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Everett School Employee Benefit Tr.  
Darla Van Duren  
PO Box 2098  
Everett, Washington 98213

EVERETT SCHOOL  
AUG - 6 2018  
EMPLOYEE BENEFIT TRUST

Dear Darla:

Yields headed up in the first half of the quarter as the U.S. economy continued to improve, inflation exceeded the Federal Reserve's 2.0% target and the Federal Open Market Committee remained steadfastly determined to gradually raise short term interest rates. However, in the second half of the quarter international trade and tariff disputes arose. Investors became concerned that these disputes might erupt into a trade war, negatively impacting the economy. Bonds rallied as they became more attractive as a safe haven. The rally was unable to overcome previous losses and most fixed income securities lost ground in the second quarter.

Municipal bonds proved an exception. The yearend tax code changes contained provisions that supported the municipal market. The elimination of the state income tax write-off made the tax exemption more valuable for those in high income tax states and supply was reduced by restrictions on municipal bond issuance. Most municipal bonds provided gains in the second quarter.

Your portfolio returned 0.26% (1.04% annualized) this quarter. Some of your longer certificates of deposit (the longest matures in a little over three years) lost value on a mark-to-market basis. At the current draw-down rate of \$150,000 per month, this account will be liquidated in about 20 months. At this rate we will soon have to sell some of your longer investments to fund the withdrawals. Let us know if this situation changes.

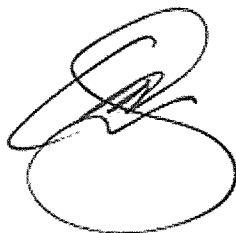
The financial press is increasingly worried about a "curve inversion." This occurs when the 2-year Treasury note yields more than the 10-year note. As of mid-July, the 2-year yielded 2.60%. That's just 0.25 percentage points below the 10-year at 2.85%. Yield curve inversions are vexing because they have proved to reliably predict recessions. We suspect that the Fed will be concerned with this message and will hesitate before inducing an inversion. The Fed's pace of rate increases is likely to slow if an inversion appears imminent.

The current inflation rate, according to the latest CPI statistics, is 2.9%. This is well above the Fed's 2.0% target and is the highest rate witnessed since early 2012. At the same time, a 10-year Treasury note yields 2.85%. A negative real rate of return of 5 basis points offers little incentive for investment. A rise in 10-year rates would forestall an inversion, giving the Fed leeway to maintain a gradual pace of interest rate hikes.

It is an old saw, but we continue to conservatively invest your fixed income assets, expecting rates to drift higher. At the same time, interest rates have significantly improved over the last two years. This is especially true for shorter maturities. At least patience, or waiting for better opportunities, now pays better.

As always, we appreciate your business and invite your questions and comments. Please feel free to contact any of us here at Becker Capital.

Sincerely,

A handwritten signature in black ink, featuring a large, stylized 'K' and 'S' that are intertwined. The signature is fluid and cursive, with a large loop at the bottom.

Keene Satchwell