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## Calvert Small Cap Value Fund

Calvert Small Cap Value Fund (Class A shares at NAV) returned -10.57% for the quarter ended June 30, 2010, while the benchmark Russell 2000 Value Index returned -10.60%. During this challenging period, the Fund benefited slightly relative to the Index from its holdings within the Consumer Staples and Industrials sectors.

### Market Review

Overall, the economy and markets performed more poorly than we expected in the second quarter of 2010. While we anticipated a continuing economic recovery and a market driven by earnings momentum, the equity markets slid as a result of reduced expectations for top-line growth and earnings. While a stock market correction was no surprise, we expected a pullback in the range of 10%. Instead, the equity markets (as measured by the Standard & Poor's 500 Index) declined about 15% from April 26 to June 30, 2010, just as mainstream investors were becoming more comfortable with risk.

In view of these events, we think the recovery may be more muted than we previously anticipated. However, we continue to believe that the U.S. equity markets are still attractive, especially when we look at the 2011 and 2012 growth and earnings potential for many companies. In our view, the recent market correction has created attractive valuations in equities, especially when compared to other asset classes.

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### HISTORICAL FUND PERFORMANCE

Average Annual Total Returns as of 6/30/2010. Inception Date 10/1/2004.

CALVERT SMALL CAP VALUE FUND	QTR	YTD	1YR	3YRS	5YRS	10YRS	SINCE INCEPTION
A Shares at NAV	-10.57%	-0.83%	16.25%	-9.85%	-1.66%	N/A	-0.72%
A Shares Max load of 4.75%	-14.81	-5.52	10.70	-11.31	-2.61	N/A	-1.56
Russell 2000 Value Index	-10.60	-1.64	25.07	-9.85	-0.51	N/A	1.52

Source: Calvert Performance Analytics

Gross expense ratio: 2.09%. Net expense ratio: 1.69%. Performance data quoted already reflects deduction of fund operating expenses. Net expense ratio reflects contractual fee waiver and/or expense reimbursement through January 31, 2011.

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](http://www.calvert.com) to obtain performance data current to the most recent month-end.



## Portfolio Review

Fund holdings in the Consumer Staples and Industrials sectors were some of the key positive contributors for the second quarter. With respect to specific stocks, the Fund benefited from holding Lawson Software, Hexcel, Treehouse Foods, and Herman Miller. Lawson Software is a provider of enterprise software and services. Lawson shares appreciated when Carl Icahn announced he had taken a substantial stake in the company, citing his belief that the firm is undervalued, a view we share. Hexcel, an advanced composites company, benefited from modest increases in large aircraft assembly. Treehouse Foods, a leading food manufacturer with products in the retail grocery and food-service distribution channels, rose as a result of the excellent performance of its North American retail grocery business. Herman Miller saw its share price appreciate on stronger-than-expected growth in sales and order backlogs.

Portfolio holdings in the Financials and Telecomm Service sectors adversely impacted performance for the quarter. Waddell and Reed, a provider of asset management services to mutual funds and institutional investors, underperformed as demand for its lead product declined in response to market conditions. We remain confident in the long-term potential of this firm as we anticipate continued and sustained positive asset flows, albeit at a reduced rate. Brink's, operating as Broadview Security, a provider of secure transportation and security-related services to financial institutions, retailers, and government agencies, saw a pullback in its share price primarily because of concerns about its European business. We exited our shares of Brink's since we lacked confidence in management's ability to turn their European operations around. Plexus, a provider of advanced product design, manufacturing, and testing services, was adversely affected by weaker demand from its European customers. We remain confident in Plexus as we expect the company's order levels to normalize and anticipate an increase in new business.

## Outlook

We remain cautiously optimistic about the prospects of a U.S. stock market recovery over the remainder of 2010 and early 2011 for several reasons. First, a global economic recovery is still underway, although it may be more muted in the near term than many previously anticipated. In the United States, the monetary and fiscal stimulus programs appear to have had positive economic effects, as evidenced by the annualized first-quarter GDP growth rate of 2.7%.

Second, the majority of corporate earnings reports in 2010 have been positive, and many firms have expressed

confidence that their fundamentals have bottomed out and are improving. In addition, corporations are lean from cost-cutting and their operational leverage is still significant.

Third, stock valuations have become more attractive as a result of the second quarter's market decline. Finally, many non-financial U.S. companies have large reserves of cash. As a result, merger and acquisition activity has picked up somewhat, especially for strategic buyers, and we believe that high corporate cash levels bode well for its continuation.

Nevertheless, a number of challenges and risks remain. The most recent economic data has shown some negative trends in housing, lower consumer confidence, and a slowing in the rise of industrial activity. The European debt crisis, which went from a cloud to a storm in the second quarter, will likely take a toll on the U.S. and global markets as a result of lower exports and stock price declines. Record federal budget deficit projections continue to cast a shadow on domestic recovery and the strength of the dollar, while state and local government revenues have also declined significantly. A number of investors are especially concerned that the recovery may run out of juice in the second half of 2010, when the benefits of the sizeable government stimulus programs are expected to fade. Also, credit availability to small businesses and consumers—a key driver of economic recovery—remains constrained. Finally, the U.S. unemployment rate remains disturbingly high (9.5% as of June) and will likely remain elevated for some time.

The Federal Reserve (Fed) is holding short-term interest rates at their lowest levels in history—0% to 0.25% for the benchmark federal funds rate—even though the economy is showing some signs of recovery. We do not expect the Fed to raise rates in the near term, especially since concerns about a double-dip recession have resurfaced. However, we believe that a double-dip scenario is unlikely and that the most probable outcome is a period of subdued growth followed by somewhat stronger expansion in 2011.

In summary, we are closely reviewing the Fund's holdings and sector allocations in light of our expectation for a moderately paced economic recovery. We believe that our focus in the Fund on owning companies with high-quality business franchises, as well as stocks poised to benefit from the recovery, should provide attractive investment opportunities in both the near and long term. In our view, high-quality companies may have an advantage as tight credit conditions continue and interest rates are poised to rise. In addition, we believe that higher tax rates and the end of the monetary stimulus may also favor high-

quality stocks. Overall, the companies in the Fund possess strong businesses and attractive cash flow characteristics, trade at attractive discounts to intrinsic value, and, in our opinion, are likely to benefit from a recovering economy and improving market conditions over time. ■

This commentary represents the opinions of its author as of 6/30/2010, and may change based on market and other conditions. The author's opinions are not intended to forecast future events, guarantee future results, or serve as investment advice.

As of June 30, 2010, Calvert Small Cap Value Fund's holdings included Lawson Software (2.95% of the portfolio), Hexcel (2.43%), Treehouse Foods (2.42%), Herman Miller (3.10%), Waddell and Reed (2.50%), Brink's Home Security (0.0%), and Plexus (2.90%). Calvert may or may not still invest in, and is not recommending any action on, companies listed. For the most recently available information on individual holdings in each Calvert sustainable and responsible equity fund, visit [www.calvert.com](http://www.calvert.com). Current and future portfolio holdings are subject to market risk.

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*For more information on any Calvert fund, please contact your financial advisor, call Calvert at 800.368.2748 or visit [www.calvert.com](http://www.calvert.com) for a free summary prospectus and/or prospectus. An institutional investor should call Calvert at 800.327.2109. An investor should consider the investment objectives, risks, charges, and expenses of an investment carefully before investing. The summary prospectus and prospectus contain this and other information. Read them carefully before you invest or send money.*

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