Sentinel Short Maturity Government Fund

A | SSIGX | 817270853   S | SSSGX | 817270499

Manager Insights

as of 12/31/2011

Fund Management

David M. Brownlee, CFA
Portfolio Manager
- 18 years with Sentinel
- 31 years of investment experience

BOND MARKET OVERVIEW

Interest rates were little changed over the fourth quarter of 2011 after their sharp decline in the previous quarter. In its latest attempt to provide more monetary stimulus, the Federal Reserve began "Operation Twist" whereby it started selling short-dated Treasuries from its portfolio in favor of longer-dated Treasuries in an effort to flatten the historically steep Treasury yield curve. It is an attempt to drive down longer-term borrowing costs in the economy. Also, the Fed began, once again, to purchase mortgage-backed securities (MBS), reinvesting the cash flow runoff from their MBS holdings purchased in QE1 back into the MBS sector instead of into Treasuries. In addition, the Federal Housing Finance Agency, the regulator and conservator of Fannie Mae and Freddie Mac, made major changes to its Home Affordable Refinance Program (HARP) making it easier for underwater homeowners to lower their monthly mortgage payments. Both programs were developed as an attempt to revive the struggling housing market by lowering mortgage rates which currently stand at 4% for a 30-year fixed-rate loan. Besides these initiatives in the US to keep interest rates low, the bond market was heavily influenced by the sovereign debt crisis in Europe. The lack of fiscal discipline by many member nations of the European Union severely strained debt prices and the Euro currency itself. Unfortunately, there appears to be no quick solution to the crisis and these issues will daunt investors for the foreseeable future.

Interest Rates and Sector Performance

Interest rates ended the fourth quarter of 2011 basically unchanged from September 30th, but did trade in a wide range on the long end of the yield curve. The Treasury 10-year Note closed down just 4 basis points to 1.88%. Total returns were positive across the yield curve with the long end performing the best. The yield curve flattened a scant 2 basis points, as measured by the 2-year Note to 30-year Bond yield differential.

Within the fixed-income markets, the "risk on" trade for bonds (lower-quality securities outperforming higher-quality ones) was back in vogue as lower quality sectors such as High Yield and CMBS posted strong returns for the quarter. However, on a year-to-date basis, higher quality sectors, namely Treasuries, municipal bonds, and investment-grade corporate bonds, vastly outperformed the other market sectors.

The Fund returned -0.15% for the quarter ended December 31, 2011, compared with returns of 0.21% and 0.88% for the Barclays Capital 1-3 Year U.S. Government Bond and U.S. MBS Indices, respectively.* During the quarter, the effective duration of the Sentinel Short Maturity Government Fund increased modestly to 1.97 years. Other portfolio attributes were virtually unchanged. The Fund's weak relative performance for the fourth quarter of 2011 can be attributed to increased prepayments on its MBS holdings with interest rates at or near historic lows.

Outlook

Even though the economy definitely gained traction in the second half of 2011, bond market participants remain fixated on the European sovereign debt crisis. The Fed continues Operation Twist and MBS repurchases though the first part of 2012. With interest rates anchored near historic lows for the foreseeable future, our focus continues to be on income as we expect returns from price appreciation to be limited, particularly in the Treasury market, barring any major geopolitical event. In addition, the risk/reward profiles for Treasuries are extremely unattractive, in our view. With these low interest rates, we expect investors will seek higher returns and income levels from the non-Treasury sectors of the fixed-income market.

Data shown is historical performance for each share class and reflects reinvested distributions. Investment return and principal value will vary so that you may have a gain or loss when you sell shares. ***Past performance does not guarantee future results;*** *current performance may be higher or lower than data quoted. For performance current to the most recent month-end, visit www.sentinelinvestments.com.*

The Fund may use derivatives, which are financial contracts whose value depends upon or is derived from the value of an underlying asset, reference rate, or index. The Fund may use derivatives as part of a strategy designed to reduce exposure to certain risks, such as risks associated with changes in interest rates, or currency or credit risk ("hedging"). The use of derivatives may reduce the Fund's return and increase the volatility in movements in the Fund's net asset value. For additional information regarding the use of derivatives, please see the Fund's current prospectus.

The Fund is subject to interest rate risk. Bond values will generally decrease when interest rates rise and will generally increase when interest rates fall. Mortgage-backed securities (MBS) are subject to pre-payment risk.

Fund shares are not insured or guaranteed by the US government or its agencies.

* Performance for Class A shares only at net asset value. Performance data shown does not include the effects of any sales charge. If it did, returns would be lower.

Effective duration is a measure of the sensititivity of a bond's price to changes in interest rates which incorporates embedded option features such as call/put provisions. Bonds with longer durations generally experience greater price volatility than bonds with shorter durations.

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Consider a fund's objectives, risks, charges and expenses carefully before investing. The prospectus contains this and other information about the Fund and is available from your financial advisor or Sentinel. Please read the prospectus carefully before you invest.

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Sentinel Short Maturity Government Fund Performance (as of 12/31/2011)

			Cumulative Return YTD (%)	Average Annual Total Returns (%)				
				1 Year	3 Years	5 Years	10 Years	Since Inception
Class A[1]	SSIGX	Without Sales Charge	1.44	1.44	2.98	3.95	3.51	4.59
		With 1% Sales Charge	0.46	0.46	2.64	3.74	3.40	4.53
Class S[2]	SSSGX	Without Sales Charge	1.02	1.02	2.56	3.50	3.02	4.06
Barclays Capital 1-3 Year U.S. Govt Bond Index			*1.56*	*1.56*	*1.79*	*3.80*	*3.38*	*4.73*
Barclays Capital U.S. MBS Index			*6.23*	*6.23*	*5.83*	*6.54*	*5.69*	*6.55*

Fund inception date is 3/27/1995. Total annual operating expense ratios are A: 0.84%, S: 1.26%.*

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1. Performance of the Class A shares prior to June 1, 2006, has not been adjusted to reflect the decrease in the maximum 12b-1 fee from 0.35% to 0.25%. If it had, those returns would be higher. The Class A returns are based on the 1% maximum sales charge and are not adjusted to reflect a maximum sales charge of 3% in effect from June 1, 2006 to December 31, 2008. If they were, the returns would be lower.
2. Performance of the Class S shares prior to their inception on March 4, 2005 is based on the performance of the Fund's Class A shares, adjusted to reflect that Class S shares do not charge a front-end sales charge and adjusted for Class S's higher expenses. The "since inception" performance data for Class S shares is calculated from March 27, 1995, which was the inception date of the Fund.

The Barclays Capital 1-3 Year U.S. Government Bond Index is an unmanaged index comprising U.S. government and government agency securities with maturities between one and three years. An investment cannot be made directly in an index.

The Barclays Capital U.S. Mortgage Backed Securities (MBS) Index is an unmanaged index of agency mortgage-backed pass-through securities issued by Government National Mortgage Association (GNMA), Federal National Mortgage Association (FNMA), and Federal Home Loan Mortgage Corporation (FHLMC). An investment cannot be made directly in an index.

* Expense ratio data is sourced from the prospectus dated March 30, 2011.

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