

Investment News

The Weekly Newspaper for Financial Advisers

October 4, 2004

Calvert launches two socially conscious value funds

Orientation is unusual in a realm where growth usually rules

By David Hoffman

NEW YORK — The Calvert Group Ltd. in Bethesda, Md., which offers mutual funds that practice socially conscious investing, launched two funds with a value orientation Friday.

The Calvert Small Cap Value and Calvert Mid Cap Value funds are managed by Eric McKissack, co-founder and chief investment officer of Channing Capital Management LLC in Chicago.

Fund experts said the funds are unusual because there aren't many socially conscious funds that have a value orientation.

Before Calvert introduced the new funds, a list of 113 socially conscious funds, including individual share classes, contained just 10 with an explicit value orientation.

Peter Kinder, president of Boston-based KLD Research and Analytics Inc., said most socially conscious funds have a growth bias because growth companies are newer than value companies and are therefore less likely to have histories that trouble socially conscious investors.

For example, an older industrial company in the value camp may have a spotty environmental record, while it is unlikely that a newer high-tech company would have such a record.

Such issues create a problem for socially conscious fund managers trying to pick value stocks.

However, the problem can be addressed, Mr. McKissack said.

Intrinsic-value strategies

Both of Calvert's small-cap and mid-cap funds will be managed using an intrinsic-value investment strategy that emphasizes a company's low market price relative to its fair market value.

Such an approach makes it possible for the funds to invest in stocks that other value managers — particularly deep-value managers — would stay away from, Mr. McKissack said.

"We can look at companies that are not simply the big, ugly industrial companies," he said.

The intrinsic-value strategy, however, has been criticized in the past.

In the late 1990s and in 2000, when growth was going gangbusters, some value managers adopted similar strategies in an attempt to boost returns.

Critics said that because such strategies were pegged to determining what the fair market value of a security was — and the stock market was so heavily overvalued — they allowed some value managers to invest in very growth-oriented stocks.



It was a tactic that hurt the funds when the markets headed south.

Mr. McKissack said he realized that this was a potential problem, which is why the intrinsic-value strategy he follows has some safeguards.

For example, in determining fair market value, he looks beyond numbers.

"Just as important is looking at the actual business model itself," Mr. McKissack said.

If his strategy works, those in the socially conscious investment industry said, the new Calvert funds should help fill a void in that style of investing.

"There is certainly a need for

these types of funds,” said Steve Schueth, president of Colorado Springs, Colo., asset manager First Affirmative Financial Network LLC.

One of the better-known socially conscious fund companies that already offers value funds is Citizens Advisers Inc. in Portsmouth, N.H. It has been offering the Citizens Value Fund since September 2001 and launched the Citizens Small Cap Value fund in April.

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Steve Schueth

President

First Affirmative Financial Network

MMA Praxis Mutual Funds of Goshen, Ind., a division of Mennonite Mutual Aid, offers the MMA Praxis Value Index Fund, which parallels the performance of the Standard & Poor's 500 stock index/Barra Value Index while incorporating socially conscious investing criteria.

Eric McKissack: *He will use an intrinsic-value investment strategy.*

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