ETOLIAN CAPITAL

Monthly Letter: July 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).

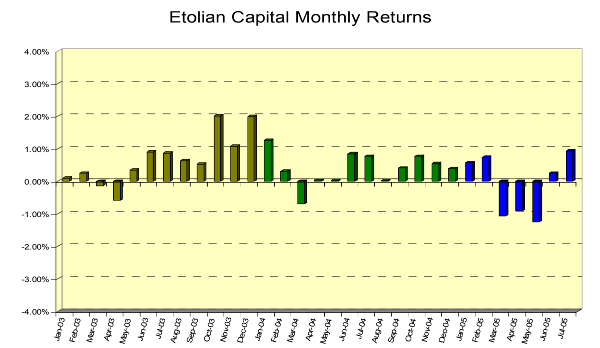
	Etolian Capital*		S&P 500 Index**	CSFB Indices***	
	Credit Fund (Onshore)	Offshore Credit Fund	S&P	LUCI	CDSI
July Return	0.94%	0.95%	3.60%	(1.04%)	0.70%
July Volatility	0.91%	0.91%	0.62%	1.44%	0.10%
July Sharpe Ratio	0.82	0.83	5.47	(0.86)	4.85
YTD Return	(0.80%)	(0.78%)	1.84%	2.03%	1.75%
YTD Volatility	2.74%	2.74%	21.66%	3.46%	2.73%
YTD Sharpe Ratio	(0.70)	(0.70)	0.03	0.26	0.23

(*) Returns are net of fees (1.5% management fee and 20% incentive allocation of profits). July/ Y-T-D gross returns were 1.33% and -0.25% 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)

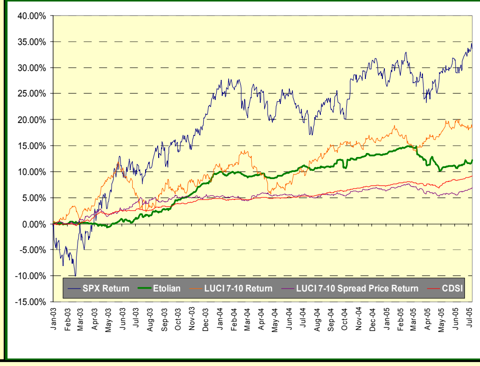
Monthly Gross Returns – As of July 2005



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%	(1.26%)
June	0.90%	0.85%	0.25%
July	0.87%	0.77%	0.95%
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%	(0.78%)
Since Inception:		12.56%	

AUM: $15.9 million



July Monthly

In last month's commentary we described the economic environment as "goldilocks". Well, during the past month market participants "upgraded" their assessment of the state of the economic environment to near "nirvana" levels. Despite near record energy prices, US consumers, buoyed by ever increasing housing prices, continued to drive a robust economic expansion, with no inflation in sight, while at the same time the two worrisome deficits – the domestic budget, and external trade deficits– showed, for first time, signs of improvement. Equity markets rallied though out the month, recording gains of 3.60% according to the Dow Jones Industrial index, while equity volatility touched a 10-year low at 9.88, before ending the month unchanged. And the US Treasury market finally did return to reality land by giving up some ground (10-year rates rose by about 35 basis points). The only party spoiler looming in the horizon seemed to be the Fed which has made it clear that it is not yet done with its 25 basis point increments, signaling its worries about the overheated housing market. Thus, the main question is centered on the longevity of this party and when interest rate increases will begin to take a bite on the consumer. We do not have insights on this question and are as anxious as you are!

The strong economic environment, coupled with strong second quarter earnings reports as well positive guidance for future earnings, provided the background for the strong performance of the credit markets during July. The CDX IG and HVOL credit indices closed the month at 50 and 103 respectively, recording healthy gains from last month's closing levels of 57 and 127 respectively. The gains were built in a steady fashion throughout the month and, unlike the price action we saw during the April - May period, intra-month volatility was subdued. Autos and Auto related credits provided the leadership to the credit market, with the spread compression cresting with GM's decision to sell as much as $10 billion of Auto receivables to Bank of America. Other economy sensitive credit sectors such as Energy, Metals & Mining (Steel in particular), Consumer Durables, Telecom (particularly wireless), Media, and Entertainment, also recorded strong gains. Also, lower rated credits resumed their tightening with the High Yield Indices retracing most of their losses since the beginning of the year. Yet, in a sign that at least some market participants are recognizing that the end of this credit cycle may be nearing, a lot of the "bad boy" credits did not participate in the spread tightening, providing clues that at least some market participants are building shorts out there. Our expectation is that, except for minor profit taking here and there, this environment will continue to prevail at least until mid-September when the CDS contracts are rolled into the new calendar. Yet, despite our constructive outlook for the overall market, we still expect to see continued rise in idiosyncratic risk, emanating primarily from LBO and other shareholder-friendly actions.

July was a successful month for Etolian Capital, leading to a net gain of 0.95%. Strong gains were recorded across the portfolio in both our long and short positions and if it were not for a short position in Maytag which turned sour due to Whirlpool's emergence as a potential bidder, the gains would be closer to 1.5% or higher. In addition to gains from long positions in the Wireless, Utilities, Energy and Media sectors, the long portfolio continued to benefit from the convergence in the relationship between debt-equity which had been disrupted over the past few months. On the short positions, we recorded gains on short positions in the Paper, Services and Media sectors. Most importantly, our whole short portfolio simply did not come in as much as the market. Given our near term outlook for the credit market, we will continue to use the favorable environment to source our preferred shorts while maintaining our modest overall long exposure through credit indices, being weary of the increased idiosyncratic risk. As we enter August, our portfolio is small long biased with about 192% long and 179% short, comprising 47 positions of which 22 are long positions and 25 are names on the short side.

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