ETOLIAN CAPITAL

Monthly Letter – October 2003

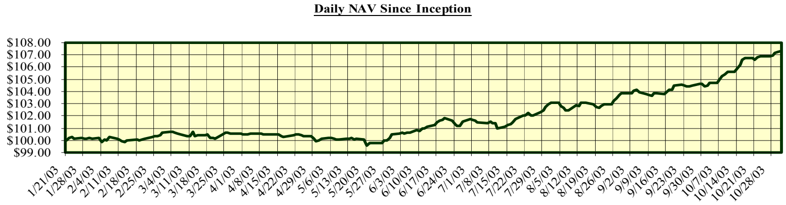
Etolian Capital Group, LP is a private investment management company, which focuses on US credit fixed income opportunities. Its objective is to generate above average, stable returns which are uncorrelated with major market indices by going long and short in cash and derivative fixed income obligations 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
October Returns	1.98%	5.50%	-1.40%	0.10%
October Daily Volatility	0.15%	0.79%	0.47%	0.00%
October Sharpe Ratio	8.81	4.71	-2.17	0.00
October % of (+) Days	86.96%	69.57%	50.00%	100%
Year-to-Day Returns	4.67%	19.42%	6.55%	1.00%
Y-t-D Annualized Returns	5.92%	23.20%	7.86%	1.20%
Y-t-D Annualized Daily Volatility	2.41%	18.09%	6.51%	0.00%
Y-t-D Sharpe Ratio	2.04	1.22	1.21	0.00
Y-t-D % of Positive Months	80.00%	80.00%	66.67%	100%
Y-t-D % of Positive Days	55.57%	54.50%	57.14%	100%

(*) Returns are net of fees (1.5% management fee and 20% incentive allocation of profits – Oct and Y-T-D gross returns are 2.64% and 7.30% 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



October Commentary

Any remaining doubts about the state of the US recovery were dispelled during October when a spate of economic news confirmed the economic recovery story and surprised many participants (including us) with its strength. The GDP growth figure of 7.2% in the third quarter, in particular, caught a lot of people by surprise and confirmed what the stock market had already figured out through the above expectations third quarter earnings announcements. Even the employment picture, the only lagging piece in the recovery story, showed signs of improvement through slightly falling unemployment claims. Market reaction was volatile but predictable. To begin with, the US dollar recovered from its lows against the Euro and the Japanese Yen. It was the result of a combination of positive economic news and back-pedaling on the part of the G-7 countries (mainly the US) which, observing last month's adverse market reaction to their interventions by rhetoric, sensibly abstained from commenting any further and allowed markets to reach their levels. The US Treasury bond market experienced a sharp sell-off, offsetting most of the gains made since the August. At the same time, the improving economic picture, coupled with plenty of liquidity available by the Fed, fueled strong gains in equity markets, and continued to lead to reductions in business risk as evidenced by the continuing drop in implied equity volatilities (the VIX Index reached 7-year low during October). Corporate spreads, another indicator of business risk, followed in tandem leading to strong gains in the first half of the month. Credit spreads reductions were sharp (about 15 to 20 basis points) and broad-based but, again, were more pronounced in the higher betas sectors/names (BBBs and BBs). As company after company announced their third quarter earnings, there were strong parallel rallies in the markets for business risk (i.e., equity and corporate bond markets). In addition, strong new CDO activity put a strong bid in the market for many names, providing another layer of support to an overall strong credit market. Airlines, Technology, Telecom, Utilities, and Financials led the gains. The rally was stopped on its tracks in the third week when S&P placed Ford on negative watch, sending the Auto sector in a tailspin and setting a negative tone for the rest of the market for the remainder of the month. Yet, despite this setback and the re-emergence of a number of short-sellers, the credit market managed to hold on to most of the gains experienced during the first half of the month, amidst a torrent of new issues. Remarkably, the market place absorbed the largest amount of new issues seen in a month so far in 2003 (about $45 billion). As we look to the remainder of 2003, we are of the view that most of the action in the corporate spread market has been had, and major moves are unlikely to materialize. The fundamentals continue to support a case for further tightening in corporate spreads. However, as most of market participants will be completing their plans for 2003, it is likely that they will tend to abstain from significant market involvement, giving rise to trading range markets.

October was ETOLIAN CAPITAL's best month ever, resulting in a 2.64% gross (1.98% net of all fees) gain for the month. It was also a very gratifying month for our strategy as almost all of the "cylinders" of our investment thesis lined up. Individual credit selection drove the bulk of the results for the month. In particular, the long side of the portfolio made a contribution of approximately 1.25% to the total result, driven primarily by significant gains in TYCO, Eastman Kodak, Yum, Centerpoint and Dow Chemical. The short side of the portfolio also made a positive contribution in the second half of the month by adding another 0.15% to the total result, driven by gains in short positions in ATT and ATT Wireless. Finally, the positioning of the portfolio accounted for the remainder of the performance, adding a further 0.58% to the monthly performance to an already strong result. More specifically, we entered the month holding 33 credits with an unusually strong long corporate spread bias (42% long) – our longest since inception. Leverage was approximately 3.2 times AUM, comprising 1.75 times AUM long and 1.33 times AUM short. The long bias was squared off half way through the month. By the end of the month we were 0.11% net short with a leverage of about 3.8 times, holding 28 credits. In short, our focus on individual credit selection was greatly rewarded during October and was further reinforced by taking advantage of the underlying market volatility in exercising the (limited) option that we have to expose the fund to credit trends (positive or negative). Consistent with our views about the US credit market outlook expressed above, we have pulled close to market neutral position, while we continue to focus on individual credits as it is our belief that performance in the next couple of months is likely to materialize from individual credit stories rather than overall credit market moves.

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	0.61	0.50	1.98			4.67%

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

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