ETOLIAN CAPITAL

Monthly Letter: June 2005

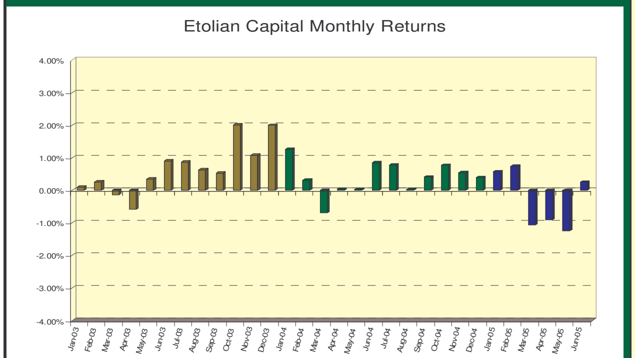
Etolian Capital Group, LP is a private investment management company, which focuses on US credit fixed income opportunities. Its objective is to generate above average, stable returns which are uncorrelated with major market indices by going long and short in cash and derivative fixed income obligations 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
June Return	0.20%	0.25%	(0.01%)	1.16%	0.52%
June Volatility	0.54%	0.54%	0.79%	1.87%	0.24%
June Sharpe Ratio	0.08	0.17	(0.22)	0.54	1.50
YTD Return	(1.72%)	(1.71%)	(1.70%)	3.10%	1.04%
YTD Volatility	2.51%	2.51%	9.65%	3.14%	2.51%
YTD Sharpe Ratio	(1.06)	(1.05)	(0.27)	0.69	0.04

(*) Returns are net of fees (1.5% management fee and 20% incentive allocation of profits). June/ Y-T-D gross returns were 0.47% and -1.56% 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 June 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%	
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%	(1.71%)
Since Inception:	11.50%		

AUM: $18.6 million

June Monthly

In a significant contrast to the environment prevailing during March, April and May, during June market participants perceived and reflected through their actions, a "goldilocks" environment for the economy, consisting of moderate but steady economic expansion, low inflation and low interest rates. If nothing else, again, the big surprise was the strength in the US Treasury market where, despite the Fed's steady dosage of 25 basis points increments, had the 10 and 30-year yields again reach new lows for the year, leading to virtually flat yield curves. Even $60+/barrel oil prices only made a temporary dent in an otherwise strong equity market while equity volatility – the other barometer of business uncertainty – continued to trend lower, hovering near 8-year lows. The above environment leads us to maintain the view that we have consistently had over the past few months. Namely, we continue to believe that the economy will continue to grow at around a 3.5%+ rate, providing a positive underpinning to the markets.

Unsurprisingly, the above environment provided a positive undertone to the credit markets. Following the severe market dislocations that rocked the credit markets during the March-May period, the relatively calm environment and the absence of major event risk went a long way to repair the damage done to the market structure. Liquidity slowly returned (bid-ask spreads narrowed), real money investors plowed money back in (as evidenced both by the spread tightening and the rate at which new bond issues were being issued and absorbed), and the CDO tranches showed signs of life as market participants rushed to take advantage of last month's Auto-induced dislocations. In yet another sign, spreads between the CDS and cash bonds (which, during the crisis had widened as players used the CDS market to hedge themselves) narrowed as real money investors returned to the market picking up undervalued cash bonds and other players closed their CDS short positions. Finally, the divergence between the credit and equity and equity volatility markets that we observed during the past two months showed signs of reversal. All these underlying mini-trends were taking place during June while overall credit indices did not move significantly, nor were they particularly volatile. The CDX IG and HVOL closed the month at 57 and 127 respectively (from last month's close of 60 and 132 respectively), while the ranges for these two indices during the month were from 52 to 77 and 114 to 133 respectively. The lows were observed in the beginning of the month, while the highs occurred during the 3rd week in response to news that Auto labor unions were not likely to make concessions, leading to Auto widening which did not spill to the rest of the market, nor did it last long. As we look forward to the summer months, we expect a continuation of the themes that prevailed during June. Lack of adverse events can only lead to further reluctant spread tightening. Yet, we all know that the gains from this trend are limited given the current levels of credit spreads and the preponderance of idiosyncratic risk, hence our overall cautious attitude to the credit market and attention to individual credit selection at this juncture.

June was a fairly uneventful month for Etolian Capital, leading to a modest gain of 0.25%. A number of factors, positive and negative drove the result. On the positive side, our long positions, which suffered from the divergence in debt and equity markets, benefited as this relationship recovered. In addition, our portfolio benefited from some of our short positions (Clear Channel, Maytag). Yet, we gave back some money at month end in a short position in MBNA, following the announcement of its merger with Bank of America. Given our outlook for the months ahead, our focus will be in creating strategies which enable us to benefit from further tightening. Equal and more important, however, is the challenge to manage idiosyncratic risk by protecting the long portfolio and exposing the short portfolio, hence our attention to credit selection through our approach. As we enter July, our portfolio is long about 195% and 171% short, comprising 44 names of which 21 names are on the long side and 23 on the short side.

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