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January 30, 2017

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

Dear Darla:

Enclosed is your fourth quarter 2016 report including investment results, transactions, summary of investments, and a fee statement.

	QTD	YTD	1 Year	3 Years	5 Years	10 Years
Everett School Trust	**-0.5%**	**2.0%**	**2.0%**	**1.1%**	**0.8%**	**2.0%**
Fixed Income	-0.5%	2.3%	2.3%	1.2%	0.9%	2.3%
BAML 1 Yr Treasury Note	0.1%	0.8%	0.8%	0.4%	0.3%	0.8%
BAML 0-5 Year Treasury Note	-0.8%	1.0%	1.0%	0.9%	0.7%	1.0%

For fixed income investors, the final quarter of 2016 was painful. The broad investment grade taxable bond market provided a return of negative 3.50%; its worst quarterly showing in 35 years. The broad investment grade municipal market also returned - 3.50%. The intermediate markets, the sector most of our clients have chosen for a benchmark, performed better. The intermediate taxable market was off 2.07% and the intermediate municipal market was off 2.48%.

In general, bonds with shorter maturities performed better than longer bonds. And lower credit quality bonds tended to outperform better credits.

The majority of the losses occurred after the Presidential election. Most fixed income pundits agreed with the pollsters anticipating a Democratic victory. In the unlikely event of a Trump election, it was almost unanimously believed there would be a flight-to-quality resulting in a stock market sell off and a bond rally. Long bonds, and especially Treasury bonds stood to be the greatest beneficiaries. On November 8, after the upset became apparent, all that occurred - for about 2.5 hours. Since then, and through January 4, The S&P 500 has rallied 6.5%, the 2-year Treasury yield rose 40 basis points from 0.80% to 1.20% and the 10-year Treasury yield was up 60 basis points from 1.85% to 2.45%.

The possibility of lower taxes, increased fiscal spending and reduced regulations proved an elixir for stocks, but not for bonds. The possibility of faster growth, increased issuance of bonds to cover an expanding deficit and rising inflation hit the bond market hard.

We did not, of course, predict these events. But we had been concerned about the low level of interest rates for some time. These concerns led us into shorter average maturities and, for our clients who invest in the taxable bond market, a disproportionately large exposure to corporate bonds. This positioning helped protect your assets during a very difficult quarter. Your portfolio was down 0.52%, well below your benchmark's 0.84% loss.

Looking forward, we continue to believe rates are too low for the risks embedded in the bond market.

Headline inflation has been slowly rising to meet the core level of inflation at about 2.2%. Ten-year Treasury bonds yield just 2.4%, leaving investors with a scant 0.2% real rate of return. Historically, the bond market has provided a real rate over 10 times that.

Rates are also low in the short end of the yield curve. Federal Reserve Funds, after the Fed's December meeting, are targeted at 0.50% to 0.75%. This is far below what many consider to be the natural rate of about 3.0%. The Fed has been open about wanting to "normalize" rates and would like to end 2017, after three 0.25% bumps, with a 1.25% to 1.50% target. To be fair, at this time last year they foresaw raising the Funds rate four times in 2016 but only raised rates once. International weakness caused them to stay their hand and they are rightly being cautious by conservatively unwinding the "extraordinary measures" taken since the 2008 economic crisis. But the pull is still to higher short term rates.

We cannot predict the timing and extent of international events. Domestically, rising (even if not alarming) inflation, a low 4.7% unemployment rate and the possibility of increasing fiscal stimulus should allow the Fed latitude to increase rates. We continue to conservatively invest your fixed income assets.

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,

Keene Satchwell