ETOLIAN CAPITAL

Monthly Letter: April 2004

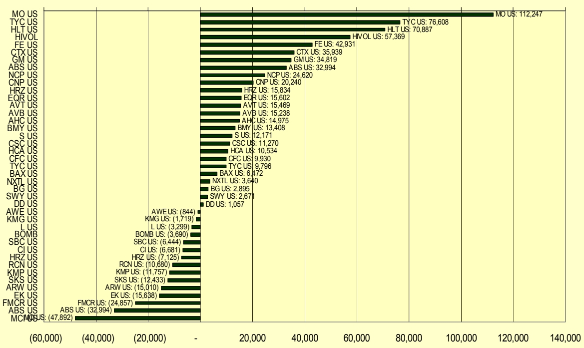
Etolian Capital Group, LP is a private investment management company, which focuses on US credit fixed income opportunities. Its objective is to generate above average, stable returns which are uncorrelated with major market indices by going long and short in cash and derivative fixed income obligations 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
April Return	0.05%	0.05%	-1.68%	-3.73%	1.02%
April Daily Volatility	0.18%	0.18%	0.76%	0.45%	0.13%
April Sharpe Ratio	0.51	0.51	-1.55	-5.23	6.29
April % of (+) Days	81%	81%	50%	33%	67%
Year-to-Day Returns	0.92%	0.88%	1.29%	0.08%	0.44%
Y-t-D Annualized Return	2.61%	2.51%	3.91%	0.25%	1.36%
Y-t-D Annualized Daily Volatility	2.36%	2.36%	12.14%	6.61%	1.58%
Y-t-D Sharpe Ratio	0.59	0.54	0.23	-0.13	0.28
Y-t-D % of (+) Months	75%	75%	50%	75%	25%
Y-t-D % of (+) Days	64%	64%	50%	47%	54%

(*) Returns are net of fees (1.5% management fee and 20% incentive allocation of profits. April and Y-T-D gross returns are 0.18% and 1.35% respectively)
(**) S&P Index returns are gross returns
(***) The 7-10 year LUCI Corporate Bond Index is compiled by CSFB (ASW=Asset Swap)

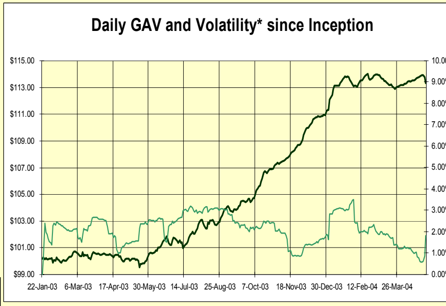
Individual Companies' Performance vs. the LUCI corp. bond index



Portfolio Performance

	2003	2004
January	0.10%	1.26%
February	0.25%	0.31%
March	-0.14%	-0.69
April	-0.59%	0.05%
May	0.34%	
June	0.90%	
July	0.86%	
August	0.64%	
September	0.53%	
October	2.01%	
November	1.08%	
December	2.00%	
Y-T-D	**8.25%**	**0.92%**
Since Inception		**9.95%**

AUM: $13.1 million



April Commentary

What a difference a month makes! In March we were worried about the sustainability of the economic recovery and the ability of the economy to create jobs. In April, in a complete reversal of fortunes, we began to worry whether the economy is overheating! Again the culprit was the strong Non-Farm Payroll numbers (up 308,000) which were beyond most people's expectations. These numbers, along with a stream of other economic figures confirming a picture of economic robustness, set the stage for what we would call the battle of the bulls. That is, the positive economic news providing support for stronger equity markets and equity-like markets (i.e., corporate credit), while at the same time the prospect of higher interest rates (associated with higher growth) eroding value from the markets through their discount function. The Treasury market was the biggest casualty from the rising interest rates, losing about 5% (about 70 basis points higher) in the 10-year note. In equity markets, the discounting function prevailed as well, causing a loss of 1.68% in the S&P 500 for the month (NASDAQ lost 3.7%). However, at the same time, the stronger economic numbers reduced economic uncertainty and this was reflected by the relatively calm state of affairs in the equity volatility markets (VIX index) which seemed to react more geopolitical risk (Iraq and terrorist considerations).

The corporate market found itself right in the middle of this fight. Being subject to interest rates, total return indices (which capture the effect of BOTH interest rate AND credit spread changes) retreated, giving up about 3.7% (as captured by the LUCI Total Return Corporate Index). Yet, corporate credit spreads were rather resilient and made a modest headway by recording an overall return of about 1% (as captured by the LUCI Asset Swap Corporate Index). The robust quarterly earnings announcements during April were consistent with the emerging macroeconomic picture and provided the underpinnings for stability in credit spreads. Credit spreads grinded tighter in the earlier part of the month but failed to make major advances as concerns about higher interest rates exerted pressure in the other direction. However, below the deceiving appearance of stability in the overall corporate spread indices, there was a lot of change as interest rate sensitive sectors were punished (financial institutions, mortgage originators, Home builders, REITS), while in other sectors with sensitivity to strong economy (Airlines, Autos, Consumer Goods, Retail) we saw significant tightening in credit spreads. Noteworthy was the major setbacks that took place in the High Yield market and Sovereign Emerging Markets. Although these markets are peripheral to our focus, developments in these markets are of interest to us as, in many respects, they represent the "canaries" of the credit world, and may be considered as early warning indicators of liquidity and credit conditions.

Etolian Capital carefully navigated through this rather tricky landscape during April delivering a small positive return of 5 basis points. We had entered April with a constructive view of credit spreads, anticipating a tightening in spreads as a result of positive earnings announcements. Observing that the credit spread market was not reacting to the very strong earnings reports and realizing that interest rate considerations were acting as a major deterrent to further credit spread tightening, we squared off our positions, established a more defensive stance in the whole portfolio, and concentrated on our short and long selections and other non-directional relative value and time decaying strategies. The portfolio steadily benefited throughout the month from such strategies, as short positions in interest rate sensitive sectors provided more than enough gains to offset losses in other portfolio holdings. Among the strategies that deployed with increased frequency during April were "pair strategies" in which we go long and short different credits within the same industry/sector. It is considered a more conservative strategy because its long/short nature within the same industry "hedges" many common risks and focuses on the different performance of two credits. One the pairs that we put on during the last week of the month was to go long MCI and short ATT. Unfortunately, on Friday, the last day of the month, following the release of numbers from MCI on Thursday afternoon and after a very sloppy distribution of the newly issued MCI bonds, the spread moved against us by 80 basis points. The loss, which exceed our stop loss limits, triggered immediate liquidation of the majority of the position, which resulted in a 55 basis point loss. With no time left in the month to make up for the loss, unfortunately, we registered an anemic 5 basis point return for the month. Obviously, we are very unhappy with the outcome. Yet, the final performance speaks volumes about the validity of our strategy which, despite the steep loss in the last day of the month, it managed to register a small return in a very difficult operating environment in which most other fixed income strategies suffered. As we look into May, we believe that the factors described above are still in place and, as a result, we are on a defensive mode having adopted a relatively market neutral approach (about 5% net long credit spreads).

ETOLIAN CAPITAL GROUP LP, 67 Wall Street, 10th Floor, New York, NY 10005; Phone (212) 659-2430, Fax (212) 659-2443, info@etolian.com, http://www.etolian.com