



FINDING AN ATTRACTIVE ALTERNATIVE TO TODAY'S LOW YIELDS

For investors looking for a conservative option, an ultra-short bond fund can offer an attractive solution.

In today's uncertain market climate, bond funds on the shorter end of the maturity spectrum may appeal to investors for income potential and relative stability. Ultra-short bond funds can offer features such as interest payments that reset upward when interest rates rise and limited exposure to interest-rate risk.

We turned to Cathy Roy, Calvert Chief Investment Officer, Fixed-Income Investments, to learn more about **Calvert's Ultra-Short Income Fund** and its potential role in investors' portfolios.

Tell us more about how this Fund is invested.

Calvert's Ultra-Short Income Fund is an ultra-short-term bond fund managed by Calvert Asset Management Company, Inc. The Fund seeks to provide income and positive total returns under all market conditions and interest-rate environments. The Fund's management team, led by Senior Vice President Greg Habeeb, uses a relative value approach to invest primarily in a mix of variable- and floating-rate securities with durations of less than or equal to one year. (Duration is a measure of a portfolio's sensitivity to changes in interest rates. The longer the duration, the greater the price change relative to interest-rate movements.)

What are variable- and floating-rate securities?

Variable- and floating-rate securities are a large part of the bond market, widely issued by government agencies, corporations and municipalities. As the name implies, these securities generally pay interest at rates that adjust either when a specified benchmark index interest rate changes, or on a predetermined schedule (such as month end or quarter end). These types of securities typically have very short durations, since they track short-term rates and reset at short intervals. Unlike most types of bonds, variable-rate bonds often benefit from rising interest rates since the payouts quickly adjust upward. The issuers of ultra-short securities are diverse, ranging from corporations, government agencies, and banks to U.S. and foreign governments. As a result, credit quality may vary widely among these securities.

Although Calvert Ultra-Short Income Fund invests in floating-rate securities, it is not a floating-rate fund. What is the difference?


The investment strategies are very different. Calvert Ultra-Short Income Fund is an ultra-short corporate bond fund that invests in variable-rate securities from a wide variety of issuers. While it may invest in below-investment grade bonds, it has an overall portfolio credit-quality rating of AA+ (as of

WHAT HAPPENS WHEN INTEREST RATES RISE 1%?

Fixed-Rate versus Floating-Rate Bonds

Unlike most bonds that are adversely affected by rising interest rates, floating-rate bonds typically have rates that may reset upwards when interest rates rise. **For example, when interest rates rise 1%:**


Fixed-Rate Bond



The current fixed-rate, three-year maturity bond with a coupon of 3% and duration of 2.86 years will decline in price by 2.86% but will have earned a half year's interest equal to 1.5%, netting a negative return of 1.36%

-1.36%

Floating-Rate Bond



A floating-rate, three-year maturity bond with a yield of 2.0% and duration of 0.25 years will decline in price by 0.25% and generate six months of income or 1%, netting a positive 0.75% return.

+0.75%

Source: Calvert Performance Analytics.

In this hypothetical example, both are three-year maturity bonds purchased at par, and are evaluated on the first semiannual payment/reset date. The example compares a fixed-rate bond with an annual coupon of 3%, to a floating-rate bond with a coupon that resets every six months at the six-month LIBOR rate (1.0% in this example) plus 1%. Six months after the original purchase of both bonds interest rates rise 1%.

This example is for illustrative purposes only and does not represent the actual performance of any Calvert security held in any Calvert Fund.

June 30, 2009). Floating-rate funds are most often found in the bank-loan category. Floating-rate funds invest largely in senior, secured floating-rate bank loans, the majority of which earn junk-like (below investment-grade) credit ratings.

Is now a good time to invest in an ultra-short bond fund?

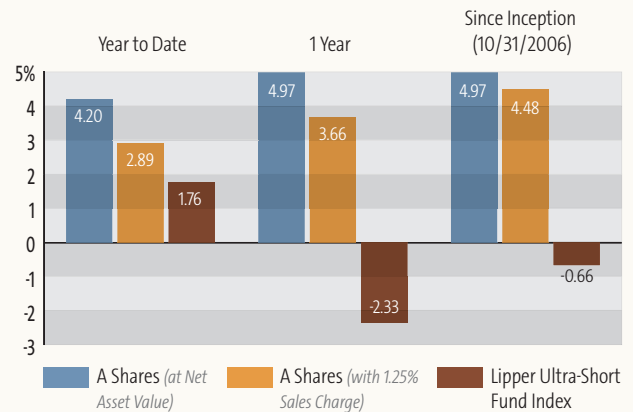
Yes, with money market yields at historically low levels, we believe now is an excellent time to invest in an ultra-short bond fund. We believe they offer an attractive risk/reward profile, with the potential to earn significantly more income than with money-market securities—albeit with some credit risk. The very short durations of variable- and floating-rate securities also greatly limit the effect that changes in interest rates can have on principal value. In addition, an allocation to ultra-short securities can be a strong portfolio diversifier since the correlation with other types of bonds, as well as stocks, is relatively low.

Why Calvert

As we move through the recession, credit research and security selection will continue to be of paramount importance. In this challenging environment, Calvert brings more than 30 years of fixed-income experience to bear. We believe that intensive credit research can help identify securities in this universe that pay notably higher rates of return than comparable money market securities, without significantly more exposure to interest rate risk.

CALVERT ULTRA-SHORT INCOME FUND (CULAX) OUTPACED ITS PEERS

Average Annual Returns as of 6/30/2009 (%)



Source: Calvert Performance Analytics

Fund Expenses: Gross Expense Ratio: 2.09%. Net Expense Ratio: 0.89%. Performance data quoted already reflects deduction of fund operating expenses. Net expense ratio reflects contractual fee waiver and/or expense reimbursement through January 31, 2010.

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 data may be higher or lower than the performance data quoted. Visit www.calvert.com to obtain performance data current to the most recent month-end. Indices reflect no deductions for sales charges or management fees. It is not possible to invest directly in an index.

Calvert Ultra-Short Income Fund is Not a Floating-Rate Fund

Calvert Ultra-Short Income Fund is a short-term, bond fund that invests in variable-rate securities from a wide variety of issuers and has an AA+ credit-quality rating. By contrast, floating-rate funds, often called "bank loan funds," typically invest in senior, secured bank loans, the majority of which are below investment grade.

[Click to learn more about the Calvert Ultra-Short Income Fund.](#)

Investment Risk: Investment in mutual funds involves risk, including possible loss of principal invested. Though the Fund strives to limit interest rate risk, changes in interest rates can adversely affect the value of an investor's securities. 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. To the extent that the Fund holds corporate and/or bank bonds, it is subject to credit risk, including credit downgrades and issuer default risk. Because a significant portion of securities held by the Fund may have variable or floating interest rates, the amounts of the Fund's monthly distributions to shareholders are expected to vary with fluctuations in market interest rates. Generally, when market interest rates fall, the amount of the distributions to shareholders will likewise decrease.

For more information on any Calvert fund, please contact your financial advisor or call Calvert at 800.368.2748 for a free prospectus. Institutional investors call 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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