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## Calvert Ultra-Short Income Fund

Calvert Ultra-Short Income Fund (Class A shares at NAV) returned 0.24% for the quarter ended June 30, 2010, slightly outperforming its benchmark, the Barclays Capital U.S. Short Treasury 9-12 Month Index (the “Index”), which returned 0.21% for the quarter.

### Market Review

During the second quarter of 2010, fears about sovereign credit risk, which started with Greece, spread significantly to include countries such as Spain and Italy. Starting in late April, these worries about contagion from the European debt crisis sparked a sell-off in riskier assets, such as corporate bonds, and a flight to quality. This triggered a jump in bond-market volatility, which reached a peak on May 6, the day of the “flash crash” in the stock market.

The Federal Reserve (Fed) kept the target for its benchmark federal funds rate near zero percent throughout the second quarter as a way to help stimulate economic growth following the severe recession that started in late 2007. Economic data released during the quarter continued to show mixed signs about the strength of the recovery, raising some concerns about the risk of a “double-dip” recession. While the economy as measured by gross domestic product (GDP) grew at a 2.7% annual rate in the first quarter of 2010, that pace was slower than historical economic growth rates after deep recessions. Also, the unemployment

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### HISTORICAL FUND PERFORMANCE

Average Annual Total Returns as of 6/30/2010. Inception Date 10/31/2006.

CALVERT ULTRA-SHORT INCOME FUND	QTR	YTD	1YR	3YRS	5YRS	10YRS	SINCE INCEPTION
A Shares at NAV	0.24%	0.86%	3.85%	4.52%	N/A	N/A	4.66%
A Shares Max load of 1.25%	-1.02	-0.41	2.59	4.08	N/A	N/A	4.31
<i>Barclays Capital U.S. Short Treasury 9-12 Month Index</i>	<i>0.21</i>	<i>0.42</i>	<i>0.82</i>	<i>3.05</i>	<i>N/A</i>	<i>N/A</i>	<i>3.38</i>

Source: Calvert Performance Analytics

Gross expense ratio: 1.26%. 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, 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.



rate remained at a high 9.5% as of June, indicating that the economy is not creating many new jobs.

Despite their relatively low yields, Treasuries benefited from the flight to quality later in the second quarter. For example, the yield on the 10-year Treasury note dropped quickly from 3.83% to 2.93% over the course of the quarter. The three-month Treasury bill finished the quarter yielding 0.18%. The Treasury yield curve flattened somewhat, although it is still quite steep by historical standards. The yield difference between two-year and ten-year Treasuries, for example, dropped from 281 basis points<sup>1</sup> at the beginning of April to 233 basis points at the end of the quarter.

The other side of the flight to quality in the quarter was an increase in credit spreads<sup>2</sup> as investors generally sold off assets with any type of credit risk, including corporate bonds. For the quarter, the average credit spread on bonds in the Barclays Capital U.S. Credit Index of investment-grade bonds rose from 136 basis points to 179 basis points. The widening of credit spreads was even more pronounced for high-yield bonds during the quarter.

### Portfolio Highlights

The Fund outperformed the Index primarily as a result of its holdings of floating-rate corporate notes that have coupon payments linked to LIBOR.<sup>3</sup> The three-month LIBOR rate, which is a commonly used benchmark for floating-rate obligations, increased over the course of the second quarter as some banks (particularly in Europe) started to demand higher rates to lend money to each other as a result of the increasing worries about European sovereign debt. Because the coupon payments on floating-rate notes reset periodically in lockstep with a predetermined interest rate such as LIBOR, this boosted the value of the Fund relative to the Index. The Fund does not hold floating-rate bank loans, which typically have credit ratings below investment-grade.

In addition, we were able to add incremental return by actively trading Treasuries and Treasury futures contracts. We positioned the Fund's holdings of Treasuries and Treasury futures to benefit from a narrowing in the spread between two- and ten-year Treasury yields, which took place to some extent over the course of the quarter. Since the yield curve is still quite steep relative to historical averages, we plan to maintain that positioning.

On the negative side, the Fund's short duration<sup>4</sup> relative to the Index hurt its relative performance during a quarter when interest rates dropped amid the flight to the safety of Treasuries. At the beginning of the second quarter, the

Fund's duration was 0.10 years while the duration of the Index was 0.88 years. We continue to hedge the Fund's interest-rate duration through the use of various Treasury futures.

Particularly after the sell-off in assets with credit risk during the second quarter, we believe that selected corporate notes offer good value, although rigorous analysis of individual issuers is more important than ever. We have been looking for opportunities to add to positions in specific corporates on price weakness as well as to actively trade around volatility in the corporate bond market.

### Outlook

We expect the fragile economic recovery to continue with GDP growth that will likely be slower than the pace of past recoveries. Central banks around the world are continuing to maintain extremely accommodative monetary policies, which has generally kept interest rates very low by historical standards. Despite the flight to quality in the second quarter, these low rates have convinced some investors to take on more risk than they did during the financial crisis of 2008 and early 2009. This motivates us to be even more conservative in trying to limit both the Fund's credit risk and interest-rate risk as much as possible.

Treasury yields are also quite low by historical standards, and the further drop in Treasury rates during the second quarter makes it more likely that they will eventually rise to closer to historical norms. Given our outlook for rising interest rates, we plan to continue to keep the Fund's duration shorter than that of the Index. While we may gradually lengthen the Fund's duration as interest rates climb, we anticipate maintaining an overall duration strategy that is conservative and helps to offset interest-rate risk as much as possible. The Treasury Department continues to issue record amounts of new debt, and eventually the added supply may push yields higher.

We anticipate that the market's concerns about the credit quality of European sovereign debt will keep volatility levels relatively high in the financial markets in general. We will continue to actively trade Treasuries and Treasury futures, in particular, to try to take advantage of the volatility and generate incremental return. ■

1. A basis point is 0.01 percentage points.
2. Credit spreads measure the difference in yield between a corporate bond and a Treasury security with a comparable maturity.
3. London Interbank Offered Rate
4. Duration measures a portfolio's sensitivity to changes in interest rates. Generally, the longer the duration, the greater the change in value in response to a given change in interest rates.

This commentary represents the opinions of its author as of 6/30/10, 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.

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. The value of a futures contract tends to move in tandem with the value of the underlying instrument, can be highly volatile, and the potential loss from futures can exceed the Fund's initial investment in such contracts. 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. The Fund is non-diversified and may be more volatile than a diversified fund.

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