

# PORTFOLIO COMMENTARY

SECOND  
QUARTER  
2010



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## Calvert High Yield Bond Fund

Calvert High Yield Bond Fund (Class A shares at NAV) posted a total return of 0.34% for the second quarter of 2010, outperforming the benchmark BofA Merrill Lynch High Yield Master II Index (the "Index"), which returned -0.07%. The Fund's outperformance relative to the benchmark was due to its sector selection and larger allocation to higher-quality bonds than the benchmark.

### Market Review

During the second quarter of 2010, the high-yield market was volatile as investor appetite for risk diminished due to uncertainty about global economic conditions. In particular, investors were concerned about European sovereign debt risk as headlines about Greece's liquidity problems buffeted both equity and fixed-income markets. However, relative to many other asset classes, the returns on high-yield bonds were generally competitive during the second quarter and for the year through June 30. The Index returned 4.74% for the first half of 2010 while the Standard & Poor's 500 Index, which measures the performance of the broad U.S. stock market, posted a total return of -6.65%. Investment-grade corporate bonds as measured by the Barclays Capital U.S. Credit Index returned 5.62%.

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### HISTORICAL FUND PERFORMANCE

Average Annual Total Returns as of 6/30/2010. Inception Date 7/9/2001.

CALVERT HIGH YIELD BOND FUND	QTR	YTD	1YR	3YRS	5YRS	10YRS	SINCE INCEPTION
A Shares at NAV	0.34%	4.20%	21.47%	3.52%	5.30%	N/A	5.52%
A Shares Max load of 3.75%	-3.44	0.28	16.92	2.21	4.50	N/A	5.07
BofA Merrill Lynch High Yield Master II Index	-0.07	4.74	27.53	6.40	7.10	7.12	8.02

Source: Calvert Performance Analytics

Gross expense ratio: 2.30%. Net expense ratio: 1.65%. 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 Highlights

The Fund was overweight non-cyclical, higher-quality names which generally outperformed the broad high-yield market during this quarter of high volatility. In addition, the Fund was underweight sectors that would generally be pressured by a slowing economy, such as Retailers, Restaurants, and Automotive, which also helped its relative performance as concerns grew about a slowing pace of economic growth.

Notable outperforming holdings for the Fund during the second quarter included bonds issued by:

**Agribank, FCB:** The bonds moved up five points during the first quarter of 2010 as a result of strengthening in the bank's balance sheet.

**Dollar General:** The discount retailer's bonds moved up two points in the quarter as the company's sales trends showed improvement.

Bonds issued by the following companies were notable underperformers for the Fund:

**Capital One:** The Capital One bonds declined 10 points in the second quarter following the passage of the new Collins Amendment, which phased out the use of trust preferred bonds in the calculation of Tier 1 capital for banks.

**OPTI Canada:** The oil and gas company's bonds fell 10 points during the quarter as a result of market fears about the company's long-term liquidity.

## Outlook

We believe that the U.S. economy has stabilized into a scenario where it will likely grow slowly. The strong gross domestic product growth of the past six months was largely driven by inventory restocking by manufacturers and retailers, which is probably not sustainable. With the unemployment rate close to 10% and no consumer wage growth—but with slowly rising consumer confidence—we believe that the U.S. economy will grow at a modest pace.

We continue to believe that high-yield bonds are an attractive asset class that should provide competitive returns through 2010. At the end of the second quarter, the average yield-to-maturity of high yield bonds was approximately 9%. Considering that U.S. inflation was below 2% annually as of the second quarter, we believe that high-yield bonds offer attractive yields for long-term investors. Also, the entire high-yield market should continue to enjoy a more stable economic environment compared to the past 24 months, which should be reflected in declining default rates throughout 2010. Both Moody's Investors Service and Standard & Poor's recently stated that the default rate for the second quarter was approximately 6%. Most high-yield research teams share the view that overall default rates will continue to decline from over 10% last year to 4% by the end of 2010. ■

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.

Calvert Asset Management Company, Inc. became investment advisor to the Fund on December 12, 2008.

As of June 30, 2010, Calvert High Yield Bond Fund's holdings included securities issued by Agribank, FCB (0.76% of the Fund's net assets), Dollar General (1.51%), Capital One (0.66%), and OPTI Canada (1.01%). 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.

Investments in junk bonds (high yield, high risk bonds) can involve a substantial risk of loss. Junk bonds are considered to be speculative with respect to the issuer's ability to pay interest and principal. These securities, which are rated below investment grade, have a higher risk of issuer default and are subject to greater price volatility than investment grade bonds, and may be illiquid. The Fund is also subject to interest rate risk, the risk that changes in interest rates will adversely affect the value of an investor's securities. When interest rates rise, the value of fixed-income securities will generally fall. The Fund is non-diversified and may be more volatile than a diversified fund.

*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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