ETOLIAN CAPITAL

Monthly Letter – May 2003

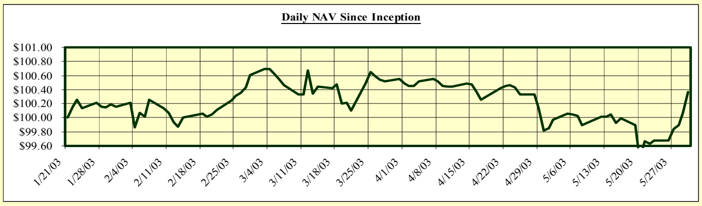
Etolian Capital Group, LP is a private investment management company, primarily focusing on US investment grade corporate credit fixed income opportunities.

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
May Returns:	0.43% (*)	5.15%	0.11%
May Daily Volatility:	0.16	0.97	0
May Sharpe Ratio:	1.52 (*)	3.94	0
May % of (+) Days:	66.67%	57.14%	100%
Year-to-Day Returns:	-0.04% (*)	10.16%	0.54%
Y-T-D Annualized Returns:	-0.63% (*)	23.71%	1.30%
Y-T-D Annual' d Daily Volatility:	2.09%	20.76%	0
Y-T-D Sharpe Ratio:	-0.83 (*)	1.08	0
Y-T-D % of Positive Months:	60.00%	60.00%	100%
Y-T-D % of Positive Days:	50.55%	43.69%	100%

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



May Commentary

The trends identified in our last month's commentary continued to shape the market place during May. Greenspan and the Fed, in their determination to avoid the risk of "deflation", continued their accommodating stance and have supplied the system with ample liquidity (and rhetoric) to engineer a drop in interest rates to successive 25, 30, 40 and 45 year lows. As a result, throughout the month and with the exception of the last week, traders came in every morning and bought US government bonds and sold the US dollar against the Euro. The increased liquidity also found its way to the Equity market which finally showed signs of establishing a healthy base from which it could move higher. Lowered equity volatilities (both in broad indices such as the VIX index, as well as individual company volatilities) also seemed to accommodate the equity market's positive tone. The corporate bond market, supported by the strength in the equity market as well as lower equity volatilities and continuing on April's dramatic spread tightening, followed suit and registered new lows in spreads during May. However, the tightening in the spread markets came to a halt mid way through the month as several companies, responding to the low interest rate environment, came to the new issue markets to raise capital, increasing the supply of corporate bonds. The increased supply coupled with the strong rally in US government bonds, led to a temporary back-up in spreads (about 10 basis points); the first observed since early March. The back-up in spreads gave the opportunity to market participants to catch their breath and, for the first time in this market rally, enabled them to focus and weed through their portfolios. With the market pausing, it was time to focus on ways to make money either by lowering risk and/or increasing returns by switching credits. The corporate market, however, resumed its tightening spread trend towards the end of May. As we look forward into June, it is our view that the spread tightening trend is likely to persist. 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, consistent with our view expressed in last month's letter, our approach to the credit market continues to be cautious as we are still of the view that the Fed is in the midst of creating a "demand-supply" imbalance in fixed income markets that is likely to unwind, with unpleasant implications, at some point in the future.

May was a decent month for ETOLIAN CAPITAL resulting in a 0.55% gross (0.32% net of fees) gain for the month. The positive tone of the market, combined with our long spread positioning, led to healthy gains in portfolios. Most of our gains came from the long portfolio. Specifically, our positions in Cable and Media, Retailing, and Energy and Consumer Products led the gains. At the same time, and although our short portfolio was not a net return contributor, diversification served its purpose as losses in our short portfolio were moderated by gains derived from our short positions in the Hotels & Leisure sector. Overall, and despite our long spread bias (during May, our net long spread positions fluctuated between net 20% to net 38% long credit spreads), we continued to make modest use of leverage, deploying only about 2.2 x capital. We have utilized leverage to increase the number of positions and thus reduce risk through diversification, but because of our cautious approach to the market (and the lack of compelling opportunities to go either long or short) we have elected to keep the utilization of leverage at relatively low levels. Given our views above, as we look forward into June, we intend to maintain our long spread stance. Our main focus, however, will continue to be on individual name selection. In addition, as opportunities materialize and our comfort with the market increases, we intend to increase our gross positions through leverage, further reducing overall risk through increased diversification and less reliance on individual credits.

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								-0.14%

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

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