Strategic Total Return Fund (CSQ) Commentary

CALAMOS®

FUND

- CSQ is a total return offering that seeks to provide an attractive monthly distribution, as well as equity market participation.
- Invests in equities and higher yielding convertible securities and corporate bonds, issued primarily by U.S. companies.

Market Price	$11.12
NAV	$12.39
Current Annualized Distribution Rate[1]	7.55%

ASSET ALLOCATION*

Common Stock	52.9%
Convertible Bonds	18.0
Corporate Bonds	17.2
Convertible Preferred Stock	6.1
Synthetic Convertibles	5.0
Warrants	0.1
US Government Securities	0.1
Cash and Receivables/Payables	0.6

The portfolio is actively managed. Holdings and weightings are subject to change at any time without notice. Asset Allocation Weightings are calculated as a percentage of Managed Assets. The tables exclude cash or cash equivalents, any government / sovereign bonds or broad based index hedging securities the portfolio may hold.

[1] Current Annualized Distribution Rate is the Fund's most recent distribution, expressed as an annualized percentage of the Fund's current market price per share. **The Fund's most recent distribution was $0.0700 per share. Based on our current estimates, we anticipate that approximately $0.0357 is paid from ordinary income and $0.0343 of the distribution represents a return of capital.** Estimates are calculated on a tax basis rather than on a generally accepted accounting principles (GAAP) basis, but should not be used for tax reporting purposes. Distributions are subject to re-characterization for tax purposes after the end of the fiscal year. This information is not legal or tax advice. Consult a professional regarding your specific legal or tax matters. Under the Fund's level rate distribution policy, distributions paid to common shareholders may include net investment income, net realized short-term capital gains and return of capital. When the net investment income and net realized short-term capital gains are not sufficient, a portion of the level rate distribution will be a return of capital. In addition, a limited number of distributions per calendar year may include net realized long-term capital gains. Distribution rate may vary.

There is no assurance that the Fund will achieve or maintain its investment objective.

Overview

The Federal Reserve began tapering its quantitative easing program by $10 billion per month during the quarter, and Congress agreed to raise the government's debt ceiling until March 2015, thereby allaying fears of another shutdown of government services. New Fed Chair Janet Yellen, during her first testimony before Congress, suggested that the schedule for QE tapering would remain the same and that interest rates would likely remain low. The Fed did alter its forward guidance, dropping its 6.5% unemployment target, and focusing instead on a broader range of measures upon which to base its actions.

In spite of many investors' expectations, the 10-year Treasury broke back below the 3 percent level, closing at 2.73% for the quarter. Rates at the lower end of the Treasury yield curve also decreased, with the 6-month yield finishing at 0.07% (the one-year remained unchanged 0.13%). The U.S. economic recovery seemed poised to continue, albeit at a more measured pace than last year. Political upheaval in Ukraine, culminating in a Russian invasion of Crimea, weighed on global markets in general. The S&P 500 Index registered a 1.81% return for the quarter. Convertible securities, as measured by the BofA ML All U.S. Convertibles Index, returned 4.33% during the quarter, also participating in the improved U.S. equity markets. High yield bonds, as measured by the Credit Suisse High Yield Index, improved by 3.07% for the quarter.

Against this backdrop, the fund returned 3.36% on a market price basis and 2.04% on an NAV basis in the first quarter.

ANNUALIZED TOTAL RETURN AS OF 3/31/14

	QUARTER	1-YEAR	3-YEAR	5-YEAR	10-YEAR	SINCE INCEPTION (03/26/04)
On Market Price	3.36%	13.37%	13.09%	23.83%	5.44%	5.46%
On NAV	2.04	21.40	11.94	21.97	7.12	7.10

Source: State Street Corporation

Returns of less than 12 months are cumulative returns. Returns for periods greater than 12 months are annualized returns. Total return measures net investment income and capital gain or loss from portfolio investments as an annualized average. In calculating net investment income, all applicable fees and expenses are deducted from the returns.

Performance data quoted represents past performance, which is no guarantee of future results. Current performance may be lower or higher than the performance quoted. Portfolios are managed according to their respective strategies which may differ significantly in terms of security holdings, industry weightings, and asset allocation from those of the benchmark(s). Portfolio performance, characteristics and volatility may differ from the benchmark(s) shown.

You can purchase or sell common shares daily. Like any other stock, market price will fluctuate with the market. Upon sale, your shares may have a market price that is above or below net asset value and may be worth more or less than your original investment. Shares of closed-end funds frequently trade at a market price that is below their net asset value.

Please refer to back page for important notes.

Calamos Strategic Total Return Fund (CSQ) Commentary

The fund maintained a monthly distribution of $0.070 per share throughout the quarter. The fund's current annualized distribution rate was 7.55% of market price as of March 31, 2014. In addition, on March 31, 2014 the fund announced a 17.9% increase in its monthly distribution rate to $0.0825 per share payable for the April dividend. We believe that the fund's monthly distributions are very competitive, given that low interest rates and yields remain the norm throughout much of the global marketplace. For example, the 10-year U.S. Treasury bond yield was 2.73% as of March 31, 2014.*

Performance

The fund was able to offer current monthly income in excess of general equity and fixed income market indices thanks in part to its multi-asset class approach. While bonds and convertibles may not participate completely in an upside equity market, they do provide a risk-managed approach that potentially offers desirable income, as well as support to the price of the fund in the secondary market.

During the quarter, selection within the energy sector was supportive to returns, particularly in the integrated oil-and-gas industry. The fund's overweight to and selection within industrials also booted performance, with specific contributions coming from the construction machinery and heavy trucks industry. In addition, selection in consumer discretionary was helpful as well.

An underweight position to and selection within the health care space detracted from performance, specifically in the health care equipment industry. An underweight position to and selection within utilities also held back performance, as holdings in the electric utilities industry underperformed. Fund positioning in both financials and information technology also weighed on returns for the quarter.

As noted, in pursuit of income-oriented total return the fund employs a dynamic approach to asset allocation. During the period, high yield corporate bonds underperformed equities. Over full market cycles, we believe that our multi-asset class approach provides advantages in providing both competitive distributions and total return.

Positioning

We continue to favor businesses with compelling growth opportunities and global revenue drivers. We also believe an enhanced focus on risk management and valuation-sensitivity is crucial. We remain cautiously optimistic on the U.S. equity market and are encouraged by indications of a continued slow recovery.

In terms of positioning changes during the quarter, we increased the fund's allocation to U.S. equities and convertibles, consistent with our overall position on the U.S. stock market. Accordingly, we continued to take a slight reduction in bonds. We are also excited about the opportunities in the convertible markets in light of the current market environment, and increased the fund's exposure in that asset class. As of March 31, 2014, convertibles and common stocks comprised approximately 82% of the fund's holdings. This exposure to the equity markets served to improve returns relative to the fixed income market, and was additive to NAV.

The portfolio is currently positioned with large absolute allocations to energy, consumer discretionary, information technology, financials and industrials. We expect the fund's positioning in pro-cyclical sectors such as technology to benefit as more companies seek solutions to enhance and improve productivity and business performance. In addition, much of the fund's positioning reflects our belief in companies poised to benefit from long-term secular themes such as increased robust consumer demand for products and services

* Source: U.S. Treasury

Calamos Strategic Total Return Fund (CSQ) Commentary

and demands for energy. In relation to the S&P 500 Index, the fund is significantly underweight consumer staples.

Leverage

We believe that this is an environment that is conducive to the prudent use of leverage as a means of enhancing total return and supporting the fund's distribution rate. Over the quarter, the fund's use of leverage enhanced returns, taking advantage of low borrowing costs. We were able to borrow at rates we believe were attractive, and invested the proceeds to achieve a greater return than the cost of leverage. We believe our enhanced leverage facilities through employing BNP Bank and State Street Bank have been beneficial to the fund. We believe this enhancement will continue to provide diversity and increased capacity to our borrowing capabilities, while presenting the opportunity to reduce interest-related costs. As of March 31, 2014, the fund's total percentage of assets leveraged was 26.73%

We have also embarked on risk management strategies with respect to using interest rate swaps in order to protect the fund from sudden rises in interest rates.

Conclusion

Entering the second quarter, our global outlook remains cautiously optimistic and our view of the global equity markets remains bullish. Taper talk and the prospect of tighter monetary policy by late 2015 indicate the economy is growing steadily. In the U.S., economic growth is likely to accelerate in the second quarter as weather reverts to normal, which we believe will help retail, housing, autos, and other key sectors.

U.S. equity valuations are compelling by historical standards. Equity earnings yields continue to compare favorably to inflation and long-term Treasury yields. We also believe the shift out of long-duration equities should reverse as the market recognizes that economic growth, while improving, remains constrained, and thus, the Fed's timeline for increasing short-term rates is not a foregone conclusion. We are likely to see a return of "bad news is good news," where weak economic data reduces the odds of tighter monetary policy and allows companies with strong secular growth to be revalued higher.

While we are bullish on equities, we do expect continued volatility. This volatility, combined with the likelihood of moderately higher rates, provides a favorable backdrop for convertible securities—both for investors who are concerned about the risks of bonds and those who are apprehensive about fluctuating equity markets. With a blend of equity and fixed income characteristics, convertibles have historically demonstrated less interest-rate sensitivity versus traditional investment-grade bonds. We believe that convertibles today can provide strong equity upside participation with potential downside protection should equities decline.

The environment of continued low rates and moderate growth also continues to be very supportive of high yield. While return expectations remain tempered over the next year, we remain constructive on the asset class relative to other fixed income alternatives.

Calamos Strategic Total Return Fund (CSQ) Commentary

Important Fund Information

The goal of the level-rate distribution policy is to provide investors a predictable, though not assured, level of cash flow. Monthly distributions paid may include net investment income, net realized short-term capital gains and, if necessary, return of capital. Maintenance of this policy may increase transaction and tax costs associated with the fund.

A credit rating is a relative and subjective measure of a bond issuer's credit risk, including the possibility of default. Credit ratings are assigned to companies by third-party groups, such as Standard & Poor's. Assets with the highest ratings are referred to as "investment grade" while those in the lower tiers are referred to as "noninvestment grade" or "high yield." Ratings are measured using a scale that typically ranges from AAA (highest) to D (lowest).

Leverage creates risks which may adversely affect return, including the likelihood of greater volatility of net asset value and market price of common shares; and fluctuations in the variable rates of the leverage financing. The ratio is the percent of total managed assets.

The fund may invest up to 35% of its assets in foreign securities and invest in an array of security types and market-cap sizes, each of which has a unique risk profile. As a result of political or economic instability in foreign countries, there can be special risks associated with investing in foreign securities. These include fluctuations in currency exchange rates, increased price volatility, and difficulty obtaining information.

There are certain risks associated with an investment in a convertible bond such as default risk—that the company issuing a convertible security may be unable to repay principal and interest—and interest rate risk—that the convertible may decrease in value if interest rates increase.

Investments by the fund in lower-rated securities involve substantial risk of loss and present greater risks than investments in higher-rated securities, including less liquidity and increased price sensitivity to changing interest rates and to a deteriorating economic environment.

Fixed income securities are subject to interest rate risk; as interest rates go up, the value of debt securities in the fund's portfolio generally will decline.

Owning a bond fund is not the same as directly owning fixed income securities. If the market moves, losses will occur instantaneously, and there will be no ability to hold a bond to maturity.

The fund may invest in derivative securities, including options. The use of derivatives presents risks different from, and possibly greater than, the risks associated with investing directly in traditional securities. There is no assurance that any derivative strategy used by the fund will succeed. One of the risks associated with purchasing an option is that the fund pays a premium whether or not the option is exercised.

The fund may seek to purchase index put options to help reduce downside exposure however, the effectiveness of the fund's index option-based risk management strategy may be reduced if the fund's equity portfolio does not correlate to the performance of the underlying option positions. The fund also risks losing all or part of the cash paid for purchasing index options. Unusual market conditions or lack of a ready market of any particular option at a specific time may reduce the effectiveness of the fund's option strategies, and for these and other reasons the fund's option strategies may not reduce the fund's volatility to the extent desired. From time to time, the fund may reduce its holdings of put options, resulting in an increased exposure to a market decline.

Parties entering an interest rate swap take on exposure to a given interest rate; the exposure can be long or short depending on whether a counterparty is paying or receiving the fixed rate. At the same time, each party takes on the risk - known as counterparty credit risk - that the other party will default at some time during the life of the contract.

The **Credit Suisse High Yield Index** is an unmanaged index of high yield debt securities. The **S&P 500 Index** is generally considered representative of the U.S. stock market. The **BofA ML All U.S. Convertibles Index (VXA0)** is comprised of approximately 700 issues of only convertible bonds and preferreds of all qualities. Unmanaged index returns assume reinvestment of any and all distributions and, unlike fund returns, do not reflect fees, expenses or sales charges. Investors cannot invest directly in an index.

The information contained herein is based on internal research derived from various sources and does not purport to be statements of all material facts relating to the sectors, securities and markets mentioned. The information contained herein, while not guaranteed as to the accuracy or completeness, has been obtained from sources we believe to be reliable. Opinions expressed herein are as of the date of publication and are subject to change without notice due to various factors and may not necessarily come to pass. Information contained herein is for informational purposes only and should not be considered investment advice.

Terms

A Level Rate Distribution Policy is an investment company's commitment to common shareholders to provide a predictable, but not assured, level of cash flow. **Market Price** refers to the price at which shares of the fund trade in the market. **NAV or Net Asset Value** refers to the net value of all the assets held in the fund. **IPO Price** refers to the initial public offering price for shares of the fund.

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