PORTFOLIO COMMENTARY

SECOND QUARTER 2010

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CSIF Equity Portfolio

For the three months ended June 30, 2010, CSIF Equity Portfolio (Class A shares at NAV) returned -11.28%. The Portfolio's benchmark, the Standard & Poor's (S&P) 500 Index, returned -11.43% during the quarter. Stock selection accounted for the Portfolio's slight outperformance of the benchmark during the quarter.

Market Review

In sharp contrast to the prior four quarters, the bull market hit an air pocket in the second quarter of 2010. While we thought that 2010 might prove to be a positive—albeit volatile—year for the equity markets, the correction that began in early May has proven more severe than we anticipated. After rising 79% from its March 2009 low through April 26, 2010, the S&P 500 then fell 15% to end the second quarter down 11.43%.

Returns by sector for the second quarter were exactly what you'd expect for a market fearing a return to recessionary conditions. While every sector posted a decline, the two best-performing sectors were Utilities and Telecomm, which fell about 4% each. Another defensive sector, Consumer Staples, was the next-best performer, down 8% for the quarter. At the other end of the spectrum, Materials performed the worst, falling about 15%. Stocks in the Materials sector are most sensitive to the outlook for global growth. Other cyclical sectors like Technology, Financials, Energy, and Industrials all lagged the average, with each falling 12% to 13%.

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HISTORICAL FUND PERFORMANCE

Average Annual Total Returns as of 6/30/2010. Inception Date 8/24/1987.

CSIF EQUITY PORTFOLIO	QTR	YTD	1YR	3YRS	5YRS	10YRS	SINCE INCEPTION
A Shares at NAV	-11.28%	-6.26%	13.39%	-5.42%	0.29%	1.54%	6.58%
A Shares Max load of 4.75%	-15.50	-10.70	8.00	-6.94	-0.68	1.05	6.35
S&P 500 Index Monthly Reinvested	*-11.43*	*-6.65*	*14.43*	*-9.81*	*-0.79*	*-1.59*	*N/A*

Source: Calvert Performance Analytics

Expense ratio: 1.28%. Performance data quoted already reflects deduction of fund operating expenses.

*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.*

Calvert INVESTMENTS

In terms of style, value stocks and growth stocks performed almost identically in the second quarter. In terms of capitalization range, small-cap stocks fell less than large-cap stocks. Within the S&P 500, low-quality stocks slightly outperformed high-quality companies during the second quarter. Each of these outcomes seem anomalous to us. In a market that fell over 11% on fears of a return to recessionary conditions, we would expect growth to beat value, large-cap to outperform small-cap, and high-quality to best low-quality.

The "Growth Scare." The apparent cause for the sharp retreat in the market since late April is being innocuously labeled a "growth scare." In other words, the market is fretting about not only the strength of the recovery, but also about whether the economy can avoid moving back into recession. Adding to the angst is the worry that *if* the economy "double dips," policy makers may be out of ammunition (or the political will) to fight the downturn.

Just three short months ago, it looked like the directional debate about economic recovery had been settled. The March jobs report showed growth in private-sector jobs. Retail sales were better than expected. U.S. exports had surged. Leading indicators of manufacturing activity hit cyclical highs. Certainly not all the data was positive, but it largely seemed to indicate that the recovery had taken hold. So how does the market find itself paralyzed with the fear of a renewed recession—so shortly after the glass was decidedly half-full?

While there are layers and complexities that defy easy or certain interpretation, there are three primary potential factors fueling the fear that we could slide back into recession: 1) the fallout from the European sovereign debt crisis, 2) an unexpectedly sharp slowdown in the growth of emerging markets generally, and China in particular, and 3) the market's perception that the Obama administration and Congress have moved beyond appropriate policy and regulation reforms and are genuinely anti-business.

To make matters worse, although the disastrous oil spill in the Gulf of Mexico is a playing a minor role in the slowdown debate, we believe that the spill has had a pernicious effect on an already fragile American psyche. One of those old stock market "truisms" (which probably *is* true) is that the market hates uncertainty. While there's clearly much to debate about if, or how much, Chinese economic growth will slow and what that means for our economy—as well as what Washington's actions imply for future growth—the widest range of outcomes, and, therefore, the greatest uncertainty, flows from Europe.

The European sovereign debt crisis bubbled up many months ago in the form of a funding problem for Greece. On the surface, this should have been a minor event, and certainly not one capable of pushing the global economy back into recession. After all, Greece accounts for a small part of European Union gross domestic product (GDP) and has little economic connection to the U.S. If only it were that simple. The Greek debt situation—too much debt outstanding and current deficits too big relative to GDP—may be the proverbial canary in the coal mine for the world's developed economies. Greece had near-term funding requirements that pushed it into "crisis" mode, but its debt and deficit problems are shared by Italy, Spain, the United Kingdom, Japan, and ultimately the United States and others.

The prescribed medicine for excessive government debt is fiscal austerity. Such measures have been announced across Europe, and President Obama has established a commission in the United States to study the problem. In the long run, getting governments to live within their means is a good thing. The problem is that these austerity measures are a drag on economic growth in the short run.

This, in a nutshell, is the "growth scare." Higher taxes and waning government spending have become the prism through which the market now views each bit of economic data. While there's no doubt that the economic data has softened a bit, the glass has definitely gone from half-full to half-empty.

Portfolio Review

For the second quarter, the Portfolio had some underperforming holdings and some outperforming stocks that netted out to a small positive contribution to returns. This positive result slightly outweighed a negative contribution to relative return from our sector-weighting decisions. Our zero weight to the Telecomm sector and underweight to the Utilities sector were detractors from the Portfolio's relative performance. While our stock selection decisions were driven almost entirely by bottom-up analysis of individual stocks during the second quarter, we did reduce the Portfolio's exposure to the Financials sector and boost its exposure to select Consumer Discretionary and Industrials names.

It's perhaps a function of the large absolute move in the market, but the Portfolio's bottom-line positive contribution from stock selection was composed of a lumpy assortment of positives and negatives when looked at by sector. By a wide margin, the Portfolio's best stock performance came in Consumer Discretionary, where Netflix once again vastly outperformed the market, rising 47% in the second quarter.

Netflix remains nearly unchallenged in the digital movie rental business and benefits from the continuing shrinkage of brick-and-mortar competitors. Apple also continued its winning ways with the iPad gaining steam and the prospect of the iPhone reaching Verizon by early 2011. Fastenal and UPS were each up for the quarter as well and paced the contribution of the Industrials sector.

The most challenging sector on a stock selection basis was Financials. Aflac, Charles Schwab, and Franklin Resources each fell a bit over 20% for the quarter. Aflac suffered from fear of exposure to European sovereign debt in its investment portfolio. Schwab and Franklin were each hit because of the downdraft in the market that reduced their assets under management. Schwab also underperformed because the growth scare likely means that the Fed will keep rates low for a longer period of time. While holdings Qualcomm and Gilead Sciences also detracted from relative performance, we remain committed to both stocks.

Finally, because it has been a volatile stock, I want to comment on the performance of CVS Caremark. In the second quarter, CVS Caremark substantially underperformed the Consumer Staples sector. The acquisition of Caremark by CVS remains very controversial, and during the second quarter a commercial dispute between CVS Caremark and Walgreen burst into public view. The companies settled after 10 days or so, but the damage to both stocks was done. We continue to believe that the merger of CVS and Caremark leaves the company extremely well positioned, but so far the market has not come around to our way of thinking. CVS Caremark has very solid growth prospects and is extremely cheap, and it remains a large holding in the portfolio.

Outlook

For the last 12 months, we accepted the notion that the economic recovery is likely to be weak relative to historical standards. The headwinds of a deleveraging consumer, banks that need to rebuild capital, high and sticky unemployment, and a housing sector that will need years to get back to normal have all conspired to make a slow, weak recovery the most likely outcome. For the last two months, the market has suffered from the fear that even this modest growth outlook is too optimistic. The question, of course, is where do we go from here? It's tough to assign a zero probability to any outcome, but while the odds of a "double-dip" recession have clearly risen we still think those odds are quite low. Instead, it's far more likely that the consensus modest-recovery scenario will get a bit more modest. Assuming that we don't have a "double-dip," the stock market is still quite cheap, and a solid full-year gain for the broad market remains the most likely outcome.

Looking ahead, the recent sell-off in stocks is creating some significant bargains for attractive individual stocks. To some degree, the market drop has also scrambled previous sector or style strategies. We're evaluating the opportunities one-by-one and will look to second-quarter earnings for further insights. As the markets stabilize, we continue to expect that higher-quality stocks with superior organic growth rates will be accorded a price premium.

Can this economic recovery continue? Can a "double dip" be avoided? We believe that it can, but it may take time for the market to embrace that view once again. ■

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, CSIF Equity Portfolio's holdings included Netflix (3.12% of the Portfolio), Apple (4.44%), Verizon (0.00%), Fastenal (0.00%), UPS (0.00%), Aflac (1.33%), Charles Schwab (1.59%), Franklin Resources (1.38%), Qualcomm (3.49%), Gilead Sciences (2.95%), CVS Caremark (3.67%), and Walgreen (0.00%). 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.** Current and future portfolio holdings are subject to market risk.

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