ETOLIAN CAPITAL

Monthly Letter – September 2003

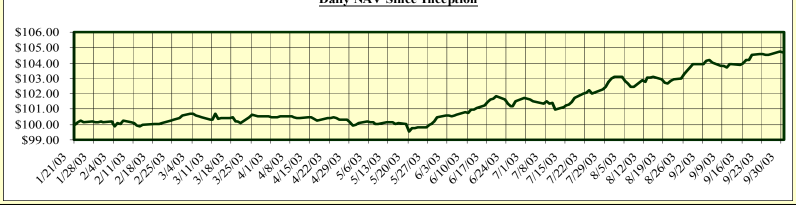
Etolian Capital Group, LP is a private investment management company, which focuses on US credit fixed income opportunities. Its objective is to generate above average, stable returns which are uncorrelated with major market indices by going long and short in cash and derivative fixed income obligations 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	S&P	LUCI Corp Bond Index (*)	3-month LIBOR
Sept Returns:	0.50% (**)	-1.19%	4.36%	0.10%
Sept Daily Volatility:	0.13%	0.95%	0.51%	0
Sept Sharpe Ratio:	2.39 (**)	-1.02	6.44	0
Sept % of (+) Days:	52.38%	47.6%	61.90%	100%
Year-to-Day Returns:	2.69% (**)	13.20%	7.96%	0.90%
Y-T-D Annualized Returns:	3.45% (**)	17.70%	10.67%	1.20%
Y-T-D Annual' d Daily Volatility:	2.38%	18.70%	7.06%	0
Y-T-D Sharpe Ratio:	1.03 (**)	0.89	1.51	0
Y-T-D % of Positive Months:	77.80%	77.80%	55.61%	100%
Y-T-D % of Positive Days:	56.82%	53.21%	57.43%	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 – Sept and Y-T-D gross returns are 0.78% and 4.66% respectively)

Daily NAV Since Inception



September Commentary

September almost lived up to its expectation as a traditionally volatile month (along with October). With the economic policy levers (both monetary and fiscal) in full throttle, the economy continued to show signs of strength, and a stream of positive economic news continued to support a picture of a recovering US economy (evidenced by Factory Orders, ISM Manufacturing, Auto Sales, New Home Sales and Personal Consumption). Yet, weak employment data continued to cast doubt about the strength and the durability of the recovery and attracting the attention not only of the markets but also the politicians here and abroad. In an increasingly interconnected world in which the factors of production (particularly capital) are extremely mobile, production tends to go to places where it is cheapest and most efficient to produce. And these days, this place happens to be Southeast Asia and China in particular. It is now becoming apparent that a lot of the economic up-tick is feeding into Chinese factories. Which is OK from an economic efficiency point of view, but not OK with the politicians in the US and their affected constituencies. This turned out to be the prime source of volatility during September, as "noises" made in the G7 meetings (about the need to depreciate the US dollar, and appreciate currencies such as the renminbi) caused repercussions throughout the markets. Predictably, markets reacted. And not passively! Our view is that the politicians are playing with fire and they should let the market forces establish fair exchange rates. The economy has enough momentum to keep going and, left to its own, will do all the necessary adjustments, including in employment as it sails ahead.

The G7 developments and corrections from the violent and extreme moves that took place in July/August were the themes that dominated the markets in September. Aided by Fed Governor Bernake's comments about the Fed maintaining its accommodating stance in the foreseeable future, US Treasuries rallied strongly throughout the month. To put things in perspective, by the end of September the 10-year UST note stood 65 basis points lower from its 4.65% high. Equity markets, on the other hand, were more volatile and, paradoxically, they bore the brunt (along with the US dollar) of the market turmoil caused by the unfortunate G7 rhetoric which, in addition, roiled the foreign exchange markets (US dollar dropped significantly against both the Euro and the Yen) and the commodities markets (gold moved higher). Weak reading in the Philadelphia Fed Survey and in Durable Goods orders added to the market pains and led to a 30% spike in equity volatility indices which was indicative of the markets' uneasiness with these developments. In the midst of all these developments, the corporate fixed income market continued to grind tighter, despite the record issuance of new corporate debt that we saw in September. It was only towards the second-half of the month, and in response to lower equity prices and increased equity volatility, that the corporate market gave ground through a widening in spreads by as much as 10 basis points. But even this move proved short-lived as real money stepped in to buy at a discount. Again, high beta names (BBB's) provided the leadership in the market. Autos, which rallied in the beginning of the month, gave up their gains towards the end of the month, while utilities continued to grind tighter. These developments continue to confirm our constructive outlook for the US corporate market

September was a decent month for ETOLIAN CAPITAL resulting in a 0.78% gross (0.50% net of all fees) gain for the month. The story of September can be summarized as one where gains achieved in the first half of the month where moderated by losses incurred during the second half of the month. We entered the month being quite long (about 32%), and higher leveraged (3.2 times AUM) by our standards. This position paid off in the beginning of the month and it hurt us a bit later on, but not enough to surrender all our gains. In addition, long exposure to Healthcare and Consumer Products and Insurance names added to the performance of the portfolio. Although the short side did not add to the month's profitability, it added stability by not losing money in the earlier part of the month. As we look into October, we will continue our long bias (about 40% long) while keeping leverage at roughly the same levels (around 3 time AUM). This month we would also like to take the opportunity to welcome Actaeon Omni Fund, LP to our investor group.

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				2.69%

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

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