

Why quality matters to the long-term investor



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· 19 years with Sentinel
· 25 years of experience



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We are bottom-up stock pickers, seeking companies with the best risk/reward characteristics, regardless of style.

When volatility notches higher, many investors take the flight to quality and sharpen their focus on downside risk. But for the investment teams of Sentinel Investments, this mindset is more like “business as usual.”

Recently we had the opportunity to ask Dan Manion and Hilary Roper to tell us how they put this philosophy into practice as managers of the Sentinel Common Stock Fund.

As a long-term investor, why is buying quality so important to your strategy for the Common Stock Fund?

Focusing on quality companies gives us the confidence to buy with a long-term objective and helps us to achieve more consistent results over time.

What are some of the attributes of a quality company?

There are a number of characteristics we look for when we are evaluating a company:

- We look for exceptional franchises with sustainable growth prospects and a proven ability to generate strong free cash flow.
- The companies we seek—and the companies we keep—are run by quality management teams who are good stewards of capital. They are investing their free cash flow in the company’s future growth and returning that cash to shareholders.
- One of the most important measures of quality is the ability to generate strong free cash flow. Corporate America seems to be flush with cash as it emerges from recession. We look for companies with the potential to reward shareholders with this cash. Our analysis favors companies with sustainable growth prospects through opportunistic R&D investments, measured capital expenditures to expand their businesses, or targeted M&A activity that can be accretive to earnings. We look for disciplined capital investments to drive long-term earnings growth.
- We also like to see share buybacks, which tend to be good signs of management confidence in the company’s prospects for the future—and the price of its stock.
- For the Fund, we tend to focus on better-than-average dividend growers, and have for some time. Over the past five years, the companies in the portfolio have seen a weighted average of 15.2% growth in dividends vs. 9.8% for the broader S&P 500 Index. In our view, a stable to rising dividend policy goes hand in hand with earnings growth.

In today’s slow-growth economy, where are you finding that growth?

One strong source of growth is through our holdings of US multinationals with exposure to higher-growth emerging economies.

Today, these types of companies are very common in the large cap realm. In fact, about half of the S&P 500 constituents report foreign revenues, either as a category or by region. Based on information available from Standard & Poor’s, over 40% of revenues from the index constituents is generated outside of the US, and has been for some time.

The Standard & Poor’s 500 Index is an unmanaged index of 500 widely held US equity securities chosen for market size, liquidity, and industry group representation.

An investment cannot be made directly in an index.

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Consider a fund’s objectives, risks, charges and expenses carefully before investing. The prospectus contains this and other information and is available from your financial advisor or www.sentinelinvestments.com.

Please read it carefully before you invest.

Sentinel Investments is the unifying brand name for Sentinel Financial Services Company, Sentinel Asset Management, Inc., and Sentinel Administrative Services, Inc. Sentinel Funds are distributed by Sentinel Financial Services Company, One National Life Drive, Montpelier, VT 05604, 800-282-FUND, www.sentinelinvestments.com.



As a blend manager, you have the flexibility to buy across the large cap style spectrum and amongst sectors. Does it matter to you whether you are looking at a value, core or growth stock?

Typically, the Common Stock Fund is diversified across the style spectrum. At the end of the day, we are driven by company fundamentals and valuations, seeking companies with the best risk/reward characteristics, regardless of style. This means that:

- buy decisions have the flexibility to seek out the “best of all worlds,” without having to take large style bets; and
- sell decisions are not dictated by an adherence to style consistency.

As bottom-up stock pickers, we target industry leaders with the combination of attractive valuations and sustainable growth prospects.

The investment philosophy of the Sentinel Common Stock Fund is based on a long-term view, emphasizing high-quality companies with attractive valuations and below-average risk.

So, to recap, the investment philosophy of the Sentinel Common Stock Fund is based on a long-term view, emphasizing high-quality companies with attractive valuations and below-average risk. Based on this strategy, how has the Fund performed, relative to its peers?

Managing downside risk is very important to us, both as managers of the Fund and to Sentinel as a whole. We are proud of our long-term record, but our near-term record demonstrates how the Fund has fared during more volatile periods.

Average Annualized Returns (% as of 12/31/2011)			
	50% Russell 1000 Growth/ 50% Russell 1000 Value Indices	S&P 500 (Total Return)	Sentinel Common Stock Fund (Class A LW)
3-Year	13.95	14.11	14.40
5-Year	-0.77	-0.25	1.12
10-Year	3.35	2.92	4.46
15-Year	5.48	5.45	5.74

Morningstar Ratings as of 12/31/2011 Sentinel Common Stock Fund (Class A)				
	Morningstar Return	Morningstar Risk	Morningstar Rating	Morningstar Rating (LW)
3-Year	Average	Below Average	★★★★	★★★★★
5-Year	Above Average	Below Average	★★★★★	★★★★★
10-Year	Above Average	Below Average	★★★★★	★★★★★
Overall	Above Average	Below Average	★★★★★	★★★★★

Comparison Group: Large Blend (Funds for Overall/3-Year: 1580, 5-Year: 1376, and 10-Year: 817)

To learn more about the Sentinel Common Stock Fund, speak to your financial advisor, call 800.282.FUND, or visit sentinelinvestments.com.

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.

Large company stocks as a group could fall out of favor with the market and underperform investments that focus on small and mid-sized company stocks.

Morningstar ratings reflect historical risk-adjusted performance as of December 31, 2011 and are subject to change every month. Ratings are based on a risk-adjusted return measure that accounts for variations in monthly performance (including the effects of sales charges, loads and redemption fees) emphasizing downward variations and rewarding consistent performance. Ten percent of the funds in a category receive five stars, 22.5% four stars, 35% three stars, 22.5% two stars and 10% one star. The Overall Rating reflects a weighted average of a fund's 3-, 5- and 10-year (if applicable) risk adjusted performance.

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

The 50% Russell 1000 Growth/50% Russell 1000 Value Indices represents the cumulative total annualized return and standard deviation of returns of an original investment allocated equally to each style index. The original investment was bought and held, without any rebalancing, for the full period.

The Russell 1000 Growth Index is an unmanaged index that measures the performance of Russell 1000 companies with higher price-to-book ratios and higher forecasted growth values. The Russell 1000 Value Index is an unmanaged index that measures the performance of Russell 1000 companies with lower price-to-book ratios and lower forecasted growth values.

The Standard & Poor's 500 Index is an unmanaged index of 500 widely held US equity securities chosen for market size, liquidity, and industry group representation.

The Russell 1000 Index is an unmanaged index that measures the performance of the large-cap segment of the US equity universe.

An investment cannot be made directly in an index.

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