ETOLIAN CAPITAL

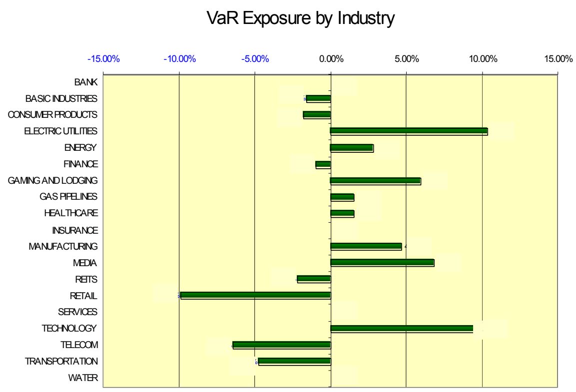
Monthly Letter: June 2004

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).

	E Capital (*) Onshore	E Capital (*) Offshore	S&P (**) Index	LUCI (***) Tot Return	LUCI (***) ASW
June Return	0.85%	0.83%	1.80%	0.78%	0.11%
June Daily Volatility	0.06%	0.06%	0.61%	0.40%	0.08%
June Sharpe Ratio	9.28	0.54	2.31	1.34	1.12
June % of (+) Days	82%	55%	62%	52%	48%
Year-to-Day Returns	1.79%	1.75%	2.60%	-0.28%	0.14%
Y-t-D Annualized Return	3.58%	3.50%	5.31%	-0.57%	0.28%
Y-t-D Annualized Daily Volatility	1.42%	1.42%	11.73%	6.58%	1.70%
Y-t-D Sharpe Ratio	1.43	1.39	0.36	-0.27	0.08
Y-t-D % of (+) Months	83%	83%	67%	67%	33%
Y-t-D % of (+) Days	66%	66%	54%	47%	52%

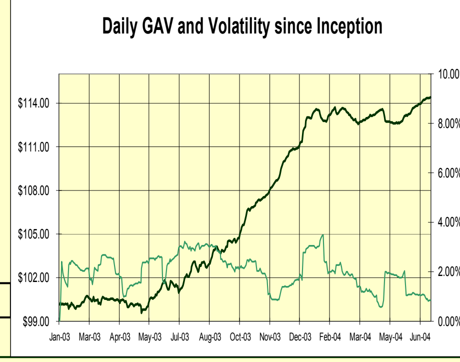
(*) Returns are net of fees (1.5% management fee and 20% incentive allocation of profits. June and Y-T-D gross returns for the Onshore fund are 1.19% and 3.06% respectively)
(**) S&P Index returns are gross returns
(***) The 7-10 year LUCI Corporate Bond Index is compiled by CSFB (ASW=Asset Swap)



Portfolio Performance

	2003	2004
January	0.10%	1.26%
February	0.25%	0.31%
March	-0.14%	-0.69%
April	-0.59%	0.04%
May	0.34%	0.03%
June	0.90%	0.85%
July	0.86%	
August	0.64%	
September	0.53%	
October	2.01%	
November	1.08%	
December	2.00%	
Y-T-D	8.25%	1.79%
Since Inception		10.19%

AUM: $18.5 million



June Commentary

For a month that was supposed to be packed with activity either in anticipation or in reaction to the Fed action, June was a yawn. Indeed, the most anticipated Fed move took place and the Fed Funds rate was raised by 25 basis points, confirming a return to a period of economic robustness and the end of a low interest rate era. Yet the markets, far from frightened by the Fed action, rallied both in anticipation and after the announcement, confirming the masterful job that the Fed has done in managing expectations and preparing the markets for higher interest rates. In the meantime, the real economy has continued to perform to expectations, recording robust growth rates, generating jobs and driving the rest of the global economy higher, despite higher energy prices. The price pressures that have begun to emerge do not seem to worry either the markets or the Fed for the time being. It should not come as a surprise, therefore, that both interest rate and equity markets have been reacting positively to this environment while equity volatility reached another 8-year low during June. Barring surprises on the inflation front and from geopolitical developments, we cannot help but being constructive about the prevailing market sentiment.

Developments in the corporate credit markets have been mirroring the above developments. During June corporate spreads recovered from the widening that took place during May, in line with the strength observed in equity markets and the decline in equity volatility. Yet, overall credit spreads continue to trade at higher levels than the beginning of the year, discounting more business risk than indicated by equity and equity volatility markets. Moreover, the relatively stable (and tightening) overall credit spreads were not indicative of the divergence that has been occurring below the surface where several credits have been trading at or very near their tights for the year, while other credits and sectors have been steadily widening either because of credit deterioration or because of name-specific credit events. Autos, along with several other basic industry names, Gaming & Lodging, Technology and Healthcare have been the leaders in the spread tightening. Retail, Telephone and Transportation were the bad boys, led by ATT (which saw its spreads widening by more than 100 basis points during the month) and Bombardier (which continued to bear the brunt of difficulties in the Airline sector). Also, LBO-related rumors affected selected names driving their spreads wider or tighter depending upon the day of the month and the rumor. Citizens has been in the forefront of this activity with its spread routinely making 50 basis points round trips from 300+ to 200+ and vice versa. As we look into the summer months, our constructive outlook of the economy, along with the fact that the credit market continues to discount more risk than the equity and/or the equity volatility market, puts us on the bullish camp of the market. Yet we remain mindful of the fact that more so than any other time over the past couple of years this is more a market of credits and performance will be driven by paying attention to individual credits.

June, being a month where individual credit action prevailed as opposed to big overall market moves, proved to be a good month for Etolian Capital which recorded a net result of 85 basis points. Having entered the month with highly balanced (albeit slightly net long positioned, spread-wise) portfolio, Etolian Capital was well positioned to gain from such an environment. The portfolio benefited from the overall credit tightening that took place and recorded gains in several of its positions, led by gains in Autos, Healthcare, Gaming and Wireless. Yet, the portfolio also made money from its short positions particularly from exposure to the wire line telecom sector and some of the retailers. As of a result of the tight portfolio construction and the modest use of leverage during June (about 3 times), realized volatility was well below 2%. All-in-all, it was a very satisfying month as the strategy performed as it was supposed to. As we enter July, our approach to markets is likely to remain unchanged. Our views on the economy and the corporate credit market leads us to believe that there maybe further room for modest credit tightening in the upcoming months, despite the fact that most of the credit tightening is behind us. As a result, we plan to maintain our modest net exposure of about 8-9% long credit spreads. Yet, because of our belief that the nature of the market has changed and sector and specific name selectivity are, and are likely to continue to be increasingly important, we will continue to maintain highly balanced portfolios where individual credit exposures will continue to be paired much more tightly between longs and shorts. Moreover, because of the continuing low realized volatility, we will gradually increase the use of leverage with the view to bring it closer to 5 times, if we judge that market conditions are conducive to doing so. Currently, the portfolio has 42 positions with a long exposure of 152% and a short exposure of 143%.

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