

Strategic Total Return Fund (CSQ) 2Q17 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 8.43%

ASSET ALLOCATION

Common Stock	62.4%
Corporate Bonds	13.2
Convertible Bonds	12.5
Convertible Preferred Stock	5.5
Synthetic Convertibles	0.5
Other	0.3
U.S. Government Securities	0.3
Preferred Stock	0.2
Options	0.1
Warrants	0.1
Cash and Receivables/Payables	4.9

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 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 U.S. equity market delivered its best first half of the year performance since 2013 with the S&P 500 Index's second quarter gain of 3.09%*, a result indicative of a trend that began in November 2016 as investors were comforted by both the removal of some uncertainty after U.S. elections, and perhaps more importantly, overall improvements in U.S. and global economic data. However, despite the appearance of a relatively benign backdrop for the markets, the period was filled with potentially jarring events. Yet in spite of these events, political wrangling and modifications to monetary and potential fiscal policy, U.S. equity market volatility—as measured by the CBOE Volatility Index (VIX)—largely traded around historically low levels, providing support for equity investors. According to the S&P 500, U.S. equities saw Q4 2016 earnings growth of approximately 4.9%—the first time the index has seen two consecutive quarters of year-over-year earnings growth in nearly two years.

Leadership broadened during Q2 2017, and a rotation back into some reflation stocks differed from the market leadership witnessed in Q1 2017. U.S. GDP growth for Q1 was revised upward for a second time during the quarter and stock markets around the world have performed well, suggesting a synchronized global growth that could continue to support the U.S. economy and U.S. markets.

Convertibles posted a 2.46% total return in the quarter, as reflected by the BofA Merrill Lynch All U.S. Convertible Index (VXA0), corroborating with the upside move of the broader equity market. The convertible market continued to benefit from narrowing credit spreads, richening convertible valuations, and the strong performance of its underlying stocks, which were up

ANNUALIZED TOTAL RETURN AS OF 6/30/17

	QTD	1-YEAR	3-YEAR	5-YEAR	10-YEAR	SHARE INCEPTION (03/26/04)
On Market Value	7.46%	30.26%	8.89%	13.57%	6.69%	6.92%
On NAV	4.02	22.38	8.12	13.14	6.20	7.65

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 unless otherwise indicated.

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7.30% during the quarter. BofA Merrill Lynch reported average convertibles trading at a 1.58% average discount to their fair theoretical value at the end of the quarter, which reflected an improvement from the 1.71% discount witnessed at the beginning of the quarter and 2.94% discount in June 2016.

The U.S. high yield bond market, as represented by the BofA Merrill Lynch High Yield Master II Index, returned 2.24% in the second quarter. High yield credit spreads narrowed 15 basis points to 441 basis points over Treasuries, according to J.P. Morgan. Option-adjusted spreads tightened by 15 basis points, ending at 377 basis points while trading in a tight range over the course of the quarter. With two-year yields closing at 1.38% (up from 1.25%), and ten-year yields closing at 2.31% (down from 2.39%), the curve flattened 22 basis points during the second quarter.

The best-performing sectors in the BofA Merrill Lynch High Yield Master II Index were banks (+4.4%), leisure (+3.7) and health care (+3.6%), while energy (-1.1%), broadcasting (+1.0%), and environmental (+1.2) represented the worst laggards. The up-in-credit trade led the way as BB-rated credits (+2.7%) outperformed their B/CCC-rated counterparts (+1.8%). According to J.P. Morgan, the U.S. high yield default rate ended June at 2.02%, which represented a 13 basis point increase from May's 1.89%, but a 2.25% reduction from the year-end 2016 rate of 4.27%.

Distributions Remained Competitive. The fund maintained a monthly distribution of \$0.0825 throughout the quarter. The fund's current annualized distribution rate was 8.43% on market price as of June 30, 2017. We believe that the fund's monthly distributions are competitive, given that very low interest rates and yields remain the norm throughout much of the global marketplace. For example, as of June 30, 2017,

the 10-year U.S. Treasury bond yield was 2.31%, the S&P 500 Index yield was 0.62% and the BofA Merrill Lynch U.S. High Yield Master II Index was 3.77%.

Performance Review

For the quarter ending June 30, 2017, the fund returned 7.47% on market price and 3.03% on NAV, compared to the S&P 500 Index that returned 3.09% for the same period.

Contributing factors. This past quarter, the fund benefitted relative to the S&P 500 Index from selection in consumer discretionary, particularly the holdings in movies and entertainment. In addition, our underweight positioning and selection in financials—specifically in diversified banks—was also beneficial to performance relative to the index.

Detracting factors. The fund underperformed relative to the S&P 500 Index in health care. Most notably, selection in health care equipment impeded result. In addition, our holdings in the information technology sector—precisely our selection in semiconductors—fell short relative to the index.

Positioning

We continue to hold our highest allocations (29%) in the "BB" credit tier, as we believe this exposure will offer investors a better risk/return dynamic over time while providing regular income. We have taken a very selective approach to CCC-rated credits. We are cognizant of the fact that rising interest rates and volatility can impact longer-term fixed income securities. Accordingly, our weighted average bond duration was only 4.7 years as of June 30, 2017. From an economic sector perspective, our heaviest exposures are in the information technology, consumer discretionary and financial sectors, which collectively make up approximately 50% of our holdings. Our lightest weights are in materials, utilities and real estate. Approximately 89% of our holdings are in the U.S.

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Leverage

We believe this environment is conducive to the prudent use of leverage as a means of enhancing total return and supporting the fund's distribution rate. In spite of a slight cost increase due to rising interest rates over the quarter, our use of leverage enjoyed a favorable spread over its cost. We borrowed at rates we trust were attractive, and invested the proceeds at levels in excess of the cost of leverage. We think our recent leverage reallocation has benefitted the fund and 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 June 30, 2017, our leveraged asset percentage was approximately 26%.

We also use interest rate swaps as a risk-management strategy to protect the fund from sudden rises in interest rates, which have benefitted us as LIBOR has increased during the quarter.

Conclusion

We are constructive overall to the equity market, but are keenly aware of market multiples relative to long-term history. After many years of sluggish earnings per share (EPS) growth, we expect 2017 and 2018 to offer improved EPS growth as margin improvements in many areas such as energy, information technology and financials can be meaningful contributors to market growth. Top line growth may prove to be a bit more difficult for outsized growth going forward. Valuations may be difficult to assess relative to history, as the mix of global monetary policy has brought global interest rate levels to abnormally low rates for a considerable length of time. As such, managing the risk/reward in a highly rotational market that has begun to witness stronger differentiation between winners and losers may be of even more importance than has been in recent history.

Utilizing a mix of common stock and equity linked instruments to tailor investments within sectors and individual companies should be an advantage for fund investors in current market conditions. While optimistic about the opportunities for economic growth, we will continue to keep an eye toward market risk and volatility, as we have through the long history of this strategy.

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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 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 BofA Merrill Lynch All U.S. Convertibles Index (VXAO) 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. 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 **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.

CALAMOS
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