Sentinel International Equity Fund

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Manager Insights
As of 3/31/2017

Fund Management
Andrew Boczek
Portfolio Manager
Industry: 1987
Sentinel: 2012

- For the quarter ended 3/31/2017, the Sentinel International Equity Fund I Shares returned 8.52%, compared to the 7.25% total return of the Morgan Stanley Capital International Europe, Australasia and Far East Index (MSCI EAFE Index) and the 7.74% return for the Morningstar Foreign Large Blend category.
- For the one-year period ended 3/31/2017, the Sentinel International Equity Fund I Shares returned 6.38%, compared to the 11.67% total return of the Morgan Stanley Capital International Europe, Australasia and Far East Index (MSCI EAFE Index) and the 10.88% return for the Morningstar Foreign Large Blend category.

Market Review

The first quarter of 2017 saw global stocks rise strongly almost across the board, with continued expectations of reflation in the US driven by hopes for increased investment in infrastructure and tax cuts under the new presidential administration. As the period wound down, however, the failure to enact health care reform and the realization that churning out legislation is considerably more difficult than typing out a Tweet put a halt to investor enthusiasm. Nonetheless, virtually all global equity sectors finished the quarter comfortably in the black, led by Health Care, which had sagged in anticipation of increased drug and device pricing scrutiny from Washington that now appears less likely; and Information Technology, which has benefitted from the continued strength in semiconductor related demand. Energy stocks bucked the bullish trend, however, with weakness in oil markets resulting from a surprising recovery in output from North American producers, driven by technological innovation that has made shale oil profitable at current crude prices and below.

Growth stocks slightly outperformed value for the quarter, as Financials and Energy lagged. Emerging markets bounced back sharply following a weak fourth quarter, driven by recovery in India following the demonetization scheme implemented last November, as well as strength in a number of emerging market currencies, including the Mexican Peso, Brazilian Real and Russian Ruble. The US dollar, which rose strongly into year-end 2016 on expectations of further interest rate rises, rolled over against most world currencies as US bond yields peaked in March.

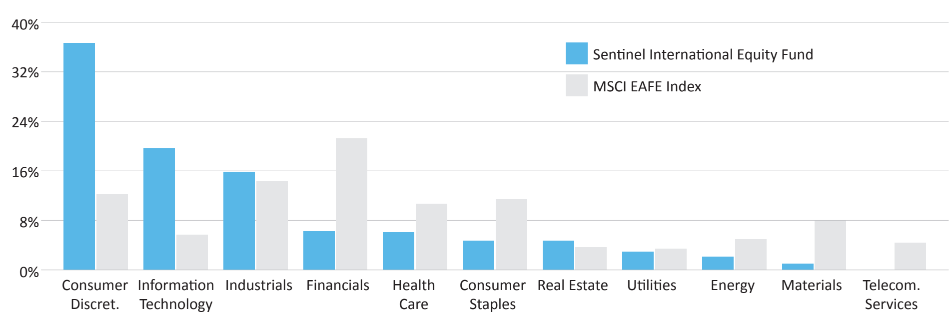
As 2017 begins, much of investors' attention has been focused on politics, including the US leadership transition and a number of general elections in Europe, as well as "Brexit" negotiations between the UK and its European Union neighbors. Despite the apparent political uncertainty, however, European stocks showed signs of stabilizing relative to their US counterparts following several years of significant relative underperformance.

Meanwhile, the multi-year bear market in Chinese consumer-discretionary-spending-related stocks has apparently come to an end, with European and Chinese luxury as well as Macau casino stocks staging a significant rally following the crackdown on conspicuous consumption that began in 2013. On the other hand, the housing market there seems to be rolling over once again under the weight of tightening liquidity conditions, which is seeing a knock on effect on industrial commodity prices from copper to iron ore.

Key Performance Attributes

During the first quarter of 2017, the Sentinel International Equity Fund's relative performance benefitted from solid contributions in a number of sectors, with particularly strong stock selection in Consumer

Sector diversification



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Discretionary and Real Estate. The main detractor to relative performance came from the Financials sector.

Looking at the Fund broken down by geography, relative performance benefitted from good stock selection in Japan, India, Canada and the UK. On the other hand, the Fund's exposure in Germany was a notable drag on relative performance for the quarter.

As usual, given the Fund's concentration and bottom-up approach, it's more meaningful to discuss the real drivers of performance attribution from the point of view of individual holdings.

The largest positive contribution to performance came from the Fund's investment in Savills plc, the UK-based global property consultancy. The company performed comfortably ahead of expectations, as its quality franchise, strong balance sheet and diverse business model continued to deliver despite some macro volatility.

Shriram Transport Finance, India's largest non-bank financial company, was another strong performer over the period. The company rebounded on the back of easing concerns over asset quality and expectation of a return to normalcy post demonetization. Moreover, the broader Indian equity market was well supported after Prime Minister Narendra Modi's Bharatiya Janata Party emerged victorious in a key Indian state election.

The shares of Wynn Macau continued their good performance during the first quarter following a stellar 2016. The recovery in the Macau gaming sector continues to show acceleration over the past few months. The Hong Kong listed subsidiary that represents the majority of the value of Steve Wynn's empire is also gaining market share after the opening of its high profile luxury resort Wynn Palace.

Delphi Automotive, the UK-domiciled maker of electronic car components, had been a laggard for much of 2016. However, its share price rebounded during the first quarter after it delivered a strong earnings beat and provided guidance above expectations. We remain bullish on the company's prospects, supported by a sector leading growth outlook and its strategic position in connected car/autonomous driving.

Other contributors included Uni-Select, the Canada-based distributor of automotive parts and paint, and Samsung Electronics, the South Korean technology bellwether. The shares of both companies were well supported on brokers' positive comments regarding their respective growth outlooks.

The only material detractor to relative performance over the first quarter was Aurelius Equity Opportunities SE & Co. KGaA, the German based private equity firm that focuses on the acquisition and turnaround of special-situation companies in Europe. Aurelius has an impressive track record of delivering about 9x invested capital over the past 10 years, creating significant shareholder value. However, Gotham City Research, a well-known short seller, issued a report questioning the validity of Aurelius' accounting practices and business model, causing a plunge in its share price. Aurelius published a statement in an attempt to address the allegations by Gotham City and stepped up its share buy-back program in response. Nevertheless, the quarter-end timing of the incident and lack of details weighed on investor sentiment.

Outlook

We don't spend a lot of time around here analyzing macroeconomic data, having found it generally to be more of an interesting distraction than an aid in identifying good investments. Recently, however, we were reviewing some European economic figures which we found instructive.

Germany is the largest economy in the European Union and the fourth largest in the world. By almost any measure, the German economy is in great shape, with unemployment close to 40-year lows and the biggest budget and current account surpluses in decades. Growth is modest but stable, notwithstanding the usual poor demographics of developed countries in the 21st century, and the government's debt is manageable. Despite these positive characteristics, Germany's inflation adjusted exchange rate is the cheapest it's been in at least three decades. Fellow EU and Eurozone member Greece, on the other hand…well, you've probably heard about Greece's problems. Unemployment remains well above 20%, while the budget and current account are stuck in deficit despite years of painful adjustment and deflation. GDP growth is substantially negative over the past decade.

Your challenge, should you choose to accept it, is to identify a single interest rate that is appropriate for both Germany and Greece today. If you give up, I commend you, since there isn't one. But that doesn't stop the European Central Bank from continuing to try. After all, to a hammer, every problem looks like a nail. An interest rate of zero is clearly much too low for Germany, but may even be too high for Greece, given its pile of debt and lack of competitiveness. The result of such "one size fits all" policy is likely to be continued asset inflation in Germany, yet weak economic performance in Greece.

Note that since 2010, house prices in Greece have fallen by 40% while in Germany they've risen by a similar amount. And incidentally, what's true for Greece is arguably also the case for Italy, Spain and Portugal, which share some of the same economic challenges as Greece.

The reason these numbers are instructive is that they're symptomatic of the unbalanced growth which we see not just in Europe but in a number of places around the world. One consequence of this unbalanced growth is the accumulation of debt, much of which can never be repaid. Meanwhile it hangs like an albatross around the neck of borrowers, which are unable to get on with normal life, since they're starved of capital to invest and grow. An economic problem then morphs into a political one, since weak economic performance leads to social tensions. We're seeing this phenomenon across a number of developed countries in recent years and the question remains, can the center hold?

To the extent that we have a macroeconomic view, it can be summarized like this: The world is awash in debt, the cumulative result of decades of unbalanced growth. As a consequence we think economic performance going forward is likely to be disappointing and volatile. So we want to own enduring businesses with strong balance sheets that can survive and thrive in any economic environment. For example, despite our deep skepticism about the economic prospects of Greece, we own OPAP, which is the Greek acronym for the owner of a virtual monopoly in legalized gaming businesses in that country. With new, foreign management, the company has no net debt and is just now rolling out new products which will allow it to substantially expand profits over the next couple of years regardless of the macroeconomic situation in the country.

In Spain, which hasn't had GDP growth above 1% for the past 15 years, we're invested in Red Electrica, the owner and operator of the country's electricity transmission grid---the name literally means electric network. Thanks to its monopoly position in the market, friendly regulatory regime and underinvestment while under government ownership, the company's profits have grown at a compound annual rate of over 10% since privatization almost two decades ago. Now that the big investment phase is behind it, management has the flexibility to increase dividend payments to shareholders, so the current yield of about 5% could grow substantially over the coming years. So while the macroeconomic prospects of Greece and Spain are far from stellar, we think prospects still exist for continued attractive returns from our investments in OPAP and Red Electrica.

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As 2017 progresses, markets will inevitably remain fixated on European politics. While we think that a status quo result is most likely in the French presidential elections later this month, we don't exclude the possibility of a surprise, given stubbornly high unemployment and rising social tensions. More importantly, we suspect that as time goes on, the odds of another Brexit-like surprise may increase in Europe. Meanwhile, negotiations for Brexit itself will begin soon with no real precedent, leaving open the possibility for more negative surprises in the months to come.

Recent geopolitical events add a further layer of risk, with increasing tensions between the US and Russia over Syria, and sabre rattling from North Korea. Add a global economic recovery looking long in the tooth and a relatively expensive US stock market facing further interest rate rises, and you have the recipe for increased volatility. Not surprisingly, however, we strongly believe that our portfolio of high quality, well capitalized businesses can thrive in any environment.

Top 10 holdings

Company	Industry	Country	% Net assets
Savills PLC	Real Estate Management & Development	United Kingdom	3.42
Greek Organisation of Football Prognostics SA	Hotels, Restaurants & Leisure	Greece	3.04
BCA Marketplace PLC	Specialty Retail	United Kingdom	3.01
Red Electrica Corp. SA	Electric Utilities	Spain	2.88
ITV PLC	Media	United Kingdom	2.87
WPP PLC	Media	United Kingdom	2.86
Delphi Automotive PLC	Auto Components	United Kingdom	2.85
SAP SE	Software	Germany	2.83
Uni-Select Inc.	Distributors	Canada	2.75
Nestle S.A.	Food Products	Switzerland	2.67
Total (may not add due to rounding)			**29.18**

Sentinel International Equity Fund performance as of 03/31/2017 (%)			Cumulative return YTD	Average annual total return				
				1 year	3 years	5 years	10 years	Since inception
Class A[1]	SWRLX	without sales charge	8.41	6.05	1.96	6.59	2.08	6.98
		with 5% sales charge	3.00	0.73	0.23	5.49	1.56	6.75
Class I[2]	SIIEX	no sales charge	8.52	6.38	2.36	7.07	2.48	7.15
MSCI EAFE Index			*7.25*	*11.67*	*0.50*	*5.83*	*1.05*	*5.89*

Fund Incepted 3/1/1993. Total annual operating expenses (%) by prospectus A: 1.37, I: 1.00

Data shown is historical performance for Class I shares unless noted and reflects reinvested distributions. Composition of holdings is subject to change. 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.*

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 US domestic securities.

Certain Sentinel Funds have adopted a redemption fee. For the International Equity Fund, a fee of 2% will be assessed on the redemption of shares held for 30 calendar days or less.

1. Performance of the Class A shares prior to June 30, 2012 has not been adjusted to reflect the decrease in the maximum 12b-1 fee from 0.30% to 0.25%. If it had, those returns would be higher.
2. Performance of the Class I shares prior to their inception on August 27, 2007 is based on the performance of the Fund's Class A shares, restated to reflect that Class I shares are not subject to a sales charge. The "since inception" performance data for Class I shares is calculated from March 1, 1993, which was the inception date of the Fund. Only eligible investors may purchase Class I shares, as described in the prospectus.

The Morgan Stanley Capital International (MSCI) Europe, Australasia, Far East (EAFE) Index is an unmanaged, free float-adjusted, market capitalization-weighted index of the equity market performance of developed markets, excluding the US and Canada. The Fund uses the net version of the Index, which reflects reinvested dividends subjected to the maximum non-US tax rate applicable.

An investment cannot be made directly in an index.

Source: Factset, Morningstar