ETOLIAN CAPITAL

Monthly Letter – August 2003

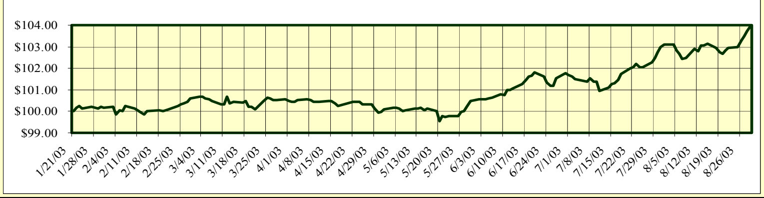
Etolian Capital Group, LP is a private investment management company, which focuses on US credit fixed income opportunities. Its objective is to generate above average, stable returns which are uncorrelated with major market indices by going long and short in cash and derivative fixed income obligations 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	S&P	LUCI Corp Bond Index (*)	3-month LIBOR
Aug Returns:	0.61% (**)	2.84%	-1.34%	0.11%
Aug Daily Volatility:	0.19%	0.69%	0.59%	0
Aug Sharpe Ratio:	1.95 (**)	3.17	-1.24	0
Aug % of (+) Days:	59.1%	80.00%	44.8%	100%
Year-to-Day Returns:	2.19% (**)	14.57%	3.60%	0.75%
Y-T-D Annualized Returns:	3.56% (**)	21.99%	5.43%	1.13%
Y-T-D Annual' d Daily Volatility:	2.34%	19.1%	6.51%	0
Y-T-D Sharpe Ratio:	1.05 (**)	1.09	0.83	0
Y-T-D % of Positive Months:	75%	75%	50%	100%
Y-T-D % of Positive Days:	58%	53%	56%	100%

(*) The LUCI Corporate Bond Index is a 7-10 year total return index compiled by CSFB
(**) Returns are net of fees (1.5% management fee and 20% incentive allocation of profits – Aug and Y-T-D gross returns are 0.92% and 3.88% respectively)

Daily NAV Since Inception



August Commentary

A stream of positive economic news spilled over the markets during August providing the few market participants (that were not on vacation) reason to participate in the market which otherwise would have been even more illiquid and dull than it usually is during the month of August. Auto sales, Factory Orders, Retail Sales, the Philadelphia Fed Survey, Home Sales, Industrial Production, US Durable Orders and falling Inventories, suggestive of further inventory driven economic strengthening, all pointed to a healthy strengthening of the economy. If it were not for the employment data (which continue to indicate very small employment gains), we would join the chorus of the bulls. For the record, and taking our clues from the markets, we are constructive as well, but cautiously so. And in this respect, we have not been surprised by the reaction of the fixed income markets to the stream of economic news, only by the magnitude of its volatility.

Indeed, the Treasury market continued its violent sell off in the beginning of August, reversing course halfway through the month and ending the month within a volatile range as market participants tried to digest and interpret all the new economic data. A strong US dollar (strongest since April), falling gold prices (less uncertainty?), rising commodity prices (another sign of economic pick?), stronger equity prices and lower observed equity volatility (indicative of diminishing business risk?) provided confirmation of the verdict on the economy by the Treasury market. Again, the corporate fixed income market, correctly focusing on the factors that are important to it (i.e., diminishing business risk) benefited from this environment, leading to further tightening of corporate spreads by month end. However, the picture looked different in the beginning of the month when, the extreme volatility in fixed markets, fueled by the violent market moves in the Treasury and swap markets, caused spreads to temporarily widen by as much as 15/20 basis points, mostly because of profit taking and a bit of portfolio reallocation to sectors that sold off sharply (mortgages). But in the ensuing battle of bulls and bears, real money won again as it rushed in to take advantage of the widened spreads. By the end of the month any spread widening had been erased plus more, resulting in another positive month for corporate spreads. Leading the charge were the Auto sector, Financials (coming back after the swap spread tightening), Basic Industry names (after all the positive economic announcements), and other high beta (BBB type) names. As usually, specific names responded to specific events with large spread moves and we will list here Monsanto (tighten by 80 bps, following settlement), First Energy (widened by more than 100 bps due a combination of factors including the black out, but came back by month end), and Liberty (came in by 50 bps as it withdrew from the Vivendi auction). As we look forward we maintain our constructive outlook for corporate spreads despite the fact that we enter into the Sept.-Oct. period which traditionally is very volatile. The positive outlook for the US economy that markets are projecting is the driver of our optimism. Yet, we remain watchful for signs that markets may get ahead of themselves.

August was a decent month for ETOLIAN CAPITAL resulting in a 0.92% gross (0.61% net of all fees) gain for the month. As described above, August was a relatively lackluster month in terms of market activity and portfolio results were obtained primarily through credit selection and a portfolio repositioning half way through the month. Having returned to a market neutral position (credit-wise) by the end of last month, we added to our long spread positions half way through the month by adding exposure to economy sensitive sectors names such as, Autos, Travel and Leisure and Basic Industries, bringing our net long exposure close to 32%. This shift benefited the portfolio as spreads came in towards the end of the month. In addition, the portfolio benefited from gains in specific credits in the Media and Healthcare sectors, which helped offset losses that the portfolio experienced from exposure to utilities that were negatively affected by the blackout. Utilization of leverage, more or less followed our directional bias and was standing at 3.2 times AUM at the end of the month, consisting of 1.68 times long versus 1.36 times short AUM. As we mentioned above, we continue to be constructive with respect to corporate spreads as we move into the Fall, and we do believe that most of the future gains will come from company specific selections, a process that is playing to our strengths.

Portfolio Performance (*)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Y-T-D
2003	0.09	0.23	-0.16	-0.61	0.32	0.88	0.84	0.61					2.19%

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

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