



An interview with

MICHELLE CLAYMAN, CFA

Founder, Managing Partner and Chief Investment Officer of New Amsterdam Partners, LLC and

Portfolio Manager of Calvert Capital Accumulation Fund

What sets this Fund apart from other mid-cap growth funds?

In September 2005, New Amsterdam Partners took over as sub-advisor for the Calvert Capital Accumulation Fund. Recently, we talked to founder Michelle Clayman to learn more about her vision for the Fund, and what sets her investment process apart from competitors.

1. What's your approach for managing this Fund?

We use a highly transparent and disciplined bottom-up, growth-at-a-reasonable-price investment process. As active managers, we believe we can add value above the benchmark by identifying security mispricings in the marketplace. We use both original, quantitative research and sound fundamental analysis to identify mid-cap growth stocks whose growth prospects are not reflected in their current share prices.

We start with a large universe of 10,000 stocks and use an initial screening to pare that down to about 800 mid-cap companies.¹ We use a quantitative model to “zero in” on companies with better-than-average forecast growth and profitability that are selling at a discount. Using our proprietary model, we then identify the top 100 potential investments, ranked from high to low.

2. How do you further narrow the list of potential investments?

While 50% of our process is quantitative, the other 50% is rigorous, fundamental research which we apply to look more deeply into why a stock may be mispriced. If our model tells us a stock is undervalued, we have to believe that we're spotting something the market isn't seeing. I tell our analysts, “Let's make sure we understand why that is.” Because sometimes you can have a stock that looks cheap, but when you start digging deeper, you see there's a very good reason for that.

3. What makes your mid-cap process distinctive?

We use a very powerful, proprietary model that looks for stocks with better-than-average forecast growth and profitability that are selling at a reasonable discount. I wrote the code for the model back in the

1980's, and we've continued to test the validity of and refine the inputs to it over the years. In fact, we have published many papers on our findings. The model's three key inputs include:

- **Forecast earnings growth** is the first factor the model examines. Potential sources of earnings growth include a company's revenue growth, acquisitions, or successful business management.
- **Forecast cash flow yield** measures the difference between a company's return on equity and its growth rate. If a company's return on equity is greater than its growth rate, the company is spinning off cash. And if the company doesn't reinvest that cash in growth, use it to pay dividends, or buy back stock, then it builds up cash on the balance sheet, making the company an attractive takeover candidate.
- **Forecast valuation** represents our estimate of how the company's price-to-book ratio will change over time. Price-to-book is the most recent stock price divided by the most recent book value per share, and tells investors about how much they're paying for a company's assets based on historical valuations.

4. Why are these factors so significant?

We find that this process allows us to incorporate a lot of industries that you wouldn't normally think of as growth industries — such as housing and energy. And we're pleased that our model seems to have the ability to identify lesser-known companies that we believe other managers are ignoring.

In fact, you'll see that Calvert Capital Accumulation Fund generally has higher forecast growth and return on equity and a lower price-to-book ratio than the Russell Midcap Growth Index.²

continued on other side

1. Companies with market capitalizations between \$750 million and \$9 billion at the time of purchase.

2. As of April 30, 2006: forecast growth was 11.9% for Calvert Capital Accumulation Fund versus 11.3% for the Russell MidCap Growth Index. The return on equity was 32.2% for the Fund versus 24.8% for the Index. And the price-to-book was 5.2x versus 6.3x for the Index. The Russell MidCap Growth Index measures the performance of those Russell Midcap companies with higher price-to-book ratios and higher forecasted growth values. You cannot invest directly in an index. Sources: New Amsterdam Partners and Russell.

5. Can you tell us about some of the holdings chosen for the Fund?

One example is Wesco International (WCC), a distributor of electrical construction equipment. They are benefiting from the rebound in residential construction, as well as a lot of exposure to commercial construction. We believe that company management is skilled at integrating acquisitions and executing their business plan — and they have consistently provided strong positive earnings surprises. The bottom line is that returns are up 121% since we purchased them in September 2005.³

Ansys, Inc. (ANSS) makes computer simulation software for product development. They're really "democratizing" the use of simulation software by pushing prices down and spreading demand for it throughout the economy. They have a very lean balance sheet, with low debt and a lot of cash. And it too has performed well, increasing more than 43% since we bought it in January 2006.⁴

I often tell my staff is that boring is good. It's easy when you're investing to be attracted to the exciting names or the names you know, but these are names that I certainly didn't know about until they popped up in our model.

6. What do you foresee for the Fund in the second half of the year?

We are optimistic about the remainder of 2006 and believe it is a broadly favorable environment for high-quality, mid-cap growth stocks. Although interest rates have been rising and productivity is falling, the economy seems to have absorbed these challenges. We are concerned by some valuations in the technology sector that don't seem justified by underlying earnings, so we are underweighted in tech stocks. We are also underweighted in financial services stocks — given the interest rate environment — and health care as well.

On the flip side, we continue to be overweighted in producer durables because we think that industrial activity will be strong this year. We're also overweighted in the materials and processing, and consumer discretionary sectors.

While we acknowledge there are factors that could derail the market in the second half of the year, overall, we continue to be bullish on US mid-cap equities. ■

Spotlight on New Amsterdam Partners

Michelle Clayman, CFA, founded New York-based New Amsterdam Partners, LLC in 1986. The 100% employee-owned firm currently has \$6.4 billion in assets under management, and invests only in U.S. domestic equities.

Clayman is a strong believer in community involvement. The company served as a mentoring site for the East Harlem Tutorial Program in 2005, and half of the firm's employees volunteered to serve as mentors for the teens. Clayman herself designed a course on entrepreneurship for the program. She also serves as Treasurer on the Board of the Children of Bellevue, a charity providing services to children at New York's Bellevue Hospital, and was a Girl Scout Leader for 17 years.

Ms. Clayman received a BA/MA from Oxford University and an MBA from Stanford University. Prior to founding New Amsterdam, she was a Vice President at Salomon Brothers.

Important Information on Investment Risk

Investment in mutual funds involves risk, including possible loss of principal invested. Investing in mid-cap stocks involves a higher degree of risk than investing in large-cap stocks due to the volatility of the investments. You could also lose money on your investment in the Fund, or the Fund could underperform for any of the following reasons: a) the stock market goes down, b) the individual stocks in the Fund do not perform as well as expected, and/or c) the Funds' portfolio management practices might not work to achieve their desired results.

3. Performance through April 30, 2006. As of April 30, 2006, Wesco International represented 4.1% of the Calvert Capital Accumulation Fund.

4. Performance through April 30, 2006. As of April 30, 2006, Ansys represented 1.4% of the Calvert Capital Accumulation Fund.

For more information on any Calvert fund, please contact your financial advisor or call Calvert at 800.368.2748 for a free prospectus. 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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