Sentinel International Equity Fund

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

- For the quarter ended December 31, 2016, the Sentinel International Equity Fund I shares returned -6.11%, compared to the -0.71% total return of the Morgan Stanley Capital International Europe, Australasia and Far East Index (MSCI EAFE Index) and the -2.22% return for the Morningstar Foreign Large Blend category.
- For the year-to-date ended December 31, 2016, the Sentinel International Equity Fund I shares returned -1.29%, compared to the +1.00% total return of the Morgan Stanley Capital International Europe, Australasia and Far East Index (MSCI EAFE Index) and the +0.79% return for the Morningstar Foreign Large Blend category.

Market Review

After a strong third quarter, global stock markets were more or less flat during the period, though this masks some fairly dramatic relative moves. So while the MSCI EAFE Growth Index fell by 5.5% in the final quarter of the year, MSCI EAFE Value Index counterpart actually rose by 4.2%, a gap in relative performance the likes of which hadn't been seen in a generation. The beaten down value sectors of the market made back most of the past two years' underperformance in a period of just a few weeks, driven by a combination of the historically large gap in relative valuations that had opened up, some recovery in commodities prices after a multiyear bear market, and a sharp bounce in market interest rates, leading to a particularly strong recovery in the prices of bank stocks.

The US dollar was very strong during the period, benefitting from the Federal Reserve's (Fed) decision in December to finally increase the Fed Funds rate and the accompanying sharp rise in US bond yields. A number of major foreign currencies, including the Euro and the British pound, are now trading near multi-decade lows in inflation adjusted terms.

Emerging market stocks generally struggled in the face of a strong dollar, as did gold prices, while oil prices continued to creep upwards. Indian stocks were hit particularly hard during the quarter when, in an attempt to punish holders of ill-gotten gains and counterfeit money, the Modi government implemented one of the largest monetary experiments in the history of the world by removing from circulation, virtually overnight, 85% of the value of currency notes outstanding. The result of this so-called demonetization has been utter economic chaos and a sharp slowdown in spending, upending a nascent economic recovery and waylaying one of the better performing stock markets in the world prior to November

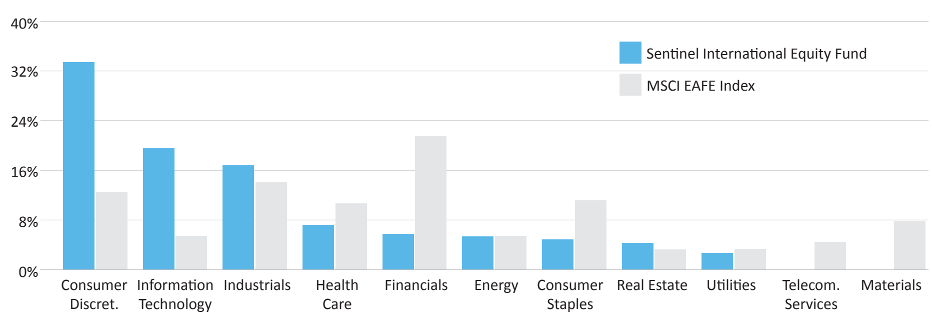
Key Performance Attributes

The fourth quarter of 2016 turned out to be an extraordinarily challenging period for the Fund from a relative performance basis. The favorable tailwind of outperformance by "growthier" or higher quality stocks that we had benefitted so strongly from since mid-2014 turned into a massive headwind.

From a sectoral point of view, the largest detractor from the Fund's performance during the fourth quarter of 2016 came from the Financials sector, the strongest performing group in the MSCI EAFE Index. The Fund was impacted by having an underweight allocation as well as several underperforming holdings. Poor stock selection within Consumer Discretionary and Technology sectors also contributed negatively to relative performance. In addition, the Fund's exposure to India stood out as a drag on relative performance. On the positive side, the Fund benefited from being underweight the Consumer Staples sector, the worst performing group in the MSCI EAFE Index over the period.

As usual, given the Fund's concentration and bottom-up approach, it's more meaningful to discuss performance attribution from the point of view of individual holdings. The Fund suffered from its investment in Ericsson, the Swedish maker of telecommunications network equipment. Our thesis of an eventual recovery in equipment demand as operators begin to roll out next generation networks, backed by a nice recurring services revenue stream and a strong balance sheet, proved to

Sector diversification



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.

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.

The MSCI EAFE Growth Index captures large and mid cap securities exhibiting overall growth style characteristics across Developed Markets countries around the world, excluding the US and Canada.

The MSCI EAFE Value Index captures large and mid cap securities exhibiting overall value style characteristics across Developed Markets countries around the world, excluding the US and Canada.

An investment cannot be made directly in an index.

The return for the Morningstar category is an average of funds within the particular category as determined by Morningstar based on investment styles as measured by their underlying portfolio holdings.

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be premature if not unfounded. The company reported disappointing results again in October, which took some doing given the already low level of expectations. Signs of activism from the company's largest shareholder have so far been unable to rouse the stock from its slumber, though to management's credit there have been some renewed efforts at cost cutting at this traditionally engineering-driven company.

No discussion of the Fund's performance for the period would be complete without a post mortem of its investment in Countrywide plc, the UK's leading residential real estate agency. The Fund first made an investment in the company in early 2013, shortly after its stock market relisting, following a period of private equity ownership that spanned the peak of the previous bull market and the depths of the financial crisis. At the time, we felt that the prospects for a recovery in the volume of home sales, combined with a cleaned up balance sheet and Countrywide's role as the natural consolidator of a fragmented industry made it an attractive long term investment. We also thought that the company's leasing business made it less cyclical than perceived by the market. In retrospect we were too optimistic, and we missed the signs as the housing market peaked again and management changed in 2014. Political uncertainty and a slowly re-leveraging balance sheet were accompanied by increasing competition from new digital players, driving down commission rates and increasing risk. The UK's vote to leave the EU in June of this year put the industry on its knees, and with a now less solid financial position and little prospect for a recovery in revenues, Countrywide stands the risk of violating covenants on its bank debt. To top things off, in November the government, in an unexpected move, announced its intention to outlaw the fees that brokers have charged to rental applicants. By the end of the fourth quarter the Fund had exited its position with its tail between its legs and a substantial realized loss.

Performance also suffered when Intertrust NV, the Dutch based global provider of trust and corporate services, reported third quarter results below market expectations. While the company attributed the negative surprises to transitory factors, management needs to demonstrate better execution and communication to restore investors' confidence, given the company's relatively short tenure in the public markets. Intertrust is one of the two leading players in what is a highly fragmented market that should see further consolidation and outsourcing by its customers.

And finally, the Fund's performance also suffered from its investments in Shriram Transport Finance and PC Jeweller in India, where the aforementioned demonetization scheme implemented by the government in November led to a sharp fall in stock prices across the board.

On the plus side, the largest positive contribution to performance came from the Fund's investment in TGS-Nopec Geophysical, a Norway-based company in the oil services industry. The company pioneered the asset-light, multi-client model for geophysical data, as it does not own any of its own vessels. Its asset-light model makes it relatively less impacted by the highly cyclical marine seismic market and enables it to generate industry leading margins across cycles. The company has a strong balance sheet, maintaining a net cash position throughout the recent oil industry downturn. The share price of TGS-Nopec gained upward momentum on signs of a rationalization of supply in the seismic market and tentative indications of demand revival.

The Fund also benefited from investments in two staffing related companies. The Swiss-based Adecco Group is the world's leader in general staffing while UK-based Hays Plc is a high-quality specialist recruitment group that focuses on professional staffing. Both companies are strong global franchises with diverse geographic business exposures. Their share prices were supported by solid trading updates and the fourth quarter cyclical rally.

TE Connectivity, formerly Tyco Electronics, is a Swiss domiciled company that designs and manufactures sophisticated connectors and sensors. Many of its products are mission critical that serve a variety of end markets, including automotive, energy, industrials, aerospace, communications and electronics. The share price benefited from several quarters of solid numbers as investors gain confidence in its long term earnings power. In addition, the company has an ongoing proactive buyback program.

Greek Organization of Football Prognostics, known more commonly by its Greek acronym OPAP, continues to benefit from new private ownership and the return of some semblance of stability to the Greek economy. In addition, the company successfully settled a dispute with the Greek government over a change in the regulatory framework for their soon-to-be rolled out video lottery terminal business, which had been halted for the last couple of years.

Outlook

Continued accommodative policies have allowed for modest growth in most of the developed world, led by the US. Following seven years of economic recovery and given an unemployment rate comfortably below 5%, as well as an acceleration in wage pressures and other input costs, the Federal Reserve Board has finally recognized that zero interest rates are no longer appropriate for the US economy. The unanswered questions are whether the economy can actually withstand a normalization of interest rates, and whether the Fed is prepared to follow through with its tightening in the face of potential financial market hiccups.

The UK's vote last June to leave the European Union ("Brexit") came as a shock to the establishment, causing a rethink of the unspoken assumption that further European economic and political integration is both desirable in the abstract and desired by the masses. The precise shape of the UK's future relationship with its soon-to-be former EU partners will be subject to heated discussions over the coming two years, during which time increased uncertainty is likely to dampen spending and capital inflows into the UK.

Brexit has also thrown a monkey-wrench into plans to press forward with further fiscal integration among the countries of the EU, integration which will be necessary to shore up confidence in the single currency. And following the decisive defeat of a referendum in Italy held in early December that would have facilitated some necessary fiscal consolidation, the barbarians seem to be at the gates. With general elections coming in Germany and France, and negotiations between the UK and EU set to start, it's difficult to imagine much political will to address problems in the Italian banking system, for example, which have the potential to destabilize the entire continent and unravel the single currency. It will be another interesting year across Europe.

China's GDP growth has stabilized in the 6-7% range. The problem is that this growth has been accompanied by an accelerating buildup of debt, and the rebalancing that the authorities there are trying to engineer is still no more than a twinkle in President Xi's eye. Foreign reserves, while still enormous at $3 trillion, have fallen by around 25% from the peak, and it's evident that the government is worried about shoring up leakages in the capital account. We remain concerned by the unbalanced nature of Chinese economic growth and are wary of the sustainability of the current bounce in industrial commodity prices, which has been driven by renewed debt funded investment in property and infrastructure.

Finally, there's little new to say about the economic situation in Japan, which remains mired in debt-induced deflation, but where the authorities continue to attack the symptom rather than the disease. The latest plan is for the Bank of Japan to hold rates on all Japan Government Bond maturities up to ten years at or below zero. The central bank's balance sheet is growing at a rate of $1 trillion per year and is looking more and more like a black hole from which nothing can escape.

The last several months have been extremely challenging, to say the least, for investors focused on identifying high quality businesses sporting strong balance sheets and exhibiting stable growth characteristics. Whereas from mid-2014 to mid-2016 the Fund operated in a market environment highly favorable to our style of investing, the last few months of 2016 saw that tailwind turn into a substantial headwind. It's tough for us to keep up when low quality stocks outperform, as they have recently. So while we wring our hands over recent performance, we're also excited about the opportunities we see in the markets these days. We remain focused on identifying growing, high quality businesses with strong balance sheets, run by shareholder-friendly management teams and trading at reasonable valuations.

Thanks for your continued interest and support.

Top 10 holdings

Company	Industry	Country	% Net assets
Greek Organisation of Football Prognostics SA	Hotels, Restaurants & Leisure	Greece	3.20
ITV PLC	Media	United Kingdom	2.95
Savills PLC	Commercial Services & Supplies	United Kingdom	2.84
TGS-NOPEC Geophysical Company ASA	Energy Equipment & Services	Norway	2.81
Nestle S.A.	Food Products	Switzerland	2.77
SAP SE	Software	Germany	2.77
Experian PLC	Professional Services	Ireland	2.75
Delphi Automotive PLC	Auto Components	United Kingdom	2.64
Red Electrica Corp. SA	Electric Utilities	Spain	2.61
Hays PLC	Professional Services	United Kingdom	2.57
Total (may not add due to rounding)			**27.91**

Sentinel International Equity Fund performance as of 12/31/2016 (%)			Cumulative return YTD	Average annual total return				
				1 year	3 years	5 years	10 years	Since inception
Class A[1]	SWRLX	without sales charge	-1.63	-1.63	-0.60	7.18	1.59	6.69
		with 5% sales charge	-6.54	-6.54	-2.29	6.08	1.07	6.46
Class I[2]	SIIEX	no sales charge	-1.29	-1.29	-0.21	7.67	1.98	6.86
MSCI EAFE Index			*1.00*	*1.00*	*-1.60*	*6.53*	*0.75*	*5.65*

Fund Incepted 3/1/1993. Total annual operating expenses (%) by prospectus A: 1.42, I: 1.03

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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.

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Source: Factset, Morningstar