ETOLIAN CAPITAL

Monthly Letter – February 2003

Etolian Capital Group, LP is a private investment management company, primarily focusing on US investment grade corporate credit fixed income opportunities. Its stated objective is to generate above average, stable returns which are uncorrelated with major market indices. Portfolio investments consist of fixed income obligations issued by US corporations. Etolian Capital's credit selection process takes advantage of recent advances in the use of options-based quantitative techniques which rely, among other things, on information from the equity 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).

Results Net of Fees (*)

February Returns:	**0.32%**
February Daily Volatility:	**0.14**
February Sharpe Ratio	**1.65**
February # Positive Days:	**12**
February # Negative Days:	**7**
# of Months with Positive Return :	**2**
# of Months with Negative Return:	**0**
Year-to-Day Returns:	**0.49%**
Y-T-D Annualized Daily Volatility:	**2.02**
Y-T-D # Positive Days:	**17**
Y-T-D # negative Days	**10**
Annualized Y-T-D Returns:	**4.59%**
Y-T-D Sharpe Ratio:	**1.72**

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

Monthly Commentary

During February, financial markets continued to be dominated by the daily developments in the US/Iraqi conflict. The equity market suffered its second loss month in 2003 while US interest rates moved significantly lower, in a flight to quality. Yet, US corporate credit spreads were oblivious to these developments, taking their cues from the efforts of US corporates to de-leverage their balance sheet and improve operating results through cost cutting. The contribution of equity movements to credit spread changes seems to have weakened (and needs to be interpreted within the context of the de-leveraging that is taking place); however, individual equity volatilities have correlated well with individual credit spread moves. In fact lower individual equity volatilities have accounted for most of the observed credit spread strength. As a result, although the general level of credit spreads moved sideways during February, it masked a lot of underlying activity during which the market rewarded companies which demonstrated progress with balance sheet repair (such as, COMCAST) while punishing companies with excess leverage (such as, AOL-Time Warner).

ETOLIAN CAPITAL benefited from these developments, recording a net positive return of 0.32% for its investors, bringing the Y-T-D returns to the investor to 0.44% (4.59% annualized). These returns reflect the net effect of four actions; (i) the "drag" caused by the mark-to-market as the portfolio was being built during February (we added 8 new positions), (ii) our choice of long to short ratio (during February we keep roughly a ration of 60-40 of longs and shorts, respectively), (iii) our desire to keep volatility low (as demonstrated by the daily volatility), and (iv) our selection process. When viewed in this context, the February (and the Y-T-D) returns are encouraging and provide us with the flexibility to improve annualized absolute returns (at or excess of 10%), as well as relative returns (Sharpe ratio in excess of 1.5), as we go forward.

Portfolio Performance (*)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Annual
2003	0.12	0.32											0.44
2004													

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

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