

PORTFOLIO COMMENTARY

FOURTH
QUARTER
2009



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Calvert Short Duration Income Fund

Calvert Short Duration Income Fund (Class A shares at NAV) returned 1.04% for the quarter ended December 31, 2009, underperforming its benchmark, the Barclays Capital 1-5 Year U.S. Credit Index (the "Index"), which returned 1.48% for the quarter. For 2009, the Fund underperformed the benchmark with a return of 12.13% versus 13.52% for the passive Index.

Market Review

Economic data in general continued to improve during the quarter, with some promising signs in home sales and consumer confidence data. During the quarter, the U.S. Commerce Department announced that gross domestic product (GDP), which is a measure of the country's economic output, grew at an annual rate of 2.2% in the third quarter. This data was actually a revision of the previously estimated 2.8%, but the growth helped instill confidence in the economy, particularly after the 0.7% economic contraction in the second quarter. The unemployment rate, however, remained stubbornly high at 10% as of November.

Treasury yields moved higher in the fourth quarter, with most of the increase taking place in December. The yield of the five-year Treasury note, for example,

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HISTORICAL FUND PERFORMANCE

Average Annual Total Returns as of 12/31/2009. Inception Date 1/31/2002.

CALVERT SHORT DURATION INCOME FUND	QTR	YTD	1YR	3YRS	5YRS	10YRS	SINCE INCEPTION
A Shares at NAV	1.04%	12.13%	12.13%	5.48%	5.00%	N/A	6.10%
A Shares Max load of 2.75%	-1.77	9.04	9.04	4.52	4.42	N/A	5.73
<i>Barclays Capital 1-5 Year U.S. Credit Index</i>	<i>1.48</i>	<i>13.52</i>	<i>13.52</i>	<i>5.99</i>	<i>4.79</i>	<i>N/A</i>	<i>5.07</i>

Source: Calvert Performance Analytics

Gross expense ratio: 1.17%. Net expense ratio: 1.08%. 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 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 to obtain performance data current to the most recent month-end.



increased from 2.31% at the start of the quarter to 2.68% on December 31. In addition, the gap between short- and long-term Treasury yields stayed at or near record-high levels for most of the quarter; the difference in yield between the two-year and ten-year Treasury notes widened to a record 285 basis points¹ in the quarter.

Corporate bonds, which had enjoyed a tremendous rally earlier in 2009, leveled off in value as the year drew to a close. According to Barclays Capital data, the average credit spread² for one- to five- year investment-grade corporate bonds was 140 basis points on December 31, down from 185 basis points at the start of the quarter. However, this spread was 533 basis points at the beginning of 2009, so the vast majority of the rally in corporates took place earlier in the year. Since bond prices and yields move in opposite directions, this decrease in yield spread translates to higher prices.

Portfolio Highlights

For the quarter: The bulk of the Fund's underperformance of the Index during the quarter resulted from its smaller allocation to corporate bonds than that of the benchmark. In general, the Fund maintains a percentage allocation to corporate bonds that is much lower than that of the Index, which was about 77% in corporate bonds and the balance in government-related issues, including sovereign debt, as of the beginning of the quarter. At the start of the fourth quarter, corporate bonds accounted for about 57% of the Fund. During the quarter, we gradually and selectively began to reduce the Fund's exposure to stronger-performing yet vulnerable issues such as commercial mortgage-backed securities (0% of the Fund at year-end) and select corporates that had rallied strongly and could be at risk in any sell-off in the corporate bond market.

As we have for most of the year, during the fourth quarter we kept the Fund's duration³ shorter than that of the Index, which helped the Fund's relative performance as interest rates rose. At the beginning of the quarter, the Fund's duration was 0.89 years while the Index's duration stood at 2.70 years. We maintained the shorter-than-benchmark duration as a way to help mitigate the negative effects of rising market interest rates, which we anticipated. As is our strategy, we incrementally lengthened the Fund's duration as interest rates rose in the quarter and the risk/return profile improved. This strategy helped offset some of the drag on performance from our relative underweight to corporate bonds.

Economic data continued to point to a stronger recovery than previously anticipated, as consumer confidence rose and the employment picture improved with jobless claims

in December at a year-and-a-half low, all of which helped push inflation expectations and Treasury yields higher. The large amounts of new U.S. Treasuries auctioned in the quarter required higher yields to meet reduced investor demand. At the same time, the improved outlook for the economy caused investors to worry about future inflation and reduced their demand for the safety of government securities.

Treasury yields also remained relatively volatile during the quarter, providing opportunities for active trading in the Fund. This also benefited relative returns and helped offset the negative impact of the Fund's smaller allocation to investment-grade corporate bonds, which continued to rally (although not as strongly as earlier in the year).

For the year: Many of the same factors that affected the Fund's relative performance during the quarter were also factors for the full year. The Fund's relative underallocation to corporate bonds detracted from its overall relative performance during the year, while its short relative duration was a positive contributor.

However, some of the Fund's individual corporate bond holdings, particularly those issued by financial companies, reached beaten-down prices at the end of last year and so rebounded even more strongly in 2009 than the broad corporate bond market. In addition, the Fund's holdings of high-yield corporate bonds, which are not included in the Index, helped boost its relative performance significantly. As of the beginning of the fourth quarter, high-yield bonds accounted for 8.20% of the Fund. The high-yield market in general experienced a breathtaking rally in 2009—the BofA Merrill Lynch High Yield Master II Index finished 2009 up 57.51% for the year.

Outlook

Since the government enacted its \$787 billion economic stimulus plan early in 2009, we've believed that the huge amounts of new Treasury debt issuance needed to fund the stimulus will eventually push Treasury yields higher simply as a result of the vast new supply. Treasury rates did move higher in 2009, with a significant portion of the move taking place near the end of the year. We anticipate that they will continue to climb in 2010, so we plan to keep the Fund's duration shorter than that of the Index.

Of course, given 2009's very strong rally in corporate bonds, we plan to keep looking for opportunities to gradually trim our holdings of corporate bonds. This will hopefully help preserve gains on corporates if their values start to decline in 2010.

There has been considerable speculation about when the Federal Reserve (Fed) and the Treasury Department will begin to rein in the very expansive monetary and fiscal policies that helped the economy avert an even deeper recession in 2008 and 2009. We anticipate that the Fed, as it has stated, will start to gradually wind down its aggressive buying of government and government-related bonds on the open market in the first half of 2010. We also anticipate that the Fed will start to slowly raise the target federal funds rate sometime in the second or third quarter of 2010. ■

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. 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 12/31/09, 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. The Fund is subject to issuer default risk and interest rate risk, the risk that changes in interest rates will 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. The Fund is non-diversified and may be more volatile than a diversified fund. There is also a risk that the Fund's portfolio management practices might not work to achieve their desired result.

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