Becker Capital Management, Inc.
1211 SW 5TH AVENUE, SUITE 2185
PORTLAND, OREGON 97204
www.beckercap.com
PHONE 503-223-1720
FAX 503-223-3624

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EVERETT SCHOOL
FEB - 3 2015
EMPLOYEE BENEFIT TRUST

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

Dear Darla:

Enclosed is your 2014 year-end report including investment results, transactions, summary of investments, and a fee statement.

	QTD	YTD	1 Year	3 Years	5 Years	Incept. 09-03-09
Everett School Trust	**0.1%**	**0.6%**	**0.6%**	**0.5%**	**1.3%**	**1.3%**
Fixed Income	0.1%	0.7%	0.7%	0.6%	1.6%	1.5%
BAML 1 Yr Treasury Note	-0.1%	0.2%	0.2%	0.2%	0.4%	0.4%

The broad taxable bond market returned a strong 1.9% return in the final quarter of 2014, according to the BofA Merrill Lynch US Corporate & Government Index. This is the equivalent to a 7.8% annualized rate, better than the average return of 7.7% produced by this index over the past 41 years. The returns were heavily concentrated in longer maturity Treasury bonds as demonstrated by the performance of shorter indices. The index we are most commonly compared to, the BofA Merrill Lynch 1 to 10 Year Corporate & Government Index, returned 0.9% or an annualized rate of 3.6%. This was well below this index's 6.3% average annual return.

The rally that produced these returns began in September as oil prices started falling. Coincident with this, the market began lowering its inflation expectations. About 60% of the decline in interest rates, which has taken the 10-year Treasury bond yield down to 2.0%, can be attributed to declining inflation expectations. The credit, or "spread," sectors of the market could not keep pace with Treasuries. Corporate bonds and municipal bonds underperformed.

There have been a multitude of other factors contributing to the rally including the continuing tensions in the Ukraine, conflict in the Middle East, the ebola outbreak, slowing economies in Europe and China and renewed concerns about the financial strength of Russia and Greece. At the same time, the US economy has proved resilient. The latest US gross domestic product figure, for the third quarter, was up 5.0%. This relatively strong performance has led to a preference among foreign investors for US assets and Treasury bonds in particular.

Your portfolio returned 0.13%, outperforming its benchmark's 0.07% loss. Short-term yields remain "repressed" as the Federal Reserve maintains its zero interest rate policy. It is thought rates will rise sometime after mid-year, but the pace of rate increases is likely to be slow.

Interest rates are too low again, in our opinion. Oil has lost half of its value in the past 6 months and has been responsible, in large part, for a low year-over-year CPI reading of 1.3%. But the energy sector is just a 5% component of the CPI. The various housing components make up 31% of the CPI and recently climbed 3.2%. Due to the dramatic drop in prices, the energy sector is punching above its weight. Stabilization in energy prices could uncover larger and less favorable trends and reverse the decline in inflation expectations. And while many believe that foreign economic weakness will eventually weigh our economy down, we believe the opposite is as likely. The US may become the engine of growth that lifts up overseas activity.

The Federal Reserve has also expressed a desire to "normalize" monetary policy after the extraordinary measures taken during the last recession. The prevailing thought is the Fed will start raising short-term rates in June. Some economists disagree and believe the rate hikes won't begin until a few months after that. An important distinction is that normalization is not tightening. With short-term rates at 0.0%, interest rates are likely to remain simulative, or accommodative, for a long time even as rates are adjusted upwards. The Federal Reserve's publications estimate the neutral rate, a rate that is neither simulative nor restrictive, is about 3.75%. The market, however, appears to be expecting an end to the rate increases at about 2.15%. This discrepancy between the Federal Reserve's and the market's expectations could create interest rate volatility and, if the Fed is right, a considerable rise in longer-term rates.

We are not going to predict that rates are going substantially higher in 2015. Most market economists and strategists made that prediction for 2014 and were proved wrong. We will contend that the risk is there and that current interest rates provide little reward for taking that risk. Fixed income investments are an essential to a diversified portfolio. We are just making those investments conservatively.

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

Sincerely,

Keene Satchwell