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February 18, 2018

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

EVERETT SCHOOL

FEB 13 2017

EMPLOYEE BENEFIT TRUST

Dear Darla:

For twenty-five years, from 1987 through 2012, the intermediate sector of the taxable bond market returned 6.67% annually. Over the past 5 years, from 2013 through 2017, the annual return has been 1.54%. Over this 30-year stretch, less than 5% of the return came from price appreciation while the bulk of returns, just over 95%, came from the income that bonds provided.

Yields fell dramatically during the great recession. The nadir for the intermediate sector of the bond market came in 2013 with a yield of 1.03%.

We believe that the risk taken in a portfolio should be consistent with the anticipated returns. As the prospective returns diminished we became more and more conservative. We have little control over the returns available in the broad market, but we can control much of the risk in our clients' fixed income portfolios.

In the last quarter of 2017, these dynamics were still in play. The intermediate sector provided a negative 0.2% return. Rising interest rates generated price losses in the index that were slightly greater than the income earned. Corporate bonds performed relatively well as they provided more interest income. Longer Bonds provided better returns than shorter ones, although this trend is reversing in January. Municipal bonds provided modest positive returns.

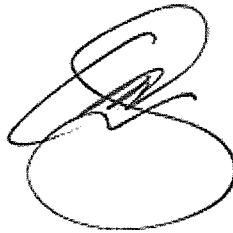
Your portfolio returned a slight 0.03% in the last quarter of 2017. This was in line with your 1-year benchmark return. Your longer 5-year benchmark was down 0.26%.

The economy continues to improve, and inflation appears to have stabilized to a level near the Federal Reserve's target of 2%. This has given the Fed the flexibility it needs to normalize interest rates. There were three rate increases in 2017; the market, and the Fed, anticipate three more increases in 2018. The general level of interest rates is adjusting upwards. Once at 1.03% the intermediate sector of the taxable bond market now yields 2.60%.

Although this does not pertain to your account, it is becoming more likely that we will be adjusting the portfolios we manage to take advantage of better yields. These adjustments will be gradual as rates continue to rise. Your portfolio will continue to be managed to provide your requested cash requirements.

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, appearing to be 'Keene Satchwell', written over a large, empty oval shape.

Keene Satchwell

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