ETOLIAN CAPITAL

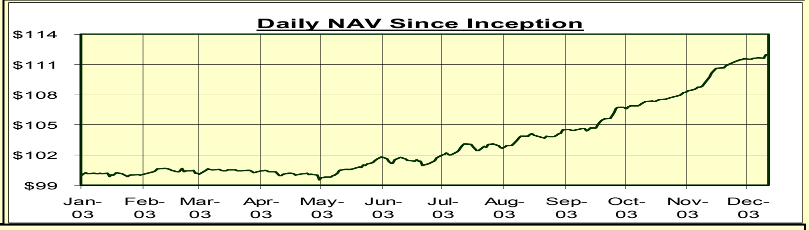
Monthly Letter – December 2003

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 (*) Capital	S&P (**) Index	LUCI (***) Index	3-month LIBOR
December Returns	2.00%	5.08%	1.30%	0.10%
December Daily Volatility	0.11%	0.60%	0.53%	0
December Sharpe Ratio (RFR=1.25%)	11.36	0.75	1.79	0
December % of (+) Days	82.61%	63.64%	31.82%	100%
Year-to-Day Returns	8.25%	26.38%	8.39%	1.10%
Y-t-D Annualized Returns	8.25%	26.38%	8.39%	1.20%
Y-t-D Annualized Daily Volatility	2.30%	17.07%	6.98%	0%
Y-t-D Sharpe Ratio (RFR=1.25%)	3.05	1.47	1.20	0
Y-t-D % of Positive Months	83.33%	83.33%	75.00%	100%
Y-t-D % of Positive Days	57.85%	54.37%	56.00%	100%

(*) Returns are net of fees (1.5% management fee and 20% incentive allocation of profits. December and Y-T-D gross returns are 2.62% and 11.96% respectively)
(**) S&P Index returns are gross returns
(***) The LUCI Corporate Bond Index is a 7-10 year total price return index compiled by CSFB



Net Portfolio Performance (Net of 1.5% management fee and 20% incentive allocation of profits)

Month	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Y-T-D
2003	0.10	0.25	-0.14	-0.59	0.34	0.90	0.86	0.64	0.53	2.01	1.08	2.00	8.25%

December Commentary via a Quick Year 2003 Recap and a Year 2004 Outlook

We would like to start by extending our wishes to all of you for a Happy, Healthy and Prosperous 2004. Since we are already in 2004 we will devote little time talking about what happened in December 2003 and, instead, will focus on what lies ahead of us. At any rate, not much will be missed as not much changed since the beginning of December. As we enter 2004, there is an abundance of evidence that the economy is in full swing. Construction, manufacturing, factory orders, vehicle sales, business inventories, retail sales and personal income and consumption trends all point to a robust economic expansion that is well past the recovery stage. Business climate has improved significantly, boosted by record increases in earnings, which in turn have been driven by relentless cost-cutting, lower capital expenditures and lower financing costs. As a result, business uncertainty, as captured by the VIX index, collapsed by a third during 2003 from readings near 25 in the beginning of 2003, to levels close to 15. Such readings have not been seen since 1996. As we have noted before, consumers have been the major drivers of this expansion, aided by the fiscal (tax cuts) and monetary initiatives (abundant, low cost availability of credit) and benefiting from the ever cheaper imported goods (China). US equity markets have been discounting these developments since the Spring of 2003, clocking impressive annualized returns around 26% (of which 5% in December) – the best since 1999. Therefore, it should not come as a surprise that the credit market – another market where business risk is traded – rallied strongly during 2003. It should be noted, however, that the credit market was ahead of the game since it has been rallying since October 2002, registering one of the most (if not the most) powerful rallies in its history which has led to credit spread levels not seen since 1994, and recording corporate bond issuance that ranked second only to that of year 2001($585 billion issued). The only dark spots in the picture (or at least unexplainable by our basic economic training) are employment (which has failed to keep up with the rising economy), the behavior of interest rates (which should be going up, but have not), the US dollar (which has dropped precipitously against most currencies), and the rising commodities prices (which are more consistent with an inflationary scenario, which, currently, we do not observe).

In light of the above, it is not unreasonable to project an optimistic outlook for 2004. In fact, most analysts are painting a positive picture for 2004, projecting further gains in the economy, the stock market and the credit markets. This should imply higher interest rates, which is indeed what most analysts project for 2004, although they put the timing for the second half alluding (but not admitting) to the power of the election cycle. Curiously, analysts are bearish on the US dollar (should it be stronger, given the projected state of the economy and the higher expected interest rates?). Yet, our experience with markets tells us that consensus rarely occurs. What could derail the rosy scenarios outlined above? We do not pretend to be that smart to figure out what other people might have missed, but we do suspect that, whatever upsets such scenarios, will have something to do with the behavior of the Fed which, in our view, in its desire to jump start the economy, has created major dislocations in the markets (level of interest rates out of synch with the economy, or the equity markets; currency markets (a weak currency – particularly against real goods); and the economy (massive internal and external deficits). Market economies have a way to restore such dislocations. The questions are as to when, and whether such restoration will be smooth or violent. We cannot provide much help here but we assure you that we are on the alert.

Returning now to the world of ETOLIAN CAPITAL, we cannot help but feel proud for what we have accomplished during 2003. We commenced trading operations in January 22nd 2003 with a capital base that was more in line with the investment account of a middle class investor and certainly not a hedge fund that had aspirations to run a wholesale fixed income strategy. Driven by our unyielding enthusiasm and faith in our investment strategy and approach, we spent the first few months working out the kinks of our investment strategy, calibrating its risk profile and addressing the associated operational issues. In May, and with our confidence consistently rising, we began to deploy leverage (which is necessary for our strategy in order to reach minimum diversification levels and achieve the performance objectives). We have not looked back since. December crowned the year with a return of 2.00% net of all fees (2.62% gross) which was the second best month of the year. In the interest of brevity, I will state that December results were driven almost exclusively by individual credit selection, which represents yet one more confirmation of our investment thesis.

December brought to close our first fully operating year with a very respectable 8.25% net of all fees return to investors (11.96% gross). We would like to draw to the attention of our investors the fact that this result was really obtained since May (when we really started leveraging the strategy). When viewed in this context, our results are consistent with a level that is closer to 13-14% annualized return to investors, levels which clearly have exceeded our expectations. Similarly, realized daily annualized volatility was around 2.30%, well below the anticipated 4-5% range. As a result, our ability to convert risk into return, as measured by the Sharpe ratio, reached a level of 3, again comfortably exceeding our projected ratio of 1.5 to 2. And all of the above were accomplished despite our small size and all the, above average, costs associated with emerging managers. We simply "stuck to our guns" and implemented our stated investment strategy.

As we begin the New Year 2004 our enthusiasm and confidence remains intact, recording new highs every day. As in 2003, our game plan for 2004 is very simple. We will follow religiously the objectives that we set for ourselves from the beginning. That is, to offer investors a unique investment platform that aims at delivering low volatility, above average returns from those traditionally available in fixed income and equity markets. In Year 2002 we spent a great deal of time and resources to set ETOLIAN CAPITAL up. Year 2003 was "proof of concept" year during which we proved to ourselves and you, current and potential investors, that it works! In Year 2004 we will continue to execute on our plan by aggressively soliciting investor support in exchange for delivering superior risk-return results. In the meantime, please accept our best wishes for a Healthy, Happy and Prosperous 2004 for everyone. We thank you for your support.

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