ETOLIAN CAPITAL

Monthly Letter – November 2003

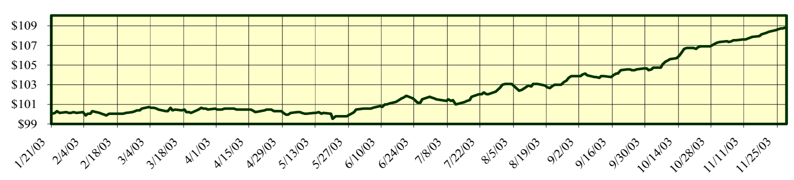
Etolian Capital Group, LP is a private investment management company, which focuses on US credit fixed income opportunities. Its objective is to generate above average, stable returns which are uncorrelated with major market indices by going long and short in cash and derivative fixed income obligations 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 (*) Capital	S&P (**) Index	LUCI (***) Index	3-month LIBOR
November Returns	1.06%	0.71%	1.21%	0.10%
November Daily Volatility	0.06%	0.70%	0.43%	0
November Sharpe Ratio (RFR=1.25%)	13.52	0.75	2.69	0
November % of (+) Days	90.00%	42.11%	33.33%	100%
Year-to-Day Returns	5.86%	20.27%	9.76%	1.10%
Y-t-D Annualized Returns	6.75%	22.71%	10.65%	1.20%
Y-t-D Annualized Daily Volatility	2.32%	17.61%	7.41%	0%
Y-t-D Sharpe Ratio (RFR=1.25%)	2.37	1.21	1.43	0
Y-t-D % of Positive Months	81.82%	81.82%	63.64%	100%
Y-t-D % of Positive Days	63.93%	53.48%	56.58%	100%

(*) Returns are net of fees (1.5% management fee and 20% incentive allocation of profits – Nov and Y-T-D gross returns are 1.48% and 9.10% respectively)
(**) S&P Index returns are gross returns
(***) The LUCI Corporate Bond Index is a 7-10 year total return index compiled by CSFB

Daily NAV Since Inception



Net Portfolio Performance (Net of 1.5% management fee and 20% incentive allocation of profits)

Month	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	0.61	0.50	1.99	1.06		5.86%

November Commentary

On the surface, November was a relatively uneventful month. Positive economic news continued to pour in from all directions, providing able evidence of the economic rebound we are witnessing. Consumers, aided by tax cuts and replenished cash reserves from their home equity lines (thanks to uncle Greenspan's generosity) and armed with a truly American spirit of "let's spend today and not worry about tomorrow", drove an explosive 8.2% third quarter GDP growth. In turn, the corporate sector, aided by large increases in profitability, has responded by increasing industrial production and capital orders and by showing signs for increasing future capital spending, painting the picture of an economy in full rebound. A strong equity market and declining equity volatilities have been confirming the positive economic news by setting new highs (and lows in spreads), respectively. Yet, below the surface other dynamics (that we have been commenting upon periodically) seem to be at work which give rise for pause, reflection and perhaps concern. Despite the robust rebound in the US economy, the US dollar continues to lose value against other currencies. Commodities, and gold in particular, have been making new highs (another way of US dollar depreciation). And, the US Treasury bond market, seemingly oblivious to all the positive economic views, has held pretty steady. We have observed a similar situation in the beginning of this year, when the markets were again giving us conflicting signals. And these conflicts were (partially) resolved with a major rebound in equities and a huge pull back in the US Treasury bond market during the summer. It is our view that we may be entering into another period of similar market unrest which is required to align the markets' assessment of the economy. We continue to maintain our long-held view that the Fed is behind these market imbalances and suspect that the markets, with or without the Fed's nudging, will restore such balances. When and how, remains to be seen. Rest assured though, that we are alert on the wheel!

Meanwhile, driven by increased profits and aided by the lower interest rates, corporate America has continued to repair its balance sheets, and the resulting reduction in business risks has continued to be reflected in tighter corporate bond spreads. And, as noted above, the equity market and the equity volatility markets (the other markets where the same business risk is traded) have been confirming these developments through new highs (in the equity markets) and new 7-year lows (in the equity options markets). Within this context, and unlike October which was characterized by large downward spread moves coupled by fairly large intra-month volatility, November was a relatively quiet month. Corporate spread indices finished the month of November almost unchanged. Yet, below the surface there was a lot of market reshuffling and volatility among individual credits. Names and sectors that made headlines were Ford and the Autos in general, Liberty in the Media sector (following their rating confirmation), and ATT Wireless and the wireless sector (number portability). As in October, during November there was a lot of new issue activity (close to $40 billion) which was orderly and efficiently absorbed by hungry investors who have been busy trying to replace the large redemptions that have occurred (and will continue to occur for the remainder of this quarter). As a result, overall spreads were relatively steady and not even Ford's saga with the S&P downgrade was enough to sidetrack the market. Barring major developments coming from the macro/systemic considerations noted above, and consistent with our stance over the past few months, we continue to be constructive on the outlook for the corporate market for the remainder of the year.

November was ETOLIAN CAPITAL's second best month ever, resulting in a net gain of 1.06% (1.48% gross). During this month, the modus operandi was completely different than that of October and the Fund's performance was driven almost entirely by individual name selection. Having entered the month with slight negative bias (11% short), we squared off positions early on, maintaining a largely neutral market stance, and built up (and finished with) a long bias towards the end (25% long) after assessing that the market was ramping up a number of CDOs and the associated delta hedging (the major drivers of tighter spreads these days). The major contributors to profitability were long positions in GM (following S&P's announcement on Ford), Liberty, and Philip Morris. However, in the beginning of the month we made money on the short side through positions in wire line telecoms (ATT) while wireless names (AWE) added to the profitability towards the end of the month. Other portfolio holdings that we have previously mentioned (TYCO, EK, YUM and DOW) also made positive contributions. We finished the month holding 30 names (16 on the long side and 14 on the short side) with a relatively modest long bias of 25%. Leverage was approximately 3.6 times AUM, comprising 1.95 times AUM long and 1.70 times AUM short. In short, individual credit selection drove performance, confirming once more the validity of our approach and rewarding the discipline that we have adopted and are strictly following. Consistent with our constructive views on credit spreads, but cognizant of the overall systemic risks, we have entered December with a modest long market bias. Yet, we continue to focus on individual credits while being modestly long and paranoid!

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