

Strategic Total Return Fund (CSQ) 2Q19 Commentary

CALAMOS[®] INVESTMENTS

FUND

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

Current Annualized Distribution Rate¹ 7.76%

ASSET ALLOCATION

	%
Common Stock	61.2
Convertibles	16.6
Corporate Bonds	15.2
Cash and Receivables/Payables	2.4
Bank Loans	1.9
Other	1.6
Preferred Stock	0.5
US Government Securities	0.2
Synthetic Convertibles	0.2
Warrants	0.1
Options	0.1

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 \$0.0184 is paid from ordinary income or capital gains and \$0.0641 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 delivered another quarter of strong returns, albeit with considerable volatility. For the period, , the S&P 500 Index gained 4.30%, adding to its best first half of any year (+18.5%) since 1997. While pundits love to talk about "bests" and "worsts," it's important to remember that this performance is coming off the heels of the worst December (-9.0%) and calendar year (-4.4%) since the Financial Crisis. During the quarter, market worries included concerns over domestic and global economic growth, global trade and tariffs, and an unnerving inversion of the U.S. yield curve. Even with this backdrop, the U.S. equity market rallied in response to a more accommodative Fed policy outlook, lower bond yields, and a seemingly positive, if not conclusive, meeting between the U.S. and China at the G20 Summit.

Growth stocks edged out their value counterparts, as the S&P 500 Growth Index gained 4.56% versus a 4.02% increase for the S&P 500 Value Index. While the growth style was more in favor, low volatility was the top-performing factor, according to S&P Dow Jones. The S&P 500 Index was led by a resurgent financials sector, which delivered an 8.0% quarterly return. Materials (+6.3), information technology (+6.1%), consumer discretionary (+5.3%) and communication services (+4.5%) also outperformed the broad market. Health care (+1.4%), real estate (+2.5%), utilities (+3.5%), industrials (+3.6%) and consumer staples (+3.7%) likewise delivered positive results, though they lagged the overall market. Conversely, energy was the lone sector to land in negative territory for the quarter, posting a -2.8% decrease.

Convertibles, as measured by the ICE BofAML All U.S. Convertible Index (VXA0), returned 3.85% during the quarter. Overall, convertibles performed well during bouts of volatility, participating in nearly 90% of the market's upside. On a credit quality and equity sensitivity basis, investment-grade convertibles (+4.20%) outperformed speculative issues (+3.04%), while

ANNUALIZED TOTAL RETURN AS OF 6/30/19

	QTD	1-YEAR	3-YEAR	5-YEAR	10-YEAR	SHARE INCEPTION (03/26/04)
On Market Value	5.00%	9.11%	18.48%	10.51%	14.43%	7.69%
On NAV	4.87	9.87	14.84	9.37	13.84	8.12

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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convertibles with the most equity sensitivity (+5.05%) edged out those offering balanced risk/reward attributes (+4.71%) and the most credit-sensitive segment (+2.26%).

Convertible issuance numbers are slightly behind last year's pace, but point to a solid follow-through when considering the market volatility of the past few quarters. In the second quarter, \$11.8 billion in domestic new issuance, and \$18 billion globally came to market, bringing the year-to-date totals in the U.S. and globally to \$22.4 and \$40 billion, respectively.

The market remained well distributed, as convertibles offering balanced risk/reward profiles represented 35% of the overall market, compared to 34% in the credit sensitive segment, and 31% in equity-sensitive issues.

Increased international tensions exacerbated by the trade war between the U.S. and China have interrupted supply chains and led to indications of manufacturing activity slowing around the globe. However, risk assets valuations seem to have continued market support, as domestic stock markets approached all-time highs and credit spreads have been well behaved.

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After tightening by more than 100 basis points in the first quarter on an option-adjusted basis, high yield spreads traded in a 100 basis point range during the second quarter to close at 377 basis points, slightly tighter than the previous quarter. BB rated credits led the way higher for the quarter, returning 3.1, followed closely by B rated credits returning 2.7%, and CCCs trailing at 0.3%.

The best-performing sectors in the Bloomberg Barclays U.S. Corporate High Yield 2% Issuer Capped Index were banks (+4.6%), finance companies (+4.1%) and transportation (+3.8%), while energy (-0.9%), basic industry (+1.7%) and technology (+2.0%) represented the largest laggards. According to JPMorgan, the U.S. high yield default rate ended June at 1.46%, a decline of greater than 50 basis points year-over-year, and well below the 3% long-term average.

Distributions Remained Competitive

The fund maintained a monthly distribution of \$0.0825 throughout the quarter. The fund's current annualized distribution rate was 7.76% on market price as of June 30, 2019. 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 despite recent Fed moves. For example, the 10-year U.S. Treasury bond yield was 2.00%, the S&P 500 yield was 2.04% and the ICE BofAML U.S. High Yield Master II Index yield was 5.90% as of June 30, 2019.

Performance Review

For the quarter ending June 30, 2019, the fund returned 5.00% on market price and 4.87% on NAV. The S&P 500 Index returned 4.30% for the same period.

Contributing Factors. The fund's selection in the industrials sector, notably in industrial conglomerates, proved beneficial to return. In addition, our selection in the communication services sector, specifically in interactive home entertainment, was also helpful to performance relative to the index.

Detracting Factors. Our selection in the financials sector, particularly in the financial exchanges and data industry, was a drag on return. In addition, our selection and underweight in the information technology sector, specifically in the systems software industry, held back results.

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Positioning

We continue to hold our highest allocation (45%) in the BB/B credit tier, as we believe this exposure will offer investors a better risk/reward dynamic over time while continuing to provide regular income. We also hold a large percentage of unrated securities (approximately 31%), which offer good valuations and provide access to a large portion of the convertible bond universe in which we may optimize returns through our proprietary research capabilities. We have taken a selective approach to CCC credits, as they represent less than 5% of our holdings. From an economic sector perspective, our heaviest exposures went toward the information technology, health care and financials sectors, which collectively represent 44% of our holdings. Our lightest weights were in utilities, materials and real estate. Approximately 90% of our holdings were in the U.S.

Leverage

We believe that this environment is conducive to the prudent use of leverage as a means of enhancing total return and supporting the fund's distribution rate. We believe that our use of leverage will prove beneficial to our shareholders. As of June 30, 2019, our total percent of assets leveraged was approximately 31%.

Conclusion

Overall, we continue to believe the U.S. economy is in good standing. Framing our conviction is a strong U.S. consumer enjoying record employment, gains in personal income and modestly growing personal consumption. Stepping back, we do not foresee an imminent recession in the U.S., but acknowledge that global growth is slowing meaningfully. Investor nerves are a bit frayed, as evidenced by the dramatic moves to and from equity markets in the last nine months. In the S&P 500 Index, we witnessed a nearly perfect V-shaped equity market in Q4 2018 (-13.52%) through Q1 2019

(+13.65%), and again in May 2019 when a -6.35% decline was followed by a 7.05% rise in June. Investor angst and the aforementioned market movement may be partially attributable to the Fed's attempt to thread the needle by managing interest rates, market expectations, employment and price stability. Moving forward, we believe equity opportunities may be more tactical versus structural, which will require adept and active management of the portfolio's holdings and risk positioning. We will continue to focus on higher-quality businesses more closely tied to the U.S. consumer and believe that companies offering growth in a low-growth environment will be most favored by the market. Once again, we contend that markets subject to sudden changes in sentiment may prove to be the best environment for this strategy, which seeks to reduce equity market risk while striving for equity-like returns over a full market cycle

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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 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 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 Bloomberg Barclays U.S. High Yield 2% Issuer Capped Index measures the performance of high yield corporate bonds with a maximum allocation of 2% to any one issuer. 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 S&P 1500 Growth Index consists of the growth segment of the securities found in the S&P 1500 Index. The S&P 1500 combines the S&P 500, S&P MidCap 400 and the S&P SmallCap 600. The S&P 1500 Value Index consists of the value segment of the securities found in the S&P 1500 Index. The S&P 1500 combines the S&P 500, S&P MidCap 400 and the S&P SmallCap 600. 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 The S&P/LSTA U.S. Leveraged Loan Index is designed to reflect the performance of the leveraged loan market. 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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