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## Calvert Global Alternative Energy Fund

Calvert Global Alternative Energy Fund (Class A shares at NAV) returned -18.56% during the second quarter of 2010. The Fund underperformed its benchmark, the Ardour Global Index, which returned -17.95% over the same period. The Fund's sub-sector allocation was the primary source of its relative underperformance.

### Market Review

Global equity markets endured a volatile second quarter driven by European sovereign debt concerns. Higher-beta sectors such as Alternative Energy continued to underperform even after the announcement of a bailout package for Greece. Toward the end of the quarter, concern grew about the possibility of China tightening its monetary or fiscal policies, which would likely disrupt global economic growth. Geopolitical tensions on the Korean peninsula and in the Middle East only added to nervous sentiment in the markets.

At a macroeconomic level, investors were focused on government policies and the inevitable drawdown of fiscal stimulus packages put in place since the height of the financial crisis in 2008 and early 2009. According to many forecasts, the timeline for interest-rate increases from the European Central Bank has been pushed out to the spring of 2011 as a result of the continuing debt problems in peripheral euro-zone countries. U.S. interest-rate increases may happen sooner, though, as the U.S. economy is in better shape. On the fiscal side, European

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### HISTORICAL FUND PERFORMANCE

Average Annual Total Returns as of 6/30/2010. Inception Date 5/31/2007.

CALVERT GLOBAL ALTERNATIVE ENERGY FUND	QTR	YTD	1YR	3YRS	5YRS	10YRS	SINCE INCEPTION
A Shares at NAV	-18.56%	-26.99%	-22.02%	-22.04%	N/A	N/A	-20.71%
A Shares Max load of 4.75%	-22.43	-30.46	-25.73	-23.29	N/A	N/A	-21.96
Ardour Global Alternative Energy Index (Composite)	-17.95	-24.29	-18.61	-21.42	N/A	N/A	-19.68

Source: Calvert Performance Analytics

Gross expense ratio: 2.37%. Net expense ratio: 1.85%. 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.



governments have generally begun to tighten policy, believing that smaller government deficits will reassure consumers. U.S. authorities are taking a different view as they appear to be pushing fiscal tightening back until next year at the earliest.

The euro continued to depreciate during the second quarter, ending the quarter down more than 10% against the U.S. dollar. This currency move lowered the value of European assets for U.S. investors. It also likely had a negative impact on the earnings of U.S. solar companies since the majority of global solar modules are sold directly into the euro zone.

The oil spill in the Gulf of Mexico was not a significant driver of performance during the quarter, but it was certainly a notable event given the scale of the environmental disaster. The event has helped emphasize President Obama's drive toward a clean energy economy, highlighting the longer-term potential of renewable energy investments.

Within the Alternative Energy sector in particular, renewable energy companies domiciled in Spain and Portugal came under significant pressure during the second quarter. The local stock markets in the Iberian countries generally sold off as the focus of the euro-zone sovereign debt crisis shifted to the region. The Spanish government's plans to implement new tariff regimes for the Wind and Solar sub-sectors added to the negative sentiment for alternative energy companies.

## Portfolio Review

The Fund's stock selection contributed positively to its relative return during the second quarter, but negative contributions from sub-sector allocation more than offset the positive effects of stock selection. As of the end of the second quarter, companies in the underperforming Wind sub-sector represented almost 40% of the Fund but only about 28% of the benchmark index. Iberian Wind companies such as Iberdrola Renewable, Acciona, and EDPR underperformed due to sovereign-related credit issues, while shares of wind turbine manufacturers in general underperformed amid renewed pessimism from the U.S. market. Despite the negative events of the second quarter, Wind continues to be our favorite sub-sector.

The Energy Efficiency sub-sector, despite posting a double-digit negative return, was again a relative outperformer in the broad alternative energy sector. As a result, the Fund's underweight to the Energy Efficiency sub-sector held back its performance relative to the benchmark index.

The Fund's overweight position in the Utilities sub-sector was a positive contributor to performance given the more defensive characteristics of this sub-sector in such a volatile environment. Within the sector, NextEra Energy was a standout performer for the Fund with a positive return of almost 2% for the quarter following its announcement of strong first-quarter financial results. The company's shares are not included in the benchmark index.

Stock selection in the Solar sub-sector was the largest positive contributor to the Fund's relative performance in the second quarter. For example, Wacker Chemie is one of the Fund's core holdings in the Solar sub-sector. The company, which is the second-largest global polysilicon producer, performed relatively well after it posted first-quarter earnings that were better than expectations. The company's polysilicon division remains sold out for the rest of the year as new producers struggle to compete on quality and cost. Wacker Chemie is not included in the benchmark index. Also in the Solar sub-sector, we have added to the Fund's position in First Solar as we believe the stock may gain in anticipation of relatively strong second-quarter financial results. First Solar has hedged more than 50% of its exposure to the euro and we believe that the company will post stronger second-quarter results as its manufacturing lines ramp up to 100% utilization.

The Fund's relative return also benefited as a result of not holding shares of Renewable Energy (REC) or Canadian Solar, which are included in the benchmark index. REC is a European wafer and cell manufacturer that performed poorly during the second quarter after its rights issue. Canadian Solar fell sharply as the company came under investigation by the Securities and Exchange Commission, which caused the company to postpone release of its full financial results for the first quarter.

## Outlook

All the commotion about Greece and the general sovereign debt crisis in recent months has caused the financial markets to lose touch with the fundamental development of the world economy. Greece accounts for only 2.5% of European GDP, and Europe accounts for less than a quarter of the world economy. The euro remains under pressure, but a weaker euro actually helps the euro area somewhat as it would likely deliver a modest growth boost via exports. Investors should not be distracted by the euro and Greece—we still anticipate ongoing economic recovery, persistently low inflation and interest rates, and a robust upturn in corporate earnings.

Regarding the alternative energy sector in particular, several factors continue to point to increased deployment of renewable energy despite the challenges of recent months. For example, over the last year many countries—including the United States, China, India, the United Kingdom, and Japan—have either announced their initial carbon emission targets or strengthened their targets from previously stated levels. More than 50 countries now have stated renewable energy targets and, in aggregate, these targets are currently well above the current percentage of the total energy mix accounted for by renewable energy. In addition, technological developments are continuing to drive down the costs of wind and solar power.

The structurally high price of oil over the past few years has made alternative energy sources increasingly popular. Currently, many renewable energy projects only become profitable once the price of oil exceeds \$50 per barrel. Technological advances will likely lower this threshold toward as little as \$40 per barrel. These price points compare favorably with the marginal cost of oil production, which is currently \$70 per barrel and is expected to rise with the depletion of reserves. In the long term, therefore, the margins on green energy production should rise, and have the potential to do so exponentially. Finally, the disaster in the Gulf of Mexico is highlighting the risks of offshore drilling as well as the need to hasten the move toward cleaner energy. ■

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 Global Alternative Energy Fund's holdings included Iberdrola (7.27% of the portfolio), Renovable (0.0%), Acciona (2.61%), EDPR (4.06%), NextEra Energy (3.23%), Wacker Chemie (4.79%), First Solar (3.18%), Renewable Energy (0.0%), and Canadian Solar (0.0%). 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).

Calvert Global Alternative Energy Fund is subject to the risk that stocks that comprise the energy sector may decline in value, and the risk that prices of energy (including traditional sources such as oil, gas, or electricity) or alternative energy may decline. The stock markets in which the Fund invests may also experience periods of volatility and instability. In addition, shares of the companies involved in the energy industry have been more volatile than shares of companies operating in other, more established industries. Consequently, the Fund may tend to be more volatile than other mutual funds. Lastly, foreign investments involve greater risks than U.S. investments, including political and economic risks and the risk of currency fluctuations.

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