ETOLIAN CAPITAL

Monthly Letter – July 2003

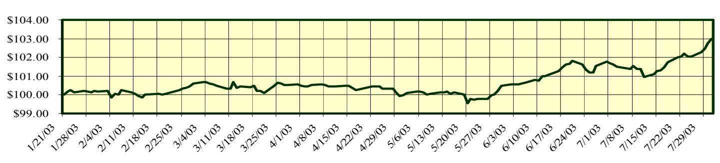
Etolian Capital Group, LP is a private investment management company, which focuses on US credit fixed income opportunities. Its objective is to generate above average, stable returns which are uncorrelated with major market indices by going long and short in cash and derivative fixed income obligations 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
July Returns:	0.84% (**)	1.73%	-5.84%	0.11%
July Daily Volatility:	0.18%	0.97%	0.53%	0
July Sharpe Ratio:	2.87 (**)	1.21	-7.99	0
July % of (+) Days:	68.18%	45.45%	31.82	100%
Year-to-Day Returns:	1.58% (**)	13.11%	2.56%	0.61%
Y-T-D Annualized Returns:	2.97% (**)	22.62%	4.43%	1.25%
Y-T-D Annual' d Daily Volatility:	2.34%	19.38%	6.52%	0
Y-T-D Sharpe Ratio:	0.80 (**)	1.11	0.68	0
Y-T-D % of Positive Months:	71.43%	71.43%	57.14%	100%
Y-T-D % of Positive Days:	57.46%	54.11%	56.85 %	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 – July and Y-T-D gross returns are 1.22% and 2.98% respectively)

Daily NAV Since Inception



July Commentary

Over the past few months we have commented repeatedly how the Fed has been setting the pace in the markets through a liquidity binge, creating in the process frothy conditions in fixed income markets. During July, this theme came to an end. The markets noting signs of economic recovery, disregarded Greenspan's assurances of keeping the liquidity spigots open and use of unconventional monetary tools for the foreseeable future, and positioned for a recovering economy. Fixed income markets in particular, led by the demands from the mortgage players to rebalance their books, sold off dramatically leading to the sharpest losses observed since 1984. Interest rates increased by as much as 1.40% from their lows. The equity markets, equity volatility markets, the US dollar and gold, with their moves up, down, up and down respectively, confirmed the conclusions reached by the fixed income markets about the positive outlook for the US economy. In the midst of all these developments, the corporate bond market continued to stay clear of trouble. While the sharp back-up in rates led to losses for the outright holders of corporate paper, in a way it restored the attractiveness of the sector and led to a further tightening of corporate spreads. Overall, spreads came in by another 15-20 basis points responding to positive earnings announcements but the spread compression came to a halt during the last week in July, reversing some of the gains, when the volatility in fixed income markets reached extreme levels and began to affect the corporate market as well. Although selectivity and focus on individual names was the prevailing theme, high beta names in Telecom, Autos, Financials and Healthcare led the gains. At the same time, earnings disappointments and specific events led to wider spreads in Media (Vivendi related), Consumer products (Tobaccos), and Utilities, while the blowout in swap spreads (by 25 bps) led to widening spreads for Bank and Finance paper. As we look to the next couple of months, past the summer doldrums, we continue to be constructive on the outlook for corporate spreads. The sharp correction that took place in the fixed income markets brought them in line with the rest of the other markets. And the markets are currently discounting an upbeat outlook for the US economy which can only be constructive for corporate spreads at this point of the business cycle. Having said that, most of the gains have already occurred in the major spread contraction that has been taking place since October 2002, and future gains are likely to be less generalized market moves and increasingly name/company specific.

July was another good month for ETOLIAN CAPITAL resulting in a 1.20% gross (0.84% net of all fees) gain for the month. These results were reached in the midst of an unprecedented volatility (in interest rate, swap spreads, yield curve, volatility markets) in which, as mentioned above, interest rates rose sharply and the corporate spread market changed direction. Portfolio gains came from several sources: a modest long spread bias in the beginning of the month (approximately 20% net long) which was turned into a flat position in the 3rd week of July, following a large amount of new bond issuance in the market place which ultimately added pressure for the spreads to move out; an increase in the use of leverage (to 3.5 x, from about 3 times in June) in the beginning of the month which again was reduced in the second half of the month; successful credit selections on both sides of the portfolio which played out sequentially during the month, with the longs carrying the early part of the month, and the shorts making significant contributions in the later part of the month; and successful hedging of the interest rate risk which insulated our portfolios from the large interest rate fluctuations. In particular, the fund benefited from long positions in the Auto, Healthcare, Energy and Media sectors. Shorts in Utilities, Homebuilding and Financials came through in the second half of the month protecting the portfolio from the spread widening that took place and adding to the month's performance. All-in-all, July was a month when all the tools available at our disposal were utilized to either protect the portfolio or to add to its performance. As we look forward into August we are maintaining the defensive stance of the portfolio in view of the relative illiquidity of the market during the summer time and until the fixed income markets establish a new trading range. As we mentioned above, we continue to be constructive with respect to corporate spreads as we move into the Fall, but 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						1.58%

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

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