

H&Q HEALTHCARE INVESTORS



Annual Report

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o our Shareholders:

On September 30, 2011, the net asset value (NAV) per share of the Fund was \$14.46. During the twelve month period ended September 30, 2011, total return at NAV of the Fund was 9.15%, with distributions reinvested. During the most recent six month period ended September 30, 2011, total return at NAV of the Fund was -5.10%, with distributions reinvested. The total investment return at market with distributions reinvested was 18.90% during the twelve month period ended September 30, 2011 and -3.94% during the six month period ended September 30, 2011. As such, market performance of the Fund exceeded that of the NASDAQ Biotech Index (NBI) noticeably. The Fund NAV outperformed the NBI for both the fiscal year and six month periods. Also, the Fund's market return exceeded the NBI for both periods. Both the Funds' NAV and the NBI outperformed the broad S&P 500 Index in both periods. Comparisons to the relevant indices are listed below.



Investment Returns	Six Months Ended 9/30/11	Year Ended 9/30/11
Investment Return at Market	-3.94%	18.90%
Net Asset Value	-5.10%	9.15%
NASDAQ Biotech Index	-6.72%	8.52%
S&P 500 Index	-13.78%	1.14%

Portfolio Highlights

There is little question that non-healthcare related events and trends have had a significant impact on performance of the healthcare sector and the Fund in the year ended September 30, 2011. During the year, performance of both the Fund's NAV and the healthcare sector (as evidenced by the NBI) significantly outperformed the broader market. Healthcare outperformance would appear to be the result of several factors. We would argue that the most important factor is a generally high level of market uncertainty and in particular a high level of perceived risk about both the domestic and global economies. Probably the greatest factor driving uncertainty is a lack of clarity about the outcomes of the sovereign debt discussions in Europe. Moreover, each successive sovereign debt problem seems to be followed by an even greater concern. These problems have weighed heavily on global markets. In the United States, partisan political bickering, as evidenced by the recent highly discordant

debt ceiling discussions, is also elevating the generalized level of uncertainty about the future and it feels to us that the evident lack of consensus may continue until the 2012 elections, if not longer. From our perspective then, uncertainty in the broad market, at least as measured by the CBOE Volatility Index (VIX), could remain elevated for quite a while. We feel that the fact that healthcare is somewhat insulated from these macro events and uncertainty played a role in recent healthcare sector outperformance and we are optimistic that the trend will continue.

If there is a silver lining to this broad market concern, it is that the healthcare sector seems to provide a measure of relief. In simple terms, the sector has significantly outperformed the broad market, both in the six and twelve month periods ending September 30, 2011. This suggests to us that healthcare, after the uncertainty of the recent healthcare debate, may be returning to its historic position as a defensive sector and can be a viable investment option in times of great general uncertainty. There will always be some volatility in the healthcare sector that results from the binary nature of many drug development, approval and launch-related events, but our positive view of the sector is in large part based on the fact that companies in the healthcare sector remain in a good financial position and that many companies in the group exhibit improving pipelines and have secured a steady stream of approvals for products that have significant upside potential. No less important is that valuations in the sector appear attractive relative to historic levels.

In terms of financial health, it is clear that the industry is amassing large cash balances. Cash availability has likely been driving significant merger and acquisition activity in the last year or more. M&A activity has been robust, demonstrating a solid recovery from the 2009 low point. We think this bodes well for the future of the sector and of the Fund. The Fund has, in its public portfolio, owned shares of Elan Corporation plc, whose drug delivery business was acquired by Alkermes, Inc. (which was also owned by the Fund) and in Kinetic Concepts, Inc. which has been acquired by a private equity concern. In its venture portfolio, the Fund benefitted from Hologic, Inc.'s acquisition of Interlace Medical, Inc. and from Stryker Corporation's announced acquisition of Concentric Medical, Inc.

Historically, the healthcare sector has traded at a premium to the broader market. For example, based on forward year P/E, healthcare generally traded at a 10-20% premium to the S&P 500 in the period of 2001-2008. In late 2008 and most of 2009, healthcare underperformed the broad market and declined to a 30% discount to the S&P 500. Since 2009, the healthcare industry has begun to recover and as a result has generally outperformed the broader market recently reaching a valuation level of approximate parity with the broader market. This suggests to us that the healthcare

sector would outperform the broad market if it does no more than to reach the 10-20% premium exhibited during much of the last decade.

We are also optimistic about the developing product pipeline exhibited by healthcare companies. FDA approvals represent a good measure of pipeline development. We note that through August 2011, the FDA has approved 26 new medical drug entities compared to just 20 in all of 2010. Furthermore, a number of these recent approvals are groundbreaking. Among others, the FDA has approved two new breakthrough products for Hepatitis C (Incivek and Victrelis), a novel prostate cancer drug (Zytiga) as well as the first new product for lupus (Benlysta) in many years. During the year, the Fund owned shares in Merck & Company, Inc., Vertex Pharmaceuticals Incorporated and Human Genome Sciences, Inc., the companies that are commercializing Victrelis, Incivek and Benlysta, respectively, and has previously owned a significant position in Cougar Biotechnology, Inc., the company that initially developed Zytiga.

On the negative side, the recent product approvals have not produced the launch rates expected by some analysts. For example, the approvals of Provenge, marketed by Dendreon Corporation, and Benlysta, marketed by Human Genome Sciences, were appropriately lauded as breakthrough accomplishments. However, initial sales levels have not met analyst estimates. Unfortunately, the Fund has maintained positions in these companies into and through their initial product launches. It may well be that these drugs eventually reach lofty sales levels but, for the moment, the stocks of these companies have underperformed. If there is one thing we have been reminded of in the last year, it is that marketing a breakthrough product after approval may be just as difficult as getting it approved.

With respect to performance, as noted above, HQT NAV performance was comparable to that of the NBI in the fiscal year. As for the NBI, on a market capitalization weighted basis, two stocks, Pharmasset, Inc. and Alexion Pharmaceuticals, Inc., accounted for more than the 100% of the return of the entire index. The Fund's public portfolio benefited from and maintained ownership of Alexion throughout the fiscal year and owned Pharmasset for most of the year. The Fund also benefited from ownership of Akorn, Inc. and Kinetic Concept, Inc. during the fiscal year. On the other hand, Fund return was limited by ownership of Dendreon and Human Genome Sciences.

Separately, we note that the Trustees of the Fund proposed to make certain changes to the Fund's Declaration of Trust in a way that expanded the Fund's ability to buy back its own shares. This proposal was approved by shareholders. Subsequently, the Trustees approved a specific plan

allowing buybacks under certain conditions at the discretion of the Adviser. This program was initiated before the end of the fiscal year.

Investment Changes

During the twelve month period ended September 30, 2011, within the public portfolio, the Fund established positions in several companies including Pharmasset, Inc., Biogen Idec, Inc., Gen-Probe, Inc., Incyte Corporation, Express Scripts, Inc., Cerner Corporation, Thermo Fisher Scientific, Inc. and Quest Diagnostics, Inc., generally based on the perceived quality of the products being developed or commercialized. During the same twelve month period, the Fund exited its position in several companies including WellPoint, Inc., Align Technology, Inc., Laboratory Corporation of America Holdings, Stryker Corporation, Illumina, Inc., Cephalon, Inc., Alere, Inc. and Amylin Pharmaceuticals, Inc., based in some cases upon reaching what we perceived to be fair value and in other cases on failing to achieve our investment thesis.

During the same twelve month period, within the restricted portfolio, the Fund established positions in several companies including Tibion Corporation and Veniti, Inc. In addition, the Fund established restricted position in IntelliPharmaCeutics International, Inc. and AP Pharma, Inc. The Fund made follow-on investments in CardioKinetix, Inc., Euthymics Biosciences, Inc. and Ceres, Inc. The Fund exited its position in Interlace Medical, Inc. and Xoft, 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

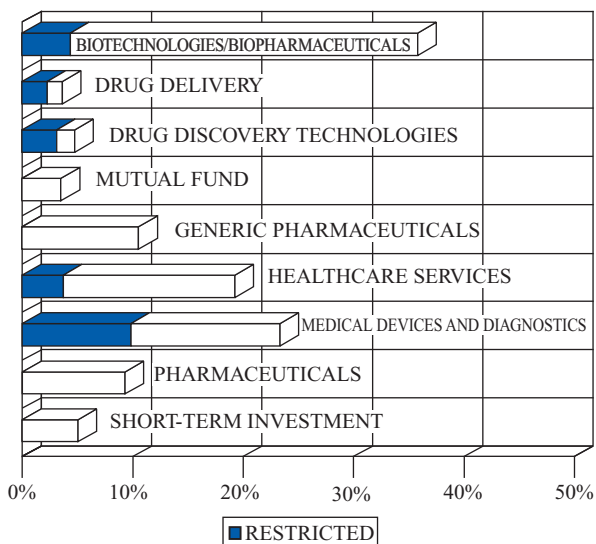
LARGEST HOLDINGS BY ISSUER (Excludes Short-Term Investments)

As of September 30, 2011

<u>Issuer - Sector</u>	<u>% of Net Assets</u>
Gilead Sciences, Inc. <i>Biotechnologies/Biopharmaceuticals</i>	4.1%
Vertex Pharmaceuticals, Inc. <i>Biotechnologies/Biopharmaceuticals</i>	4.0%
Pharmasset, Inc. <i>Pharmaceuticals</i>	3.3%
Aetna, Inc. <i>Healthcare Services</i>	3.0%
Concentric Medical, Inc. <i>Medical Devices and Diagnostics</i>	2.7%
Teva Pharmaceutical Industries Ltd. <i>Generic Pharmaceuticals</i>	2.5%
Alexion Pharmaceuticals, Inc. <i>Biotechnologies/Biopharmaceuticals</i>	2.5%
Biogen Idec, Inc. <i>Biotechnologies/Biopharmaceuticals</i>	2.4%
PerkinElmer, Inc. <i>Medical Devices and Diagnostics</i>	2.4%
Gen-Probe, Inc. <i>Medical Devices and Diagnostics</i>	2.4%

PORTFOLIO

As of September 30, 2011



H&Q HEALTHCARE INVESTORS

SCHEDULE OF INVESTMENTS

SEPTEMBER 30, 2011

CONVERTIBLE SECURITIES AND WARRANTS - 10.1% of Net Assets

Convertible Preferred

SHARES	and Warrants (Restricted) ^{(a) (b)} - 10.1%	VALUE
<i>Biotechnologies/Biopharmaceuticals - 0.8%</i>		
2,831,651	Euthymics Biosciences, Inc. Series A	\$2,831,651
358,852	MacroGenics, Inc. Series D	234,007
		<u>3,065,658</u>
<i>Drug Discovery Technologies - 1.2%</i>		
2,380,953	Agilix Corporation Series B ^(c)	3,952
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>4,736,888</u>
<i>Healthcare Services - 1.4%</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 - 6.7%</i>		
3,424,756	CardioKinetix, Inc. Series C ^(c)	890,437
6,155,027	CardioKinetix, Inc. Series D ^(c)	677,053
12,177,507	CardioKinetix, Inc. Series E ^(c)	1,217,751
N/A	CardioKinetix, Inc. warrants (expiration 12/11/19) ^{(c) (d)}	0
N/A	CardioKinetix, Inc. warrants (expiration 6/03/20) ^{(c) (d)}	0
N/A	CardioKinetix, Inc. warrants (expiration 7/07/21) ^{(c) (d)}	0
4,852,940	Concentric Medical, Inc. Series B ^(c)	6,211,763
1,744,186	Concentric Medical, Inc. Series C ^(c)	2,232,558
683,000	Concentric Medical, Inc. Series D ^(c)	874,240
652,013	Concentric Medical, Inc. Series E ^(c)	834,577
3,669,024	Labcyte, Inc. Series C	1,920,000
3,109,861	Magellan Biosciences, Inc. Series A	2,394,593
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

SEPTEMBER 30, 2011

(continued)

SHARES	Convertible Preferred and Warrants (Restricted) ^{(a) (b)} - continued	VALUE
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	74,608
149,469	TherOx, Inc. Series I	170,992
4,720,000	Tibion Corporation Series B	2,360,000
3,750,143	Veniti, Inc. Series A ^(c)	3,244,999
		<u>25,318,191</u>
		38,376,606
PRINCIPAL	Convertible Notes - 0.0% ^(a)	
AMOUNT	<i>Drug Discovery Technologies - 0.0%</i> Ceres, Inc., Cvt. Promissory Notes, 0.00% due 2/1/12 (Restricted)	<u>165,554</u>
\$165,554		165,554
	TOTAL CONVERTIBLE SECURITIES AND WARRANTS	
	(Cost \$44,374,349)	<u>38,542,160</u>
	COMMON STOCKS AND WARRANTS - 80.9%	
SHARES	Biotechnologies/Biopharmaceuticals - 31.6%	
49,775	Acorda Therapeutics, Inc. ^(b)	993,509
148,660	Alexion Pharmaceuticals, Inc. ^(b)	9,523,160
255,468	Alkermes plc ^(b)	3,898,442
85,726	Allergan, Inc.	7,062,108
404,585	Amarin Corporation plc ^{(b) (f)}	3,722,182
93,445	Amgen, Inc.	5,134,803
5,910,745	Antisoma plc ^{(b) (e)}	203,952
118,000	Athersys, Inc. warrants (Restricted, expiration 6/08/12) ^{(a) (b)}	0
155,900	Baxter International, Inc.	8,752,226
99,711	Biogen Idec, Inc. ^(b)	9,288,080
129,041	Celgene Corporation ^{(b) (h)}	7,990,219
171,132	Cubist Pharmaceuticals, Inc. ^(b)	6,044,382
225,837	Dendreon Corporation ^(b)	2,032,533
341,019	Elan Corporation plc ^{(b) (f)}	3,590,930
404,565	Gilead Sciences, Inc. ^(b)	15,697,122
500,806	Human Genome Sciences, Inc. ^(b)	6,355,228
867,746	Inhibitex, Inc. ^(b)	2,134,655
523,936	Nektar Therapeutics ^(b)	2,541,090
611,113	Neurocrine Biosciences, Inc. ^(b)	3,654,456

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H&Q HEALTHCARE INVESTORS

SCHEDULE OF INVESTMENTS

SEPTEMBER 30, 2011

(continued)

SHARES	Biotechnologies/ Biopharmaceuticals - continued	VALUE
153,894	United Therapeutics Corporation ^(b)	\$5,769,486
338,250	Vertex Pharmaceuticals, Inc. ^(b)	15,065,655
56,426	XenoPort, Inc. ^(b)	332,913
		<u>119,787,131</u>
	Drug Delivery - 1.8%	
9,200,000	A.P. Pharma, Inc. ^{(b) (c)}	2,392,000
4,600,000	A.P. Pharma, Inc. warrants (Restricted, expiration 7/01/16) ^{(a) (b) (c)}	552,000
920,400	IntelliPharmaCeutics International, Inc. ^{(b) (c)}	3,083,340
460,200	IntelliPharmaCeutics International, Inc. warrants (Restricted, expiration 2/01/13) ^{(a) (b) (c)}	331,344
460,200	IntelliPharmaCeutics International, Inc. warrants (Restricted, expiration 2/01/16) ^{(a) (b) (c)}	593,658
		<u>6,952,342</u>
	Drug Discovery Technologies - 1.6%	
439,709	Incyte Corporation ^(b)	6,142,734
70	Zyomyx, Inc. (Restricted) ^{(a) (b)}	18
		<u>6,142,752</u>
	Generic Pharmaceuticals - 8.7%	
983,334	Akorn, Inc. ^(b)	7,679,838
400,288	Mylan, Inc. ^(b)	6,804,896
72,590	Perrigo Company	7,049,215
258,837	Teva Pharmaceutical Industries Ltd. ^(f)	9,633,913
25,075	Watson Pharmaceuticals, Inc. ^(b)	1,711,369
		<u>32,879,231</u>
	Healthcare Services - 16.1%	
308,341	Aetna, Inc.	11,208,195
222,222	Aveta, Inc. (Restricted) ^{(a) (g)}	1,999,998
80,500	Cerner Corporation ^(b)	5,515,860
56,350	Community Health Systems, Inc. ^(b)	937,664
242,150	CVS Caremark Corporation	8,131,397
163,927	Express Scripts, Inc. ^(b)	6,076,774
59,450	HCA Holdings, Inc. ^(b)	1,198,512
137,675	Health Management Associates, Inc. ^(b)	952,711
36,312	LifePoint Hospitals, Inc. ^(b)	1,330,472
56,862	McKesson Corporation	4,133,867
145,028	Medco Health Solutions, Inc. ^(b)	6,800,363
208,165	PAREXEL International Corporation ^(b)	3,940,564
147,700	Pharmaceutical Product Development, Inc.	3,789,982
107,672	UnitedHealth Group, Inc.	4,965,833
		<u>60,982,192</u>

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

H&Q HEALTHCARE INVESTORS

SCHEDULE OF INVESTMENTS

SEPTEMBER 30, 2011

(continued)

SHARES	Medical Devices and Diagnostics - 13.6%	VALUE
325,937	Boston Scientific Corporation ^(b)	\$1,926,288
160,000	Ceracor Laboratories, Inc. (Restricted) ^{(a)(b)}	89,887
46,878	Edwards Lifesciences Corporation ^(b)	3,341,464
157,361	Gen-Probe, Inc. ^(b)	9,008,917
79,836	Hologic, Inc. ^(b)	1,214,305
52,232	iCAD, Inc. (Locked-up until 12/31/11) (Restricted) ^(a)	23,321
208,926	iCAD, Inc. (Locked-up until 6/30/12) (Restricted) ^(a)	88,376
49,012	IDEXX Laboratories, Inc. ^(b)	3,380,358
63,325	Kinetic Concepts, Inc. ^(b)	4,172,484
830,292	Medwave, Inc. ^{(b)(c)}	2,491
401,494	Natus Medical, Inc. ^(b)	3,818,208
93,008	OmniSonics Medical Technologies, Inc. (Restricted) ^{(a)(b)}	93
91,019	Palomar Medical Technologies, Inc. ^(b)	717,230
475,591	PerkinElmer, Inc.	9,136,103
89,600	Quest Diagnostics, Inc.	4,422,656
208	Songbird Hearing, Inc. (Restricted) ^{(a)(b)}	139
106,400	Thermo Fisher Scientific, Inc. ^(b)	5,388,096
89,000	Zimmer Holdings, Inc. ^(b)	4,761,500
		<u>51,491,916</u>
	Pharmaceuticals - 7.5%	
66,000	Jazz Pharmaceuticals, Inc. ^(b)	2,740,320
136,800	Merck & Company, Inc.	4,474,728
150,194	Pharmasset, Inc. ^(b)	12,371,480
56,068	Sanofi, CVR (expiration 12/31/20) ^{(b)(c)}	59,432
47,649	Shire plc ^(c)	4,475,670
302,433	Warner Chilcott plc ^(b)	4,324,792
		<u>28,446,422</u>
	TOTAL COMMON STOCKS AND WARRANTS	
	(Cost \$310,895,243)	<u>306,681,986</u>
	MUTUAL FUND - 1.7%	
66,741	iShares Nasdaq Biotechnology Index Fund	<u>6,230,272</u>
	TOTAL MUTUAL FUND	
	(Cost \$5,887,320)	<u>6,230,272</u>

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

H&Q HEALTHCARE INVESTORS

SCHEDULE OF INVESTMENTS

SEPTEMBER 30, 2011

(continued)

<u>PRINCIPAL AMOUNT</u>	SHORT-TERM INVESTMENT - 3.2%	<u>VALUE</u>
\$12,251,000	Repurchase Agreement, State Street Bank and Trust Co., repurchase value \$12,251,010, 0.01%, dated 09/30/11, due 10/03/11 (collateralized by U.S. Treasury Note 1.75%, due 05/31/16, market value \$12,496,406)	<u>\$12,251,000</u>
	TOTAL SHORT-TERM INVESTMENT (Cost \$12,251,000)	<u>12,251,000</u>
	TOTAL INVESTMENTS BEFORE MILESTONE INTERESTS AND OUTSTANDING OPTIONS WRITTEN - 95.9% (Cost \$373,407,912)	<u>363,705,418</u>
<u>INTEREST</u>	MILESTONE INTERESTS (Restricted) ^(a) ^(b) - 3.1%	
	<i>Biotechnologies/Biopharmaceuticals - 1.8%</i>	
1	Targen Milestone Interest	<u>6,659,002</u>
	<i>Medical Devices and Diagnostics - 1.3%</i>	
1	Interlace Medical Milestone Interest	3,966,358
1	Xoft Milestone Interest	<u>961,279</u>
		<u>4,927,637</u>
	TOTAL MILESTONE INTERESTS (Cost \$10,571,255)	<u>11,586,639</u>
<u>NUMBER OF CONTRACTS (100 SHARES EACH)</u>	CALL OPTION CONTRACTS WRITTEN - 0.0%	
306	Celgene Corporation, strike @ 65, expires Oct - 2011	<u>(29,682)</u>
	TOTAL CALL OPTION CONTRACTS WRITTEN (Premiums received \$67,940)	<u>(29,682)</u>
	TOTAL INVESTMENTS NET OF OUTSTANDING OPTIONS WRITTEN - 99.0% (Cost \$383,911,227)	<u>375,262,375</u>
	OTHER ASSETS IN EXCESS OF LIABILITIES - 1.0%	<u>3,665,852</u>
	NET ASSETS - 100%	<u>\$378,928,227</u>

(a) Security fair valued.

(b) Non-income producing security.

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

H&Q HEALTHCARE INVESTORS

SCHEDULE OF INVESTMENTS

SEPTEMBER 30, 2011

(continued)

- (c) Affiliated issuers in which the Fund holds 5% or more of the voting securities (total market value of \$30,609,841).
- (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.
- (i) Contingent Value Rights

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. Level 1 includes quoted prices in active markets for identical investments. Level 2 includes prices determined using other significant observable inputs (including quoted prices for similar investments, interest rates, credit risk, etc.). Level 3 includes 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 September 30, 2011 to value the Fund's net assets. For the year ended September 30, 2011, there were no transfers between Levels 1 and 2.

Assets at Value	Level 1	Level 2	Level 3	Total
Convertible Securities and Warrants				
Biotechnologies/Biopharmaceuticals			\$3,065,658	\$3,065,658
Drug Discovery Technologies			4,902,442	4,902,442
Healthcare Services			5,255,869	5,255,869
Medical Devices and Diagnostics			25,318,191	25,318,191
Common Stocks and Warrants				
Biotechnologies/Biopharmaceuticals	\$119,787,131		—	119,787,131
Drug Delivery	5,475,340		1,477,002	6,952,342
Drug Discovery Technologies	6,142,734		18	6,142,752
Generic Pharmaceuticals	32,879,231		—	32,879,231
Healthcare Services	58,982,194		1,999,998	60,982,192
Medical Devices and Diagnostics	51,290,100		201,816	51,491,916
Pharmaceuticals	28,446,422		—	28,446,422
Mutual Fund	6,230,272		—	6,230,272
Short-Term Investment	—	\$12,251,000	—	12,251,000
Milestone Interests				
Biotechnologies/Biopharmaceuticals	—	—	6,659,002	6,659,002
Medical Devices and Diagnostics	—	—	4,927,637	4,927,637
Other Assets	—	—	1,076,814	1,076,814
Total	<u>\$309,233,424</u>	<u>\$12,251,000</u>	<u>\$54,884,447</u>	<u>\$376,368,871</u>
Liabilities at Value				
Option Contracts Written	\$(29,682)	\$—	\$—	\$(29,682)

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

H&Q HEALTHCARE INVESTORS

SCHEDULE OF INVESTMENTS

SEPTEMBER 30, 2011

(continued)

Other Information, continued

The following is a reconciliation of level 3 assets for which significant unobservable inputs were used to determine fair value. Realized and unrealized gain (loss) disclosed in the reconciliation are included in Net Realized and Unrealized Gain (Loss) on the Statement of Operations.

Level 3 Assets	Balance as of September 30, 2010	Realized gain/loss and change in unrealized appreciation (depreciation)	Cost of purchases	Proceeds from sales	Net transfers in (out of) Level 3	Balance as of September 30, 2011
Convertible Securities and Warrants						
Biotechnologies/ Biopharmaceuticals	\$814,382	\$32,520	\$2,534,504	\$(315,748)	\$—	\$3,065,658
Drug Discovery Technologies	4,874,746	3,560	167,944	(143,808)	—	4,902,442
Healthcare Services	5,255,869	(637)	637	—	—	5,255,869
Medical Devices and Diagnostics	20,020,123	12,476,749	7,611,625	(14,790,306)	—	25,318,191
Common Stocks and Warrants						
Biotechnologies/ Biopharmaceuticals	1,180	(1,180)	—	—	—	—
Drug Delivery	—	1,475,766	1,236	—	—	1,477,002
Drug Discovery Technologies	18	—	—	—	—	18
Generic Pharmaceuticals	76,845	(76,845)	—	—	—	—
Healthcare Services	2,222,220	(222,222)	—	—	—	1,999,998
Medical Devices and Diagnostics	97,193	(223,339)	327,962	—	—	201,816
Milestone Interests						
Biotechnologies/ Biopharmaceuticals	6,225,114	433,888	—	—	—	6,659,002
Medical Devices and Diagnostics	—	219,729	4,707,908	—	—	4,927,637
Other Assets	1,266,445	—	798,547	(988,178)	—	1,076,814
Total	\$40,854,135	\$14,117,989	\$16,150,363	\$(16,238,040)	\$—	\$54,884,447

Net change in unrealized appreciation (depreciation) from investments still held as of September 30, 2011 \$6,929,059

In January 2010, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update 2010-06, Improving Disclosures about Fair Valuation Measurements (ASU 2010-06). ASU 2010-06 requires new disclosures regarding transfers in and out of Levels 1 and 2 effective for interim and annual reporting periods beginning after December 15, 2009. ASU 2010-06 will also require additional details regarding Level 3 transaction activity. Management has implemented new and revised disclosures.

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

H&Q HEALTHCARE INVESTORS

SCHEDULE OF INVESTMENTS

SEPTEMBER 30, 2011

(continued)

Other Information, continued

In May 2011, the FASB issued Accounting Standards Update (“ASU”) No. 2011-04 “Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and International Financial Reporting Standards (“IFRS”).” ASU 2011-04 includes common requirements for measurement of and disclosure about fair value between U.S. GAAP and IFRS. ASU 2011-04 will require reporting entities to disclose the following information for fair value measurements categorized within Level 3 of the fair value hierarchy: quantitative information about the unobservable inputs used in the fair value measurement, the valuation processes used by the reporting entity, and a narrative description of the sensitivity of the fair value measurement to changes in unobservable inputs and the interrelationships between those unobservable inputs. In addition, ASU 2011-04 will require reporting entities to make disclosures about amounts and reasons for all transfers into and out of Level 1 and Level 2 fair value measurements. The new and revised disclosures are effective for interim and annual reporting periods beginning after December 15, 2011. At this time, management is evaluating the implications of ASU No. 2011-04 and its impact on the financial statements.

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

H&Q HEALTHCARE INVESTORS

STATEMENT OF ASSETS AND LIABILITIES

SEPTEMBER 30, 2011

ASSETS:

Investments in unaffiliated issuers, at value (cost \$342,803,329)	\$333,095,577
Investments in affiliated issuers, at value (cost \$30,604,583)	30,609,841
Milestone interests, at value (cost \$10,571,255)	11,586,639
Cash	194
Dividends and interest receivable	110,715
Receivable for investments sold	5,091,186
Prepaid expenses	63,730
Other assets (See Note 1)	<u>1,076,814</u>
Total assets	<u>381,634,696</u>

LIABILITIES:

Payable for investments purchased	2,055,717
Accrued advisory fee	370,208
Accrued shareholder reporting fees	28,529
Accrued trustee fees	1,019
Options written, at value (premium received \$67,940)	29,682
Accrued other	<u>221,314</u>
Total liabilities	<u>2,706,469</u>

NET ASSETS

\$378,928,227

SOURCES OF NET ASSETS:

Shares of beneficial interest, par value \$.01 per share, unlimited number of shares authorized, amount paid in on 26,200,247 shares issued and outstanding	\$387,138,301
Accumulated net realized gain on investments, milestone interests and options	438,778
Net unrealized loss on investments, milestone interests and options	<u>(8,648,852)</u>
Total net assets (equivalent to \$14.46 per share based on 26,200,247 shares outstanding)	<u>\$378,928,227</u>

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

H&Q HEALTHCARE INVESTORS

STATEMENT OF OPERATIONS

YEAR ENDED SEPTEMBER 30, 2011

INVESTMENT INCOME:

Dividend income (net of foreign tax of \$26,266)	\$1,831,655
Interest income (including income from affiliates of \$24,252)	<u>41,167</u>
Total investment income	1,872,822

EXPENSES:

Advisory fees	4,434,713
Legal fees	508,051
Administration and auditing fees	197,397
Shareholder reporting	192,394
Trustees' fees and expenses	185,330
Custodian fees	106,227
Transfer agent fees	56,397
Other (see Note 2)	<u>230,460</u>
Total expenses	<u>5,910,969</u>
Net investment loss	<u>(4,038,147)</u>

REALIZED AND UNREALIZED GAIN (LOSS):

Net realized gain (loss) on:

Investments in unaffiliated issuers	29,954,565
Investments in affiliated issuers	4,904,615
Closed or expired option contracts written	<u>135,461</u>
Net realized gain	<u>34,994,641</u>

Change in unrealized appreciation (depreciation) on:

Investments in unaffiliated issuers	(9,372,937)
Investments in affiliated issuers	10,095,361
Milestone interests	653,616
Option contracts written	<u>25,456</u>
Change in unrealized appreciation (depreciation):	<u>1,401,496</u>
Net realized and unrealized gain (loss)	<u>36,396,137</u>

Net increase in net assets resulting from operations	<u>\$32,357,990</u>
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The accompanying notes are an integral part of these financial statements.

H&Q HEALTHCARE INVESTORS

STATEMENTS OF CHANGES IN NET ASSETS

	Year ended September 30, 2011	Year ended September 30, 2010
NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS:		
Net investment loss	(\$4,038,147)	(\$1,630,992)
Net realized gain	34,994,641	17,607,140
Change in net unrealized appreciation	<u>1,401,496</u>	<u>3,659,719</u>
Net increase in net assets resulting from operations	<u>32,357,990</u>	<u>19,635,867</u>
DISTRIBUTIONS TO SHAREHOLDERS FROM:		
Net realized capital gains	<u>(32,335,067)</u>	<u>(9,238,907)</u>
Total distributions	<u>(32,335,067)</u>	<u>(9,238,907)</u>
CAPITAL SHARE TRANSACTIONS:		
Fund shares repurchased (137,620 and 463,390 shares, respectively) (see Note 1)	(1,866,895)	(5,618,868)
Reinvestment of distributions (1,104,265 and 344,325 shares, respectively)	<u>15,591,071</u>	<u>4,119,119</u>
Total capital share transactions	<u>13,724,176</u>	<u>(1,499,749)</u>
Net increase in net assets	<u>13,747,099</u>	<u>8,897,211</u>
NET ASSETS:		
Beginning of year	<u>365,181,128</u>	<u>356,283,917</u>
End of year	<u>\$378,928,227</u>	<u>\$365,181,128</u>

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

H&Q HEALTHCARE INVESTORS

STATEMENT OF CASH FLOWS

YEAR ENDED SEPTEMBER 30, 2011

CASH FLOWS FROM OPERATING ACTIVITIES:	
Purchases of portfolio securities	(\$361,522,733)
Purchases to close option contracts written	(285,976)
Net maturities of short-term investments	5,094,391
Sales of portfolio securities	378,917,821
Proceeds from option contracts written	322,759
Interest income received	121,258
Dividend income received	1,803,209
Other operating receipts (expenses paid)	<u>(5,840,544)</u>
Net cash provided from operating activities	<u>18,610,185</u>
CASH FLOWS FROM FINANCING ACTIVITIES:	
Cash distributions paid	(16,743,996)
Fund shares repurchased	<u>(1,866,895)</u>
Net cash used for financing activities	<u>(18,610,891)</u>
NET DECREASE IN CASH	(706)
CASH AT BEGINNING OF YEAR	<u>900</u>
CASH AT END OF YEAR	<u><u>\$194</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	\$32,357,990
Purchases of portfolio securities	(361,522,733)
Purchases to close option contracts written	(285,976)
Net maturities of short-term investments	5,094,391
Sales of portfolio securities	378,917,821
Proceeds from option contracts written	322,759
Accretion of discount	(2,656)
Net realized gain on investments and options	(34,994,641)
Decrease in net unrealized appreciation (depreciation) on investments and options	(1,401,496)
Decrease in dividends and interest receivable	54,301
Decrease in accrued expenses	(56,324)
Decrease in prepaid expenses and other assets	<u>126,749</u>
Net cash provided from operating activities	<u><u>\$18,610,185</u></u>

Noncash financing activities not included herein consist of reinvested distributions to shareholders of \$15,591,071.

Noncash operating activity not included herein consists of corporate actions of \$10,039,913.

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

H&Q HEALTHCARE INVESTORS

FINANCIAL HIGHLIGHTS

	Years ended September 30,				
	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
OPERATING PERFORMANCE FOR A SHARE OUTSTANDING THROUGHOUT EACH YEAR					
Net asset value per share,					
Beginning of year	<u>\$14.47</u>	<u>\$14.05</u>	<u>\$16.58</u>	<u>\$19.14</u>	<u>\$17.31</u>
Net investment loss (1)	(0.16)(2)	(0.07)(3)	(0.17)	(0.18)	(0.18)
Net realized and unrealized gain (loss)	<u>1.40</u>	<u>0.81</u>	<u>(1.51)</u>	<u>(0.95)</u>	<u>3.45</u>
Total increase (decrease) from investment operations	<u>1.24</u>	<u>0.74</u>	<u>(1.68)</u>	<u>(1.13)</u>	<u>3.27</u>
Distributions to shareholders from:					
Net realized capital gains	(1.26)	(0.37)	(0.12)	(1.43)	(1.44)
Return of capital (tax basis)	<u>—</u>	<u>—</u>	<u>(0.73)</u>	<u>—</u>	<u>—</u>
Total distributions	<u>(1.26)</u>	<u>(0.37)</u>	<u>(0.85)</u>	<u>(1.43)</u>	<u>(1.44)</u>
Increase resulting from shares repurchased (1)	<u>0.01</u>	<u>0.05</u>	<u>—</u>	<u>—</u>	<u>—</u>
Net asset value per share,					
End of year	<u>\$14.46</u>	<u>\$14.47</u>	<u>\$14.05</u>	<u>\$16.58</u>	<u>\$19.14</u>
Per share market value,					
End of year	\$13.15	\$12.08	\$11.32	\$13.70	\$17.30
Total investment return at market value	18.90%	10.04%	(10.33%)	(12.96%)	12.34%
RATIOS					
Expenses to average net assets	1.47%	1.44%	1.52%	1.51%	1.52%
Net investment loss to average net assets	(1.00%)(2)	(0.45%)(3)	(1.30%)	(0.99%)	(1.00%)
SUPPLEMENTAL DATA					
Net assets, end of year (in millions)	\$379	\$365	\$356	\$403	\$444
Portfolio turnover rate	93.75%	48.68%	66.34%	65.38%	115.77%

(1) Computed using average shares outstanding.

(2) 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 (1.11%).

(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%).

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

H&Q HEALTHCARE INVESTORS

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2011

(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 and such differences could be material. 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 September 30, 2011 through the date that the financial statements were issued have been evaluated in the preparation of the financial statements.

Investment Valuation

Shares of publicly traded investments listed on national securities exchanges or in the over-the-counter market are valued at the last sale price, as of the close of trading, generally 4 p.m., Eastern time. Shares of publicly traded investments for which market quotations are not readily available, such as stocks for which trading has been halted or for which there are no current day sales, or whose quoted price may otherwise not reflect fair value are valued in good faith by the Adviser using a fair valuation process described below. Restricted securities of companies that are publicly traded are valued based on the closing market quote on the valuation date less a discount for the restriction. Warrants on publicly traded companies are valued using the Black-Scholes model, which incorporates both observable and unobservable inputs. Short-term investments with a maturity of 60 days or less are valued at amortized cost, which approximates fair value.

Convertible preferred, warrants or convertible note interests in private companies, milestone interests, other restricted securities, as well as shares of publicly traded companies for which market quotations are not available or which do not reflect fair value, are valued in good faith by the Trustees, based upon the recommendations made by the Adviser pursuant to fair valuation policies and procedures approved by the Trustees. 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 company, 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 term. Where appropriate, multiple valuation methodologies are applied to confirm fair value. Due to the uncertainty inherent in the valuation process, despite the Adviser's good faith effort, such estimates of fair value may differ significantly from the values that would have been used had a ready market for the investments existed, and differences could be material. Additionally, changes in the market environment and other events that may occur over the

H&Q HEALTHCARE INVESTORS

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2011

(continued)

life of the investments may cause the gains or losses ultimately realized on these investments to be different from the valuations currently assigned.

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 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 year ended September 30, 2011 were as follows:

	<u>Contracts</u>	<u>Premiums</u>
Options outstanding, September 30, 2010	188	\$ 27,842
Options written	2,111	322,759
Options terminated in closing purchase transactions	(570)	(80,625)
Options exercised	(843)	(114,480)
Options expired	(580)	(87,556)
Options outstanding, September 30, 2011	<u>306</u>	<u>\$ 67,940</u>

H&Q HEALTHCARE INVESTORS

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 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	\$29,682	Net realized gain on investments in unaffiliated issuers (\$138,775)
			Net realized gain on closed or expired option contracts written \$135,461
			Change in unrealized appreciation (depreciation) on investments in unaffiliated issuers —
			Change in unrealized appreciation (depreciation) on option contracts written \$25,456

Milestone Interests

The Fund holds financial 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. A risk to the Fund is that the milestones will not be achieved and no payment will be received by the Fund. The milestone interests were received as part of the proceeds from the sale of three private companies.

The following is a summary of the impact of the milestone interests on the financial statements as of and for the year ended September 30, 2011:

Statement of Assets and Liabilities, Milestone interests, at value	\$11,586,639
Statement of Assets and Liabilities, Net unrealized loss on investments, milestone interests and options	\$1,015,385
Statement of Operations, Net realized gain on Milestone Interests	\$0
Statement of Operations, Change in unrealized appreciation (depreciation) on milestone interests	\$653,616

Other Assets

Other assets in the Statement of Assets and Liabilities consists of amounts due to the Fund at various times in the future in connection with the sale of 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, minus any foreign taxes.

The aggregate cost of purchases and proceeds from sales of investment securities (other than short-term investments) for the year ended September 30, 2011 totaled \$361,678,820 and \$387,501,511, respectively.

H&Q HEALTHCARE INVESTORS

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 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 from the counterparty, 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.

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 current 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. Previously, for the period April 5, 2010 to November 1, 2010, the Fund had made quarterly distributions at a rate of 1.25% 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. Prior to August 4, 2009, the Fund made quarterly distributions at a rate of 2% of the Fund's net assets. 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 June 2011, the Trustees authorized a share repurchase program to allow the Fund to repurchase up to 12% of its outstanding shares for a one year period beginning July 11, 2011. 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.

During the period July 11, 2011 to September 30, 2011, the Fund repurchased 137,620 shares at a total cost of \$1,866,895. 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 9.73%.

H&Q HEALTHCARE INVESTORS

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2011

(continued)

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%.

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 September 30, 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 adjustments, return of capital distributions and ordinary loss netting to reduce short term capital gains. Reclassifications are made to the Fund's capital accounts to reflect income and gains available for distribution under income tax regulations. At September 30, 2011, the Fund reclassified \$4,038,147 from accumulated net realized gain on investments and \$4,038,147 to undistributed net investment income for current period book/tax differences.

The tax basis components of distributable earnings and the tax cost as of September 30, 2011 were as follows:

Cost of investments for tax purposes	\$383,816,769
Gross tax unrealized appreciation	\$52,509,331
Gross tax unrealized depreciation	\$(61,034,043)
Net tax unrealized depreciation on investments	\$(8,524,712)
Undistributed long-term capital gains	\$276,380

The Fund has designated the distributions for its taxable years ended September 30, 2011 and 2010 as follows:

Distributions paid from:	<u>2011</u>	<u>2010</u>
Ordinary income	\$5,254,428	\$276,004
Long-term capital gain	\$27,080,639	\$8,962,903

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 September 30, 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

H&Q HEALTHCARE INVESTORS

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2011

(continued)

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 net 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 year ended September 30, 2011 these payments amounted to \$82,527 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.

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 year ended September 30, 2011 were as follows:

Issuer	Value on September 30, 2010	Purchases	Sales	Income	Value on September 30, 2011
Agilix Corporation	\$ 141,809				\$ 3,952
A.P. Pharma, Inc.	—	\$1,380,000			2,944,000
CardioKinetix, Inc.	3,068,236	2,075,601	\$ 847,051	\$24,252	2,785,241
Concentric Medical, Inc.	4,124,713	—	—	—	10,153,138
Elemé Medical, Inc.	1,684,430	27,019	—	—	—
IntelliPharmaCeutics International, Inc.	—	2,301,000	—	—	4,008,342
Interlace Medical, Inc.	2,065,000	—	11,033,541	—	—
Medwave, Inc.	1,661	—	—	—	2,491
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>\$9,028,619</u>	<u>\$11,880,592</u>	<u>\$24,252</u>	<u>\$30,609,841</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 14% of the Fund's net assets at September 30, 2011.

H&Q HEALTHCARE INVESTORS

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2011

(continued)

At September 30, 2011, the Fund had commitments of \$4,360,291 relating to additional investments in three 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 September 30, 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	\$3,952
A.P. Pharma, Inc. Warrants (expiration 7/01/16)	06/30/11	1,236	0.12	552,000
Athersys, Inc. Warrants (expiration 6/08/12)	6/07/07	0	0.00	0
Aveta, Inc. Common	12/21/05	3,004,731	9.00	1,999,998
CardioKinetix, Inc. Series C Cvt. Pfd.	5/22/08	2,378,387	0.26	890,437
Series D Cvt. Pfd.	12/10/10	784,204	0.11	677,053
Series E Cvt. Pfd.	09/14/11	1,156,202	0.10	1,217,751
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
Warrants (expiration 7/07/21)	07/07/11	69	0.00	0
Ceracor Laboratories, Inc. Common	3/31/98	0	0.56	89,887
Ceres, Inc. Series C Cvt. Pfd.	12/23/98	1,503,749	6.50	2,437,500
Series C-1 Cvt. Pfd.	3/31/01	111,595	6.50	209,255
Series D Cvt. Pfd.	3/14/01	1,669,048	6.50	1,820,682
Series F Cvt. Pfd.	9/05/07	268,247	6.50	265,499
Cvt. Promissory Notes	08/01/11	165,953	100.00	165,554
Warrants (expiration 9/05/15)	9/05/07	22	0.00	0
Concentric Medical, Inc. Series B Cvt. Pfd.	5/07/02, 1/24/03	3,331,094	1.28	6,211,763
Series C Cvt. Pfd.	12/19/03	1,500,856	1.28	2,232,558
Series D Cvt. Pfd.	9/30/05	958,022	1.28	874,240
Series E Cvt. Pfd.	12/18/08	655,026	1.28	834,577
Euthymics Biosciences, Inc. Series A Cvt. Pfd.	7/14/10 - 3/08/11	2,840,995	1.00	2,831,651
iCAD, Inc. (Locked-up until 12/31/11) Common	1/05/11	68,476	0.45	23,321
(Locked-up until 6/30/12) Common	1/05/11	259,486	0.42	88,376
IntelliPharmaCeutics International, Inc. Warrants (expiration 2/01/13)	1/31/11	0	0.72	331,344
Warrants (expiration 2/01/16)	1/31/11	0	1.29	593,658
Interlace Medical Milestone Interest	1/14/11	3,865,670	3,966,358	3,966,358

H&Q HEALTHCARE INVESTORS

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2011

(continued)

Security (#)	Acquisition Date	Cost	Carrying Value per Unit	Value
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	1,318,294	0.65	234,007
Magellan Biosciences, Inc. Series A Cvt. Pfd.	11/28/06 - 10/01/09	1,244,142	0.77	2,394,593
Warrants (expiration 4/01/19)	4/03/09	197	0.00	0
Warrants (expiration 5/06/19)	5/12/09	16	0.00	0
OmniSonic Medical Technologies, Inc. Series A-1 Cvt. Pfd.	10/01/03	1,801,555	0.00	1,548
Series B-1 Cvt. Pfd.	6/04/07, 11/15/07	961,365	0.00	1,263
Common	5/24/01, 7/02/07	2,409,096	0.00	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	4,206,263	0.78	4,200,000
Series E Cvt. Pfd.	9/12/03 - 10/19/04	941,783	0.78	939,506
Series F Cvt. Pfd.	7/21/08	122,594	0.78	116,363
Songbird Hearing, Inc. Common	12/14/00	3,004,861	0.67	139
Targegen Milestone Interest	7/20/10	5,863,346	6,659,002	6,659,002
TherOx, Inc. Series H Cvt. Pfd.	9/11/00, 8/21/07	3,002,748	1.14	74,608
Series I Cvt. Pfd.	7/08/05	579,958	1.14	170,992
Tibion Corporation Series B Cvt. Pfd.	2/23/11	2,366,726	0.50	2,360,000
Veniti, Inc. Series A Cvt. Pfd.	2/28/11	3,260,896	0.87	3,244,999
Xoft Milestone Interest	1/5/2011	842,238	961,279	961,279
Zyomyx, Inc. Common	2/19/99 - 1/12/04	<u>3,902,233</u>	0.25	<u>18</u>
		<u>\$67,595,723</u>		<u>\$53,807,633</u>

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

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Trustees and Shareholders of H&Q Healthcare Investors:

We have audited the accompanying statement of assets and liabilities of H&Q Healthcare Investors (the "Fund"), including the schedule of investments, as of September 30, 2011, the related statements of operations and cash flows for the year then ended, the statements of changes in net assets for each of the two years in the period then ended, and the financial highlights for each of the five years in the period then ended. These financial statements and financial highlights are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. The Fund is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. Our procedures included confirmation of securities owned as of September 30, 2011, by correspondence with the custodian and brokers; where replies were not received from brokers, we performed other auditing procedures. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of H&Q Healthcare Investors as of September 30, 2011, the results of its operations and its cash flows for the year then ended, the changes in its net assets for each of the two years in the period then ended, and the financial highlights for each of the five years in the period then ended, in conformity with accounting principles generally accepted in the United States of America.

DELOITTE & TOUCHE LLP
Boston, Massachusetts
November 22, 2011

H&Q HEALTHCARE INVESTORS

TRUSTEES

H&Q Healthcare Investors
2 Liberty Square, 9th Floor
Boston, Massachusetts 02109
(617) 772 - 8500

Name, Address¹ and Date of Birth	Position(s) Held with Fund, Term of Office² and Length of Time Served	Principal Occupation(s) During Past 5 Years and Other Directorship Held	Number of Portfolios in Fund Complex Overseen by Trustee
<i>Independent Trustees:</i>			
Rakesh K. Jain, Ph.D. 12/1950	Trustee (since 2007)	Director, Steele Lab of Tumor Biology at Massachusetts General Hospital (since 1991); A.W. Cook Professor of Tumor Biology (Radiation Oncology) at Harvard Medical School (since 1991); Ad hoc Consultant/Scientific Advisory Board Member for pharmaceutical/biotech companies (various times since 2002); Ad hoc Consultant, Gershon Lehman Group (since 2004); Advisory Committee Member, Department of Biotechnology, Government of India (since 2004).	2
Lawrence S. Lewin 4/1938	Trustee (since 1987) and Chairman (since 2000)	Self-employed Executive Consultant (since 1999).	2
Oleg M. Pohotsky 3/1947	Trustee (since 2000)	Consultant and Managing Partner, Right Bank Partners (since 2002); Adviser, Board of Advisers, Kaufman & Co. LLC (since 2008); Organizer/Incorporator, EmprendMex (since 2009); Director, Avangard Investment Holdings (since 2011).	2
William S. Reardon, CPA 6/1946	Trustee (since 2010)	Director, Idera Pharmaceuticals, Inc (since 2002); Director, Synta Pharmaceuticals, Inc. (since 2004).	2
Uwe E. Reinhardt, Ph.D. 9/1937	Trustee (since 1988)	Professor of Economics, Princeton University (since 1968); Director, Boston Scientific Corporation (since 2002); Director, Amerigroup, Inc. (since 2002).	2

H&Q HEALTHCARE INVESTORS

TRUSTEES

(continued)

Name, Address¹ and Date of Birth	Position(s) Held with Fund, Term of Office² and Length of Time Served	Principal Occupation(s) During Past 5 Years and Other Directorship Held	Number of Portfolios in Fund Complex Overseen by Trustee
Lucinda H. Stebbins, CPA 11/1945	Trustee (Since 2006)	Independent Consultant, Deutsche Bank (since 2004); Director, Deutsche Asset Management (2002-2004); Director, Bald Peak Land Company, Inc. (since 2008); Trustee, Massachusetts Hospital School (1997-2008).	2

Interested Trustees:

Daniel R. Omstead, Ph.D. ³ 7/1953	President (Since 2001); Trustee (Since 2003)	President of the Fund and H&Q Life Sciences Investors (HQL) (Since 2001); President, Chief Executive Officer and Managing Member of Hambrecht & Quist Capital Management LLC (Since 2002); Director, Magellan Biosciences, Inc. (Since 2006); Director, Elemé Medical, Inc. (since 2008); Director, Concentric Medical, Inc. (2003-2007; 2008-present); Director, Palyon Medical Corporation (since 2009); Director, Tibion Corporation (since 2011).	2
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¹ The Address for each Trustee is c/o the Fund at the Fund's Address as set forth above.

² Each Trustee currently is serving a three year term.

³ Trustee considered to be an "interested person" within the meaning of the Investment Company Act of 1940, as amended (the "1940 Act"), through position or affiliation with the Adviser.

H&Q HEALTHCARE INVESTORS

OFFICERS

Name, Address¹ and Date of Birth	Position(s) Held with Fund, Term of Office² and Length of Time Served	Principal Occupation(s) During Past 5 Years
Daniel R. Omstead, Ph.D. 7/1953	President (Since 2001); Trustee (Since 2003)	President of the Fund and HQL (Since 2001); Trustee of the Fund and HQL Since 2003); President, Chief Executive Officer and Managing Member of Hambrecht & Quist Capital Management LLC (Since 2002); Director, Magellan Biosciences, Inc. (Since 2006); Director, Elemé Medical, Inc. (since 2008); Director, Concentric Medical, Inc. (2003-2007; 2008-present); Director, Palyon Medical Corporation (since 2009); Director, Tibion Corporation (since 2011).
Laura Woodward, CPA 11/1968	Chief Compliance Officer, Secretary and Treasurer (since 2009)	Chief Compliance Officer, Secretary and Treasurer, the Fund and HQL (Since 2009); Chief Compliance Officer and Vice President of Fund Administration, Hambrecht and Quist Capital Management LLC (Since 2009); Senior Manager, PricewaterhouseCoopers LLP (1990-2009).

¹ The Address for each officer is c/o the Fund at the Fund's Address as set forth above.

² Each officer serves in such capacity for an indefinite period of time at the pleasure of the Trustees.

The Fund's Statement of Additional Information includes additional information about the fund Directors and is available without charge, upon request by calling (617) 772-8500 or writing to Hambrecht & Quist Capital Management LLC at Liberty Square, 9th Floor, Boston, MA 02109.

H&Q HEALTHCARE INVESTORS

CERTIFICATIONS

The Fund's President has certified to the New York Stock Exchange (NYSE) that as of July 12, 2011, he was not aware of any violation by the Fund of applicable NYSE corporate governance listing standards. In addition, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 and applicable Securities and Exchange Commission (SEC) rules, the Fund's President and Treasurer made quarterly certifications during the fiscal year that were filed with the SEC as exhibits to Form N-CSR and Form N-Q filings and related to the Fund's disclosure in such reports, disclosure controls and procedures and internal control over financial reporting, as required.

ANNUAL MEETING REPORT

An Annual Meeting of Shareholders was held on July 8, 2011. Shareholders voted to elect Trustees of the Fund to hold office for a term of three years or until their respective successors shall have been duly elected and qualified. The following votes were cast with respect to each of the nominees:

	<u>For</u>	<u>Withheld</u>
Rakesh K. Jain	14,509,908	1,043,366
Lucinda Stebbins	14,580,087	973,187

Rakesh K. Jain, Ph.D. and Lucinda H. Stebbins, CPA were elected to serve until the 2014 Annual Meeting. Trustees serving until the 2012 Annual Meeting are Lawrence S. Lewin, Daniel R. Omstead, Ph.D. and Uwe E. Reinhardt, Ph.D. Trustees serving until the 2013 Annual Meeting are Oleg M. Pohotsky and William S. Reardon, CPA.

Shareholders ratified the appointment of Deloitte & Touche LLP as the independent registered public accountants of the Fund for the fiscal year ending September 30, 2011 by the following votes:

<u>For</u>	<u>Against</u>	<u>Abstain</u>
14,800,678	176,887	575,709

Shareholders approved an amendment to the Declaration of Trust of H&Q Healthcare Investors to remove certain limitation on the Trustees' authority to cause the Fund to repurchase its outstanding shares by the following votes:

<u>For</u>	<u>Against</u>	<u>Abstain</u>	<u>Non Votes</u>
11,440,142	957,919	255,309	2,899,904

H&Q HEALTHCARE INVESTORS

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 SEC's website at <http://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 <http://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.

FEDERAL TAX INFORMATION (unaudited)

Certain information for the Fund is required to be provided to shareholders based on the Fund's income and distributions for the taxable year ended December 31, 2011. In February 2012, shareholders will receive Form 1099-DIV, which will include their share of qualified dividends and capital gains and return of capital distributed during the calendar year 2011. Shareholders are advised to check with their tax advisors for information on the treatment of these amounts on their individual tax returns.

For corporate shareholders, 30.11% of ordinary income dividends paid by the Fund qualified for the dividends received deduction during the year ended September 30, 2011.

Under Section 854(b)(2) of the Code, the Fund designated \$1,851,555 as qualified dividends for the year ended September 30, 2011.

DISTRIBUTION POLICY

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

SHARE REPURCHASE PROGRAM

In June 2011, the Trustees authorized a share repurchase program to allow the Fund to repurchase up to 12% of its outstanding shares for a one year period beginning July 11, 2011.

PORTFOLIO MANAGEMENT

Daniel R. Omstead, Ph.D., Christopher F. 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.

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H&Q HEALTHCARE INVESTORS

New York Stock Exchange Symbol: HQH

2 Liberty Square, 9th Floor
Boston, Massachusetts 02109
(617) 772-8500
www.hqcm.com

Officers

Daniel R. Omstead, Ph.D., President
Laura Woodward, CPA, Chief Compliance Officer,
Secretary and Treasurer

Trustees

Rakesh K. Jain, Ph.D.
Lawrence S. Lewin
Daniel R. Omstead, Ph.D.
Oleg M. Pohotsky
Uwe E. Reinhardt, Ph.D.
Lucinda H. Stebbins, CPA
William S. Reardon, 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