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April 16, 2013

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

Dear Darla:

Enclosed is your first quarter, 2013 report including investment results, transactions, summary of investments, a fee statement, and our annual ADV summary of changes.

	QTD	1 Year	3 Years	Incept. 09-03-09
Everett School Trust	**0.2%**	**0.5%**	**1.5%**	**1.8%**
Fixed Income	0.2%	0.6%	1.8%	2.0%
BAML 1-Yr Treasury Note	0.1%	0.3%	0.5%	0.5%

Investment-grade bond market investors bore a slight loss in the first quarter. According to indices the broad market lost about 0.09%, an annualized rate of minus 0.36%. Bond prices fell in all three sectors; Treasury, agency and corporate bonds. In the corporate sector, the income from coupon payments was slightly larger than the loss in value from pricing. Corporate bonds provided a return of 0.13%, an annualized rate of just 0.54%. With a 0.30% gain, the broad intermediate market slightly outperformed the longer-term market.

Municipal bonds fared a bit better. The broad investment grade market returned about 0.5%, an annualized rate of 2.0%. The intermediate municipal market also performed slightly better than the longer-term market.

Since the beginning of the year, bond yields have been relatively stable. The 10-year benchmark Treasury bond yield has been bound between 1.80% and 2.10%. There has been a trend for rates to drift slightly higher as the U.S. economy has performed better than feared. And, although the political environment in Washington D. C. remains acrimonious, some legislative compromises have been achieved. International news, particularly out of Europe, has offset the drift up in rates. In particular, the irresolute Italian elections and the banking crisis in Cyprus provoked another round of "flight-to-quality" or "risk-off" investing. When international investors become nervous they buy U.S. Treasury bonds, pushing yields lower.

Corporate bonds would typically underperform in this kind of market and, on a price basis, they did. However, the level of price loss was so slight that the additional income received from corporate bonds more than compensated.

Municipal bonds have provided higher yields relative to Treasury bonds for some time. This additional yield, with corporate bonds, enabled municipals to overcome a similar price loss.

Your fixed income portfolio returned 0.16% in the first quarter. This was better than your benchmark, the 1-year Treasury Note's, return of 0.07%. The better yield can be attributed to the advantages of owning certificates of deposit and agency bonds.

We believe that no investor should have to settle for returns that are less than the probable rate of inflation. This phenomenon, known as a negative real rate of return, is somewhat rare. Since 1963, the 10-year Treasury bond has yielded less than the inflation rate a little more than 10% of the time. Most of the occurrences were in the hyper-inflation period of the 1970s and early '80s when rates did not keep up with the extreme acceleration in inflation. Bond investors have now had to deal with this problem for about 2 years.

The best indicators of inflation predict a level of 2.2% to 2.5%. To achieve a 2.2% return in the Treasury market now requires the purchase of a bond maturing in 2026, or longer. Another way of looking at the problem is that, since 1963, the average real rate of return on a 10-year Treasury bond has been 2.5 percentage points. To achieve this with 2.2% inflation, the 10-year Treasury yield should be 4.7%. It is currently 1.85%.

We do not believe investors should lock in diminishing purchasing power for longer periods of time. This is one reason we have managed your portfolio cautiously and conservatively.

We have implied rates should go up. An alternative resolution would be for inflation to go down. However, with the economy improving, a Federal Funds rate of 0% and Federal Reserve purchases of $85 billion each month, a decline in inflation appears improbable.

Corporate bonds offer some additional yield but have outperformed the Treasury market to the point where the rates offer merely adequate compensation for the additional risk. We are still buying corporate bonds, but less enthusiastically. There is a growing trend for companies to raise cash in the bond market to fund dividends and stock buy backs. This increases the companies leverage and is not "friendly" to bondholders. This is not an immediate concern but bears watching.

The municipal bond market came under a cloud of potential tax reform last year. Proposals have been floated, primarily out of the White House, to curtail some of the tax benefits from municipal bond ownership. There were no significant developments this quarter, but news regarding this issue could cause the municipal market's performance to diverge, for better or worse, from the general fixed income market.

We remain cautious and conservative investors of your fixed income assets.

If you have any questions or comments, please do not hesitate to contact any of us at Becker Capital.

Sincerely,

Keene Satchwell