



Richard England

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Quality Stocks Poised for Growth as Recovery Takes Shape

CSIF Equity Portfolio is a diversified large-cap equity fund. The Fund seeks to invest in companies that offer opportunities for capital appreciation and that demonstrate positive environmental, social, and corporate governance performance.

Richard England leads the CSIF Equity Portfolio management team. Mr. England recently discussed his views on the economy and shared his market outlook.

What are your thoughts on the economy? Have we turned the corner yet toward recovery?

The signs we're seeing lead us to be optimistic. In the last two months we've seen a deceleration in the number of initial unemployment claims. Historically, this is the point at which recessions come to an end. On the real estate front, the relative rate of decline in housing prices has lessened. In the corporate world, which is typically the driver of economic recovery, we have also seen positive signs. Upward earnings estimate revisions are at almost historically high levels, while inventories are poised for rebuilding from the sharp de-stocking that occurred during the early part of the recession. And, lastly, credit markets are in repair, which is critical to recovery.

Where do you see areas of continued risk?

Although trends are pointing toward a recovery, we have several areas of concern. The possibility of a jobless recovery remains real, as unemployment numbers are at their highest levels since the 1980s recession. Although it's too soon to declare this a jobless recovery, it seems likely that job creation may not

be robust and could hinder growth. Consumers are still highly leveraged due to the mortgage bubble of recent years, and continue to feel the pain of falling net worth—a combination of lower home and stock values—which may continue to inhibit consumer spending.

Does a weak consumer mean a weak recovery?

No, we don't think so. Historically, the sharper the economic downturn, the stronger the initial stages of the recovery. Since most forecasts call for a weak recovery, any growth surprises may well be to the upside. If that's the way it plays out, inventories will probably prove to be the catalyst. Businesses sharply reduced inventories during the recession and they will have to be rebuilt as demand begins to return. This should be the initial fuel for the recovery. Once things get started, we expect that the consumer will follow.

Does the market's recent rise mean we're in for a correction soon?

There's been much speculation that the market has risen too far too fast; the S&P 500 is up nearly 60% since its March lows. When put in context, however, the



market's dramatic rise still puts it significantly below historical levels with substantial room for upside. During the final phase of the market's decline last fall, markets became very over-sold, as investors speculated over a possible nationalization of banks and comparisons were made to the Great Depression. Swift action has averted a banking crisis, and we see the market rebound as justified. It's worth noting that, historically, GDP rises fairly quickly in the first year of recovery from recession. While that's not a guarantee of what may happen this time, it does suggest that the economic future may be brighter than anticipated.

Why should investors consider higher-quality large-cap stocks?

Our research suggests that investing in high-quality companies has produced favorable returns in both up and down markets.* In building the portfolio, we look for industry leaders with above-average returns

on equity and capital, low debt, relatively high cash flow levels, and superior management teams. We expect firms that meet these criteria to have consistently above-average earnings and dividend growth. Over the long-term, we feel the universe of high-quality companies offers more favorable risk-adjusted return potential relative to low-quality companies. As recovery begins to take shape, we feel stocks of these companies are better poised for growth than lower-quality stocks.

Based on your outlook, how are you and your team positioning the portfolio?

We see significant opportunity in the market, and are therefore broadly diversified by sector. We're maintaining substantial overweight positions in growth-oriented sectors, such as the Information Technology, Health Care, and Consumer Discretionary sectors, to take advantage of potential gains associated with recovery. Currently, our top holdings are

high-quality, household names such as Apple, Google, CVS Caremark, and Procter & Gamble.

Lastly, how do you partner with Calvert and what contributes to this successful partnership?

The Calvert Double Diligence® approach provides two opportunities to look at each potential holding for the portfolio. Double Diligence® combines Calvert's environmental, social, and government analysis with Atlanta Capital Management's high-quality, fundamental screening. This approach has helped the Fund avoid some of the most problematic stocks in recent years. The Fund had no exposure to Enron, Worldcom, or HealthSouth in the early part of this decade. Likewise, the Fund held no Bear Stearns, Lehman Brothers, or Countrywide Home Loans in the most recent market downturn. ■

*** For more information on the Fund's performance in up and down markets, please contact Calvert Investments for the CSIF Equity Fund Snapshot.**

Large cap companies may be unable to respond quickly to new competitive challenges such as changes in technology, and also may not be able to attain the high growth rate of successful smaller companies, especially during extended periods of economic expansion. In addition, the Fund could underperform for any of the following reasons: the stock market may decline, the individual stocks in the Fund may not perform as well as expected, and/or the Fund's portfolio management practices may not work to achieve their desired result. Current and future portfolio holdings are subject to market risk.

As of September 30, 2009, Apple represented 4.64%, CVS Caremark Corp., 4.13%, Google, Inc., 3.73%, and Procter and Gamble Co., 3.07% of CSIF Equity Portfolio respectively. Calvert may or may not still invest in, and is not recommending any action on, companies listed. For the most recently available information on holdings in each Calvert socially screened equity fund, please go to www.calvert.com.

This CSIF Equity strategy is available both as a mutual fund and as a separately managed account (SMA) at certain firms.

The commentary represents the opinion of Richard England as of October 15, 2009 and may change based on market and other conditions. These opinions are not intended to forecast future events, guarantee future results, or serve as investment advice.

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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