ETOLIAN CAPITAL

Monthly Letter: April 2005

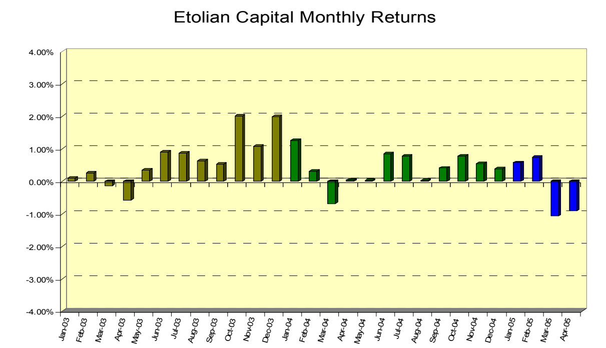
Etolian Capital Group, LP is a private investment management company, which focuses on US credit fixed income opportunities. Its objective is to generate above average, stable returns which are uncorrelated with major market indices by going long and short in cash and derivative fixed income obligations issued by primarily US investment grade rated corporations. What differentiates Etolian Capital from other similar efforts is its credit selection process which is based on an options-based quantitative methodology and relies, among other things, on information from the equity and equity option markets to assess credit. This methodology is used to identify undervalued and overvalued situations and accordingly create long and short positions in them. Interest rate risk is hedged and moderate leverage (up to 5 times) is deployed to achieve objectives. The long/short approach, combined with the use of leverage, as well as other risk management techniques, reduces the probability of a major capital loss.

Currently, Etolian Capital offers two funds; the **Etolian Capital Credit Fund, LP** (a US domestic partnership), and the **Etolian Capital Offshore Credit Fund, Ltd** (a Cayman exempted company).

	Etolian Capital*		S&P 500 Index**	CSFB Indices***	
	Credit Fund (Onshore)	Offshore Credit Fund		LUCI	CDSI
April Return	(0.91%)	(0.92%)	(2.01%)	1.54%	(0.22%)
April Volatility	0.33%	0.33%	0.68%	1.16%	0.37%
April Sharpe Ratio	(3.31)	(3.34)	(3.22)	1.18	(1.04)
YTD Return	(0.71%)	(0.71%)	(4.54%)	0.30%	0.15%
YTD Volatility	2.27%	2.27%	9.65%	2.52%	2.26%
YTD Sharpe Ratio	(0.58)	(0.58)	(0.53)	(0.12)	(0.20)

(*) Returns are net of fees (1.5% management fee and 20% incentive allocation of profits). March/ Y-T-D gross returns were for -1.98% and -0.62% respectively.
(**) S&P 500 Index returns are gross price returns
(***) The 7-10 year LUCI Corporate Bond Index is compiled by CSFB (CDSI=Credit Default Swap Index)

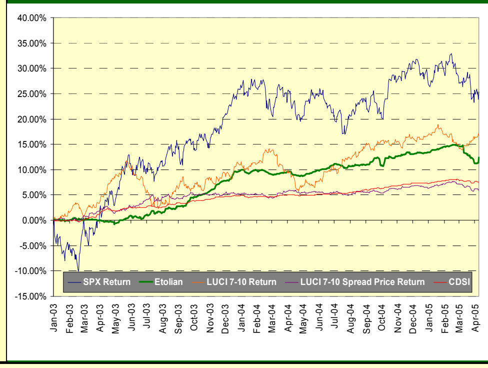
Monthly Gross Returns – April 2005



Portfolio Performance

	2003	2004	2005
January	0.10%	1.26%	0.56%
February	0.25%	0.31%	0.75%
March	(0.14%)	(0.69%)	(1.08%)
April	(0.59%)	0.04%	(0.92%)
May	0.34%	0.03%	
June	0.90%	0.85%	
July	0.87%	0.77%	
August	0.64%	0.03%	
September	0.53%	0.41%	
October	2.01%	0.77%	
November	1.08%	0.54%	
December	2.00%	0.39%	
Year to Date	8.25%	4.79%	(0.71%)
Since Inception:		12.64%	

AUM: $25 million



April Monthly

Last month's worries for higher inflation became a distant thought in April as market participants focused on slowing economic growth. As evidenced by falling consumer confidence, the combination of higher energy prices and rising interest rates appears to have created a dent in consumer spending. Talks of removing the Chinese currency peg did not help matters as it was perceived as another potential source of higher interest rates. The bearish sentiment was reflected in the markets with S&P losing a further 2.01% in April, bringing the total Y-T-D loss to 4.54%, while equity volatility traded up as high as 18 (from a level of 14 at the beginning of the month), before finishing up the month at around 15. We continue to believe that, despite the slowdown, the economy will be growing at a 3%+ growth rate, providing a positive underpinning to the markets.

Auto specific issues and the perception of an economic slowdown continued to affect negatively the state of the credit market during April. Despite the quarterly earnings announcements, mostly either in line or better than expectations, the credit market was in no mood to reward winners, and pushed spreads wider at the slightest hint of missed earnings or lower guidance. But it was Ford's announcement that it would miss 1Q earnings during the first week of the month that brought havoc to the market, causing Auto-related credit spreads to move out by a further 150 to 200 basis points. At that point, the investment grade market came apart, as it bifurcated into the Auto and Auto-parts universe (trading at 500+ bps spreads) and the remaining credits (in the 100+ bps territory). Fore the remainder of the month we witnessed individual credits (particularly crossovers) vacillating widely between these two universes, in uncharacteristically sizeable intraday dislocations. Liquidity dried out, bid-ask spreads widened substantially, and price movements, be they individual credit spreads or overall indices, became extreme. Idiosyncratic risk, in the form of LBO rumors, did not help matters, and a very nervous market place accentuated the magnitude of the swings, where intraday trading ranges often dwarfed those normally seen in a month's time. To put things in perspective, we observed at least 3 days when the CDX IG HVOL index moved more than 12-15 bps in one day, while HVOL bid-ask gapped from 0.25 bp to as much as 5 bps. During April, HVOL reached a high of 145, erasing all the gains since the beginning for 2004, and only towards the end of the month we saw signs of returning to some form of normal trading. Where do we go from here? Interestingly enough, developments in the other two markets where enterprise risk is traded, namely equities and equity volatility, were not as pronounced. Consequently, in a relative value sense, credit spreads are currently reflecting much higher default risk than the equity or equity volatility markets. Is the credit market, which in effect is calling the turn of the credit cycle, correct? We think not, but only time will tell!

April was perhaps the most difficult month we have encountered at Etolian Capital since inception, and the loss of 92 bps only partially reflects the extreme conditions that we encountered during the month. The Auto-led market dislocation created extreme volatility which led to much wider daily P&L fluctuations than expected. Idiosyncratic risk also affected both our long and short positions, adding to the P&L volatility. Our usual guides, equity and equity volatility at either individual or macro level, were out of line with the credit market and did not prove helpful. Finally, the success achieved by our attempts to reduce volatility was less than desired, either because they were ill-timed in hindsight or because they proved too expensive in the midst of a very illiquid market. In short, we faced some very rough waters! We are still of the view that we have not seen the turn of the credit cycle, but the combination of excess leverage in the market and the increase in idiosyncratic risk (LBO risk) have caused enough dislocation that will take some time to repair. We will continue to maintain small exposures, protect the book as much as we can with liquid instruments, continue our search for relative value opportunities, and try to find suitable spots in the market to position them. We enter May with a balanced portfolio, being long about 196% and 211% short, comprising 49 names of which 24 names are on the long side and 25 on the short side.

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