

Strategic Total Return Fund (CSQ) 1Q18 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 8.37%

ASSET ALLOCATION

	%
Common Stock	60.4
Corporate Bonds	15.4
Convertibles	14.9
Cash and Receivables/Payables	4.6
Other	3.0
Bank Loans	0.9
Synthetic Convertibles	0.3
US Government Securities	0.2
Preferred Stock	0.2
Options	0.1
Warrants	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 \$0.0825 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, as measured by the S&P 500 Index, declined -0.76% for the year's first quarter, snapping a string of nine previous calendar quarters in which the benchmark posted gains. In January, the equity market appeared to be following 2017's playbook, pairing strong performance (up +5.51% in January) with low volatility for much of the month (the VIX climbed but remained low until month-end). However, February and March reversed this long-held course, as both months realized losses and a return to more "normal" levels of market volatility. A combination of negative news, including trade tariffs, presidential administration shake-ups, and data breaches rattled investors who had previously shown a remarkable and consistent resilience to similar headlines in 2017. Volatility, which was notably absent in 2017, returned to the market and a crowded short-volatility trade turned into a painful episode for those investors. The S&P 500 Index endured a 10% decline during the quarter, rebounded strongly, and then retested short-term lows toward the period's end.

Only two of the eleven GICS sectors comprising the S&P 500 benchmark posted positive performance in the quarter, with information technology (+3.53%) and consumer discretionary (+3.09%) finishing in the black. Financials (-0.95%), health care (-1.22%) and industrials (-1.56%) demonstrated market-like performance, while utilities (-3.30%), real estate (-5.02%), materials (-5.52%), energy (-5.88%), consumer staples (-7.12%) and telecom services (-7.48%) significantly lagged the overall market.

ANNUALIZED TOTAL RETURN AS OF 3/31/18

	QTD	1-YEAR	3-YEAR	5-YEAR	10-YEAR	SHARE INCEPTION (03/26/04)
On Market Value	-0.74%	15.10%	11.45%	11.60%	9.11%	7.06%
On NAV	-0.37	14.08	11.08	12.24	8.64	7.94

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.

Calamos Strategic Total Return Fund (CSQ) Commentary

Modestly negative first quarter results were also evident in the lower-risk capital markets, as higher-quality bonds struggled. The Bloomberg Barclays U.S. Aggregate Bond Index posted a -1.46% decline, underperforming the broad equity market.

The U.S. Convertible market as measured by the ICE BofAML All U.S. Convertibles Index (VXA0) returned 2.40% in the first quarter. Convertibles outpaced both equities and high yield bonds during the period. By economic sector, convertibles with the strongest first quarter results included consumer staples (+10.2%), technology (+8.3%), and telecommunications (+3.9%). Convertibles that lagged the index result were found in consumer discretionary (-4.3%), media (-3.4%) and industrials (-2.8%). Investment grade convertibles (+4.6%) significantly outperformed speculative grade rated issues (0.0%). Convertibles with the most equity sensitivity (+4.4%) outperformed convertibles with more balanced risk/reward attributes (+2.3%) and credit sensitivity (+0.9%).

Distributions Remained Competitive

The fund maintained a monthly distribution of \$0.0825 throughout the quarter. The fund's current annualized distribution rate was 8.37% on market price as of March 31, 2018. We believe that the fund's monthly distribution is 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 2.74%, the S&P 500 yield was 2.10% and the ICE BofAML U.S. High Yield Master II Index yield was 6.30% as of March 31, 2018.

Performance Review

For the quarter ending March 31, 2018, the fund returned -0.74% on market price and -0.37% on NAV. The S&P 500 Index returned -0.76% for the same period.

Contributing Factors. The fund's allocation and selection in consumer staples boosted return. In particular, our holdings in packaged foods & meats proved beneficial. In addition, our selection in real estate, specifically a lack of exposure to retail REITS, was helpful to performance relative to the index.

Detracting Factors. Within the information technology sector, our technology hardware, storage & peripherals selection was a drag on return. In addition, our overweight toward automobile manufacturers in consumer discretionary was a hindrance.

Positioning

We continue to hold our highest allocation (29%) in the BB credit tier, as we believe this exposure will offer investors a better risk/return dynamic over time while continuing to provide regular income. We have taken a selective approach to CCC-rated credits. We are also cognizant of the fact that rising interest rates and volatility can have an effect on longer-term fixed income securities. From an economic sector perspective, our heaviest exposures went toward the information technology, consumer discretion and financials sectors, which collectively represent 47% of our holdings. Our lightest weights were in utilities, materials and real estate. Approximately 89% of our holdings are in the U.S.

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. Over the quarter, in spite of a cost increase due to rising 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

Calamos Strategic Total Return Fund (CSQ) Commentary

has been and will continue to be 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 take advantage of market dynamics. As of March 31, 2018, our total percent of assets leveraged was approximately 32%.

Conclusion

Coordinated global growth should continue in 2018, but the pace of this growth may be more varied compared to 2017. There are several different forces (some with offsetting effects) that could impact growth this year, including U.S. tax reform (we have yet to see any significant top-line impact yet), ongoing trade negotiations, tighter financial conditions and a decelerating global growth environment. Consumer growth may pick up in U.S. fueled by rising wages and lower taxes, but may be offset by already low savings levels. With tighter labor markets and incentives to invest in cap expenditures, we expect U.S. companies to re-invest in their business at a higher rate than previous years. Globally, data continues to be positive, but mixed in regions such as Europe. We do expect the “hard data” of company earnings to be generally positive and supportive of higher equity markets. Equity valuations look more reasonable, particularly after EPS estimates were revised to include the lower tax-rate benefits.

Calamos Strategic Total Return Fund (CSQ) Commentary

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 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.

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 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

Calamos Financial Services LLC, Distributor
2020 Calamos Court | Naperville, IL 60563-2787
800.582.6959 | www.calamos.com | caminfo@calamos.com

© 2018 Calamos Investments LLC. All Rights Reserved.
Calamos[®] and Calamos Investments[®] are registered trademarks of Calamos Investments LLC.

CSQCOM 9726 0318Q R