

Strategic Total Return Fund (CSQ) 3Q18 Commentary

CALAMOS[®] INVESTMENTS

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 Rate¹ 7.37%

ASSET ALLOCATION	%
Common Stock	61.8
Corporate Bonds	15.1
Convertibles	14.7
Cash and Receivables/Payables	3.7
Other	2.3
Bank Loans	1.3
Preferred Stock	0.4
Synthetic Convertibles	0.2
US Government Securities	0.2
Warrants	0.1
Options	0.0

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.

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 \$0.0825 is paid from ordinary income or capital gains and \$0.0000 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 managed distribution policy, distributions paid to common shareholders may include net investment income, net realized short-term capital gains, net realized long-term capital gains and return of capital. When the net investment income and net realized 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 U.S. equity market rolled on with another quarterly gain, notching a 7.71% return as measured by the S&P 500 Index. The increase marked the best quarterly return in nearly five years (since 4Q 2013). For the full quarter, the S&P 500 Index never closed with a daily gain or loss of 1% or greater—an amazing feat considering the politically charged news cycle, worries around trade disputes, and seemingly perpetual angst regarding narrow yield curves. The Fed raised rates 16 days before the start of the quarter and again near the tail end of the quarter (September 27). A robust U.S. economy and strong business activity drove the markets, in our view. During the quarter, it was reported that U.S. GDP increased at an annual rate of 4.2% for 2Q18, while S&P 500 businesses announced earnings growth of 25% and sales increase of 11%. While the tax bill has been beneficial for corporate America, it is estimated that pre-tax profits grew 13% year-over-year for the quarter—so even without the tax legislation, U.S. businesses benefited from a stronger economy.

Within the S&P 500 Index for the quarter, all 11 GICS sectors posted positive performance, with health care (+14.5%), industrials (+10.0%), communication services (+9.9%), information technology (+8.8%), and consumer discretionary (+8.2%) leading the index. Consumer staples (+5.7%), financials (+4.4%), utilities (+2.4%), real estate (+0.9%), energy (+0.6%) and materials (+0.4%) lagged the overall market.

The U.S. Convertible market, as measured by the ICE BofAML All U.S. Convertibles Index (VXA0), returned 3.93% in the year's third quarter. In the context of the 7.71% gain by the S&P 500 Index, convertibles participated in the strong equity market performance and outpaced high yield bonds, as measured by the 2.44% return of the ICE BofAML U.S. High Yield Master II Index.

ANNUALIZED TOTAL RETURN AS OF 9/30/18

	QTD	1-YEAR	3-YEAR	5-YEAR	10-YEAR	SHARE INCEPTION (03/26/04)
On Market Value	8.07%	19.88%	23.69%	15.80%	14.13%	8.03%
On NAV	6.99	15.25	17.37	12.86	11.68	8.35

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. All returns are in USD terms unless otherwise indicated.

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In terms of performance across economic sectors, convertibles with the strongest third-quarter results included those in telecommunications (+13.3%), healthcare (+9.2%), and materials (+8.1%). Convertibles most lagging the 3.9% index result were found in transportation (-3.5%), consumer discretionary (-3.3%), and energy (+1.8%). Investment-grade-rated convertibles (2.5%) significantly outperformed speculative-grade (+0.9%), while issues exhibiting more balanced risk/reward attributes (+3.9%) lagged the most equity-sensitive market segment (+6.7%) but outperformed those with the most credit sensitivity (+1.2%).

U.S. convertible market issuance remained strong, with \$11.6 billion of new convertibles coming to market in the third quarter. This level was lower than the first two quarters of the year, due to a seasonal slowdown, but was 25% higher than the third quarter of 2017. Year-to-date, \$46.3 billion of new convertibles have been issued domestically, while \$74 billion have been issued globally. High yield credit spreads traded in a moderately wide trading range of 53 basis points during the quarter. The option-adjusted spread of the index closed at 316 basis points, down from 363 basis points at the previous quarter-end and only 5 basis points higher than the cycle tights of January 2018.

The high yield market delivered a third-quarter return of 2.40%, and has gained 2.57% year to date. In a continuation of a year-long trend, the CCC allocation of the index slightly outperformed both BB and B rated credits, though the performance gap narrowed significantly in the third quarter. The move lower in spreads was partially offset by higher Treasury yields, but the yield to worst for the market still fell from 6.49% to 6.24%.

The high yield market has been experiencing a period of strong technicals, as the size of the market has been steadily shrinking through 2018. As issuers turned to the leveraged loan market for debt funding, year-to-date gross issuance of \$168.3 billion was down 34% from the same period last year. The month of September saw gross issuance of only \$18.2 billion, the lowest monthly amount in seven years.

Distributions Remained Competitive

The fund maintained a monthly distribution of \$0.0825 throughout the quarter. The fund's current annualized distribution rate was 7.37% on market price as of September 30, 2018. We believe that the fund's monthly distributions are highly competitive, given that 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 3.05%, the S&P 500 yield was 1.81% and the ICE BofAML U.S. High Yield Master II Index yield was 6.23% as of September 30, 2018.

Performance Review

For the quarter ending September 30, 2018, the fund returned 8.07% on market price and 6.99% on NAV, bookending the S&P 500 Index return of 7.71% for the same period.

Contributing Factors. The fund's allocation in real estate, notably selection in specialized REITs, proved beneficial to return. In addition, our selection and allocation in utilities, specifically our selection in multi-utilities, was helpful to performance relative to the index.

Detracting Factors. Our selection in information technology, particularly in semiconductors was a drag on return. In addition, our selection in the consumer discretionary sector, mainly our overweight in automobile manufacturers, underperformed relative to the index.

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Positioning

We continue to hold our highest allocation (47%) in the BB/B credit tier, as we believe this exposure will offer investors a better risk/return dynamic over time while continuing to provide regular income. We also hold a large percentage of unrated securities (approximately 27%). These offer good valuations and provide access to a large portion of the convertible bond universe where we may optimize returns through our proprietary research capabilities. We have taken a very selective approach to CCC rated credits, as they represent less than 6% of our holdings. We also take a cautious stance with longer-term fixed income securities, as we are cognizant of the fact that rising interest rates and volatility can have a more pronounced effect on them. From an economic sector perspective, our heaviest exposures went toward the information technology, consumer discretionary and financials sectors, which collectively represent 47% of our holdings. Our lightest weights were in utilities, materials and real estate. And approximately 89% of our holdings are in the U.S.

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, in spite of a cost increase due to rising short-term interest rates, our use of leverage enjoyed a favorable reinvestment dynamic. We were able to borrow at rates we believe attractive, and invested the proceeds at levels in

excess of the cost of leverage. We believe our recent leverage reallocation between our facilities has been and will continue to be beneficial to the fund, as a significant portion of our borrowing is at a fixed rate that is not susceptible to rising interest rates. We believe this enhancement will continue to provide diversity and increased capacity to our borrowing capabilities, while presenting the opportunity to take advantage of market dynamics. As of September 30, 2018, our total percent of assets leveraged was approximately 32%.

Conclusion

We are obviously pleased with the U.S. equity market's resiliency in light of global economic concerns, a never-ending political news cycle, and the growing overhang of worry regarding U.S.-China trade relations. The Fed has raised short-term rates twice now within the last four months, so the fiscal backdrop has tightened, and Chairman Powell appears more hawkish than his predecessors. In our view, the risk of a recession may be slightly higher than we believed it be at the beginning of the year, but remains at a low level, which should translate to further upside for the U.S. equity market. Earnings growth for U.S. companies still looks compelling, and the benefits of tax adjustments has given U.S. businesses more confidence and helped the U.S. consumer as well. Lower-volatility pricing still allows for opportunity to actively access industries and sectors. And should volatility rise, it could be to the benefit of our convertible holdings.

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Important Fund Information

The goal of the managed 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, net realized long-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 for 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 Bloomberg Barclays U.S. Aggregate Bond Index is a broad-based benchmark that measures the investment-grade, U.S. dollar-denominated, fixed-rate taxable bond market of SEC-registered securities. The index includes bonds from the Treasury, Government-Related, Corporate, MBS (agency fixed-rate and hybrid ARM pass-throughs), ABS, and CMBS sectors. The CBOE Volatility Index or VIX (based on its CBOE ticker symbol) shows the market's expectation of 30-day volatility. It is constructed using the implied volatilities of a wide range of S&P 500 Index options. The S&P 500 Index is generally considered representative of the U.S. stock market. The Russell 3000 Growth Index measures the performance of those Russell 3000 Index companies with higher price-to-book ratios and higher forecasted growth values. The Russell 3000 Value Index measures the performance of those companies in the Russell 3000 Index with lower price-to-book ratios and lower forecasted growth values. The ICE BofAML All U.S. Convertibles Index (VXA0) is comprised of approximately 700 issues of only convertible bonds and preferreds of all qualities. The BofA Merrill Lynch High Yield Master II Index consists of below investment grade U.S. dollar denominated corporate bonds that are publicly issued in the U.S. domestic and yankee bonds. Issues included in the index have maturities of one year or more and have a credit rating lower than BBB-/Baa3, but are not in default. The index includes domestic high-yield

bonds, including deferred interest bonds and payment-in-kind securities. Source ICE Data Indices, LLC, used with permission. ICE permits use of the ICE BofAML indices and related data on an 'as is' basis, makes no warranties regarding same, does not guarantee the suitability, quality, accuracy, timeliness, and/or completeness of the ICE BofAML Indices or data included in, related to, or derived therefrom, assumes no liability in connection with the use of the foregoing and does not sponsor, endorse or recommend Calamos Advisors LLC or any of its products or services. 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.

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Terms

A Managed 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.

CALAMOS
INVESTMENTS

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