ETOLIAN CAPITAL

Monthly Letter – June 2003

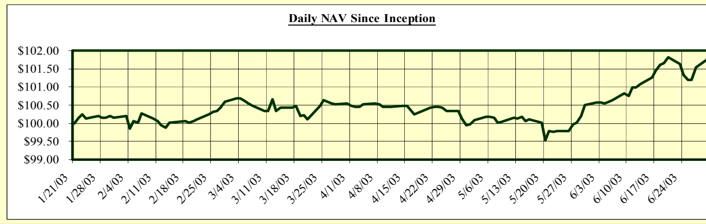
Etolian Capital Group, LP is a private investment management company, primarily focusing on US investment grade corporate credit fixed income opportunities.

Etolian Capital aims at generating above average, stable returns which are uncorrelated with major market indices. Portfolio investments consist of fixed income obligations issued by US corporations. The credit selection process is based on an options-based quantitative methodology which relies, among other things, on information from the equity and equity option 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).

	Etolian	S&P	LUCI Corp Bond Index (*)	3-month LIBOR
June Returns:	0.88% (**)	1.24%	-0.12%	0.11%
June Daily Volatility:	0.16%	0.96%	0.43%	0
June Sharpe Ratio:	3.73 (**)	0.90	-0.21	0
June % of (+) Days:	71.43%	57.14%	47.62	100%
Year-to-Day Returns:	0.75% (**)	11.38%	8.40%	0.61%
Y-T-D Annualized Returns:	1.68% (**)	23.12%	16.94%	1.25%
Y-T-D Annual' d Daily Volatility:	2.22%	20.05%	5.83%	0
Y-T-D Sharpe Ratio:	0.27 (**)	1.10	2.90	0
Y-T-D % of Positive Months:	66.67%	66.67%	66.67%	100%
Y-T-D % of Positive Days:	51.55%	57.14%	60.80 %	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 – June and Y-T-D gross returns are 1.26% and 1.76% respectively)



June Commentary

During June, markets continued to take their cues from the Fed, extending the gains established in the earlier part of the first half of the year. Fixed income markets in particular, anticipating another cut in interest rates by the Fed, rallied strongly in the earlier part of the month reaching new highs, before backing off their highs in the latter part of the month when it became increasingly obvious that the Fed would only cut rates by 25 basis points, amidst signs of recovery in the economy. Indeed, the Fed came through with a 25-basis points cut. The equity and corporate bond markets also participated in the Fed-sponsored festivities by recording healthy gains, both signaling an improvement in corporate risk environment and anticipating improved operating results for the half of 2003. Equity volatilities also continued their downward trend, implying a more positive and stable corporate outlook, while the US dollar and gold came off their lows and highs respectively, also signaling a more positive assessment of the US economy from the participants in these markets. Thus, in this macro context, most of the major markets seem to be converging to the idea that a lift in the economic activity seems to be in the cards for the second half of 2003. The only deviation in this picture was the government bond market in which the Fed induced yield erosion continued to push prices higher and higher (and yields lower and lower). In effect, the Fed continues to force investors to invest, and the first bus stop seems to be the government market. And to repeat a theme we have stated in previous letters, such low yields are not indicative of the kind of recovery anticipated by the other markets. Therefore, at some point, something will have to give in!

The corporate bond market continued to benefit from these developments during June by tightening by at least another10 basis points. Apart from the Fed actions, factors that have provided a boost to the market were: continued strong fund flows into fixed income markets; confirmation of reduction in corporate risk (as evidenced by lower equity volatilities and higher equity valuations); continuous efforts on the part of US companies to repair their balance sheets; favorable technical conditions in the market place where the supply of new paper (new issues) continued to lag demand by yield-hungry investors (witness how the market absorbed $17+ billion of GM paper without hesitation); and a receptive and forgiving attitude on the part of investors where bad news seemed to have little or no impact on the market (see negative announcements by EDS, Tenet Healthcare) whereas in other times, such events would trigger market upheavals. All these developments have been continued to put pressure on corporate spreads. Moreover, we are of the opinion that the spread tightening trend is likely to continue. As long as the Fed continues with its accommodating stance, it is likely that we will see continued spread contraction, being the result of historically low interest rates (and the associated grab for yield) as well as improving conditions in the equity and equity volatility markets. Nonetheless, we continue our cautious approach to credit market as we are still of the view that Fed actions are the key propellers of the current state of euphoria in fixed income markets at large.

June was a good month for ETOLIAN CAPITAL resulting in a 1.25% gross (0.88% net of all fees) gain for the month. Gains came from three sources: a modest long spread bias (during June, we averaged about 25% net long corporate spreads); a modest increase in the use leverage; and successful credit selections, particularly on the long side of the portfolio. During June we deployed about 3 times leverage (from 2.2 x times during May), and we used the increased buying power to add to both the long and short portfolio holdings. The portfolio benefited both in terms of risk reduction (through increased diversification) and potential gains. Positions in Cable and Media, Retailing, and Energy and Consumer Products were strong contributors to the fund's performance while new long positions in manufacturing and other economically sensitive sectors further enhanced these gains. We also took advantage of the low spread environment to add to our short positions cognizant of the fact that the payoff maybe sometime down the road. As we look forward into July, we intend to maintain our modest long spread stance, keep adding to our long and short positions, and focusing on individual name selection.

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							0.75%

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

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