ETOLIAN CAPITAL

Monthly Letter – March 2003

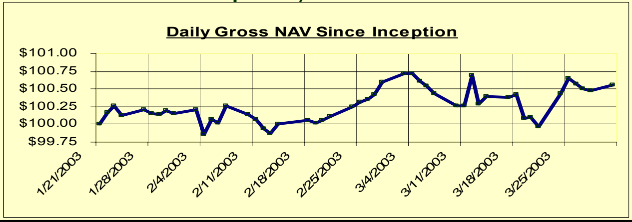
Etolian Capital Group, LP is a private investment management company, primarily focusing on US investment grade corporate credit fixed income opportunities.

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	3-m LIBOR
March Returns:	-0.17% (*)	0.83%	0.11%
March Daily Volatility:	0.16	1.70	0
March Sharpe Ratio	-1.27	0.32	0
March % of (+) Days:	40.0%	52.4%	100%
Year-to-Day Returns:	0.27% (*)	-3.55%	0.30%
Y-T-D Annualized Returns:	2.36% (*)	-14.68%	1.31%
Y-T-D Annual' d Daily Volatility:	2.59%	23.00%	0
Y-T-D Sharpe Ratio:	0.86	-0.69	0
Y-T-D % of Positive Months:	66.66%	33.33%	100%
Y-T-D % of Positive Days:	52.08%	50.82%	100%

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



Monthly Commentary

Instability was the prevailing theme during March, as financial markets followed step-by-step the political and military developments in the US/Iraqi front, generating large fluctuations. Yet, corporate spreads continued their steady contraction trend that has been in place for nearly 5 months. The contrast was most evident during the first half of the month, when a falling equity market would have pointed to potential spread widening (S&P reached levels close to the last October's lows, yet corporate spreads remained at least 100 basis points narrower from the October highs). Spreads continued their contracting trend, taking their cues from falling individual company equity volatilities. Despite the continued subdued economic activity and an uncertain outlook, US corporations have continued to repair their balance sheets (through de-leveraging and extensive cost-cutting), and equity volatilities have been reflecting these efforts. When equity markets rallied strongly in the second half of the month, spread tightening got further momentum. It was not until the end of the month, when the equity market sold-off sharply, that the spread narrowing pressure abated. Overall, during March corporate spreads came in by about 18 to 20 basis points. Moreover, high beta name spreads came even more. Yet, in the overall spread contraction that prevailed during March, there were specific credit horror stories (UNUM Provident, tobacco names, HealthSouth, etc.) which in a different environment could have been catalysts for spreads widening. Yet, in the environment that prevailed in March, these specific stories had minimal or no impact on the rest of the market. Therefore, one has to conclude that unless something major occurs, the trend towards narrower spreads remains intact for the near future.

For ETOLIAN CAPITAL March was a challenging month. As the NAV graph above indicates, in the beginning of the month we participated in the move by recording healthy gains (due to the out-performance of our long positions and the fact that we were slightly long credit spreads (about 60-40)). Yet, as equity markets continued to slide down, and in anticipation of the initiation of the Iraqi war front activities, we decided that it was prudent to return to a neutral position. While this was the prudent action to take, its timing was not. As a result, (i) we missed the spread tightening that accompanied the sharp upward move in the equities markets, (ii) we got hurt from the increased short spread positions, and (iii) we had to absorb the bid-offer spreads of the new positions. As we are looking forward into April, we intend to return to a slight long spread position, and continue to increase both our long and short spread positions through leverage. While this will increase the sensitivity of the portfolio to overall credit spread movements, it will reduce overall risk through increased diversification and less reliance on individual names.

Portfolio Performance (*)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Annual
2003	0.12	0.32	-0.17										0.27%

(*) 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