Strategic Total Return Fund (CSQ) 2Q14 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.

Current Annualized Distribution Rate[1]	8.24%

ASSET ALLOCATION*

Common Stock	53.4%
Convertible Bonds	16.6
Corporate Bonds	16.5
Convertible Preferred Stock	7.5
Synthetic Convertibles	5.0
Warrants	0.1
US Government Securities	0.1
Other	0.0
Cash and Receivables/Payables	0.8

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 $0.0825 per share. Based on our current estimates, we anticipate that approximately $0.0347 is paid from ordinary income and $0.0478 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

After a first quarter characterized by rotational markets resulting from heightened uncertainty about the economy, investors increasingly embraced the idea of a not-too-hot, not-too-cold economic scenario during the second quarter. Market participants took the weather induced decline in first quarter U.S. economic growth in stride, choosing to focus on better news elsewhere, such as continued growth in payrolls, the sustained rebound in auto sales, strength in manufacturing, brisk merger-and- acquisition activity, and all-time highs for corporate profit margins.

Unlike the first quarter, when Federal Reserve Chair Janet Yellen roiled the markets with unexpected comments about a potential timetable for interest rate increases, the Fed's communications during the second quarter focused on the need to keep rates low for a long time. This consistent and transparent message seemed to soothe investors.

The fund's monthly distribution remained at $0.0825 through the quarter, creating an annualized distribution rate of 8.24% versus the market price as of June 30, 2014. We believe that the fund's monthly distributions are very competitive, given that the very 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 2.53% and the S&P 500 yield was just 1.91% at the end of the quarter.

As do all five Calamos closed-end funds, this fund has a level distribution policy. Our policy is to pay a distribution relative of the fund's past results and projected earnings potential through income as well as capital gains. We focus on delivering an attractive monthly distribution, while maintaining a long-term focus on risk management.

ANNUALIZED TOTAL RETURN AS OF 6/30/14

	QUARTER	1-YEAR	3-YEAR	5-YEAR	10-YEAR	SINCE INCEPTION (03/26/04)
On Market Price	10.34%	28.32%	16.87%	18.49%	7.81%	6.34%
On NAV	5.79	29.31	14.36	18.48	7.79	7.51

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.

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Performance Review

The fund continued to offer current monthly income well in excess of general equity and fixed income market indices. As the use of bonds and convertibles may not participate completely in an upside equity market, they do provide a risk managed approach that offers income that is desirable and offers support to the price of the fund in the secondary market.

Selection in and an underweight relative to the S&P 500 Index in the consumer staples sector was supportive to returns, specifically within the food retail area. An overweight in energy with respect to the integrated oil and gas areas also enhanced performance.

Security selection and an underweight toward the information technology sector detracted from performance, specifically related to the semiconductor industry. Selection in and an overweight toward consumer discretionary held back performance, specifically holdings in casinos and gaming.

Positioning

We favor businesses with compelling growth opportunities and global revenue drivers, and we believe an enhanced focus on risk management and valuation-sensitivity is beneficial. We expect reflation exposure to provide investment opportunities, given continued accommodative stances from the Federal Reserve and global central banks. We are cognizant that rising interest rates can have a detrimental effect on longer term fixed income securities, which makes managing duration a priority. We remain cautiously optimistic on the U.S. equity market and are encouraged by indications of a continued recovery.

The fund is positioned with the largest weightings toward the energy, consumer discretionary, information technology, financials and industrial sectors. We believe our holdings in energy and consumer discretionary may benefit from secular themes, including robust consumer demand for products and services and demands for energy. We think the financials sector will benefit in periods of rising interest rates.

In an effort to achieve greater exposure to the equity market, the fund has reduced its holdings in corporate bonds and increased its holdings in convertibles and equities. About 83% of the fund was invested in stock or convertibles at the end of the quarter, offering significant exposure to general improvements in the equity market.

Leverage

We believe the environment is conducive to the prudent use of leverage as a way to enhance total return and support distributions. Leverage, which was 27% of total assets at the end of the quarter, enhanced returns in the second quarter. We were able to borrow at rates we believe were attractive, and we 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 also continue to use interest rate swaps to protect from sudden rises in interest rates.

Conclusion

As we look to the second half of the year, we see continued upside for equities and convertibles, particularly those of growth companies. Although the bull market is in its fifth year, we believe equity valuations are still attractive. While our long-term optimistic outlook remains intact, low market volatility and high investor confidence suggest that the market has become complacent, which could contribute to short-term volatility and market rotation when something unexpected does occur. However, we remain confident that equities have more room to run.

* Source: U.S. Treasury

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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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