

**PIONEER INVESTMENTS**

**Conference Call Transcript on  
Pioneer High Income Trust (PHT) &  
Pioneer Diversified High Income Trust (HNW)  
July 10, 2008  
4:00 pm EST**

Tony Clarizio: Good afternoon and thank you for taking the time to join us for today's conference call. We will be discussing Pioneer High Income Trust which trades under the New York Stock Exchange symbol PHT and Pioneer Diversified High Income Trust which trades under the American Stock Exchange symbol HNW.

My name is Tony Clarizio. I am a senior product manager here at Pioneer. Before we begin I'd like to say that this call will include statements that contain forward looking information. Such statements are necessarily subject to risks and uncertainties, some of which are significant in scope and by their very nature beyond the control of funds and its investment advisor, Pioneer Investment Management, Inc. There can be no assurance that such statements will prove to be accurate and actual results and future events could differ in material fashion for those anticipated in such statements. Historical results are not necessarily indicative of future performance.

With that said this call will be available for replay for one week by dialing 800-642-1687 and you will need the ID number for access which is 54078872. Also we will post a transcript of this call to our website at [www.pioneerinvestments.com](http://www.pioneerinvestments.com).

We're pleased to be joined today by Andrew Feltus, portfolio manager of PHT and one of the portfolio managers on HNW. Andrew's going to give us

an update on PHT and the high yield market as well as an update on HNW and the global high yield, floating rate and cat bond market. We will save the Q&A until the end once Andrew has completed his remarks.

Before I begin let me reassure you that solving the auction rate crisis as it relates to our outstanding auction rate preferred securities remains a top priority at all levels of this organization and continues to be the center of attention for our Board at all of their meetings. We continue to aggressively vet potential solutions in trying to restore liquidity to our preferred shareholders while considering the interests of our common shareholders. One option particularly compelling for taxable funds is to utilize a traditional bank loan to replace the outstanding auction rate preferred securities. Another option to provide liquidity is to make these securities eligible for purchase by money market funds. On that front there has been some recent news by some other firms in the industry and we are encouraged by that news and the related regulatory guidelines around such news.

With that let me turn it over to Mr. Andrew Feltus.

Andrew Feltus: Welcome to everyone. Thank you for taking time out of your busy day and from hectic markets. Pioneer has always been a value shop that was always focused on making sure we get paid for the risks you're taking and that we are picking securities with good capital appreciation.

And if you look at our track record in the high yield space I think you'll see that it's second to none. Two other funds I manage - the high yield fund - the Pioneer High Yield Fund TAHYX is actually the number one high yield fund on a ten year basis as of the end of June.

Likewise the other fund that I'm probably more well known for is the Global High Yield Fund or PGHYX. It is the number two overall high yield fund on a five year basis.

Most importantly we are proud of how consistently we've been able to deliver strong performance to both investors in our closed end and open end funds. And I think if you look back at the long track record we've established in PHT - Pioneer High Income Trust, those of you who have been investors for a long time have been very happy with that.

The bad news is the market is extremely volatile and I feel almost like where we were last August when we had a discussion like this. The markets were rough, the funds were trading at a discount, and I was very upset with how the markets treated us.

And I don't have those complaints today on High Income Trust. I do have those on HNW – which we'll get to later. But I think the overall theme today before we start talking about the fund is that the high yield market is trading at extreme levels - that the value within the space is extraordinary.

Year to date the high yield market based on the index is down about 2.1%. The bank loan market's down about 1.2%. That puts the spread on the high yield market as of yesterday's close - at 782 basis points over treasuries. That's an option adjustment spread so your actual day to day yield is even higher.

But to put that in perspective that means the market is discounting a 10 to 12% default rate depending on what kind of liquidity you require. Historically we've peaked around 11% back in both 1991 and in 2001. So even if that type of scenario occurred you're getting paid for that risk.

Now what if the default scenario is lower - then you should expect on a medium term basis to achieve a much higher total return. And actually the current US default rate is running about 2.5%. On a global basis we're running around 2%.

We expect to see that number continue to rise. But we don't expect it to get anywhere near that 10 to 12% figure. We think this year we will probably end up around 4% default rate in the market - the overall market. And even next year if the economy gets worse than we expect that default rate could rise to more like a 6% number. However, when the market's discounting 10 to 12% it clearly has overreacted.

Now currently we are at 11.1% on the overall yield. So what happens if over the next year we actually go to 12%? Well that implies that you're going to have a 4% loss to principal and let's assume we have a 6% default rate. At this point I don't see anyone projecting a 6% default rate. We think it's 4 - Moody's is saying 4 to 5%. But let's say 6 - that's going to cost you another 4% and that's going to give you a total return if we go to an extreme level on the high yield market. - that is if we have an extremely high default rate then that will give you a total return of about 3% over the next 12 months.

Now 3% is not great but that's better than money market or treasury instruments I'm looking at. If we get a better outcome - defaults are only 5% and, you know, we stabilize our spreads you're going to be looking at a very attractive total return. And if the markets normalize you can expect to see even more return.

Now, the economy has basically gone as we had expected. At the beginning of the year we said that there was not going to be a recession in '08. If there was a recession it was going to be in the fourth quarter/first quarter of this year.

And that's what occurred, a combination of prudent moves by the Fed and rebate checks by the government, etc. But from an underlying economic environment perspective, we're looking at growth this year somewhere between 1 and 3%. That's not good. But for the high yield market it's not bad.

Yeah I'd like to see growth stronger - that's good for basically everyone. But we have a lot of imbalances unwinding - mainly the financial system has been over lended and that needs to be corrected. And likewise the consumer is over lended - the sub prime market being the poster child for the consumer. Those are two things that have to be corrected.

And the only way to do that is to increase savings and that's a long, slow story. Authorities will do what they can to try to smooth out the bumps but we're looking at a slow growth type scenario. And that means that we shouldn't be expecting to get huge amounts of price appreciation but should be more focused whether you're investing bonds or equities on what your yield is and then making sure that you don't step on land mines. . . that you don't make good/bad security selections and end up with defaults. And that's the core of our high yield approach - do fundamental analysis, make sure we're getting paid for the risk, and then invest the portfolio in sectors where we see good risk/return opportunities.

Pioneer High Income Trust; last August we were trading at double digit discounts. And, it's particularly appalling given how strongly we had performed relative to our competition. We actually had less leverage than the average closed end fund and they were trading at much smaller discounts.

As of yesterday we were trading at 1.34% premium. I'm not happy - I wish we were trading at a higher level than that, but we look better compared to a

lot of our competition which is trading at double digit negative discount to be precise. So thank you for your support.

The high yield market is down 2.1% year to date on a net asset value basis. High Income Trust is down 2.6% year to date. And while that had under performed the index you also have to remember that we're 25.6% leveraged. So if you stripped out that leverage we'd basically be down a little bit but we'd be a lot closer to zero in that number. So we're very happy with that result.

We did have one default in the last three months. It's our first default we've had in the last three years. Any high yield manager says he doesn't have defaults is lying. Either that or they're not really a high yield manager.

The important thing is that you manage through them and/or avoid them. And that one default was actually a loan - cost the firm somewhere between five to ten basis points. And we can afford to take that kind of loss. The point being is that you don't lose hundreds of basis points when you make a mistake.

So HNW is a diversified high income trust. We've been able to pay out a consistent dividend since we've launched that fund. And that is going to continue at least for the short term to be the case.

We have actually under distributed by a significant amount. We are actually earning the dividend at a very decent rate. And this was a concern we had a year ago that we were reinvesting securities at a much lower rate than we had originally bought securities.

Likewise our finance rate had risen and we're basically being squeezed between the two. Now the high yield market has corrected and we're now

purchasing much higher yields than previous. Likewise the Fed has eased significantly and that has lowered the cost of funding on the other end. So we're in a much stronger position today than we were six months ago.

HNW I feel exactly like I did in High Income Trust last year. First, let's look at our numbers. Since we have launched the fund - on a net asset value basis - the fund has delivered returns of 1.44% on an annual basis.

Now that doesn't sound great but you have to remember that this is a high yield market that's down significantly since then. On a one year basis the high yield market is down 2.7%. The bank market's down 2.65%. It's been an awful market.

How have we been able to achieve that return? Well if you remember the fund is basically three different parts. It's catastrophe bonds, which is basically driven from insurance outcomes based on weather patterns. As long as there are no major hurricanes or earthquakes we would expect to get good returns.

Secondly a loan portfolio and third, global high yield, which we mentioned briefly before - with a very strong long term track record. HNW takes a diversified approach to high yield investors - not just being a traditional US high yield product.

Basically the loan portfolio and global high yield components have struggled. But performance has been okay compared to our peers but not outstanding. But the CAT bond leg of the portfolio has been extremely supportive.

While we haven't seen capital gains - these are short duration instruments - we have not had major losses and we have earned almost a 10% yield by investing in the CAT exposure.

Now given the recent changes and the large correction in the market we've actually tilted the portfolio a little bit more into the global high yield and a little bit less to loans. As the Fed has cut, that lowers the earning rate on the loans and then secondly, we want a lot in those very high returns you can get in the global high yield market right now where it's 10, 11, 12% on average. We want to lock that in for as long as we can.

The loan market is usually callable and because of floating rate you have much less certainty looking in the future about what your dividends or your expected interest rate payments are going to be. And so the shift to global high yields is to try to take advantage and lock in the very attractive levels we've seen.

Now compared to our competition, we've actually delivered positive performance in the last year to date and 12 months since inception where all other funds and all our competition has delivered negative performance.

We're currently trading at a 12.1% discount at a 12-1/2% yield off the dividend. This is extreme. If I compare our performance relative to loans or the high yield market than the other closed end funds, our performance is superior, our yields are attractive, but the market's trading us at an extreme discount.

And I don't think that properly reflects what we've delivered or what we will continue to deliver or the work we've done on the high yield market. I have been purchasing this fund. Other people at our firm have been. It's an extreme valuation. I can't explain it. It makes me angry and I know this is going to be one of the issues that when our trustees meet next week - they'll be talking about how to correct this.

It doesn't make sense and, as we look at these markets these days, they're plenty of bad guys out there. The financials are clearly something we struggle with every day. But to see this product basically thrown out with the trash like it has been it makes me a little angry.

And so, I'd recommend that if you're a shareholder, thank you for your support and we'll continue to do everything we can to maximize your return. And if you're not involved I think it makes sense to take a hard look at this and see if this makes sense in yours and your clients' portfolio.

Caller #1: Good afternoon. I'd like to compliment you for a very fine job under difficult circumstances.

I had a couple of questions here. It's really something to see this diametric opposed situation where PHT is selling at a slight premium and HNW is over 12% discount.

I think it's a blessing that we got a 12% discount. Would you continue to take parts of the discount as a supplement in the event we don't hit our dividend? That would be one question. I know the other day we needed a few pennies and we just take it as a return of capital. In effect it comes out of the discount.

And in PHT are we pretty close to covering our dividends at the present time? Those are the two questions.

Andrew Feltus: Thanks for your kind words. On PHT there's absolutely no issues on the dividend at all. We're earning it. It's going to be very strong in the future.

HNW - that is up to the Board and I would ask you to write them a letter and tell them how you feel. What you said makes perfect sense. But at the end of the day it's their decision exactly how to do that.

But we are sensitive to both the dividend issue and to the discount issue. What we want to do is what makes sense for the long term for all our investors.

For instance, HNW doesn't have any auction rate preferred stock. That's not an issue. What we do is we have a bank loan. And one for the reasons that we were able to have good performance is we took our time to make sure we had attractively priced funding that made sense.

And on these others issues that's why we have to make sure we do our best in the long term not just do something rash that might help in the short term but is detrimental for everyone's long term interests. And I say that as a shareholder on both of these funds.

Caller #1: I follow the trading very closely on PHT. Recently 350,000 shares traded - we went up during the day a whole point and of course we gradually pulled back. I was wondering what had happened that the stock suddenly went up so strongly in one day; I never saw a closed end fund to go up almost a point.

I think it netted out 77 cents at the end of the day but it was up almost a point during the day.

Andrew Feltus: The liquidity in the closed end market is not as good as a lot of the other parts of the market. And when you get large trading orders into the market it can cause huge movements proportionally both up and down.

And sometimes it makes sense and sometimes we're just left trying to understand what's going on. But that's how the market works.

Caller #1: The very next day it went up about 40, 45 cents. There was no reason for it to go down. The NAV stayed the same and here it lost all that money in one day. So it was most peculiar. I didn't know what was happening. Maybe it was a mutual fund that was selling and so forth.

Anyway thank you for your answers. I feel more comfortable with PHT even though it has a little premium and certainly HNW gives me a lot of confidence with the discount and the way you're handling it.

Andrew Feltus: Thank you.

Caller #2: Hi thanks for the call. I was actually hoping you could give a little more color in terms of what you think of the catastrophe bond market over the next quarter or so and how attractively you see that's being priced right now versus other high yield parts.

Andrew Feltus: Well really right now this is more a seasonal issue. We're about a third into the hurricane season. And there's a hurricane out in the Atlantic right now but it looks like it's going to steer north. And also for the funds to actually have an event it needs to have a very extreme hurricane event. Katrina would not trigger events in the market. You need something about twice as big as Katrina.

But the performance over the next quarter or so is going to be driven by what happens with the weather. And so, I could give you the odds but predicting what the weather will be is way beyond my ability.

Having said that, the CAT bond market has performed extremely well over the last year. We have not had principal losses. But the value still makes sense on a portfolio construction basis but clearly the other parts of the high yield market whether that's loan or US high yields or global high yields have all cheapened up relative to the cat bond market.

And so it's not that the CAT bond market's less attractive in that it still makes sense when we build the portfolio but these other markets are much cheaper than they were previously.

So we're more likely to add other parts of the high yield market than expand our position in CAT bonds.

Caller #3: Am I correct that the optimum condition would be to buy a fund at a large discount and have it go to a premium? So you're looking for it to go to a premium?

Andrew Feltus: Well, what we want is for the market to prescribe proper valuation to our assets vis-a- vis our competitors. And, whether we should be at a premiums or a discount, that's for the market to determine.

The only thing I know is when you look at our premium or discount - particularly on the HNW compared to our competition and look at our performance, there's something out of whack.

It doesn't make sense to us.

Caller #3: Regarding PHT, are you able to mark the portfolio to market every day or is it to model?

Andrew Feltus: No everything's mark to market. We have no control at all over the pricing. It's done by independent fiduciary with an independent pricing service.

Caller #3: The reason I ask is because for some securities - I wouldn't understand how you'd come up with a price every day.

Andrew Feltus: A high yield market's an over the counter market. Now these things don't trade a lot. But people are making markets in these bonds and that's what drives the pricing..

Now we don't collect that pricing. It's an independent pricing service that goes out and on all the assets whether they're loans or bonds or CAT bonds they go out and survey markets and use that to determine the day to day pricing.

Caller #3: Something keeps on confusing me. I hear on the talk shows or the financial programs about the spread between the high yield and the treasury and whether that's good or bad.

And I'm assuming it's good for you if there's a high spread but not for investors in other types of instruments. Am I correct?

Andrew Feltus: Well usually as you see high yield spreads widen it's indicative of a worsening economy - particularly a rising default rate. And so that doesn't make other peoples' lives easier but it also is indicative of what your future expected returns should look like.

As I run the analysis when we've had these levels before, there's never been a time one year out the levels weren't tighter. And that's why it's an interesting

entry point. But it's not going to be the next three months. It's much more of a medium term view of what's going to happen.

Caller #3: Okay. Thank you very, very much.

Tony Clarizio: Great well thank you everyone. Actually let me just give you the dial in number again for the replay. It's 800-642-1687. You'll need the access code which is 54078872. The replay's available for one week from today.

I want to thank Andrew Feltus for his time and his update. I want to thank all of you for your time, your partnership, and your continued support. Have a great rest of the week. Thank you.

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