

Sentinel's Steady Ride

Responsible, modest growth has been the name of the game at this fund shop.

Fund Spy | 04-06-11 | By David Kathman, CFA

Sentinel is one of the oldest mutual fund shops around, with two funds (Sentinel Common Stock (SENCX) and Sentinel Balanced (SEBLX)) tracing their origins back to the 1930s. Despite being owned by a large insurance company (National Life), Sentinel has always had a fair amount of autonomy, which it has generally used well. Throughout its long history, Sentinel has never tried to grow into a behemoth or be all things to all people; it remains essentially a boutique with a relatively modest lineup of 15 funds, only three of which have more than \$1 billion in assets. While the shop has not remained static, its expansion has been modest and judicious, in line with the temperate strategies underlying most of its funds.

Christian Thwaites became president and CEO of the Sentinel funds in January 2005, following a rough patch for the shop that included the departure of some key managers. One thing Thwaites has tried to do during his tenure is give the Sentinel funds a more consistent identity, in which the funds are predictable and corelike, but not so cautious that they become bland index-huggers. The model for that tricky balance was the flagship Sentinel Common Stock fund, which has beaten the S&P 500 Index with appealing consistency for more than a decade without any major blowups.

Under Thwaites, Sentinel fired Invesco as the longtime subadvisor of the International Equity (SWRLX) fund and hired Kate Schapiro in late 2005 to manage the fund in-house, making it into more of a core foreign-stock fund. That move has worked out well, as the fund beat the foreign large-blend category each year from 2007 through 2010 amid tremendous market turmoil. Efforts to right the long-underperforming Mid Cap (SNTNX) fund have taken longer to bear fruit, but that fund is now in the hands of Chuck Schwartz and Betsy Pecor, who have done a fine job of managing the \$2 billion Small Company (SAGWX) fund since 2004.

Thwaites has also led an effort to broaden Sentinel's lineup and increase assets under management, but in modest and incremental

ways that don't compromise the firm's identity. Part of this effort has involved buying small fund shops that fill a niche and can fit in with the rest of the Sentinel funds. In 2006, Sentinel bought the Bramwell funds (now Sentinel Capital Growth (BRGRX) and Growth Leaders (BRFOX)), which are more growth-oriented than Common Stock but place a similar emphasis on stability and predictability. The following year, the firm bought Synovus, folding two of its funds into the Sentinel lineup (Mid Cap Value (SYVAX) and Georgia Municipal Bond (SYGIX)) and merging away two others. In 2008, Sentinel got into the socially responsible investing space when it bought the Citizens funds, again rebranding two of them as Sentinel funds (Sustainable Core Opportunities (MYPVX) and Sustainable Growth Opportunities (WAEGX)) and merging away the others. None of these acquisitions involved more than \$500 million in assets, but each of them added something new to the Sentinel lineup.

Sentinel has never been prone to launching trendy funds, and that has not changed under Thwaites. It launched a new Small/Mid Cap fund in late 2007, designed to allow Chuck Schwartz and Betsy Pecor to own larger stocks than they could in the Small Company fund, but that was later merged away when Schwartz and Pecor took over the Mid Cap fund. The only other fund launched since then was Total Return Bond (SATRX), rolled out in December 2010 as a more diversified complement to manager David Brownlee's Government Securities (SEGSX) fund. It's basically a mutual fund version of a portfolio that Brownlee and Jason Doiron were already running for Sentinel parent National Life, and it's being rolled out slowly, with \$25 million in seed money. Also in December 2010, the Conservative Strategies (SECMX) asset-allocation fund was revamped to include more asset classes, all managed by Sentinel managers, with Thwaites himself overseeing the allocation.

Another way Thwaites has tried to increase Sentinel's assets under management is by beefing up and diversifying its distribution network. When he started in 2005, National Life's proprietary broker-dealer

accounted for a majority of the Sentinel funds' sales, but now that percentage is far smaller. Thwaites hired key people on the distribution side, as well as more wholesalers to expand distribution into new territories. He also started giving special attention to the intermediaries who provide the most business for Sentinel. Morningstar has always been somewhat wary of fund company efforts to boost assets, but in this case Sentinel has avoided doing anything rash, and the growth has been reasonably modest.

Sentinel is a load shop, so it has always needed to balance the interests of shareholders who own its funds and the intermediaries who sell them. For the most part, it has done a pretty good job of striking that balance under Thwaites. He hired more analysts, made compensation more competitive, and changed the compensation structure for managers so that bonuses are based solely on fund performance, with a greater emphasis than before on long-term performance. In late 2008 Sentinel got rid of its money-market funds and also got out of the securities lending business, out of a desire to avoid helping short-sellers. All this comes on top of some fairly standard, but still welcome, measures meant to protect shareholders. The company actively monitors fund flows to prevent excessive trading of Sentinel funds and uses fair-value pricing for foreign securities. The funds have been disclosing their portfolio holdings on a monthly basis since before Thwaites came on board, and he has increased transparency in general.

That's not to say that everything has been perfect. Sentinel could have done a better job handling asset flows into its popular Small Company fund, which closed in 2004 but then reopened in spring 2006 with a promise of a hard close once its assets consistently exceeded \$1.6 billion. The fund bumped up against that asset level, but instead of closing the fund, Sentinel launched a new Small/Mid Cap fund under the same managers, ultimately merging the new fund away when the managers (Schwartz and Pecor) were put in charge of the Mid Cap fund. Not until January 2010 were Small Company's A and C shares closed to new investors, though existing shareholders can still add money. None of this was necessarily bad for shareholders, but it was handled awkwardly and could have been explained better.

That speed bump aside, the moves Thwaites has made have generally made sense for shareholders, and for the most part the company has moved in a positive direction under his guidance. There are some

pretty good funds under the Sentinel umbrella, but it remains a low-key shop, in terms of both its marketing and its investment strategy.

David Kathman, CFA, is a fund analyst with Morningstar.

Performance (As of 9/30/2011)

			Total annual operating expense ratio (%)*		Cumulative	Average Annual Total Returns (%)					Inception Date
					Return YTD (%)	1 Year	3 Years	5 Years	10 Years	Since Inception	
Sentinel Capital Growth Fund	Class A ¹	BRGRX	1.32	Without Sales Charge	-8.58	3.27	3.33	1.09	2.58	7.05	8/1/1994
				With 5% Sales Charge	-13.17	-1.92	1.58	0.06	2.05	6.73	
Sentinel Common Stock Fund	Class A	SENCX	1.16	Without Sales Charge	-9.24	0.75	1.58	0.13	3.95	10.39	1/12/1934
				With 5% Sales Charge	-13.77	-4.28	-0.14	-0.89	3.41	10.32	
Sentinel Growth Leaders Fund	Class A ¹	BRFOX	1.59	Without Sales Charge	-11.89	-1.73	0.92	1.20	3.13	0.88	10/31/1999
				With 5% Sales Charge	-16.31	-6.62	-0.80	0.16	2.59	0.45	
Sentinel Mid Cap Fund	Class A	SNTNX	1.50	Without Sales Charge	-8.00	3.52	1.65	-0.04	4.92	8.19	9/15/1969
				With 5% Sales Charge	-12.62	-1.67	-0.06	-1.06	4.38	8.06	
Sentinel Mid Cap Value Fund	Class A ²	SYVAX	1.49	Without Sales Charge	-8.06	0.00	1.55	0.67	6.82	7.96	4/3/2000
				With 5% Sales Charge	-12.65	-4.98	-0.16	-0.35	6.27	7.48	
Sentinel Small Company Fund ^a	Class A	SAGWX	1.17	Without Sales Charge	-8.39	4.11	2.88	2.60	8.09	10.11	3/1/1993
				With 5% Sales Charge	-12.99	-1.11	1.15	1.56	7.53	9.81	
Sentinel International Equity Fund	Class A	SWRLX	1.45	Without Sales Charge	-18.54	-13.51	-0.73	-2.87	4.80	6.37	3/1/1993
				With 5% Sales Charge	-22.63	-17.83	-2.40	-3.86	4.27	6.08	
Sentinel Sustainable Core Opportunities Fund	Class A ³	MYPVX	1.35	Without Sales Charge	-9.79	-0.73	0.47	-2.65	0.24	4.55	6/13/1996
				With 5% Sales Charge	-14.30	-5.68	-1.22	-3.64	-0.27	4.20	
Sentinel Sustainable Growth Opportunities Fund	Class A ⁴	WAEGX	1.42	Without Sales Charge	-8.39	3.41	3.17	-1.91	2.50	7.28	2/8/1994
				With 5% Sales Charge	-12.95	-1.73	1.42	-2.91	1.98	6.96	
Sentinel Balanced Fund	Class A	SEBLX	1.14	Without Sales Charge	-4.82	2.13	3.89	2.25	4.62	8.41	11/15/1938
				With 5% Sales Charge	-9.57	-3.00	2.13	1.21	4.09	8.34	
Sentinel Conservative Strategies Fund ^d	Class A	SECMX	1.15	Without Sales Charge	-3.13	0.33	3.78	3.23	—	5.75	3/10/2003
				With 5% Sales Charge	-7.97	-4.68	2.04	2.17	—	5.11	
Sentinel Government Securities Fund	Class A ⁶	SEGSX	0.83	Without Sales Charge	4.72	3.86	6.71	6.58	5.62	6.71	9/2/1986
				With 2.25% Sales Charge	2.39	1.48	5.91	6.10	5.39	6.61	
Sentinel Total Return Bond Fund	Class A	SATRX	1.06	Without Sales Charge	3.12	—	—	—	—	3.33 ⁷	12/17/2010
				With 2.25% Sales Charge	0.81	—	—	—	—	1.00 ⁷	
Sentinel Georgia Municipal Bond Fund ⁸	Class I	SYGIX	0.71	Without Sales Charge	6.67	3.21	6.51	4.72	4.10	4.33	6/30/1992

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.

For the International Equity and Small Company Funds, a fee of 2% will be assessed on the redemption of shares held for 30 calendar days or less.

Small company stocks can be more volatile than large company stocks.

Mid-sized company stocks can be more volatile than large company stocks.

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.

International securities are subject to political influences, currency fluctuations and economic cycles that may be unrelated to those affecting the domestic financial markets and may experience wider price fluctuations than other investments.

High yield securities are subject to higher default risk than investment grade bonds.

Convertible securities are subject to the risks associated with both fixed income securities and common stocks.

The Sentinel Balanced, Conservative Strategies, Government Securities, Short Maturity Government and Total Return Bond Funds are 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.

Certain Funds 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 Funds 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 Funds' return and increase the volatility in movements in the Funds' net asset value. For additional information regarding the use of derivatives, please see the Funds' current prospectus.

^a Class A shares of the Small Company Fund are closed to new investors as of January 29, 2010, subject to certain exceptions. Existing shareholders may continue to purchase shares and reinvest dividends and capital gains. Please see the current prospectus for more information.

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

- The Sentinel Capital Growth and Sentinel Growth Leaders Funds began operations on March 17, 2006. Performance prior to March 17, 2006 is based on the performance of their predecessors, the Bramwell Growth Fund, which began operations on August 1, 1994, and the Bramwell Focus Fund, which began operations on October 31, 1999, both of which were offered without a sales charge. Performance of Class A shares reflects the current maximum sales charge. Performance of Class A shares prior to their inception on March 17, 2006 does not reflect the higher 12b-1 fees in effect after that date. If it did, returns would be lower.
- The Mid Cap Value Fund, which began operations on May 4, 2007, is a successor to the Synovus Mid Cap Value Fund, which was a successor to a similarly managed collective investment fund, which began operations on April 3, 2000. Performance of the Class A shares from October 24, 2001 to their inception on May 4, 2007 is based on the Class A share performance of the Synovus Mid Cap Value Fund, restated to reflect the current maximum sales charge. Performance from October 12, 2001 to October 24, 2001 is based on the Synovus Mid Cap Value Fund's Institutional Class shares, restated to reflect the current maximum sales charge and adjusted for higher expenses. Performance prior to October 12, 2001 is based on the performance of the collective investment fund, restated to reflect the current maximum sales charge, and adjusted for higher expenses. Performance of the Class A shares prior to May 4, 2007 does not reflect higher 12b-1 fees in effect after that date. If it did, returns would be lower.
- The Sentinel Sustainable Core Opportunities Fund, which began operations on April 4, 2008, is a successor to the Citizens Value Fund, which was a successor to the Meyers Pride Value Fund, which began operations on June 13, 1996. Performance of the Class A shares from September 24, 2001 to their inception on April 4, 2008 is based on the performance of the Standard shares of the Citizens Value Fund, and prior to September 24, 2001 is based on the performance of the Meyers Pride Value Fund, both of which were offered without a sales charge, and has been restated to reflect the current maximum sales charge. Performance prior to April 4, 2008 does not reflect the higher 12b-1 fees for Class A shares in effect after that date. If it did, returns would be lower.
- The Sentinel Sustainable Growth Opportunities Fund, which began operations on April 4, 2008, is a successor to the Citizens Emerging Growth Fund, which began operations on February 8, 1994. Performance of the Class A shares prior to their inception on April 4, 2008 is based on the performance of the Standard shares of the Citizens Emerging Growth Fund, which were offered without a sales charge, and has been restated to reflect the current maximum sales charge. Performance of Class A shares prior to April 4, 2008 does not reflect the higher 12b-1 fees in effect after that date. If it did, returns would be lower.
- On December 15, 2010 the Sentinel Conservative Allocation Fund was renamed the Sentinel Conservative Strategies Fund. On December 17, 2010, the Sentinel Conservative Strategies Fund's investment strategies changed. Performance and ratings prior to December 17, 2010 relate to the Fund's strategies in effect prior to that date.
- Performance of the Sentinel Government Securities Fund's Class A shares is based on the 2.25% maximum sales charge and is not adjusted to reflect the maximum 4% sales charge in effect from inception through April 10, 2005 and from June 1, 2006 through July 31, 2010, nor has it been adjusted to reflect the maximum sales charge of 2% in effect from April 11, 2005 to May 31, 2006. If it was the returns would be lower.
- Since Inception returns for the Sentinel Total Return Bond Fund are cumulative, not annualized, because the Fund is less than one year old.
- The Sentinel Georgia Municipal Bond Fund is a successor to the Synovus Georgia Municipal Bond Fund, which was a successor to a similarly managed collective investment fund, which commenced operations in 1992. Performance for the Class I shares from October 12, 2001 to May 4, 2007 is based on the Synovus Georgia Municipal Bond Fund's Institutional Class shares. Performance for Class I shares prior to October 12, 2001 is based on the performance of the collective investment fund, adjusted for higher expenses. Class I shares do not impose a sales charge. Only eligible investors may purchase I shares, as described in the prospectus.

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 www.sentinelinvestments.com.

Please read the prospectus 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.

