

H&Q HEALTHCARE INVESTORS



Semiannual Report

March 31, 2011

(Unaudited)

To our Shareholders:

On March 31, 2011, the net asset value (NAV) per share of the Fund was \$15.94. During the six month period ended March 31, 2011, total return at NAV of your Fund was 15.01%, with distributions reinvested. During the most recent quarter ended March 31, 2011, total return at NAV of your Fund was 6.32%, with distributions reinvested. The total investment return at market with distributions reinvested was 23.77% during the six-month period ended March 31, 2011 and was 9.44% during the quarter ended March 31, 2011. Comparisons to relevant indices are listed below:



Investment Returns	Quarter Ended 3/31/10	Six Months Ended 3/31/10
Investment Return at Market	9.44%	23.77%
Net Asset Value	6.32%	15.01%
NASDAQ Biotech Index (NBI)	7.33%	16.34%
S&P 500 Index	5.92%	17.31%

Portfolio Highlights

As is typical, during the six month period ending March 31, 2011, a handful of themes appear to have had significant influence on healthcare sector performance. While in recent shareholder reports we have suggested that healthcare reform and the overall macroeconomic environment seemed to be central, in the current period it appears that sector specific topics including clinical data, regulatory action and merger & acquisition have been the dominant factors. It is our impression that when these bedrock, sector specific areas are central, it is more likely that the healthcare sector will outperform. We believe that as an investment opportunity, healthcare is most attractive when the focus is on the development and approval of novel and differentiated products that improve the quality or prolong the duration of patient's lives.

In recent months, we have seen the approval and/or launch of several new and impressive products. Among other examples, in the United States, Human Genome Sciences's Benlysta was approved for the treatment of lupus, Amgen's Xgeva was launched in Oncology, Dendreon's Provenge was launched in prostate cancer

and Allergan's Botox was launched in migraine. As one example in the European Union, Intermune's Esbriet was approved in respiratory disease. Several of these drugs have the potential to be blockbusters and, in our view, are likely to have positive influence on investor sentiment about the healthcare sector. However, not all approval outcomes have been positive. In fact during the last few months, commercialization of the third of three promising obesity drugs has been meaningfully slowed or stopped by the US FDA over safety and/or efficacy concerns. On balance though we believe that overall in the last six months the drug regulatory approval process has been a significant net positive for the sector.

Similarly, there have been quite a few reports of promising clinical data in recent months. As examples, Amarin's AMR101 has demonstrated a substantive positive impact in hyperlipidemia, Vertex has demonstrated positive impact in Cystic Fibrosis, Ariad has reported positive data in two different cancer indications, Incyte has demonstrated apparent efficacy in myelofibrosis and Onyx has demonstrated impressive efficacy in the area of multiple myeloma. Moreover, the field of Hepatitis C is likely to be transformed by products from Vertex, Merck and Pharmasset. Inevitably, there have also been products that have failed to demonstrate hoped-for efficacy but, on balance, it is our view that clinical progress made in the last few months has been impressive.

In addition to product related developments, merger & acquisition news has appeared to be a positive for the healthcare sector. Among the major pharmaceuticals and biotechs, Sanofi completed a long-anticipated acquisition of Genzyme, Merck acquired Inspire and Celgene acquired Abraxis. In addition, Royal DSM N.V. acquired Martek and Hologic acquired Interlace.

We note that during the report period, your Fund benefited not only from positive market conditions for the sector but also owned a number of the companies noted above including Human Genome Sciences, Amgen, Allergan, Amarin, Dendreon, Intermune, Incyte, Vertex, Genzyme, Hologic and Interlace. In aggregate, we feel that your Fund and the healthcare sector benefited from a "healthy" dose of sector related news during the six month period ending March 31, 2011.

We also note that there have been a number of factors not directly related to the topics described above. Arguably, healthcare reform and the macroeconomic environment are two of the most important factors. With regard to healthcare reform, we have argued for some time that uncertainty, first prior to the passage of the 2010 Affordable

Care Act and then prior to obtaining clarity regarding some of the consequences of the law's passage, would limit healthcare sector performance. Certainly, many details remain to be worked out regarding these laws but it looks now like reversal or major change of the ACA is unlikely in the near term. As such, it appears that investors have begun to focus on the underlying fundamentals of the healthcare sector. From a macro view, the sector has appeared to be on sound footing with strong balance sheets, pending new product approvals and reasonable valuations. It is this combination of characteristics that appears to have led to the sector out performance in the report period. Our view is that while the sector and the market as a whole have moved quickly up in recent months, we would not be surprised if we saw a pullback in the near future. But from a sector view, we think that healthcare will outperform the broad market in the intermediate term.

Investment Changes

During the six month period ended March 31, 2011, within the public portfolio, the Fund increased its position in several companies including Incyte Corporation, Quest Diagnostics, Inc., Thermo Fisher Scientific, Inc., Alkermes, Inc., Amarin Corporation plc, and Covidien plc. During the same six month period the Fund exited its positions in several companies including Stryker Corporation, Mylan, Inc., Johnson & Johnson, Pfizer, Inc. and Vertex Pharmaceuticals Inc.

During the six month period ended March 31, 2011, within the venture portfolio, the Fund established positions in several companies including Veniti, Inc., Tibion Corporation and IntelliPharmaCeutics International, Inc.

As always, if you have questions, please feel free to call us at 617-772-8500.



Daniel R. Omstead
President

H&Q HEALTHCARE INVESTORS

LARGEST HOLDINGS BY ISSUER (Excludes Short-Term Investments)

As of March 31, 2011

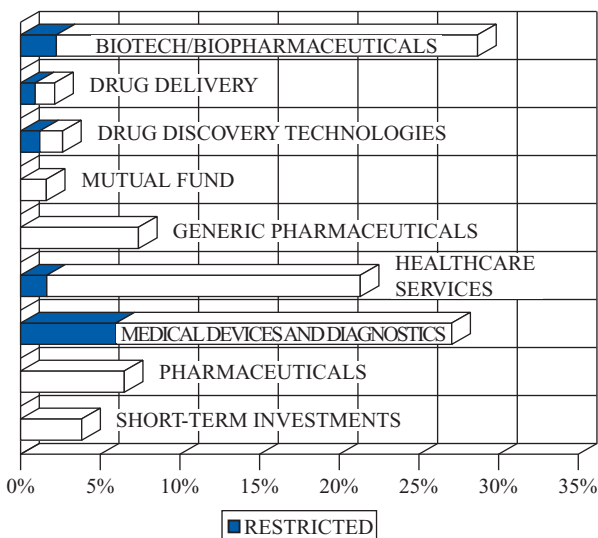
(Unaudited)

<u>Issuer - Sector</u>	<u>% of Net Assets</u>
WellPoint, Inc. <i>Healthcare Services</i>	3.8%
Gilead Sciences, Inc. <i>Biotechnologies/Biopharmaceuticals</i>	3.4%
Aetna, Inc. <i>Healthcare Services</i>	3.3%
Dendreon Corporation <i>Biotechnologies/Biopharmaceuticals</i>	3.1%
PerkinElmer, Inc. <i>Medical Devices and Diagnostics</i>	2.8%
Laboratory Corporation of America Holdings <i>Healthcare Services</i>	2.6%
Kinetic Concepts, Inc. <i>Medical Devices and Diagnostics</i>	2.6%
Medco Health Solutions, Inc. <i>Healthcare Services</i>	2.4%
Forest Laboratories, Inc. <i>Pharmaceuticals</i>	2.4%
Hologic, Inc. <i>Medical Devices and Diagnostics</i>	2.3%

PORTFOLIO

As of March 31, 2011

(Unaudited)



H&Q HEALTHCARE INVESTORS

SCHEDULE OF INVESTMENTS

MARCH 31, 2011

(Unaudited)

CONVERTIBLE SECURITIES

AND WARRANTS - 7.9% of Net Assets

Convertible Preferred and Warrants

(Restricted) ^{(a)(b)} - 7.8%

SHARES		VALUE
<i>Biotechnology/Biopharmaceuticals - 0.7%</i>		
2,831,651	Euthymics Biosciences, Inc. Series A	\$2,831,651
306,413	MacroGenics, Inc. Series D	199,812
75,217	MacroGenics, Inc. Series D 18 Month Lock-up	0
		<u>3,031,463</u>
<i>Drug Discovery Technologies - 1.2%</i>		
2,380,953	Agilix Corporation Series B ^(c)	5,952
375,000	Ceres, Inc. Series C	2,437,500
32,193	Ceres, Inc. Series C-1	209,255
280,105	Ceres, Inc. Series D	1,820,682
40,846	Ceres, Inc. Series F	265,499
8,170	Ceres, Inc. warrants (expiration 9/05/15)	0
		<u>4,738,888</u>
<i>Healthcare Services - 1.3%</i>		
5,384,615	PHT Corporation Series D ^(c)	4,200,000
1,204,495	PHT Corporation Series E ^(c)	939,506
149,183	PHT Corporation Series F ^(c)	116,363
		<u>5,255,869</u>
<i>Medical Devices and Diagnostics - 4.6%</i>		
3,424,756	CardioKinetix, Inc. Series C ^(c)	762,351
6,155,027	CardioKinetix, Inc. Series D ^(c)	800,153
N/A	CardioKinetix, Inc. warrants (expiration 12/11/19) ^{(c)(d)}	0
N/A	CardioKinetix, Inc. warrants (expiration 06/03/20) ^{(c)(d)}	0
4,852,940	Concentric Medical, Inc. Series B ^(c)	2,523,529
1,744,186	Concentric Medical, Inc. Series C ^(c)	906,977
683,000	Concentric Medical, Inc. Series D ^(c)	355,160
652,013	Concentric Medical, Inc. Series E ^(c)	339,047
3,669,024	Labcyte, Inc. Series C	1,920,000
3,109,861	Magellan Biosciences, Inc. Series A	3,109,861
142,210	Magellan Biosciences, Inc. warrants (expiration 4/01/19)	0
11,335	Magellan Biosciences, Inc. warrants (expiration 5/06/19)	0
1,547,988	OmniSonics Medical Technologies, Inc. Series A-1	1,548

The accompanying notes are an integral part of these financial statements.

H&Q HEALTHCARE INVESTORS

SCHEDULE OF INVESTMENTS

MARCH 31, 2011

(Unaudited)

(continued)

<u>SHARES</u>	Convertible Preferred and Warrants (Restricted) ^{(a) (b)} - continued	<u>VALUE</u>
1,263,099	OmniSonics Medical Technologies, Inc. Series B-1	\$1,263
13,823,805	Palyon Medical Corporation Series A ^(c)	2,211,809
65,217	TherOx, Inc. Series H	108,182
149,469	TherOx, Inc. Series I	247,939
4,720,000	Tibion Corporation	2,360,000
3,750,144	Veniti, Inc. Series A ^(c)	3,244,999
		<u>18,892,818</u>
		<u>31,919,038</u>
PRINCIPAL AMOUNT	Convertible Notes (Restricted) - 0.1%	
	<i>Medical Devices and Diagnostics - 0.1%</i>	
\$354,119	CardioKinetix, Inc., Cvt. Promissory Notes, 4.25% due 12/11/11 ^{(a) (c)}	<u>354,119</u>
	TOTAL CONVERTIBLE SECURITIES AND WARRANTS	
	(Cost \$45,250,013)	<u>32,273,157</u>
SHARES	COMMON STOCKS AND WARRANTS - 85.1%	
	<i>Biotechnology/Biopharmaceuticals - 26.5%</i>	
88,490	Acorda Therapeutics, Inc. ^(b)	2,052,968
84,015	Alexion Pharmaceuticals, Inc. ^(b)	8,290,600
69,141	Allergan, Inc.	4,910,394
652,620	Amarin Corporation plc ^(b)	4,764,126
149,435	Amgen, Inc. ^(b)	7,987,301
127,686	Amylin Pharmaceuticals, Inc. ^(b)	1,451,790
5,910,745	Antisoma plc ^{(b) (e)}	229,760
118,000	Athersys, Inc. warrants (Restricted, expiration 6/08/12) ^{(a) (b)}	0
138,400	Baxter International, Inc.	7,441,768
123,719	Celgene Corporation ^(b)	7,117,554
39,693	Cephalon, Inc. ^{(b) (h)}	3,007,936
253,490	Cubist Pharmaceuticals, Inc. ^(b)	6,398,088
339,311	Dendreon Corporation ^(b)	12,700,411
923,940	Elan Corporation plc ^{(b) (f)}	6,356,707
56,068	Genzyme Corporation ^(b)	4,269,578
332,740	Gilead Sciences, Inc. ^(b)	14,121,485
256,960	Human Genome Sciences, Inc. ^{(b) (h)}	7,053,552
182,340	Ironwood Pharmaceuticals, Inc. ^(b)	2,552,760
505,113	Neurocrine Biosciences, Inc. ^(b)	3,833,808
192,340	Seattle Genetics, Inc. ^(b)	2,994,734

The accompanying notes are an integral part of these financial statements.

H&Q HEALTHCARE INVESTORS

SCHEDULE OF INVESTMENTS

MARCH 31, 2011

(Unaudited)

(continued)

SHARES		VALUE
232,822	<i>Biotechnology/ Biopharmaceuticals - continued</i> XenoPort, Inc. ^(b)	<u>\$1,380,634</u> <u>108,915,954</u>
	<i>Drug Delivery - 2.1%</i>	
381,296	Alkermes, Inc. ^(b)	4,937,783
920,400	IntelliPharmaCeutics International, Inc. (Restricted) ^{(a) (b) (c)}	2,493,364
460,200	IntelliPharmaCeutics International, Inc. warrants (Restricted, expiration 2/01/13) ^{(a) (b) (c)}	474,006
460,200	IntelliPharmaCeutics International, Inc. warrants (Restricted, expiration 2/01/16) ^{(a) (b) (c)}	<u>662,688</u> <u>8,567,841</u>
	<i>Drug Discovery Technologies - 1.4%</i>	
372,585	Incyte Corporation ^(b)	5,905,472
70	Zyomyx, Inc. (Restricted) ^{(a) (b)}	<u>18</u> <u>5,905,490</u>
	<i>Generic Pharmaceuticals - 7.3%</i>	
983,334	Akorn, Inc. ^(b)	5,673,837
348,288	Mylan, Inc. ^(b)	7,895,689
90,637	Perrigo Company	7,207,454
161,089	Teva Pharmaceutical Industries Ltd. ^(f)	8,081,835
25,075	Watson Pharmaceuticals, Inc. ^(b)	<u>1,404,451</u> <u>30,263,266</u>
	<i>Healthcare Services - 20.0%</i>	
360,218	Aetna, Inc.	13,482,960
222,222	Aveta, Inc. (Restricted) ^{(a) (g)}	1,333,332
138,690	Charles River Laboratories International, Inc. ^(b)	5,322,922
242,150	CVS Caremark Corporation	8,310,588
26,733	Express Scripts, Inc. ^(b)	1,486,622
116,133	Laboratory Corporation of America Holdings ^(b)	10,699,333
85,292	McKesson Corporation	6,742,333
178,528	Medco Health Solutions, Inc. ^{(b) (h)}	10,026,133
114,165	PAREXEL International Corporation ^(b)	2,842,709
170,103	Pharmaceutical Product Development, Inc.	4,713,554
36,102	UnitedHealth Group, Inc.	1,631,810
226,433	WellPoint, Inc.	<u>15,802,759</u> <u>82,395,055</u>

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H&Q HEALTHCARE INVESTORS

SCHEDULE OF INVESTMENTS

MARCH 31, 2011

(Unaudited)

(continued)

SHARES		VALUE
	<i>Medical Devices and Diagnostics - 21.3%</i>	
117,577	Alere, Inc. ^(b)	\$4,601,964
267,460	Align Technology, Inc. ^(b)	5,477,581
217,500	Boston Scientific Corporation ^(b)	1,563,825
160,000	Ceracor Laboratories, Inc. (Restricted) ^{(a) (b)}	130,790
76,953	Covidien plc ^(c)	3,996,939
30,774	Danaher Corporation	1,597,171
425,696	Hologic, Inc. ^(b)	9,450,451
52,232	iCAD, Inc. 12 Month Lock-up (Restricted)	66,987
208,926	iCAD, Inc. 18 Month Lock-up (Restricted)	253,845
87,099	IDEXX Laboratories, Inc. ^(b)	6,725,785
94,709	Illumina, Inc. ^(b)	6,636,260
193,000	Kinetic Concepts, Inc. ^(b)	10,503,060
114,189	Life Technologies Corporation ^(b)	5,985,787
38,669	Medtronic, Inc.	1,521,625
830,292	Medwave, Inc. ^{(b) (c)}	4,567
207,573	Medwave, Inc. warrants (Restricted, expiration 8/21/11) ^{(a) (b) (c)}	0
93,008	OmniSonics Medical Technologies, Inc. (Restricted) ^{(a) (b)}	93
73,700	Palomar Medical Technologies, Inc. ^(b)	1,094,445
430,591	PerkinElmer, Inc.	11,311,625
89,600	Quest Diagnostics, Inc.	5,171,712
208	Songbird Hearing, Inc. (Restricted) ^{(a) (b)}	139
59,624	St. Jude Medical, Inc.	3,056,326
25,838	The Cooper Companies, Inc.	1,794,449
90,000	Thermo Fisher Scientific, Inc. ^(b)	4,999,500
25,125	Zimmer Holdings, Inc. ^(b)	1,520,816
		<u>87,465,742</u>
	<i>Pharmaceuticals - 6.5%</i>	
308,326	Forest Laboratories, Inc. ^(b)	9,958,930
88,500	Salix Pharmaceuticals, Ltd. ^(b)	3,100,155
74,232	Shire plc ^(f)	6,465,607
302,433	Warner Chilcott plc	7,040,640
		<u>26,565,332</u>
	TOTAL COMMON STOCKS AND WARRANTS	
	(Cost \$299,610,528)	<u>350,078,680</u>
	MUTUAL FUND - 1.6%	
	<i>Mutual Fund - 1.6%</i>	
64,428	iShares Nasdaq Biotechnology Index Fund	<u>6,453,108</u>
	TOTAL MUTUAL FUND	
	(Cost \$5,663,838)	<u>6,453,108</u>

The accompanying notes are an integral part of these financial statements.

H&Q HEALTHCARE INVESTORS

SCHEDULE OF INVESTMENTS

MARCH 31, 2011

(Unaudited)

(continued)

<u>PRINCIPAL AMOUNT</u>	SHORT-TERM INVESTMENT - 3.8%	<u>VALUE</u>
\$15,576,000	Repurchase Agreement, State Street Bank and Trust Co., repurchase value \$15,576,004 (collateralized by U.S. Treasury Bill 3.125%, 04/30/17, market value \$15,888,566); 0.01% due 04/01/11	\$15,576,000
	TOTAL SHORT-TERM INVESTMENTS (Cost \$15,576,000)	15,576,000
	TOTAL INVESTMENTS BEFORE MILESTONES INTERESTS AND OUTSTANDING OPTIONS WRITTEN - (98.4%) (Cost \$366,100,379)	404,380,945
<u>INTEREST</u>	MILESTONES INTERESTS (Restricted) - 2.6%	
	<i>Biotechnology/Biopharmaceuticals - 1.5%</i>	
1	Targegen Milestone Interest ^{(a) (b)}	6,040,419
	<i>Medical Devices and Diagnostics - 1.1%</i>	
1	Interlace Medical Milestone Interest ^{(a) (b)}	3,886,797
1	Xoft Milestone Interest ^{(a) (b)}	844,029
	TOTAL MILESTONES INTERESTS	4,730,826
		10,771,245

The accompanying notes are an integral part of these financial statements.

H&Q HEALTHCARE INVESTORS

SCHEDULE OF INVESTMENTS

MARCH 31, 2011

(Unaudited)

(continued)

**NUMBER OF
CONTRACTS
(100 SHARES
EACH)**

	CALL OPTION CONTRACTS WRITTEN - (0.2)%	VALUE
397	Cephalon Inc., strike @ 60, expires Apr - 2011	(\$639,170)
398	Human Genome Sciences Inc., strike @ 30, expires Apr - 2011	(5,572)
446	Medco Health Solutions Inc., strike @ 52.5, expires Apr - 2011	<u>(156,100)</u>
	TOTAL CALL OPTION CONTRACTS WRITTEN (Premiums received \$154,292)	<u>(800,842)</u>
	TOTAL INVESTMENTS NET OF OUTSTANDING OPTIONS WRITTEN - 100.8% (Cost \$376,489,207)	<u>414,351,348</u>
	OTHER LIABILITIES IN EXCESS OF ASSETS - (0.8)%	<u>(3,281,320)</u>
	NET ASSETS - 100%	<u><u>\$411,070,028</u></u>

-
- (a) Security fair valued.
(b) Non-income producing security.
(c) Affiliated issuers in which the Fund holds 5% or more of the voting securities (total market value of \$20,394,590).
(d) Number of warrants to be determined at a future date.
(e) Foreign Security.
(f) American Depository Receipt.
(g) Security exempt from registration under Rule 144A of the Securities Act of 1933, as amended. These securities may be resold in transactions exempt from registration, normally to qualified institutional buyers.
(h) A portion of security is pledged as collateral for call options written.

The accompanying notes are an integral part of these financial statements.

H&Q HEALTHCARE INVESTORS

SCHEDULE OF INVESTMENTS

MARCH 31, 2011

(Unaudited)

(continued)

Other Information

The Fund uses a three-tier hierarchy to prioritize the assumptions, referred to as inputs, used in valuation techniques to measure fair value. The three-tier hierarchy of inputs is summarized in the three broad levels listed below:

- Level 1 — quoted prices in active markets for identical investments
- Level 2 — prices determined using other significant observable inputs (including quoted prices for similar investments, interest rates, prepayment speeds, credit risk, etc.)
- Level 3 — prices determined using significant unobservable inputs (including the Fund's own assumptions in determining the fair value of investments)

These inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities.

The following is a summary of the inputs used as of March 31, 2011 to value the Fund's net assets:

Assets at Value	Level 1	Level 2	Level 3	Total
Convertible Securities and Warrants				
Biotechnology/Biopharmaceuticals	—	—	\$3,031,463	\$3,031,463
Drug Discovery Technologies	—	—	4,738,888	4,738,888
Healthcare Services	—	—	5,255,869	5,255,869
Medical Devices and Diagnostics	—	—	19,246,937	19,246,937
Common Stocks and Warrants				
Biotechnology/Biopharmaceuticals	\$108,915,954	—	—	108,915,954
Drug Delivery	4,937,783	—	3,630,058	8,567,841
Drug Discovery Technologies	5,905,472	—	18	5,905,490
Generic Pharmaceuticals	30,263,266	—	—	30,263,266
Healthcare Services	81,061,723	—	1,333,332	82,395,055
Medical Devices and Diagnostics	87,013,888	—	451,854	87,465,742
Pharmaceuticals	26,565,332	—	—	26,565,332
Mutual Fund	6,453,108	—	—	6,453,108
Short-Term Investments	—	\$15,576,000	—	15,576,000
Milestone Interests				
Biotechnology/Biopharmaceuticals	—	—	6,040,419	6,040,419
Medical Devices and Diagnostics	—	—	4,730,826	4,730,826
Other Assets	—	—	1,800,198	1,800,198
Total	<u>\$351,116,526</u>	<u>\$15,576,000</u>	<u>\$50,259,862</u>	<u>\$416,952,388</u>
Liabilities at Value				
Option Contracts Written	(\$800,842)	\$—	\$—	(\$800,842)

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H&Q HEALTHCARE INVESTORS

SCHEDULE OF INVESTMENTS

MARCH 31, 2011

(Unaudited)

(continued)

Other Information, continued

In January 2010, the Financial Accounting Standards Board issued Accounting Standards Update, *Improving Disclosures about Fair Valuation Measurements*, that requires additional disclosures regarding fair value measurements. Certain required disclosures are effective for interim and annual reporting periods beginning after December 15, 2009, and other required disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. Management is currently evaluating the impact it will have on its financial statement disclosures.

The following is a reconciliation of level 3 assets for which significant unobservable inputs were used to determine fair value:

Level 3 Assets	Balance as of September 30, 2010	Accrued discounts/ premiums	Realized gain/loss and change in unrealized appreciation (depreciation)	Net purchases	Net sales	Net transfers in (out of) Level 3	Balance as of March 31, 2011
Convertible Securities and Warrants							
Biotechnologies/ Biopharmaceuticals	\$814,382	—	(\$1,464)	\$2,218,545	—	—	\$3,031,463
Drug Discovery Technologies	4,874,746	—	7,950	—	(\$143,808)	—	4,738,888
Healthcare Services	5,255,869	—	—	—	—	—	5,255,869
Medical Devices and Diagnostics	20,020,123	—	5,361,662	6,423,633	(12,558,481)	—	19,246,937
Common Stocks and Warrants							
Biotechnologies/ Biopharmaceuticals	1,180	—	(1,180)	—	—	—	—
Drug Delivery	—	—	1,329,058	2,301,000	—	—	3,630,058
Drug Discovery Technologies	18	—	—	—	—	—	18
Generic Pharmaceuticals	76,845	—	(76,845)	—	—	—	—
Healthcare Services	2,222,220	—	(888,888)	—	—	—	1,333,332
Medical Devices and Diagnostics	97,193	—	26,699	327,962	—	—	451,854
Milestone Interests							
Biotechnologies/ Biopharmaceuticals	6,225,114	—	(184,695)	—	—	—	6,040,419
Medical Devices and Diagnostics	—	—	51,051	4,679,775	—	—	4,730,826
Other Assets	<u>1,266,445</u>	<u>—</u>	<u>—</u>	<u>637,729</u>	<u>(103,976)</u>	<u>—</u>	<u>1,800,198</u>
Total	<u>\$40,854,135</u>	<u>—</u>	<u>\$5,623,348</u>	<u>\$16,588,644</u>	<u>(\$12,806,265)</u>	<u>—</u>	<u>\$50,259,862</u>
Net change in unrealized appreciation (depreciation) from investments still held as of March 31, 2011							\$3,770,829

The accompanying notes are an integral part of these financial statements.

H&Q HEALTHCARE INVESTORS

STATEMENT OF ASSETS AND LIABILITIES

MARCH 31, 2011

(Unaudited)

ASSETS:

Investments in unaffiliated issuers, at value (cost \$337,718,352)	\$383,986,355
Investments in affiliated issuers, at value (cost \$28,382,027)	20,394,590
Milestone interests, at value	10,771,245
Cash	404
Dividends and interest receivable	106,136
Receivable for investments sold	865,339
Prepaid expenses	41,215
Other assets (See Note 1)	<u>1,800,198</u>
Total assets	<u>417,965,482</u>

LIABILITIES:

Payable for investments purchased	5,482,387
Accrued advisory fee	365,239
Accrued shareholder reporting fees	61,373
Accrued trustee fees	32,870
Options written, at value (premium received \$154,292)	800,842
Accrued other	<u>152,743</u>
Total liabilities	<u>6,895,454</u>

NET ASSETS \$411,070,028

SOURCES OF NET ASSETS:

Shares of beneficial interest, par value \$.01 per share, unlimited number of shares authorized, amount paid in on 25,787,913 shares issued and outstanding	\$381,039,880
Accumulated net investment loss	(1,654,844)
Accumulated net realized loss on investments, milestone interests and options	(6,177,149)
Net unrealized gain on investments, milestone interests and options	<u>37,862,141</u>
Total net assets (equivalent to \$15.94 per share based on 25,787,913 shares outstanding)	<u>\$411,070,028</u>

The accompanying notes are an integral part of these financial statements.

H&Q HEALTHCARE INVESTORS

STATEMENT OF OPERATIONS

SIX MONTHS ENDED MARCH 31, 2011

(Unaudited)

INVESTMENT INCOME:

Dividend income (net of foreign tax of \$13,419)	\$1,015,943
Interest income	<u>29,073</u>
Total investment income	1,045,016

EXPENSES:

Advisory fees	2,107,480
Legal fees	166,150
Administration and auditing fees	91,307
Trustees' fees and expenses	90,804
Shareholder reporting	54,893
Custodian fees	50,083
Transfer agent fees	25,056
Other (see Note 2)	<u>114,087</u>
Total expenses	<u>2,699,860</u>
Net investment loss	<u>(1,654,844)</u>

REALIZED AND UNREALIZED GAIN (LOSS):

Net realized gain (loss) on:	
Investments in unaffiliated issuers	2,230,007
Investments in affiliated issuers	4,905,232
Closed or expired option contracts written	<u>96,892</u>
Net realized gain	<u>7,232,131</u>
Change in unrealized appreciation (depreciation) on:	
Investments in unaffiliated issuers	46,602,818
Investments in affiliated issuers	2,102,666
Milestone interests	(133,643)
Option contracts written	<u>(659,352)</u>
Change in unrealized appreciation (depreciation):	<u>47,912,489</u>
Net realized and unrealized gain (loss)	<u>55,144,620</u>
Net increase in net assets resulting from operations	<u>\$53,489,776</u>

The accompanying notes are an integral part of these financial statements.

H&Q HEALTHCARE INVESTORS

STATEMENTS OF CHANGES IN NET ASSETS

	Six months ended March 31, 2011 <u>(Unaudited)</u>	Year ended September 30, 2010 <u></u>
NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS:		
Net investment loss	(\$1,654,844)	(\$1,630,992)
Net realized gain	7,232,131	17,607,140
Change in net unrealized appreciation	<u>47,912,489</u>	<u>3,659,719</u>
Net increase in net assets resulting from operations	<u>53,489,776</u>	<u>19,635,867</u>
DISTRIBUTIONS TO SHAREHOLDERS FROM:		
Net realized capital gains	<u>(15,226,631)</u>	<u>(9,238,907)</u>
Total distributions	<u>(15,226,631)</u>	<u>(9,238,907)</u>
CAPITAL SHARE TRANSACTIONS:		
Fund shares repurchased (0 and 463,390 shares, respectively)	—	(5,618,868)
Reinvestment of distributions (554,311 and 344,325 shares, respectively)	<u>7,625,755</u>	<u>4,119,119</u>
Total capital share transactions	<u>7,625,755</u>	<u>(1,499,749)</u>
Net increase/decrease in net assets	<u>45,888,900</u>	<u>8,897,211</u>
NET ASSETS:		
Beginning of period	<u>365,181,128</u>	<u>356,283,917</u>
End of period*	<u>\$411,070,028</u>	<u>\$365,181,128</u>
*Includes accumulated net investment loss of:	<u>(\$1,654,844)</u>	<u>\$0 ^(a)</u>

(a) Reflects reclassifications to the Fund's capital accounts to reflect income and gains available for distribution under income tax regulations.

The accompanying notes are an integral part of these financial statements.

H&Q HEALTHCARE INVESTORS

STATEMENT OF CASH FLOWS

PERIOD ENDED MARCH 31, 2011

(Unaudited)

CASH FLOWS FROM OPERATING ACTIVITIES:	
Purchases of portfolio securities	(\$167,703,893)
Purchases to close option contracts written	(270,513)
Net maturities of short-term investments	1,768,635
Sales of portfolio securities	175,802,694
Proceeds from option contracts written	240,601
Interest income received	14,368
Dividend income received	1,087,637
Other operating receipts (expenses paid)	<u>(3,339,149)</u>
Net cash provided from operating activities	<u>7,600,380</u>
CASH FLOWS FROM FINANCING ACTIVITIES:	
Cash distributions paid	<u>(7,600,876)</u>
Net cash used for financing activities	<u>(7,600,876)</u>
NET DECREASE IN CASH	(496)
CASH AT BEGINNING OF PERIOD	<u>900</u>
CASH AT END OF PERIOD	<u><u>\$404</u></u>

RECONCILIATION OF NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS TO NET CASH PROVIDED FROM OPERATING ACTIVITIES:

Net increase in net assets resulting from operations	\$53,489,776
Purchases of portfolio securities	(167,703,893)
Purchases to close option contracts written	(270,513)
Net maturities of short-term investments	1,768,635
Sales of portfolio securities	175,802,694
Proceeds from option contracts written	240,601
Accretion of discount	(1,891)
Net realized gain on investments and options	(7,232,131)
Increase in net unrealized appreciation (depreciation) on investments and options	(47,912,489)
Decrease in dividends and interest receivable	58,880
Decrease in accrued expenses	(65,169)
Increase in prepaid expenses and other assets	<u>(574,120)</u>
Net cash provided from operating activities	<u><u>\$7,600,380</u></u>

Noncash financing activities not included herein consist of reinvested distributions to shareholders of \$7,625,755.

Noncash operating activity not included herein consists of corporate actions of \$5,361,856.

The accompanying notes are an integral part of these financial statements.

H&Q HEALTHCARE INVESTORS

FINANCIAL HIGHLIGHTS

(Selected data for each share of beneficial interest outstanding throughout the period indicated)

	Six months ended March 31, 2011 (Unaudited)	Years ended September 30,				
		2010	2009	2008	2007	2006
PER SHARE OPERATING PERFORMANCE						
Net asset value per share,						
Beginning of period	\$14.47	\$14.05	\$16.58	\$19.14	\$17.31	\$19.65
Net investment loss (1)	(0.07)(4)	(0.07)(3)	(0.17)	(0.18)	(0.18)	(0.13)(2)
Net realized and unrealized gain (loss)	2.14	0.81	(1.51)	(0.95)	3.45	(0.60)
Total increase (decrease) from investment operations	2.07	0.74	(1.68)	(1.13)	3.27	(0.73)
Distributions to shareholders from:						
Net realized capital gain	(0.60)	(0.37)	(0.12)	(1.43)	(1.44)	(1.61)
Return of capital (tax basis)	—	—	(0.73)	—	—	—
Total distributions	(0.60)	(0.37)	(0.85)	(1.43)	(1.44)	(1.61)
Increase resulting from shares repurchased (1)	—	0.05	—	—	—	—
Net asset value per share, end of period	\$15.94	\$14.47	\$14.05	\$16.58	\$19.14	\$17.31
Per share market value, end of period	\$14.32	\$12.08	\$11.32	\$13.70	\$17.30	\$16.74
Total investment return at market value	23.77%*	10.04%	(10.33%)	(12.96%)	12.34%	(1.58%)

RATIOS AND SUPPLEMENTAL DATA

Net assets, end of period (in millions)	\$411	\$365	\$356	\$403	\$444	\$385
Ratio of operating expenses to average net assets	1.40%**	1.44%	1.52%	1.51%	1.52%	1.54%
Ratio of net investment loss to average net assets	(0.86%)(4)	(0.45%)(3)	(1.30%)	(0.99%)	(1.00%)	(0.73%)(2)
Portfolio turnover rate	45.48%*	48.68%	66.34%	65.38%	115.77%	63.78%

* Not Annualized

** Annualized

(1) Computed using average shares outstanding.

(2) Includes a special dividend from an issuer in the amount of \$0.08 per share. Excluding the special dividend, the ratio of net investment loss to average net assets would have been (1.14%).

(3) Includes a special dividend from an issuer in the amount of \$0.05 per share. Excluding the special dividend, the ratio of net investment loss to average net assets would have been (0.83%).

(4) Includes a special dividend from an issuer in the amount of \$0.02 per share. Excluding the special dividend, the ratio of net investment loss to average net assets would have been (1.08%**).

The accompanying notes are an integral part of these financial statements.

H&Q HEALTHCARE INVESTORS

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2011

(Unaudited)

(1) *Organization and Significant Accounting Policies*

H&Q Healthcare Investors (the Fund) is a Massachusetts business trust registered under the Investment Company Act of 1940 as a diversified closed-end management investment company. The Fund's investment objective is long-term capital appreciation through investment in companies in the healthcare industry. This is a broad mandate and includes all companies Hambrecht & Quist Capital Management LLC (the Adviser) determines to be healthcare related. The Fund invests primarily in securities of public and private companies that are believed to have significant potential for above-average growth.

The preparation of these financial statements requires the use of certain estimates by management in determining the Fund's assets, liabilities, revenues and expenses. Actual results could differ from these estimates. The following is a summary of significant accounting policies consistently followed by the Fund, which are in conformity with accounting principles generally accepted in the United States of America. Events or transactions occurring after March 31, 2011 through the date that the financial statements were issued have been evaluated in the preparation of the financial statements.

Investment Valuation

Investments traded on national securities exchanges or in the over-the-counter market that are National Market System securities are valued at the last sale price or, lacking any sales, at the mean between the last bid and asked prices. Other over-the-counter securities are valued at the most recent bid prices as obtained from one or more dealers that make markets in the securities. Publicly traded investments for which market quotations are not readily available or whose quoted price may otherwise not reflect fair value, the fair value of convertible preferred, warrants or convertible note interests in private companies, milestone interests and other restricted securities are valued in good faith by the Adviser pursuant to valuation policies and procedures approved by the Trustees. Such values are subject to regular oversight and ratification by the Trustees. Because of the uncertainty of fair valuations, these estimated values may differ significantly from the values that would have been used had a ready market for the securities existed, and the differences could be material. Each such fair value determination is based on a consideration of relevant factors. Factors the Adviser considers may include (i) the existence of any contractual restrictions on the disposition of securities; (ii) information obtained from the issuer, which may include an analysis of the company's financial statements, the company's products or intended markets or the company's technologies; (iii) the price of a security negotiated at arm's length in an issuer's completed subsequent round of financing; (iv) the price and extent of public trading in similar securities of the issuer or of comparable companies; or (v) a probability and time value adjusted analysis of contractual terms. Publicly traded warrants are valued using the Black-Scholes model, which incorporates both observable and unobservable inputs. Short-term investments with maturity of 60 days or less are valued at amortized cost, which approximates fair value.

Options on Securities

An option contract is a contract in which the writer (seller) of the option grants the buyer of the option, upon payment of a premium, the right to purchase from (call option) or sell to (put option) the writer a designated instrument at a specified price within a specified period of time. Certain options, including options on indices, will require cash settlement by the Fund if the option is exercised. The Fund may enter into option contracts in order to hedge against potential adverse price movements in the value of portfolio assets, as a temporary

H&Q HEALTHCARE INVESTORS

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2011

(continued)

substitute for selling selected investments, to lock in the purchase price of a security or currency which it expects to purchase in the near future, as a temporary substitute for purchasing selected investments, or to enhance potential gain.

The Fund's obligation under an exchange traded written option or investment in an exchange traded purchased option is valued at the last sale price or in the absence of a sale, the mean between the closing bid and asked prices. Gain or loss is recognized when the option contract expires, is exercised or is closed.

If the Fund writes a covered call option, the Fund foregoes, in exchange for the premium, the opportunity to profit during the option period from an increase in the market value of the underlying security above the exercise price. If the Fund writes a put option it accepts the risk of a decline in the market value of the underlying security below the exercise price. Over-the-counter options have the risk of the potential inability of counterparties to meet the terms of their contracts. The Fund's maximum exposure to purchased options is limited to the premium initially paid. In addition, certain risks may arise upon entering into option contracts including the risk that an illiquid secondary market will limit the Fund's ability to close out an option contract prior to the expiration date and that a change in the value of the option contract may not correlate exactly with changes in the value of the securities hedged.

All options on securities and securities indices written by the Fund are required to be covered. When the Fund writes a call option, this means that during the life of the option the Fund may own or have the contractual right to acquire the securities subject to the option or may maintain with the Fund's custodian in a segregated account appropriate liquid securities in an amount at least equal to the market value of the securities underlying the option. When the Fund writes a put option, this means that the Fund will maintain with the Fund's custodian in a segregated account appropriate liquid securities in an amount at least equal to the exercise price of the option. The Fund may use option contracts to gain or hedge exposure to financial market risk.

Transactions in call options written for the six months ended March 31, 2011 were as follows:

	Contracts	Premiums
Options outstanding, September 30, 2010	188	\$ 27,842
Options written	1,601	240,600
Options terminated in closing purchase transactions	(172)	(40,813)
Options expired	(376)	(73,337)
Options outstanding, March 31, 2011	<u>1,241</u>	<u>\$154,292</u>

H&Q HEALTHCARE INVESTORS

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2011

(continued)

Derivatives not accounted for as hedging instruments under ASC 815	Statement of Assets and Liabilities Location	Statement of Operations Location
Equity Contracts	Liabilities, Options written, at value	\$800,842
		Net realized gain (loss) on investments in unaffiliated issuers
		(\$253,255)
		Net realized gain on closed or expired option contracts written
		\$96,892
		Change in unrealized appreciation (depreciation) on investments in unaffiliated issuers
		—
		Change in unrealized appreciation (depreciation) on option contracts written
		(\$659,352)

Milestone Interests

The Fund holds derivative instruments which reflect the current value of future milestone payments the Fund may receive as a result of contractual obligations from other parties. The value of such payments are adjusted to reflect the estimated risk with the relative uncertainty of both the timing and the achievement of individual milestones. The milestone interests were received as part of the proceeds from the sale of several private companies.

The following is a summary of the impact of the milestone interests on the financial statements as of and for the six months ended March 31, 2011:

Statement of Assets and Liabilities, Milestone interests, at value	\$10,771,245
Statement of Assets and Liabilities, Net unrealized gain on investments, milestone interests and options	\$228,125
Statement of Operations, Net realized gain on Milestone Interests	\$0
Statement of Operations, Change in unrealized appreciation (depreciation) on milestone interests	(\$133,643)

Other Assets

Other assets in the Statement of Assets and Liabilities consists of amounts due to the Fund in connection with investments in six private companies.

Investment Transactions and Income

Investment transactions are recorded on a trade date basis. Gains and losses from sales of investments are recorded using the "identified cost" method. Interest income is recorded on the accrual basis, adjusted for amortization of premiums and accretion of discounts. Dividend income is recorded on the ex-dividend date.

The aggregate cost of purchases and proceeds from sales of investment securities (other than short-term investments) for the six months ended March 31, 2011 totaled \$169,069,765 and \$180,699,419, respectively.

H&Q HEALTHCARE INVESTORS

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2011

(continued)

Repurchase Agreements

In managing short-term investments the Fund may from time to time enter into transactions in repurchase agreements. In a repurchase agreement, the Fund's custodian takes possession of the underlying collateral securities, the market value of which is at least equal to the principal, including accrued interest, of the repurchase transaction at all times. In the event of default or bankruptcy by the other party to the agreement, realization and/or retention of the collateral by the Fund may be delayed or limited.

Distribution Policy

Pursuant to a Securities and Exchange Commission exemptive order, the Fund has implemented a fixed distribution policy (the Policy) that permits the Fund to make quarterly distributions at a rate set by the Board of Trustees. Under the Policy the Fund intends to make quarterly distributions at a rate of 2% of the Fund's net assets to shareholders of record. The Fund intends to use net realized capital gains when making quarterly distributions, if available, but the Policy would result in a return of capital to shareholders if the amount of the distribution exceeds the Fund's net investment income and realized capital gains. Under the Policy, realized capital gains in excess of the total distributed would be included in the December distribution. Prior to November 1, 2010, the Fund made distributions at an annualized rate of 5% of the Fund's net assets. The Board of Trustees suspended the Policy on August 4, 2009 and reinstated the Policy on April 5, 2010. The Policy has been established by the Board of Trustees and may be changed by them without shareholder approval. The Board regularly reviews the Policy and the distribution rate considering the purpose and effect of the Policy, the financial market environment, and the Fund's income, capital gains and capital available to pay distributions.

The Fund's policy is to declare distributions in stock. The distributions are automatically paid in newly-issued full shares of the Fund plus cash in lieu of any fraction of a share, unless otherwise instructed by the shareholder. The Fund's transfer agent delivers an election card and instructions to each registered shareholder in connection with each distribution. For shareholders other than registered shareholders with book entry accounts at the Fund's transfer agent, fractional shares will generally be settled in cash. The number of shares issued will be determined by dividing the dollar amount of the distribution by the lower of net asset value or market price on the pricing date. If a shareholder elects to receive a distribution in cash, rather than in shares, the shareholder's relative ownership in the Fund will be reduced. The shares reinvested will be valued at the lower of the net asset value or market price on the pricing date. Distributions in stock will not relieve shareholders of any federal, state or local income taxes that may be payable on such distributions.

Share Repurchase Program

In September 2009, the Trustees authorized a share repurchase program to allow the Fund to repurchase up to 10% of its outstanding shares for a one year period beginning October 9, 2009. The share repurchase program was intended to enhance shareholder value and potentially reduce the discount between the market price of the Fund's shares and the Fund's net asset value. On April 5, 2010, the Trustees terminated the share repurchase program.

During the year ended September 30, 2010, the Fund repurchased 463,390 shares at a total cost of \$5,618,868. The weighted average discount per share between the cost of repurchase and the net asset value applicable to such shares at the date of repurchase was 18.80%.

H&Q HEALTHCARE INVESTORS

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2011

(continued)

Federal Taxes

It is the Fund's policy to comply with the requirements of the Internal Revenue Code applicable to regulated investment companies and to distribute to its shareholders substantially all of its taxable income and its net realized capital gains, if any. Therefore, no Federal income or excise tax provision is required.

As of March 31, 2011, the Fund had no uncertain tax positions that would require financial statement recognition or disclosure. The Fund's federal tax returns are subject to examination by the Internal Revenue Service for a period of three years.

Distributions

The Fund records all distributions to shareholders from net investment income and realized gains, if any, on the ex-dividend date. Such distributions are determined in conformity with income tax regulations, which may differ from accounting principles generally accepted in the United States of America. These differences include temporary and permanent differences from losses on wash sale transactions, installment sale adjustment and net operating losses. Reclassifications are made to the Fund's capital accounts to reflect income and gains available for distribution under income tax regulations.

Statement of Cash Flows

The cash amount shown in the Statement of Cash Flows is the amount included in the Fund's Statement of Assets and Liabilities and represents cash on hand at its custodian and does not include short-term investments at March 31, 2011.

Indemnifications

Under the Fund's organizational documents, its officers and Trustees may be indemnified against certain liabilities and expenses arising out of the performance of their duties to the Fund. Additionally, in the normal course of business, the Fund enters into agreements with service providers that may contain indemnification clauses. The Fund's maximum exposure under these agreements is unknown as this would involve future claims that may be made against the Fund that have not yet occurred. However, based on experience, the Fund expects the risk of loss to be remote.

(2) *Investment Advisory and Other Affiliated Fees*

The Fund has entered into an Investment Advisory Agreement (the Advisory Agreement) with the Adviser. Pursuant to the terms of the Advisory Agreement, the Fund pays the Adviser a monthly fee at the rate when annualized of (i) 2.50% of the average net assets for the month of its venture capital and other restricted securities up to 25% of net assets and (ii) for all other assets, 0.98% of the average net assets up to \$250 million, 0.88% of the average net assets for the next \$250 million, 0.80% of the average net assets for the next \$500 million and 0.70% of the average net assets thereafter. The aggregate fee would not exceed a rate when annualized of 1.36%.

The Fund has entered into a Services Agreement (the Agreement) with the Adviser. Pursuant to the terms of the Agreement, the Fund reimburses the Adviser for certain services related to a portion of the payment of salary and provision of benefits to the Fund's Chief Compliance Officer. During the six months ended March 31, 2011 these payments amounted to \$40,339 and are included in the Other category in the Statement of Operations together with insurance and other expenses incurred to unaffiliated entities. Expenses incurred pursuant to the Agreement as well as certain expenses paid for by the Adviser are allocated in an equitable fashion as approved by the Board of the Fund.

H&Q HEALTHCARE INVESTORS

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2011

(continued)

The Fund pays compensation to Independent Trustees in the form of a retainer, attendance fees, and additional compensation to Board and Committee chairpersons. The Fund does not pay compensation directly to Trustees or officers of the Fund who are also officers of the Adviser.

(3) Other Transactions with Affiliates

An affiliate company is a company in which the Fund holds 5% or more of the voting securities. Transactions with such companies during the six months ended March 31, 2011 were as follows:

Issuer	Value on October 1, 2010	Purchases	Sales	Income	Value on March 31, 2011
Agilix Corporation	\$ 141,809	\$ —	\$ —	\$ —	\$ 5,952
CardioKinetix, Inc.	3,068,236	781,073	354,119	7,221	1,916,623
Concentric Medical, Inc.	4,124,713	—	—	—	4,124,713
Elemé Medical, Inc.	1,684,430	27,019	—	—	—
IntelliPharmaCeutics International, Inc.	—	2,301,000	—	—	3,630,058
Interlace Medical, Inc.	2,065,000	—	11,033,541	—	—
Medwave, Inc.	1,661	—	—	—	4,567
Palyon Medical Corporation	2,211,809	—	—	—	2,211,809
PHT Corporation	5,255,869	—	—	—	5,255,869
Veniti, Inc.	—	3,244,999	—	—	3,244,999
	<u>\$18,553,527</u>	<u>\$6,354,091</u>	<u>\$11,387,660</u>	<u>\$7,221</u>	<u>\$20,394,590</u>

(4) Private Companies and Other Restricted Securities

The Fund may invest in private companies and other restricted securities if these securities would currently comprise 40% or less of net assets. The value of these securities represents 12% of the Fund's net assets at March 31, 2011.

At March 31, 2011, the Fund had commitments of \$1,265,658 relating to additional investments in private companies.

The following table details the acquisition date, cost, carrying value per unit, and value of the Fund's private companies and other restricted securities at March 31, 2011. The Fund on its own does not have the right to demand that such securities be registered.

Security [Ⓟ]	Acquisition Date	Cost	Carrying Value per Unit	Value
Agilix Corporation Series B Cvt. Pfd.	11/08/01	\$2,351,693	\$0.00	\$5,952
Athersys, Inc. Warrants (expiration 6/08/12)	6/07/07	0	0.00	0
Aveta, Inc. Common	12/21/05	3,004,731	6.00	1,333,332
CardioKinetix, Inc. Series C Cvt. Pfd.	5/22/08	2,377,226	0.22	762,351
Series D Cvt. Pfd.	12/10/10	781,073	0.13	800,153
Cvt. Promissory Notes	12/10/09 - 9/01/10	354,631	1.00	354,119
Warrants (expiration 12/11/19)	12/10/09, 2/11/10	177	0.00	0
Warrants (expiration 6/03/20)	6/03/10, 9/01/10	177	0.00	0
Ceracor Laboratories, Inc. Common	3/31/98	0	0.82	130,790
Ceres, Inc. Series C Cvt. Pfd.	12/23/98, 3/31/10	1,502,732	6.50	2,437,500
Series C-1 Cvt. Pfd.	3/31/01, 3/14/06	111,508	6.50	209,255
Series D Cvt. Pfd.	3/14/01, 3/14/06	1,668,294	6.50	1,820,682
Series F Cvt. Pfd.	9/05/07	268,136	6.50	265,499
Warrants (expiration 9/05/15)	9/05/07	0	0.00	0

H&Q HEALTHCARE INVESTORS

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2011

(continued)

Security [Ⓞ]	Acquisition Date	Cost	Carrying Value per Unit	Value
Concentric Medical, Inc.				
Series B Cvt. Pfd.	5/07/02, 1/24/03	\$3,330,988	\$0.52	\$2,523,529
Series C Cvt. Pfd.	12/19/03	1,500,818	0.52	906,977
Series D Cvt. Pfd.	9/30/05	958,007	0.52	355,160
Series E Cvt. Pfd.	12/18/08	655,011	0.52	339,047
Euthymics Biosciences, Inc.				
Series A Cvt. Pfd.	7/14/10 - 3/08/11	2,840,785	1.00	2,831,651
iCAD, Inc.				
12 Month Lock-up Common	1/05/11	68,476	1.28	66,987
18 Month Lock-up Common	1/05/11	259,486	1.22	253,845
IntelliPharmaCeutics International Inc.				
Common	1/31/11	2,301,000	2.71	2,493,364
Warrants (expiration 2/01/13)	1/31/11	0	1.03	474,006
Warrants (expiration 2/01/16)	1/31/11	0	1.44	662,688
Interlace Medical				
Milestone Interest	1/14/11	3,848,218	3,886,796.00	3,886,797
Labcyte Inc.				
Series C Cvt. Pfd.	7/18/05	1,924,893	0.52	1,920,000
MacroGenics, Inc.				
Series D Cvt. Pfd.	9/04/08	1,002,546	0.65	199,812
Series D Cvt. Pfd. 18 Month Lock-up	9/04/08	315,748	0.00	0
Magellan Biosciences, Inc.				
Series A Cvt. Pfd.	11/28/06 - 10/01/09	3,117,537	1.00	3,109,861
Warrants (expiration 4/01/19)	4/03/09	0	0.00	0
Warrants (expiration 5/06/19)	5/12/09	0	0.00	0
Medwave, Inc.				
Warrants (expiration 8/21/11)	2/21/06	0	0.00	0
OmniSonic Medical Technologies, Inc.				
Series A-1 Cvt. Pfd.	10/01/03	1,801,555	0.001	1,548
Series B-1 Cvt. Pfd.	6/04/07, 11/15/07	961,365	0.001	1,263
Common	5/24/01, 7/02/07	2,409,096	0.001	93
Palyon Medical Corporation				
Series A Cvt. Pfd.	4/28/09	2,967,404	0.16	2,211,809
PHT Corporation				
Series D Cvt. Pfd.	7/23/01	4,205,754	0.78	4,200,000
Series E Cvt. Pfd.	9/12/03 - 10/19/04	941,669	0.78	939,506
Series F Cvt. Pfd.	7/21/08	122,580	0.78	116,363
Songbird Hearing, Inc.				
Common	12/14/00	3,004,861	0.67	139
Targeen				
Milestone Interest	7/20/10	5,863,346	6,040,419.00	6,040,419
TherOx, Inc.				
Series H Cvt. Pfd.	9/11/00, 8/21/07	3,002,748	1.66	108,182
Series I Cvt. Pfd.	7/08/05	579,958	1.66	247,939
Tibion Corp.				
Cvt. Pfd.	2/23/11	2,360,000	0.50	2,360,000
Veniti, Inc.				
Series A Cvt. Pfd.	2/28/11	3,245,000	0.87	3,244,999
Xoft				
Milestone Interest	1/5/2011	831,556	844,029.00	844,029
Zyomyx, Inc.				
Common	2/19/99 - 1/12/04	<u>3,902,233</u>	0.25	<u>18</u>
		<u>\$70,743,016</u>		<u>\$48,459,664</u>

(j) See Schedule of Investments and corresponding footnotes for more information on each issuer.

H&Q HEALTHCARE INVESTORS

INVESTMENT ADVISORY AGREEMENT APPROVAL

The Investment Advisory Agreement (the Advisory Agreement) between the Fund and the Adviser provides that the Advisory Agreement will continue in effect so long as its continuance is approved at least annually by (i) the Trustees of the Fund or the shareholders by affirmative vote of a majority of the outstanding shares and (ii) a majority of the Trustees of the Fund who are not interested persons (the Independent Trustees), by vote cast in person at a meeting called for the purpose of voting on such approval.

On March 24, 2011, the Board, and the Independent Trustees voting separately, determined that the terms of the Advisory Agreement are fair and reasonable and approved the continuance of the Advisory Agreement as being in the best interests of the Fund and its shareholders. In making its determination, the Board considered materials that were specifically prepared by the Adviser at the request of the Board and Fund counsel for purposes of the contract review process, including comparisons of (i) the Fund's performance to its benchmark, the NASDAQ Biotech Index (NBI), and to other investment companies, (ii) the Fund's expenses and expense ratios to those of a peer group of other investment companies, and (iii) the Adviser's profitability with respect to its services for the Fund to the profitability of other investment advisers, as described below. The Trustees took into account that the Adviser presently provides investment management services only to the Fund and to H&Q Life Sciences Investors and does not derive any benefit from its relationship with the Fund other than receipt of advisory fees pursuant to the Advisory Agreement. The Board also received and reviewed information throughout the year about the portfolio performance, the investment strategy, the portfolio management team and the fees and expenses of the Fund.

In approving the Advisory Agreement, the Board considered, among other things, the nature, extent, and quality of the services to be provided by the Adviser, the investment performance of the Fund and the Adviser, the costs of services provided and profits realized by the Adviser and its affiliates, and whether fee levels reflect economies of scale for the benefit of Fund shareholders and the extent to which economies of scale would be realized as the Fund grows. The Board reviewed information about the foregoing factors and considered changes, if any, in such information since its previous approval. The Board also evaluated the financial strength of the Adviser and the capability of the personnel of the Adviser, specifically the strength and background of its investment analysts. Fund counsel provided the Board with the statutory and regulatory requirements for approval and disclosure of investment advisory agreements. The Board, including the Independent Trustees, evaluated all of the foregoing and, considering all factors together, determined in the exercise of its business judgment that the continuance of the Advisory Agreement is in the best interests of the Fund and its shareholders. The following provides more detail on certain factors considered by the Trustees and the Board's conclusions with respect to each such factor.

The nature, extent and quality of the services to be provided by the Adviser. On a regular basis the Board considers the roles and responsibilities of the Adviser as a whole, along with specific portfolio management, support and trading functions the Adviser provides to the Fund. The Trustees considered the nature, extent and quality of the services provided by the Adviser to the Fund. The Trustees continue to be satisfied with the quality and value of the investment advisory services provided to the Fund by the Adviser, and, in particular, the management style and discipline followed by the Adviser and the quality of the Adviser's research, trading, portfolio management, compliance and administrative personnel.

H&Q HEALTHCARE INVESTORS

INVESTMENT ADVISORY AGREEMENT APPROVAL

(continued)

The investment performance of the Fund and the Adviser. On a regular basis the Board reviews performance information for the Fund and discusses the Fund's investment strategy with the Adviser. The Trustees reviewed comparisons of the Fund's performance to its benchmark, the NBI, and to other investment companies and reviewed other information relating to the performance of the Fund. The Trustees also considered the Adviser's portfolio management strategy and process for the Fund. Although the NBI's performance exceeded the Fund's returns by net asset value and stock price in recent periods, the Fund's return by net asset value outperformed the NBI over the most recent five-year and ten-year periods and the Fund's return by stock price outperformed the NBI over the most recent ten-year period. The Trustees continue to be satisfied with the investment performance of the Fund and the Adviser.

The costs of services to be provided and profits to be realized by the Adviser from its relationship with the Fund. The Trustees considered the various services provided by the Adviser to the Fund and reviewed comparative information regarding the expenses and expense ratios of the Fund and a peer group of other investment companies. The Trustees noted that the Adviser's fees are within the range of fees presented in the comparative information and noted that a portion of the Fund's investment portfolio is invested in venture and restricted securities, a portfolio management service that can command higher management fees than those charged by the Adviser pursuant to the Advisory Agreement. The Trustees also considered financial information provided by the Adviser, including financial statements of the Adviser and a comparison of the Adviser's profitability with respect to its services for the Fund to the profitability of other privately held investment advisers. Based on the information provided to and evaluated by the Trustees, the Trustees concluded that the fees charged by the Adviser are fair and reasonable in light of the quality and nature of the services provided by the Adviser and that the profitability of the Adviser's relationship with the Fund has not been excessive. The fees charged by the Adviser are within a reasonable range of fees as compared to fees charged by other investment advisers, and the services provided by the Adviser and the amounts paid under the Advisory Agreement are sufficiently favorable in comparison to the services rendered and fees charged by others for similar services to warrant a finding that fees to be paid by the Fund are fair.

Whether fee levels reflect economies of scale and the extent to which economies of scale would be realized as the Fund grows. The Trustees considered that the Advisory Agreement provides for breakpoints in the advisory fees so that the Fund will share the benefits of the economies of scale that would inure to the Adviser as the Fund's assets increase. The Trustees reviewed the net assets of the Fund over the last five years, the recent investment performance of the Fund, and the management fees of other funds with similar investment objectives. Given the asset size of the Fund, and as economies of scale are still modest at current Fund asset levels, the Trustees determined that the Fund's breakpoint schedule is satisfactory and fair.

H&Q HEALTHCARE INVESTORS

PRIVACY NOTICE

If you are a registered shareholder of the Fund, the Fund and Hambrecht & Quist Capital Management LLC, the Fund's investment adviser, may receive nonpublic personal information about you from the information collected by the transfer agent from your transactions in Fund shares. Any nonpublic personal information is not disclosed to third parties, except as permitted or required by law. In connection with servicing your account and effecting transactions, the information received may be shared with the investment adviser and non-affiliates, including transfer agents, custodians or other service companies. Access to your nonpublic personal information is restricted to employees who need to know that information to provide products or services to you. To maintain the security of your nonpublic personal information, physical, electronic, and procedural safeguards are in place that comply with federal standards. The policies and practices described above apply to both current and former shareholders.

If your Fund shares are held in "street name" at a bank or brokerage, we do not have access to your personal information and you should refer to your bank's or broker's privacy policies for a statement of the treatment of your personal information.

FOR MORE INFORMATION

A description of the Fund's proxy voting policies and procedures and information on how the Fund voted proxies relating to portfolio securities during the most recent 12-month period ended June 30, is available (i) without charge, upon request by calling 1-800-451-2597; (ii) by writing to Hambrecht & Quist Capital Management LLC at 2 Liberty Square, 9th floor, Boston, MA 02109; (iii) on the Fund's website at www.hqcm.com; and (iv) on the Securities and Exchange Commission's (SEC) website at www.sec.gov.

The Fund's complete Schedule of Investments for the first and third quarters of its fiscal year will be filed quarterly with the SEC on Form N-Q. This Schedule of Investments will also be available on the Fund's website at www.hqcm.com or the SEC's website at www.sec.gov. The Fund's Form N-Q may be reviewed and copied at the SEC's Public Reference Room in Washington, DC or by calling 1-800-SEC-0330.

DISTRIBUTION POLICY

The Fund has a fixed distribution policy as described in the Notes to Financial Statements. For more information contact your financial adviser.

PORTFOLIO MANAGEMENT

Daniel R. Omstead, Ph.D., Christopher Brinzey, M.B.A., Frank Gentile, Ph.D. and Jason C. Akus, M.D./M.B.A. are members of a team that analyzes investments on behalf of the Fund. Dr. Omstead exercises ultimate decision making authority with respect to investments.

HOUSEHOLDING

A number of banks, brokers and financial advisers have instituted "householding". Under this practice, which has been approved by the SEC, only one copy of shareholder documents may be delivered to multiple shareholders who share the same address and satisfy other conditions. Householding is intended to reduce expenses and eliminate duplicate mailings of shareholder documents. If you do not want the mailing of your shareholder documents to be combined with those of other members of your household, please contact your bank, broker or financial adviser.

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H&Q HEALTHCARE INVESTORS

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Laura Woodward, CPA, Chief Compliance Officer,
Secretary and Treasurer

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Eric Oddleifson
Daniel R. Omstead, Ph.D.
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William S. Reardon, CPA
Uwe E. Reinhardt, Ph.D.
Lucinda H. Stebbins, CPA

Investment Adviser

Hambrecht & Quist Capital Management LLC

Administrator & Custodian

State Street Bank and Trust Company

Transfer Agent

Computershare Shareholder Services, Inc.

Legal Counsel

Dechert LLP

Shareholders with questions regarding share transfers may call

1-800-426-5523

Daily net asset value may be obtained from
our website (www.hqcm.com) or by calling

1-800-451-2597