ETOLIAN CAPITAL

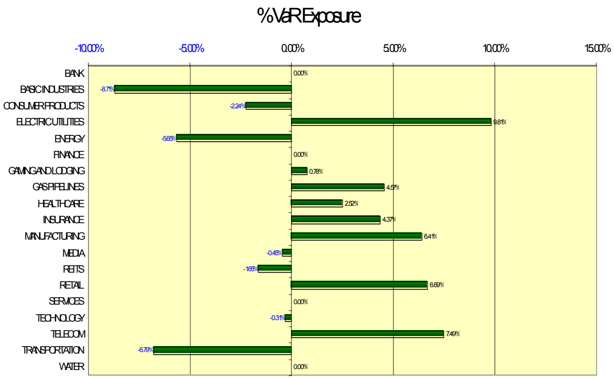
Monthly Letter: November 2004

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).

	E Capital (*) Onshore	E Capital (*) Offshore	S&P (**) Index	LUCI (***) Tot Return	LUCI (***) ASW
November Return	0.54%	0.54%	3.86%	-1.19%	0.62%
November Daily Volatility	0.11%	0.11%	0.63%	0.31%	0.06%
November Sharpe Ratio	2.62	2.62	5.56	-3.31	5.83
November % of (+) Days	57.14%	57.14%	57%	45%	75%
Year-to-Day Returns	4.38%	4.33%	5.57%	5.11%	0.92%
Y-t-D Annualized Return	4.78%	4.72%	6.09%	5.66%	1.02%
Y-t-D Annualized Daily Volatility	2.39%	2.39%	11.25%	2.53%	1.51%
Y-t-D Sharpe Ratio	1.29	1.26	0.41	0.10	0.67
Y-t-D % of (+) Months	91%	91%	73%	73%	45%
Y-t-D % of (+) Days	66%	66%	55%	53%	52%

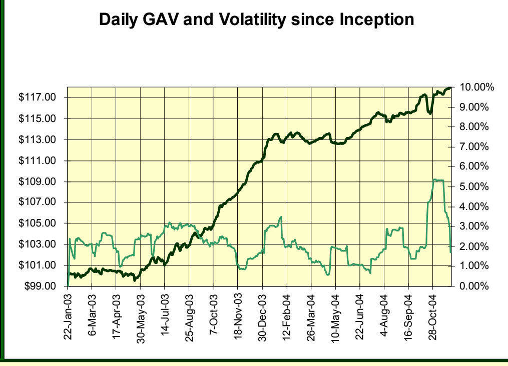
(*) Returns are net of fees (1.5% management fee and 20% incentive allocation of profits. November and Y-T-D gross returns for the Onshore fund are 0.80% and 6.95% respectively)
(**) S&P Index returns are gross returns
(***) The 7-10 year LUCI Corporate Bond Index is compiled by CSFB (ASW=Asset Swap)



Portfolio Performance

	2003	2004
January	0.10%	1.26%
February	0.25%	0.31%
March	-0.14%	-0.69%
April	-0.59%	0.04%
May	0.34%	0.03%
June	0.90%	0.85%
July	0.86%	0.77%
August	0.64%	0.03%
September	0.53%	0.41%
October	2.01%	0.77%
November	1.08%	0.54%
December	2.00%	
Y-T-D	8.25%	4.38%
Since Inception		13.00%

AUM: $22.7 million



November Commentary

Economic developments during November supplied enough fuel to keep the debate going as to how good or bad the state of the economy is. On the bullish side of the story we saw continued strength in manufacturing and production, driven primarily by continued gains in productivity. Aided by another surge in consumption, the 3rd quarter GDP growth of 3.9% confirmed these trends. Yet, the bearish side, prompted by a weakening dollar and sub-par job creation, continues to see trouble ahead with US consumers and their indebtness, the twin deficits and the increasing amount of financing provided by foreigners (who seem to have discovered credit!), and the bearish outlook in the US dollar with its potentially destabilizing effects on the US markets. Well, the equity markets did side with the bulls, with the S&P and NASDAQ rallying a healthy 3.9% and 5.9% respectively during November. And equity volatility continued to trend lower as the VIX closed the month near 13 (it started at 16.4) after touching another 8-year low. This environment compels us to leave our view on the economy's outlook unchanged. We will continue to keep an eye on job creation as a clue to what the consumer does, and still expect a positive but subdued economic growth path, yet a path mined by factors such as those listed above which, although currently benign, they could prove destabilizing to markets with the right catalyst. What would that catalyst be, is the $64 K question!

Meanwhile, during November the credit markets continued their merry state of affairs, by further extending the rally that has been in place since late August, only taking a breather in the 2 short weeks around Veteran's Day and Thanksgivings. Driven by a favorable economic environment, healthy corporate balance sheets, and a slew of favorable technical conditions, corporate spreads continued their tightening trend, reaching new lows for the year. We should add to this list, foreign flows which, according to recent data, have made US credit their favorite destination in their quest for extra yield. Again, synthetic CDO activity provided the extra push in spread tightening which occurred across the board. To put things in perspective, the Investment Grade (IG) and HVOL indices ended the month at 47 and 92 from 53 and 102 respectively at the beginning of the month. Transportation, Media, Basic Industries, Manufacturing, Finance and Healthcare led the charge while Utilities, Energy and Pipelines were the laggards. Idiosyncratic risk was subdued, and noteworthy in this context was Sears which merged with Kmart. Were do we go from here? Most likely tighter, as most conditions that have caused the tightening are still intact. Are we in the midst of irrational exuberance? Most likely yes! But let's not forget that even Mr. Greenspan was about 3 years early! As concerned as we are with the speed at which we have reached these levels, we get comfort from the fact that equity and equity volatility movements have been supportive of the changes in credit spreads. However, as the distance to zero spreads becomes smaller and smaller, the potential rewards from being long are getting less and less while the potential risks are increasing commensurately. To sum it up, although we feel that the market has more room to go, we are becoming increasing paranoid about the risk/return tradeoff.

At Etolian Capital during November these risk/return considerations resulted in a net outcome of 54 basis points to investors. We entered the month with modest portfolio exposures as we grew increasingly concerned about the pace of the credit tightening. As the month progressed, it became obvious to us that the spread tightening market environment was not about to change. As a result, we gradually began to adopt a more dynamic portfolio approach aimed at modestly increasing our long exposure (within the parameters of our strategy) and by looking for ways to trade the market without unduly increasing the portfolio's downside exposure. We did that by utilizing pair trading, options strategies, positions along the credit curve, and by day trading. The repositioning was successful enabling us to "catch up" towards the end of the month. As we look to the remainder of the year, our current strategy will remain unchanged and geared to the long side by being 243% long and 224% short (about 19% net long). The portfolio contains 55 names, of which 30 names are on the long side and 25 on the short side, and utilized leverage is approximately 4.65 times.

ETOLIAN CAPITAL GROUP LP, 67 Wall Street, 10th Floor, New York, NY 10005; Phone (212) 659-2430, Fax (212) 659-2443, info@etolian.com, http://www.etolian.com