

A LOOK AT BOND FUNDS: WHY “SHORT” MAKES SENSE

In today’s environment of low yields and changing bond-market dynamics, short-term bond funds may offer strategic benefits.

With money market yields at historically low levels,¹ and an eventual rise in interest rates on the horizon, now may be an opportune time to consider the potential benefits of short-term bond funds. They can be a smart way to increase your return potential over cash, although they do entail additional credit risk, specifically the risk of issuer default and credit downgrades. Historically, short-term bond funds have a relatively low return correlation with longer-term bond funds, as well as stock funds. So adding those to an investment mix of stocks and longer-dated bond fund allocations can help diversify a portfolio, potentially reducing overall risk and volatility.

Calvert manages two high-quality, short-term diversified bond funds, both of which have competitive long-term track records: **Calvert Ultra-Short Income Fund** and **Calvert Short Duration Income Fund**. We turned to Cathy Roy, Calvert Chief Investment Officer, Fixed-Income, to learn more about the Funds’ investment strategies and their potential role in investors’ portfolios.

Cathy, tell us more about how these Funds are managed.

Calvert uses a relative-value approach—a hallmark of our in-house fixed-income management team—to manage both Funds. That strategy entails continually monitoring the market to “comparison shop” for solid, well-priced bonds with strong potential for price appreciation and incremental income.

To that end, rigorous credit analysis is essential. Our seasoned team of credit analysts scrutinizes the financial condition of the issuer of each security so that our portfolio managers can evaluate the potential risk and reward of each bond.

In 2009, we took advantage of the high yields offered by corporate bonds and invested selectively in that sector for both Funds. Later in the year, as corporates continued to rally, we began to gradually and selectively trim our positions.

In view of their shared relative-value approach, what are the main differences between the two Funds?

There are some distinct differences in portfolio composition and outlook. Although we seek to manage both Funds from a conservative point of view, Calvert Ultra-Short Income Fund is even more risk averse than Calvert Short Duration Income Fund, in terms of both its portfolio holdings and duration. Calvert Ultra-Short Income Fund also has a stronger bias toward owning floating-rate securities.

The difference between the two Funds’ durations illustrates a key difference in the Funds’ portfolio strategies. As of year-end, Calvert Ultra-Short Income Fund had a duration of just one to two months. That is just about one step out of cash. Calvert Short Duration Income Fund, in contrast, had a duration of

STATS AND FACTS: COMPARE TWO CALVERT HIGH-QUALITY, SHORT-TERM BOND FUNDS

Data as of 11/30/2009

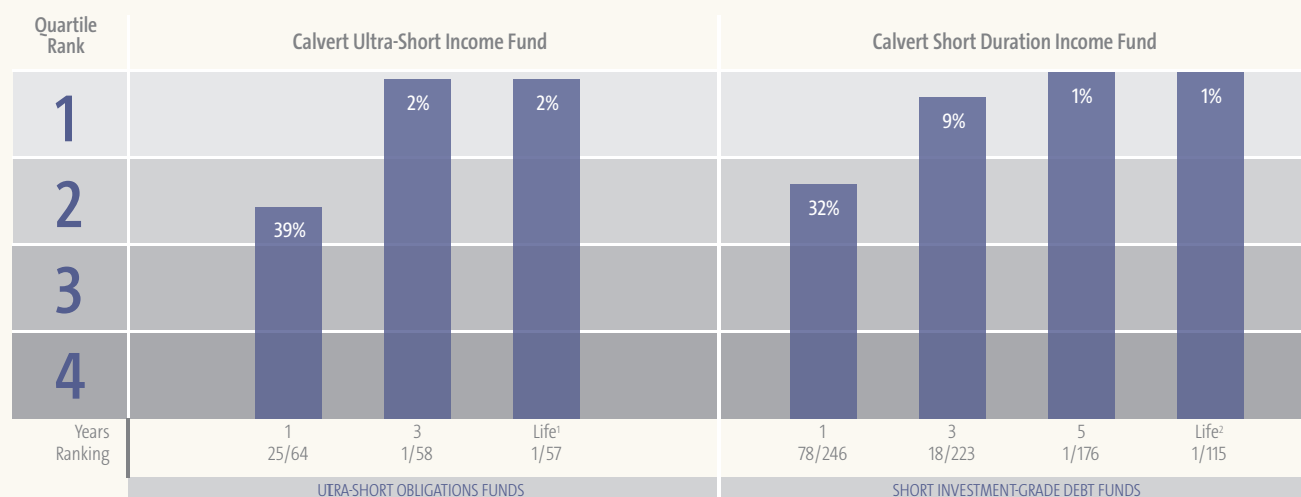
	CALVERT ULTRA-SHORT INCOME FUND (CLUAX)	CALVERT SHORT DURATION INCOME FUND (CSDAX)
Portfolio Managers	Gregory Habeeb, Lead Portfolio Manager, SVP Michael Abramo, Portfolio Manager	Gregory Habeeb, Lead Portfolio Manager, SVP Matthew Duch, Portfolio Manager
Benchmarks	Barclays Capital U.S. Short Treasury 9-12 Month Lipper Ultra-Short Fund Index	Barclays Capital 1-5 Year U.S. Credit Lipper Short Investment Grade Fund Index
Morningstar Category	Ultra-Short Bond	Short-Term Bond
Lipper Category	Ultra-Short Obligation Funds	Short Investment Grade Debt Funds
Asset Allocation	Cash Equivalents: 32% Bonds: 68%	Cash Equivalents: 13% Bonds: 87%
Average Duration	0.10 year	0.89 years
Average Credit Quality	AA-	A+
Effective Maturity	0.91 years	3.66 years
% of Portfolio in Floating-Rate Bonds	42.5%	37.0%
Issues in Portfolio	190	409

Source: Calvert Performance Analytics

SHORT IN OUTLOOK, STRONG ON RESULTS

Calvert Ultra-Short Income Fund and Calvert Short Duration Income Fund—Lipper Ratings as of 12/31/09

Calvert's fixed-income team uses a relative-value strategy to identify opportunity in the bond markets. These two Calvert short-term bond funds demonstrate the strong long-term results of this approach.



1. The inception date for Calvert Ultra-Short Income Fund is 10/31/06.

2. The inception date for Calvert Short Duration Income Fund is 1/31/02.

Past performance is no guarantee of future results. Lipper rankings are based on total returns. The returns assume reinvestment of dividends and capital gains but exclude the effects of any applicable sales loads. The Lipper ranking is for Class A shares, and the ranking may include more than one share class of funds in the category, including other share classes of the Fund. Rankings are relative peer group ratings and do not necessarily mean that the Fund had high total returns. During the ranking periods, each Fund benefited from a fee waiver, which had a material effect on total return. Source: Lipper, Inc.

The Funds are subject to interest rate risk. When interest rates rise, the value of fixed-income securities will generally fall. Conversely, a drop in interest rates will generally cause an increase in the value of fixed-income securities.

nine to 10 months, which is significantly longer but still quite short in comparison with the broader universe of bond funds.

Duration is significant because it measures the sensitivity of a fixed-income portfolio to changes in interest rates. Generally, the longer a Fund's duration, the greater the change in price for a given change in interest rates. As a result, the value of a shorter-duration fund will not fall as much as the value of a longer-duration portfolio when interest rates rise.

Tell us more about the role of floating-rate bonds in the two Funds. How do they work and what are their advantages?

As their name implies, these bonds pay interest at rates that adjust periodically according to a set schedule (e.g., monthly or quarterly) in tandem with a benchmark rate, such as the London Interbank Offered Rate (LIBOR). While both Funds invest in "floaters," Calvert Ultra-Short Income Fund generally has a higher allocation (42.5% of the Fund as of 11/30/09) to them than does Calvert Short Duration Income Fund (37% of the Fund as of 11/30/09).

In terms of their advantages, floating-rate notes have two important features that can aid portfolios in a rising-interest-rate environment: First, as their payments adjust upward in step with short-term benchmark interest rates, they capture additional income for the portfolio. Second, their very short durations can help protect principal value and offset the impact of rising rates. As fixed-income investors are well aware, when interest rates rise, typically the value of existing bonds declines.

What is the difference between the floating-rate bonds that Calvert invests in and bank floating-rate loans?

Both Calvert Ultra-Short Income Fund and Calvert Short Duration Income Fund invest in floating-rate bonds from a wide variety of issuers, including corporations, government agencies, and municipalities. In contrast, floating-rate funds, often called "bank loan funds," typically invest primarily in senior secured bank loans—the majority of which are rated below investment grade. This is an important distinction. Investing in a broad range of floating-rate bonds can help reduce risk by investing in multiple sectors, instead of only

banks. Of course, the underlying creditworthiness of any floating-rate instrument is affected by the financial health of the bank, corporation, or other issuer.

Are you adjusting the Funds' portfolios in view of a potential rise in inflation and interest rates?

Yes, currently both portfolios are defensively positioned in anticipation of an eventual rise in inflation and interest rates—and have been for quite some time. Both Funds have a higher overall credit rating than their respective passive benchmarks, along with shorter average durations and higher allocations to floating-rate bonds.

What role should these Funds potentially play in an investor's portfolio?

In both Funds, capital preservation is of paramount importance. Calvert Ultra-Short Income Fund, however, should be subject to less volatility due to the nature of its holdings and shorter duration than Calvert Short Duration Income Fund. But, as is typically the case, less volatility may also mean smaller total returns.

Both Funds offer both income and total return potential. Unlike money market funds and bank certificates of deposit (CDs), ultra-short and short-term bond funds have the added potential for price appreciation (or depreciation) resulting from price changes in their underlying bonds. Of course, they also carry higher credit risk than cash securities and are not insured like bank CDs.

Calvert Ultra-Short Income Fund may be a good option for short-term investors who are looking for income and return

potential above today's low cash yields. The Fund may lose value, so it should not be used for "emergency funds." Calvert Short Duration Income Fund may be appropriate for investors looking for a high-quality bond fund with income and total return potential.

Do these Funds work well together?

Yes, in our view these Funds work well together and can be used in tandem to create a laddered, more diversified approach for the short-term bond portion of an investor's portfolio. Investing across a fuller spectrum of the bond market can help manage portfolio risk and take advantage of shifting market conditions. ■

The Advantages of Investing with Calvert

As we move from the worst recession in 50 years toward economic recovery, we believe credit research and security selection will continue to be of paramount importance as market conditions shift. Our nationally recognized fixed-income investment team brings over 35 years of market experience to bear. While our active management and relative-value trading strategies can lead to high turnover in our portfolios, we believe they also allow us to identify great investment opportunities for our Funds.

To meet a broad spectrum of investors' fixed-income goals, Calvert offers a full line-up of money market, taxable, and tax-exempt bond funds. Talk to your financial advisor to learn more.

To learn more about short-term bonds as an alternative to today's low yields, visit www.calvert.com/stayshort. Advisors can use Morningstar's Direct Presentation Studio to run competitive analyses of these two Calvert Funds.

1. As of December 23, 2009, the average six-month CD yield was 0.54%; the average two-year CD yield was 1.28%; and the average 5-year CD yield was 2.10%. Source: Bankrate.com.

Calvert Ultra-Short Income Fund and Calvert Short Duration Income Fund, which invest in bonds, are subject to certain risks including interest rate risk and credit risk. As interest rates rise, bond prices generally decrease. The prices of long-term bonds are more sensitive to changes in interest rates than the prices of short-term bonds. Therefore, in general, long-term bonds have more interest rate risk than short-term bonds. In addition, the credit quality of the securities held by the Funds may deteriorate, which could lead to default or bankruptcy of the issuer where the issuer becomes unable to pay its obligations when due.

For more information on any Calvert fund, please contact your financial advisor or call Calvert at 800.368.2748 or visit www.calvert.com for a free 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 prospectus contains this and other information. Read it carefully before you invest or send money.

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