Pacholder High Yield Fund, Inc.
Auction Rate Cumulative Preferred Shares
Q&A

March 6, 2008

Over the past several weeks, a number of auctions for preferred shares of closed-end funds and other issuers have failed. The weekly auction for the auction rate cumulative preferred shares (the "Preferred Shares") issued by the Fund has failed since February 13, 2008. The following Q&A provides information about failed auctions and is designed to help address questions you may have concerning the Fund's Preferred Shares.

Q: What is a failed auction?

- If there are more Preferred Shares offered for sale than the number of offers to purchase with a dividend rate equal to or lower than the "maximum rate" for the Preferred Shares (described below), then the auction is considered to be a failed auction.

Q: What happens when an auction fails?

- If an auction fails, you may not be able to sell some or all of your Preferred Shares. However, a failed auction is not a default and the Fund does not rely on a bond insurer for its credit ratings.

- Preferred Shareholders continue to receive dividends at the maximum rate, and their "liquidation preference" of $25,000 per share (plus accumulated but unpaid dividends, if any) is unaffected. Based on the current credit ratings assigned to the Preferred Shares, the maximum rate is equal to 150% of the "AA" Financial Composite Commercial Paper Rate on the date of the auction.

- Preferred Shareholders who wished to sell Preferred Shares, to the extent they were unable to do so, will continue to hold their Preferred Shares. They may offer their Preferred Shares at the next scheduled auction, subject to the same risk that the subsequent auction will not attract sufficient demand for a successful auction to occur.

- If an auction fails, the Fund's dividend rate is set at a "maximum rate" for all Preferred Shares, not just the unsold shares.

- The Fund's auction procedures include a pro rata allocation of Preferred Shares for purchases and sales.

- This allocation process may result in an existing Preferred Shareholder selling fewer shares than the Preferred Shareholder wanted to sell. If this happens, broker-dealers will be required to make appropriate pro rata allocation among their customers and the Preferred Shareholder will continue to hold the unsold portion of its shares.

Q: Are the recent failed auctions specific to closed end funds or issuers with exposure to high yield portfolios?

- No. Auction failures have occurred across the financial markets and are not specific to closed-end high yield funds. The number of recently failed auctions suggests that this is a broad-based liquidity issue, and not specific to the Fund or any asset category.

Q: Will I be able to sell my Preferred Shares at the next regularly scheduled auction or in the secondary market?

- We cannot predict what will happen with upcoming auctions. Given current market conditions, there may be continued liquidity issues and displacements in the auction rate market.

- Broker-dealers may maintain a secondary trading market for Preferred Shares outside of auctions, but they are not required to do so. There is no assurance that a secondary market for Preferred Shares will develop or, if it does develop, that it will provide Preferred Shareholders with liquidity.

Q: Are Preferred Shareholders who were unable to sell at a prior auction given preferential treatment in subsequent auctions?

- No, each auction is a new auction and all sellers are treated equally.

Q: Can bids be placed for rates higher than the maximum rate?

- No, they are capped at the maximum rate, which is calculated on the day of the applicable auction. If that auction fails, the maximum rate determined on that date remains in effect until the next scheduled auction.

Q: What impact do the auction failures have on common shareholders and the Fund's leverage?

- If an auction fails, the Fund's cost of leverage may increase and impact the income available for distribution to common shareholders. The Fund is closely monitoring the impact of the auction failures on the cost of financing the Fund's leverage. If the current market dislocations persist for an extended period of time, the Fund may evaluate its leverage or method of financing such leverage.

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The Fund is a closed-end investment company. Closed-end investment companies differ from open-end investment companies (commonly referred to as "mutual funds") in that closed-end investment companies have a fixed capital base, whereas open-end companies issue securities redeemable at net asset value at any time at the option of the shareholder and typically engage in a continuous offering of their shares.

The information presented here is not intended as a solicitation. New investors cannot purchase shares directly from the Fund. Common Shares of the Fund are listed on the American Stock Exchange, and interested investors should contact their financial advisor or broker-dealer for more information. The Fund was organized as a corporation under the laws of Maryland on August 17, 1988 and has registered with the SEC under the Investment Company Act of 1940, as amended. The Fund's principal office is located at 8044 Montgomery Road, Suite 555, Cincinnati, Ohio 45236. For more information visit us at www.phf-hy.com, or call 1-877-217-9502.

The Fund's investment adviser is J.P. Morgan Investment Management Inc., an investment management firm registered with the SEC under the Investment Advisers Act of 1940.

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