Sentinel Investments™
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November 5, 2010

Ms. Elizabeth Murphy
Secretary
U.S. Securities and Exchange Commission
100 F Street, N.E.
Washington, D.C. 20549-1090

Re: Mutual Fund Distribution Fees; Confirmations (File Number S7-15-10)

Dear Ms. Murphy:

We are writing on behalf of Sentinel Investments, which manages Sentinel Group Funds, Inc., a complex of 14 mutual funds aggregating approximately $9 billion in assets under management, to comment on the Securities and Exchange Commission's proposed new rule and rule amendments that would replace Rule 12b-1 under the Investment Company Act of 1940.

The Sentinel mutual funds are sold primarily through independent securities dealers, and offer various pricing options, including Class A shares and Class C shares fairly typical in most respects in the mutual fund industry today. The Class A shares of our equity funds currently assess 12b-1 fees with a maximum of 0.30% of assets per year, and the Class A shares of our fixed income funds currently assess 12b-1 fees of 0.20% or 0.25% of assets per year. The Class C shares of our funds currently assess 12b-1 fees of 1.00% of assets per year. One of our most successful funds, the Sentinel Short Maturity Government Fund, offers Class S shares instead of Class C shares; these Class S shares have no front or back end loads, and assess a 12b-1 fee of 0.75% of assets per year. Many of our funds also offer Class I shares, which are available primarily to large institutional investors, and which assess no 12b-1 fees.

We first note that we have had an opportunity to provide input for a comment letter on this rulemaking initiative by the Investment Company Institute ("ICI"), and have reviewed in detail a draft of the ICI's comment letter. We would like to express our agreement with, and support for, the ideas expressed in the ICI's letter. We believe the ICI letter is the result of a thorough and thoughtful analysis of the issues involved, and makes many important points that we urge the Commission to consider in proceeding with this rule making initiative. We also would like to take this opportunity to add a few additional thoughts with respect to the specific impacts of the proposal on Sentinel.

<u>The Benefits of a Uniform Cap on Ongoing Sales Charges</u>. One point the ICI makes in its comment letter is that it would be better to have a single, uniform cap on "ongoing sales charges", rather than to set a cap which varies from fund to fund based on the maximum front end sales charge assessed by any class of shares of that particular fund. The ICI letter states several important reasons why a uniform cap would be better, including that pricing disparities could create investor confusion and operational complexity, disadvantaging mutual funds in asset

allocation models, that the variable cap creates incentives for workarounds, and that the standard as proposed raises a number of thorny interpretive questions. We believe these points are sound.

We will also suggest an additional reason why a uniform cap would be better than one based on the specific maximum front-end load of any class of the specific fund involved. Many mutual fund complexes, including ours, offer current shareholders the right to exchange freely among different funds in the complex without any transaction charges. This exchange privilege allows investors to make adjustments in their portfolios very conveniently and efficiently. However, the various funds in a complex may offer different maximum front end loads. For example, the Class A shares of the equity funds in the Sentinel complex have a maximum front end load of 5%, while the Class A shares of the Government Securities Fund (and the Total Return Bond Fund which is currently in registration) have a maximum front end sales charge of 2.25%, and the Class A shares of the Short Maturity Government Fund have a maximum front end sales charge of 1%.

Exchanges among funds with differing ongoing sales charge caps would introduce considerable additional complexity into the task of tracking ongoing sales charges, and may produce unintended results. As one example, if an investor were to exchange from the Class C shares of an equity fund into the Class C shares of a fixed income fund whose Class A shares have a lower front end sales charge, it is possible that that investor's cumulative ongoing sales charges will have immediately exceeded the lower maximum for the fund into which the investor has exchanged – we assume this would not be judged a violation of the new rules, but presumably it would require immediate conversion from the Class C shares of the fixed income fund into the Class A shares of the fixed income fund, which in our case do not have an ongoing sales charge because the distribution fee is 0.25% or less. In addition to introducing this additional complexity into the requirements for the conversion administrative system, there could now be a loophole under which equity fund Class C shareholders could have the incentive to temporarily exchange into a fixed income fund with a lower ongoing sales charge cap for the sole purpose of accelerating the conversion into the Class A shares, and then promptly exchange into the Class A shares of the original equity fund. To prevent this we would need to be able to track and identify that the Class A fixed income fund shares were acquired in exchange for equity Fund Class C shares which had not yet paid the maximum ongoing sales charge, and require that any such exchange be made back into the Class C shares of the equity fund. At best this is confusing and administratively complex, and if we were to allow the simpler approach under which all Class A exchanges would be into other Class A shares, this could result in some exchanges not motivated by the shareholder's long term investment objectives, potential unnecessary disruption of portfolio management, potential for unfairness to shareholders not exercising this temporary exchange strategy, and frustration of the intent of the sponsor's pricing strategy. We believe that having a uniform cap on ongoing sales charges is the best way to avoid these types of complications and unintended results.

<u>Additional Complexity in Share Class Structures and Conversion Mechanics</u>. Another point is that the new rules would require significant additional complexity in share class structures and conversion mechanics, which would appear to be especially severe for Sentinel because its equity fund Class A shares currently assess a 0.30% 12b-1 fee. As a result of the equity funds' 0.30% distribution fee, 0.05% of which would have to be treated as an ongoing sales charge under the proposed rules, our existing equity fund Class A shares would not be

available to receive the conversions of the Class C shares at the time the maximum ongoing sales charges were reached, and these Class A shares themselves would eventually have to be converted into a new class of shares with no ongoing sales charge (although this might be many years into the future). It would therefore be necessary for Sentinel to create a new class of shares with a marketing and service fee within the limits of new Rule 12b-2. This new share class would not be directly offered for sale at all, but would have the sole purpose of receiving the conversions of the equity fund Class A shares and Class C shares, either when the maximum ongoing sales charge was reached or the grandfather period expired. It does appear that the Class A shares of our fixed income funds would be capable of receiving the conversions of the Class C shares of the Government Securities Fund and the Class S shares of the Short Maturity Government Fund, but the remaining 11 funds with Class A and/or Class C shares would require this new share class to receive conversions. This would require 11 additional sets of financial records and separate financial reports which would need to be audited, and 11 additional per share net asset values to calculate every day. We believe this unnecessarily increases administrative expense. In addition, we expect that these classes would, at least in the early years, be quite small in terms of assets, and fixed expenses which might normally be relatively insignificant could cause the expense ratios of these very small classes to be high, to the detriment of the shareholders except to the extent the sponsor might elect to subsidize the expenses. Furthermore, over time shareholders will begin to hold two different classes of shares of each of their Sentinel funds at the same time (based on time of purchase, discounts at time of purchase and aging). In many cases the differences between the share classes would be almost imperceptible, and shareholders might experience frequent conversions of small portions of their accounts. We believe this will increase the complexity for the shareholder in understanding his holdings and in making transactions for his accounts, and greatly increase the potential for investor confusion.

To administer these new conversion requirements, we would have to update our existing conversion system in very significant ways. We believe the conversion system could be in many respects similar to the conversion system currently maintained for the Funds' Class B shares, which are no longer offered, but the complexity of the new conversion demands could potentially add many new requirements to the system, which could be technically complex and expensive to implement. For example, the system as updated would need to track whether a particular share lot was purchased before or after the effective date of the new rules, so that it could execute a conversion on the expiration of the grandfather period for pre-existing shares, instead of when conversion would otherwise be required. As alluded to above, exchanges within funds could further complicate the administration of the conversion requirements in ways not present for conversions of Class B shares, where all of the Class B share funds had the same conversion periods.

<u>More General Benefits of Relative Simplicity and Lower Administrative Costs</u>. We would assert more generally that it would be beneficial if this rulemaking initiative were to take the current structure in the direction of a simpler and less costly to administer structure, while in many respects the current proposal moves in the opposite direction. Additional complexity in this area might cause the industry, even with the best intentions, to make mistakes in the administration of the complex process for determining the appropriate time for the required conversion to a class of shares with no ongoing sales charge. In the past the industry has had difficulty administering complex individual shareholder specific requirements, for example in

determining the appropriate breakpoint on sales charges where a client has accounts in several funds in the complex or a single investor or household has several accounts with different registrations. The costs of the creation of more complex share class structures, additional investments in systems capable of administering the new requirements, and staff education required to implement the new distribution cost structure will ultimately have to be passed on to mutual fund shareholders, so it is in the best interests of investors as well as the mutual fund industry to minimize complexity and administrative burdens in the regulation of distribution costs.

We appreciate the Commission's consideration of our comments. If you have any questions or need additional information, please contact us at (802) 223-9360 (Christian Thwaites) or (802) 229-3294 (John Birch).

Sincerely,

Christian Thwaites

Christian W. Thwaites
Chief Executive Officer

John Birch

John Birch
Chief Operating Officer