloomberg U.S. Municipal Index that includes bonds maturing between one and two years at rebalance.

Bloomberg Municipal Bond 3-Year (2-4) Total Return Index: A sub-index of the Bloomberg U.S. Municipal Index that includes bonds maturing between two and four years at rebalance.

Bloomberg Municipal Bond 5-Year (4-6) Total Return Index: A sub-index of the Bloomberg U.S. Municipal Index that includes bonds maturing between four and six years at rebalance.

Bloomberg Municipal Bond 7-Year (6-8) Total Return Index: A sub-index of the Bloomberg U.S. Municipal Index that includes bonds maturing between six and eight years at rebalance.

Bloomberg Municipal Bond 10-Year (8-12) Total Return Index: A sub-index of the Bloomberg U.S. Municipal Index that includes bonds maturing between eight and 12 years at rebalance.

Bloomberg U.S. Municipal Index: The index represents the U.S. municipal tax-exempt investment-grade bond market. It includes general obligation and revenue bonds.

Bond ladder: A bond ladder is a strategy where the investor invests in a series of bonds with staggered maturity dates, often in consecutive years. With a perpetual ladder, the proceeds from matured bonds are reinvested into more bonds. With a distributing ladder, the investor directly receives the proceeds from matured bonds.

Coupon: Coupon payments are the interest payments that a bond issuer makes to bond investors.

Default risk: Default risk is the probability that a bond issuer can't make full and timely payments of contractually obligated principal and interest.

Duration: Duration, measured in years, measures the sensitivity of a security or portfolio to changes in interest rates. It often is used as a measure of risk to interest rate moves for fixed income securities and funds.

Duration-matched or -aligned: When a bond is duration-matched or duration-aligned, its duration is similar to liability aligning the duration of an asset with the duration of a liability, such as an annual cash-flow goal.

Maturity principal: The principal that an investor receives when a bond matures.

Present value: This is the discounted value of future cash flows, either future cash inflows generated by assets or future cash outflows to settle liabilities.

Treasury inflation-protected securities (TIPS): Treasury inflation-protected securities are Treasury bonds indexed to inflation to protect against inflation-related purchasing power deterioration.

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Before investing, carefully consider the investment objectives, risks, charges and expenses. This and other information are 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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NOT FDIC INSURED | MAY LOSE VALUE | NO BANK GUARANTEE

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ETFs are subject to additional risks that do not apply to conventional mutual funds, including the risks that the market price of an ETF's shares may trade at a premium or discount to its net asset value, an active secondary trading market may not develop or be maintained, or trading may be halted by the exchange in which they trade, which may impact an ETF's ability to sell its shares. Shares of any ETF are bought and sold at market price (not NAV) and are not individually redeemed from the ETF. Brokerage commissions will reduce returns.

Credit (or Default) Risk is the risk that the inability or unwillingness of an issuer or guarantor of a fixed-income security, or a counterparty to a repurchase or other transaction, to meet its principal or interest payments or other financial obligations in a timely manner will adversely affect the value of the Fund's investments and its returns. **Fluctuation of Yield and Principal Payment Risk** is the risk that the Fund, unlike a direct investment in a bond that has a level coupon payment and a fixed payment at maturity, will make distributions of income that vary over time. Unlike a direct investment in bonds, the breakdown ofreturns between Fund distributions are not predictable at the time of your investment. **Fund Termination Risk** is the risk that, unlike an investment in a traditional investment company with perpetual existence, the Fund is designed to liquidate in the terminal year and thus a shareholder of the Fund will not receive distributions from the Fund beyond the terminal year. **Liquidity Risk** is the risk that certain securities may be less liquid than others, which may make them difficult or impossible to sell at the time and the price that the Fund would like, and the Fund may have to lower the price, sell other securities instead or forgo an investment opportunity, adversely affecting the value of the Fund's investments and its returns. **Municipal Investments Risk** is the risk that the value of a municipal security generally depends on the financial and credit status of the issuer. Constitutional amendments, legislative enactments, executive orders, administrative regulations, voter initiatives, and the issuer's regional economic conditions may affect a municipal security's value, interest payments, repayment of principal and the Fund's ability to sell the security. **Non-Diversification Risk** is the risk that a non-diversified fund may invest a larger portion of its assets in securities issued by or representing a smaller number of issuers than a diversified fund. As
a result, a Fund may be more susceptible to the risks associated with these particular issuers, or to a single economic, political or regulatory occurrence affecting these issuers. **Municipal Market Volatility Risk** is the risk that the Fund may be adversely affected by volatility in the municipal market. The municipal market can be significantly affected by adverse tax, legislative, political or public health changes and the financial condition of the issuers of municipal securities. **Return of Capital/Distribution Risk** is the risk that the Fund's distributions will involve a return of capital, which, although not generally taxable, may lower a shareholder's basis in the Fund's shares, thus potentially subjecting the shareholder to future tax consequences in connection with the sale of Fund shares, even if sold at a loss to the shareholder's original investment. **Small Fund Risk** is the risk that the Fund will not grow to or maintain an economically viable size, in which case it may liquidate prior to the anticipated liquidation date in the terminal year, thus impacting the Fund's ability to achieve its investment objective. **Inflation-Indexed Securities Risk** is the risk that the value of inflation protected securities, such as TIPS, generally will fluctuate in response to changes in real interest rates, generally decreasing when real interest rates rise and increasing when real interest rates fall. In addition, interest payments on inflation-protected securities will generally vary up or down along with the rate of inflation.

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