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CSIF Balanced Portfolio

CSIF Balanced Portfolio (Class A shares at NAV) returned -6.06% for the quarter ended June 30, 2010, outperforming the benchmark Russell 1000 Index's return of -11.44%. The Balanced Composite Benchmark¹ returned -5.56% for the period.

Market Review

In the second quarter of 2010, the U.S. stock market reversed the course of the first quarter. The Standard & Poor's 500 Index and the Russell 1000 Index were each down more than 11%, and the Russell Midcap Index retreated 9.9%. This left the large-cap indices in negative territory for 2010 through the end of the second quarter, although mid-cap and small-cap indices were showing smaller losses. The sovereign debt crisis triggered the sharp sell-off in May as concerns about Greece led to worries about other euro-zone nations such as Spain and Portugal. The dollar strengthened against the euro as a "flight to safety" occurred.

The Federal Reserve (Fed) kept the target for its benchmark federal funds rate near 0% throughout the quarter as a way to help stimulate economic growth following the severe recession that started in late 2007. Economic data released during the quarter continued to show mixed signs about the strength of the recovery, raising some concerns about the risk of a "double-dip" recession. While the economy as measured by gross domestic product (GDP) grew at a 2.7% annual rate in the first quarter of 2010, that pace was slower than historical economic growth rates after

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HISTORICAL FUND PERFORMANCE

Average Annual Total Returns as of 6/30/2010. Inception Date 10/21/1982.

CSIF BALANCED PORTFOLIO	QTR	YTD	1YR	3YRS	5YRS	10YRS	SINCE INCEPTION
A Shares at NAV	-6.06%	-2.16%	13.10%	-4.90%	0.00%	0.14%	7.35%
A Shares at Max load of 4.75%	-10.53	-6.81	7.72	-6.43	-0.96	-0.35	7.16
Russell 1000 Index	-11.44	-6.40	15.24	-9.54	-0.56	-1.22	10.32
Balanced Composite Benchmark	-5.56	-1.59	15.01	-2.76	1.79	2.04	9.88

Source: Calvert Performance Analytics

Expense ratio: 1.31%. Performance data quoted already reflects deduction of fund operating expenses.

The performance data quoted represents past performance, which does not guarantee future results. The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance may be higher or lower than the performance data quoted. Indexes reflect no deductions for fees or expenses. An investor cannot invest directly in an index. Visit www.calvert.com to obtain performance data current to the most recent month-end.



deep recessions. Also, the unemployment rate remained at a high 9.5% as of June, indicating that the economy is not creating many new jobs.

Despite their relatively low yields, Treasuries benefited from the flight to quality later in the second quarter. For example, the yield on the 10-year Treasury note dropped quickly from 3.83% to 2.93% over the course of the quarter. The Treasury yield curve flattened somewhat, although it is still quite steep by historical standards. The yield difference between two-year and 10-year Treasuries, for example, dropped from 281 basis points² at the beginning of April to 233 basis points at the end of the second quarter. The other side of the flight to quality in the quarter was an increase in credit spreads³ as investors generally sold off assets with any type of credit risk, including corporate bonds.

Portfolio Highlights: Equities

In the Portfolio's equity allocation, sector selection and stock selection were both slightly positive performance factors during the quarter. The Portfolio's underweight positions in the Materials and Financials sectors and overweight to the Consumer Discretionary sector added value, but an underweight to Utilities and overweight to Information Technology detracted from performance.

The Portfolio's stock selection was strong in Industrials, Energy, and Health Care. Industrials company Cummins (up 5.4% for the second quarter) rose on good earnings. Laboratory Corporation of America (-0.5%), in Health Care, proved to be a defensive holding in a difficult quarter as the company's test volumes stabilized. However, stock selection was weak in Consumer Discretionary, Telecommunication Services, and Financials. Travel company Expedia (-24.5%) dropped on fears of a global economic slowdown. NII Holdings (-22.2%), in Telecommunication Services, retreated on news of tighter regulations in Brazil. Principal Financial Group (-19.8%) lost ground due to the exposure of its 401(k) business to weakening financial markets.

Portfolio Highlights: Fixed Income

The Portfolio's fixed-income allocation underperformed the fixed-income portion of the Balanced Composite Benchmark primarily as a result of its short duration⁴ relative to the Benchmark during the second quarter, as interest rates dropped amid the flight to the safety of Treasuries. At the beginning of the second quarter, the Portfolio's duration was 3.62 years while the duration of the Barclays Capital U.S. Credit Index was 6.28 years. We continue to hedge the Portfolio's interest-rate duration through the use of various Treasury futures. In addition, it's a good idea to keep in mind

that duration only measures interest-rate risk. We have been keeping the spread duration, which is a measure of credit risk, of the Portfolio about the same as that of the Index.

In terms of positive contributors to performance for the quarter, we were able to add incremental return by actively trading Treasury futures contracts. In addition, we positioned the Portfolio's holdings of Treasury futures to benefit from a narrowing of the spread between two- and 10-year Treasury yields, which took place to some extent over the course of the quarter. Since the yield curve is still quite steep relative to historical averages, we plan to maintain that positioning.

Outlook

The U.S. economy is still poised for decent growth for 2010 as a whole. We estimate that GDP will expand at a 2.5% to 3% rate for the year. European woes will likely limit U.S. growth—the stronger dollar will affect companies that export to Europe (though companies exporting to China will benefit from the revaluation of the yuan). Another uncertainty is the level of worldwide government debt (not only federal, but also state and local).

Our outlook for 2011 is therefore less sanguine. While GDP growth next year is likely to be positive, the rate of growth, in our view, will likely be lower. Corporate profit growth will probably be far lower in 2011 than in 2010. The U.S. stock market is likely to show modest gains resulting from underlying increases in company revenues that are contributing to earnings growth. However, the level of global political and economic uncertainties, coupled with burgeoning U.S. debt levels and the prospect of tax increases, mean that the average price/earnings ratio for stocks is likely to shrink, limiting stock market upside. In environments like these, we believe it is important to continue to focus on companies with solid earnings power and cash flow generation as well as good-quality financial statements.

In the bond markets, Treasury yields are also quite low by historical standards, and the further drop in Treasury rates during the second quarter makes it more likely that they will eventually rise closer to historical norms. Given our outlook for rising interest rates, we plan to continue to keep the duration of the Portfolio's bond allocation shorter than that of the Barclays Capital U.S. Credit Index. While we may gradually lengthen the Portfolio's duration as interest rates climb, we anticipate maintaining an overall duration strategy that is conservative and helps offset interest-rate risk as much as possible. The Treasury Department continues to issue record amounts of new debt, and eventually the added supply may push yields higher.

We anticipate that the market's concerns about the credit quality of European sovereign debt will keep volatility levels relatively high in the financial markets in general. We will continue to actively trade Treasuries and Treasury futures, in particular, to try to take advantage of the volatility and generate incremental return. ■

1. The Calvert Balanced Composite Benchmark Blend ("Balanced Composite Benchmark") is a blend of 60% Russell 1000 Index and 40% Barclays Capital U.S. Credit Index.

2. A basis point is 0.01 percentage points.

3. Credit spreads measure the difference in yield between a corporate bond and a Treasury security with a comparable maturity.

4. Duration measures a portfolio's sensitivity to changes in interest rates. Generally, the longer the duration, the greater the change in value in response to a given change in interest rates.

This commentary represents the opinions of its authors as of 6/30/10, and may change based on market and other conditions. The authors' opinions are not intended to forecast future events, guarantee future results, or serve as investment advice.

As of June 30, 2010, CSIF Balanced Portfolio's holdings included Cummins (1.65% of the Portfolio), Laboratory Corporation of America (1.28%), Expedia (0.86%), NII Holdings (1.19%), and Principal Financial Group (1.15%). Calvert may or may not still invest in, and is not recommending any action on, companies listed. Current and future portfolio holdings are subject to market risk. For the most recently available information on individual holdings in each Calvert sustainable and responsible equity fund, visit www.calvert.com.

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