

QDEF

FlexShares Quality Dividend Defensive Index Fund Analyst Report

The FlexShares Quality Dividend Defensive Index Fund (QDEF) is part of Northern Trust's stable of proprietary twists on factor investing. The fund follows a Northern Trust index that selects dividend-paying large-cap U.S. equities. Simple enough, but then the index weights the portfolio toward companies that earned the highest "dividend quality" scores. To prevent unintentional concentrations, the methodology caps the weighting of individual securities, industry groups, sectors and styles. Lastly, there's the "defensive" spin. QDEF aims to deliver "below market beta exposure" — jargon used to describe how volatile the performance is relative to the market. It's another way of saying QDEF tries to tamp down volatility.

The approach to market beta is the nuance that sets it apart from its sister funds FlexShares Quality Dividend Index Fund (QDF) and FlexShares Quality Dividend Dynamic Index Fund (QDYN), which aim to match or exceed market swings, respectively. In practice, all three funds share many of the same top holdings, including blue-chip stocks like Apple, Johnson & Johnson, and Microsoft. The difference comes down to weighting. QDEF might have less invested in volatile tech stocks, and more in staid utilities.

As with many FlexShares funds, investors will pay a premium. Management fees, though not eye-popping for proprietary index strategies, are multiples higher than U.S. equity ETFs offered by massive passives like Vanguard and iShares. Is it worth it? Investors can look at it several different ways. There are other factor variations on defensive dividend investing, such as the WisdomTree U.S. Quality Dividend Growth Fund (DGRW) or the Legg Mason Low Volatility High Dividend ETF (LVHD). Both share a roughly similar investment case with QDEF. Each uses its own proprietary index recipes, which results in noticeably different portfolios. (Both are also cheaper ghtforward quality-nexpensive iShares QUAL), which shares



ESG Themes and Scores

6.46/10

ESG Rate

51.81%

Global Percentile

40.33%

Peer Percentile

Performance Data

	QDEF	ETF Database Category Average	Factset Segment Average
1 Month	2.85%	1.95%	1.51%
3 Month	11.39%	9.99%	8.70%
YTD Return	12.46%	9.90%	8.12%
1 Year Return	14.09%	12.53%	10.92%
3 Year Return	16.96%	11.04%	8.66%
5 Year Return	13.97%	6.02%	5.70%

Top 5 Holdings

Symbol	Holding	% Assets
AAPL	Apple Inc.	7.03%
NVDA	NVIDIA Corporation	6.66%
MSFT	Microsoft Corporation	5.40%
AVGO	Broadcom Inc.	5.34%
JNJ	Johnson & Johnson	3.14%

Vitals

Issuer	Northern Trust
Brand	FlexShares
Structure	ETF
Expense Ratio	0.37%
Inception	Dec 14, 2012
Index Tracked	Northern Trust Quality Dividend Defensive Index

ETF Database Themes

Category	All Cap Equities
Asset Class	Equity
Asset Class Size	Multi-Cap
Asset Class Style	Blend
Region (General)	North America
Region (Specific)	U.S.

FactSet Classifications

Segment	Equity: U.S. - Total Market
Category	Size and Style
Focus	Total Market
Niche	Broad-based
Strategy	Multi-factor
Weighting	Multi-Factor