ETOLIAN CAPITAL

Monthly Letter: February 2005

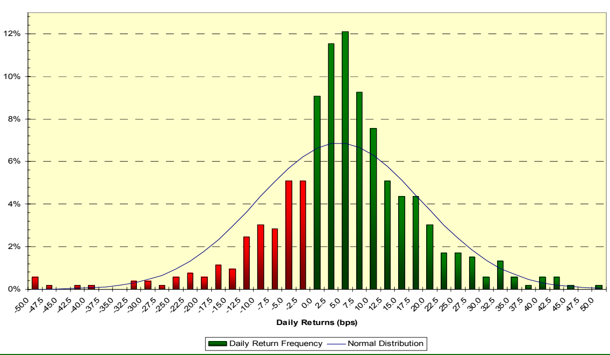
Etolian Capital Group, LP is a private investment management company, which focuses on US credit fixed income opportunities. Its objective is to generate above average, stable returns which are uncorrelated with major market indices by going long and short in cash and derivative fixed income obligations 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
February Return	0.74%	0.75%	1.89%	(0.62%)	0.44%
February Volatlity	0.31%	0.31%	0.63%	0.96%	0.06%
February Sharpe Ratio	1.99	2.00	2.79	(0.79)	4.96
YTD Return	1.29%	1.31%	(0.69%)	0.36%	0.53%
YTD Volatility	0.46%	0.46%	0.63%	1.61%	0.45%
YTD Sharpe Ratio	2.22	2.26	(1.52)	0.05	0.58

(*) Returns are net of fees (1.5% management fee and 20% incentive allocation of profits). February / Y-T-D gross returns were for 1.056% and 1.893% 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)

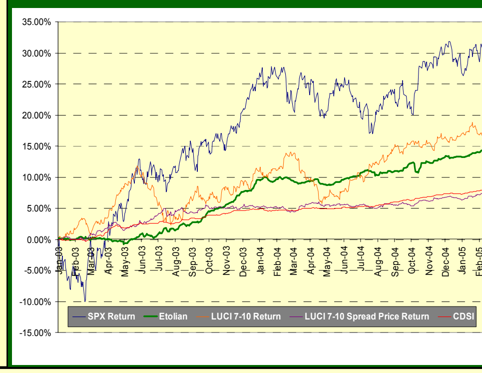
Distribution of Daily Returns Since Inception



Portfolio Performance

	2003	2004	2005
January	0.10%	1.26%	0.56%
February	0.25%	0.31%	0.75%
March	(0.14%)	(0.69%)	
April	(0.59%)	0.04%	
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%	1.31%
Since Inception:	14.93%		

AUM: $26.1 million



February Monthly

What a difference a month makes! Last month the world looked gloomy with market participants focusing on all the negatives such as the twin domestic and external deficits, higher oil prices and sub-par job creation. A month later, not much changed. The economy has continued to expand in a healthy 3.8% annualized rate (GDP growth) which was much faster than the rest of the world (except China). Yet, the external trade deficit was now viewed as a good thing - reflective of the greater prospects and opportunities of the US economy - and higher oil prices, the result of greater growth and prospects around the world. Thus, the equity market, reflective of these sentiments, rallied with the S&P ending the month with a gain of 1.89% for the month. Finally, it seems that the interest markets began to notice these things as well, with rates in the 10-year note giving up about 25 basis points for the month, and more than 40 basis points off their intra-month low. Similarly, equity volatility continued to come off, trading most of the month within the 11 to 12 range. Our view continues to be that developments in the economic front provide a positive backdrop to the markets.

Given the above economic environment it should not come as a surprise that credit markets rallied during February, erasing all of January's losses plus more. A combination of positive news on the economic front, good earnings reports, demand from synthetic CDO activity, and demand from market participants who were covering their short positions, drove credit spreads tighter with the CDX IG and HVOL indices closing at 44 and 89, from their start of the month levels of 48 and 93 respectively. The strong performance of the equity market and the falling VIX index confirmed and aided the positive momentum in the credit market. In fact, many times during the month, the clues as to the direction of the overall credit indices were being provided by the opening levels of the S&P futures. Gains cut across all sectors/industries of the credit market but they were particularly pronounced in the Insurance (led by Unum), Utilities, Telecom, Energy and Housing. Yet, the two most noteworthy developments of the month were the significant out performance of the high-beta sector of the market (particularly the BB and B-rate segments) and the significant under-performance of the Auto and Auto Parts sectors which have continued to lag the overall market. With credit spreads now approaching their secular lows, questions are raised as to the sustainability of further tightening in spreads. Our view continues to be that as long as the conditions causing the spread tightening (economy, monetary conditions, corporate liquidity, demand/supply, supporting equity markets, and low levels of uncertainty) are still intact, and in the absence of an unforeseen event, the market trends will remain intact for now.

February was a positive month for Etolian Capital as we recorded a net gain of 75 basis points. We are quite pleased with the result, given the challenges that a market neutral biased strategy faces in months such as February when the market was, for all practical purposes, moving in one direction. Despite the fact that we entered February with an about 18% long bias (long by our standards), most of the February result came from individual credit name specific gains in both long AND short positions. Specifically, we gained from long positions in names such as, MCI, Philip Morris, May Department Stores, Pfizer and others. At the same time, however, we recorded gains from short positions in names such as Maytag, Delphi, Federated Stores as well as other names which moved to a lesser degree or not at all during a credit tightening environment. This should highlight the robustness of our investment approach. It should also provide comfort to those who fear the outcome of the inevitable change of direction of the credit market at some point in the future. The attraction of a market neutral strategy is that it should not rely on the direction of the market to be profitable. As we enter March our current portfolio is more market neutral, albeit still biased on the long side by being 209% and 201% short. The portfolio contains 52 names, of which 27 names are on the long side and 25 on the short side.

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