ETOLIAN CAPITAL

Monthly Letter – April 2003

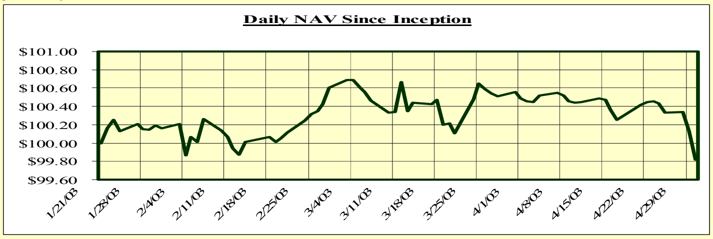
Etolian Capital Group, LP is a private investment management company, primarily focusing on US investment grade corporate credit fixed income opportunities.

Etolian Capital aims at generating above average, stable returns which are uncorrelated with major market indices. Portfolio investments consist of fixed income obligations issued by US corporations. The credit selection process is based on an options-based quantitative methodology which relies, among other things, on information from the equity and equity option markets to assess credit. The requirement to protect capital dictates that Etolian Capital carries both long and short portfolios of fixed income obligations. The long/short approach, combined with the use of moderate 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	S&P	3-m LIBOR
April Returns:	-0.74% (*)	8.16%	0.11%
April Daily Volatility:	0.08	1.14	0
April Sharpe Ratio:	-7.39	5.37	0
April % of (+) Days:	38.10%	66.67%	100%
Year-to-Day Returns:	-0.47% (*)	5.01%	0.43%
Y-T-D Annualized Returns:	-2.15% (*)	15.03%	1.30%
Y-T-D Annual' d Daily Volatility:	2.08%	21.95%	0
Y-T-D Sharpe Ratio:	-1.63	0.55	0
Y-T-D % of Positive Months:	50.00%	50.00%	100%
Y-T-D % of Positive Days:	47.83%	54.88%	100%

(*) Returns are net of fees (1.5% management fee and 20% incentive allocation of profits)



April Commentary

In last month's commentary we stated our conviction that the trend towards narrower credit spreads remained intact for the near future. However, the ferocity of the rally that took place during April which, by now, is called "the great credit rally of 2003", caught most of market participants, including us, by surprise. Credit spreads came in a major way and across the board, driven by a wall of liquidity and an insatiable appetite on the part of investors to grab a yield. Buyers came in and bought everything under the sun. The credit spread contraction was across the credit spectrum but was particularly pronounced in the "higher beta" (mainly BBB-rated) names where spread contractions exceeded 40-50 basis points. A number of reasons have been offered ranging from the quick resolution of the Iraq war (and the associated reduction in uncertainty); the continued de-leveraging efforts of corporate America; the lack of supply of new paper in the market; the continuing fall in implied equity volatilities, etc. While these explanations are all valid and, most likely, account for a portion of the huge credit rally that took place, in all likelihood, it was the simultaneous congruence of all these factors that accounts for its strength and ferocity ("the perfect storm"). In our view, however, the single most important factor that has driven and will continue to drive market conditions in the credit markets is the behavior of the Fed. The Fed's accommodating stance is flooding the system with liquidity and is leading to a series of noteworthy and far reaching effects. The wall of liquidity is driving interest rates in the government market lower, spreads in the credit markets tighter, the US dollar lower, gold prices higher, while leaving equity markets more or less unchanged. Taken together, the picture that emerges is full of contradictions. The government market is implying an anemic (at best) economy; the tight credit market has declared the end of all corporate risk worries, implying a rebound in economic activity; the US dollar is losing ground on a daily basis against the Euro and gold, implying lack of confidence on the part of international investors in the US economy; while the stock market continues to be agnostic!. At least one of these markets is wrong, and time will tell which one that is. Our hunch is that the Fed's accommodating policy which is driving these developments, is artificially inflating prices in fixed income markets, thus creating imbalances that are unsustainable and likely to be corrected with unpleasant consequences. What does it mean for the credit markets? Most likely, at this point the market is ahead of itself but given the Fed's behavior, we would not be surprised if the liquidity driven credit spread contraction continues in the near future. We would, therefore, nervously continue to keep our long credit spread positions, looking for opportunities to upgrade the credit quality of our holdings and take advantage of other non-directional opportunities in the credit markets (such as, trading the basis, and exploiting discrepancies between implied equity and credit spread volatilities).

April was a very difficult month for ETOLIAN CAPITAL resulting in a -0.61% gross loss for the month. This was particularly frustrating since, as we communicated to you in last month's letter, we had anticipated the credit spread contraction and were correctly positioned for it. Unfortunately, one of our long positions was with a company involved in the tobacco litigation. And the negative performance of this holding more than erased the positive results of the month that otherwise would have been closer to 1.5% positive. From the beginning we knew that we would be exposed to event risk until the portfolio built-up was complete. Unfortunately, we were caught right in the middle of it. As we approach the optimal portfolio size (in which no individual portfolio holding can have such an effect), we believe that events like this, will become less frequent and with less impact on the portfolio. Given our views above, as we look forward into May, we intend to maintain our long spread stance. We will also continue to increase our gross positions through leverage, reducing overall risk through increased diversification and less reliance on individual credits.

Portfolio Performance (*)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Annual
2003	0.09	0.23	-0.16	-0.61									-0.45%

(*) Returns are net of fees (1.5% management fee and 20% incentive allocation of profits)

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