TEKLA HEALTHCARE INVESTORS
Form N-CSR
December 02, 2015

OMB APPROVAL	
OMB Number:	3235-0570
Expires:	January 31, 2017
Estimated average burden hours per response.	20.6

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM N-CSR

CERTIFIED SHAREHOLDER REPORT OF REGISTERED MANAGEMENT INVESTMENT COMPANIES

Investment Company Act file number 811-04889

Tekla Healthcare Investors
(Exact name of registrant as specified in charter)

100 Federal Street, 19th Floor, Boston, MA — 02110
(Address of principal executive offices) — (Zip code)

100 Federal Street, 19th Floor, Boston, MA 02110
(Name and address of agent for service)

Registrant s telephone number, including area code: 617-772-8500

Date of fiscal year end: September 30

Date of reporting period: October 1, 2014 to September 30, 2015

ITEM 1. REPORTS TO STOCKHOLDERS.

TEKLA HEALTHCARE INVESTORS
(FORMERLY H&Q HEALTHCARE INVESTORS)

Annual Report

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TEKLA HEALTHCARE INVESTORS

DISTRIBUTION POLICY

The Fund has implemented a managed distribution policy (the Policy) that provides for 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. With each distribution, the Fund will issue a notice to shareholders and a press release that will provide detailed information regarding the amount and estimated composition of the distribution. You should not draw any conclusions about the Fund's investment performance from the amount of distributions pursuant to the Policy or from the terms of the Policy. The Policy has been established by the Trustees and may be changed or terminated by them without shareholder approval. The Trustees regularly review the Policy and the frequency and rate of distributions 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 suspension or termination of the Policy could have the effect of creating a trading discount or widening an existing trading discount. At this time there are no reasonably foreseeable circumstances that might cause the Trustees to terminate the Policy.

To our Shareholders:

On September 30, 2015, the net asset value (NAV) per share of the Fund was $29.61. During the twelve month period ended September 30, 2015, total return at NAV of the Fund was 8.76%, with distributions reinvested. The total investment return at market with distributions reinvested was 4.94% during the same period. Thus, the Fund NAV and market return fell short of the NASDAQ Biotech Index (NBI) return for the twelve month period. However, the Fund NAV and the market returns outperformed the S&P 500 Index for the same twelve month period. In addition, the Fund's NAV returns exceeded the NASDAQ Biotech Index during the six month period ending September 30, 2015 but the market return fell short. The S&P 500 Index returns during the six months period were higher than the Fund's NAV and market returns. Comparisons to the relevant indices are listed below.

Investment Returns	**Six Months Ended 9/30/15**	**Twelve Months Ended 9/30/15**
At Market	-17.51%	4.94%
At Net Asset Value	-9.03%	8.76%
NASDAQ Biotech Index	-11.75%	11.14%
S&P 500 Index	-6.18%	-0.62%

Investment Highlights

The NBI has generally demonstrated more volatility in the twelve month period ended September 30, 2015 (the report period) than it had in recent years. While the NBI was among the best performing sectors for the approximately seven years, rising more than fourfold (+346%) between the end of 2008 to the end of this report period, the broader S&P 500 Index rose approximately 145% in the same period. So, considering the last seven years as a whole, as the NBI significantly outperformed the broad market, we are satisfied with the overall performance of the healthcare sector and the Fund. See the following chart for a comparison.

However, starting on July 20, 2015 when the NBI reached an all-time high, through September, the NBI decreased approximately 24% while the S&P 500 Index decreased approximately 9%.

It is our impression that the recent healthcare/biotech pullback was the result of multiple factors. Even given the strong relative and absolute growth rates we see in the sector, there appeared to be a broadly felt notion that valuations were getting stretched, particularly for a few highflying outlier companies. In recent quarters we have seen analysts suggesting valuation as the basis for concerns about a potential reversal, healthy or otherwise.

We think valuation, especially for a few highly publicized companies, may have played a part in the recent NBI reversal but was likely not the only key factor in the drop. In the last few months, in our view, several questions, ultimately linked to drug pricing, have had an impact on healthcare sector sentiment. First, in mid-summer, a small specialty pharmaceutical company was noted to have acquired an old, niche product from another company and quickly increased the price of this product more than 50 fold. This action produced considerable negative publicity. Since this disclosure, the topic has become politicized. At least one presidential candidate has elected to emphasize drug pricing in her campaign, weakening sentiment toward the sector and, at least in our view, ultimately exacerbating the pullback described above.

In addition, as the report period was closing (and beyond), another specialty pharmaceutical company was alleged to have, at the least, used questionable practices in the pricing and marketing of a number of its products. This situation is still being investigated. In aggregate, it is fair to say that a concern about pricing power in the healthcare sector has heightened volatility and downward pressure, particularly in the specialty pharmaceutical subsector and even more particularly in situations where pricing may not reflect value to patients.

We believe that current concerns about pricing power in the healthcare and biotech industries are overblown. It is our observation that the vast majority of companies, particularly many of the innovative companies we prefer, price their new and novel products based on the value they bring to patients. There are certainly companies that try to price products in order to seek what one presidential candidate calls "excess" profits (whatever that means), but we believe most companies try to price their products fairly. Beyond this, we note that there are legislative controls in place in the US to limit executive branch over-reactions. At the moment, the government is limited in its ability to "control" drug pricing. Given the current and expected government makeup, we don't see this situation changing soon. Bottom line, we think the industry's ability to price drugs that reflect their value to patients will remain a positive for the sector for some time.

More generally there are always factors that make us more bearish and others that make us more bullish. At the moment, our biggest concern is how the IPO and follow on market has been behaving. This market has been growing explosively for the last 2-3 years though it may well now be cooling at least for the moment. In the last couple of years there have been more than 225 priced IPOs raising more than $25 billion in our sector. Moreover, in the same timeframe, there have been more than 850 priced follow-ons (including primary, secondary, and reg-direct offerings) follow-on financings raising greater than $100 billion. There have been three main consequences. First and foremost, an entirely new generation of novel public companies has been created which is now fully funded. It is our belief that this funding phenomenon has armed a generation of companies that will both improve the quality of life for millions of people and also be the basis for another wave of sales and earnings growth in our sector. This should ultimately extend and expand the positive sentiment that our sector has earned and received.

Second, and less appreciated, successful listing of these companies has re-energized venture funding in the healthcare sector. Prior to the last couple of years, it is our impression that limited partnership (LP) funding interest in healthcare had waned. As a consequence we observed less venture capital funding available and fewer well-funded venture backed companies than there might otherwise have been. We expect that the successful recent investment exits of at least a few venture funds will catalyze additional LP interest in the biotech space. In time, this should facilitate the next round of IPO investment by public investors.

Third, we note quite a bit of clinical and other data that is being generated by the new IPO companies. In general these companies have been managed by more experienced individuals and have often gone public at a later stage than previous IPO generations. While there have been some "story" stocks (i.e., great ideas without much clinical validation), a significant portion of recent IPOs have been relatively later stage than we recall in the 1999-2000 timeframe. Some current IPO companies have already initiated clinical trials that could lead to relatively near term regulatory approvals. We expect that such companies will create value more quickly than the famed 1999-2000 generation of IPOs. We anticipate that this will materially reduce the time from concept to profit that hampered value creation after the last great wave of IPOs.

In addition to these impressions, after the recent pullback, many healthcare and biotech companies are now at lower valuations. We note that after the September 2015 pullback described above, valuations have dropped markedly. Mark Schoenebaum of Evercore ISI , a well-known sell side analyst, has noted that the price/earnings ratio of the four biggest biotech companies (Gilead Sciences Inc., Amgen Inc., Celgene Corporation and Biogen Inc. which he and others use as a proxy for the sector) was lower on an equal weighted basis than the S&P 500 Index. Mr. Schoenebaum asserts that the P/E for this group has only been below that of the broader index three other times in the last 10 years.

Furthermore, Bloomberg calculates that the consensus long term growth rate of these four companies is 14.73% compared to a consensus of 10.1% for the S&P 500 Index. Given these numbers, growth adjusted earnings (i.e., P/E divided by growth rate or PEG) for the 4 largest biotech companies is at an attractive level relative to its own history and to that of the S&P 500 Index. It is our experience that PEG ratios are among the best indicators of value.

There can be no certainty about the future and there can be plenty of things that go awry, but to us this picture suggests that the healthcare sector in general and the biotech sector in particular still provides an interesting investment opportunity.

Portfolio Highlights

During the report period HQH held positions in more than seventy companies. Healthcare related products and services were the principal business of essentially all of the investments, as determined by Tekla. In the report period, investments in Heron Therapeutics, Inc., Allergan plc, Incyte Corporation, Celladon Corporation and Aetna, Inc. were among those Fund positions which most benefitted performance relative to the

NBI Index. Positions in Mylan NV and Ilumina, Inc. detracted from relative performance. In addition, not owning Pharmacyclics, Inc., Syngeva BioPharma Corp and Anacor Pharmaceuticals, Inc. also detracted from performance.

We note that HQH continues to use the NBI as its narrow benchmark and the S&P 500 Index as its broad benchmark. We are required to adopt such benchmarks. However, HQH is quite unique with its near singular focus on healthcare but broader (than the NBI) focus on many healthcare subsectors and its intent to invest a substantive portion of its assets in pre-public venture companies. And while HQH does seek to invest a significant portion of its public portfolio assets (often in the general range of 50% in biotech related entities), for volatility and other reasons, it does not seek to invest the vast majority of its assets in biotechnology. By contrast standard GICS analysis determines that more than 80% of NBI components are considered biotech related. Our own analysis suggests that substantively more than 80% of the NBI would or should be considered biotech related. At times the substantive difference between the portfolio goals of HQH and the composition of the NBI complicate the analysis of Fund performance while at other times it does not. Similarly, with respect to the broad S&P 500 Index, relative performance of the healthcare sector may also complicate analysis of Fund performance. In the interest of clarity at some notable moments, we may elect to provide you with color that may be helpful in your analysis.

Investment Changes

During the twelve month period ended September 30, 2015, within the public portfolio, the Fund established positions in several companies including ACADIA Pharmaceuticals Inc., Agilent Technologies, Inc., Allscripts Healthcare Solutions, Inc., Alnylam Pharmaceuticals, Inc., Auris Medical Holdings AG, Eli Lilly & Co, Paratek Pharmaceuticals, Inc., The Medicines Company, Ultragenyx Pharmaceutical Inc. and United Therapeutics Corporation. During the same twelve month period, the Fund exited positions in Actavis plc, Catamaran Corporation, Cubist Pharmaceuticals, Inc., Infinity Pharmaceuticals, Inc., Ironwood Pharmaceuticals, Inc., Jazz Pharmaceuticals plc, Molina Healthcare, Inc., Perrigo Company plc, Sangamo BioSciences, Inc. and Shire plc.

During the same twelve month period, within the venture portfolio, the Fund made initial investments in Afferent Pharmaceuticals, Inc., Merus B.V., Ovid Therapeutics, Inc. and follow-on investments in IlluminOss Medical, Inc. and Insightra Medical, Inc. During the report period CytomX Therapeutics, Inc. completed an IPO.

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

Daniel R. Omstead, PhD
President

TEKLA HEALTHCARE INVESTORS

LARGEST HOLDINGS BY ISSUER

(Excludes Short-Term Investments)

As of September 30, 2015

Issuer - *Sector*	**% of Net Assets**
Gilead Sciences, Inc.	
Biotechnologies/Biopharmaceuticals	8.9%
Celgene Corporation	
Biotechnologies/Biopharmaceuticals	8.3%
Incyte Corporation	
Drug Discovery Technologies	5.1%
Biogen Inc.	
Biotechnologies/Biopharmaceuticals	5.0%
Alexion Pharmaceuticals, Inc.	
Biotechnologies/Biopharmaceuticals	4.9%
Regeneron Pharmaceuticals, Inc.	
Biotechnologies/Biopharmaceuticals	4.6%
Vertex Pharmaceuticals Incorporated	
Biotechnologies/Biopharmaceuticals	4.5%
Allergan plc	
Generic Pharmaceuticals	4.2%
BioMarin Pharmaceutical, Inc.	
Biotechnologies/Biopharmaceuticals	3.9%
Mylan NV	
Generic Pharmaceuticals	3.3%

SECTOR DIVERSIFICATION (% of Net Assets)

As of September 30, 2015

TEKLA HEALTHCARE INVESTORS

SCHEDULE OF INVESTMENTS

SEPTEMBER 30, 2015

SHARES	CONVERTIBLE PREFERRED AND WARRANTS (Restricted) [a] [b] - 4.6%	VALUE
	Biotechnologies/Biopharmaceuticals - 1.8%	
1,426,649	Afferent Pharmaceuticals, Inc. Series C	$ 3,499,998
18,875,301	CytomX Therapeutics, Inc. Series D	2,800,000
3,696,765	EBI Life Sciences, Inc. Series A [c]	18,854
4,118,954	Euthymics Biosciences, Inc. Series A [c]	1,582,914
350,754	Merus B.V. Class C [d]	2,610,270
77,632	Neurovance, Inc. Series A [c]	424,647
965,354	Neurovance, Inc. Series A-1 [c]	5,280,485
561,798	Ovid Therapeutics Inc. Series B	3,500,002
		19,717,170
	Medical Devices and Diagnostics - 2.8%	
3,364,723	AlterG, Inc. Series C	1,379,536
114,158	CardioKinetix, Inc. Series C [c]	1,606,089
205,167	CardioKinetix, Inc. Series D [c]	781,071
632,211	CardioKinetix, Inc. Series E [c]	1,799,905
580,225	CardioKinetix, Inc. Series F [c]	1,982,281
N/A [e]	CardioKinetix, Inc. warrants (expiration 12/11/19) [c]	0
N/A [e]	CardioKinetix, Inc. warrants (expiration 6/03/20) [c]	0
12,695	CardioKinetix, Inc. warrants (expiration 8/15/24) [c]	0
3,109,861	Dynex Technologies, Inc. Series A	1,554,931
142,210	Dynex Technologies, Inc. warrants (expiration 4/01/19)	0
11,335	Dynex Technologies, Inc. warrants (expiration 5/06/19)	0
8,998,436	IlluminOss Medical, Inc. Series C-1 [c]	3,593,974
11,410,347	Insightra Medical, Inc. Series C [c]	4,830,000
8,661,370	Insightra Medical, Inc. Series C-2 [c]	3,666,358
815,025	Insightra Medical, Inc. warrants (expiration 3/31/25) [c]	0
4,482,636	Insightra Medical, Inc. warrants (expiration 5/28/25) [c]	0
3,260,100		0

	Insightra Medical, Inc. warrants (expiration 8/18/25) (c)	
3,669,024	Labcyte, Inc. Series C	2,615,647
160,767	Labcyte, Inc. Series D	133,372
3,109,861	Magellan Diagnostics, Inc. Series A	2,397,703
142,210	Magellan Diagnostics, Inc. warrants (expiration 4/01/19)	0
11,335	Magellan Diagnostics, Inc. warrants (expiration 5/06/19)	0

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

TEKLA HEALTHCARE INVESTORS

SCHEDULE OF INVESTMENTS

SEPTEMBER 30, 2015

(continued)

SHARES	*Medical Devices and Diagnostics - continued*	VALUE
13,823,805	Palyon Medical Corporation Series A (c)	$ 2,944
27,100,879	Palyon Medical Corporation Series B (c)	1,897
N/A (e)	Palyon Medical Corporation warrants (expiration 4/26/19) (c)	0
4,720,000	Tibion Corporation Series B	0
N/A (e)	Tibion Corporation warrants (expiration 7/12/17)	0
N/A (e)	Tibion Corporation warrants (expiration 10/30/17)	0
N/A (e)	Tibion Corporation warrants (expiration 11/28/17)	0
3,750,143	Veniti, Inc. Series A (c)	2,271,462
1,881,048	Veniti, Inc. Series B (c)	1,205,187
1,031,378	Veniti, Inc. Series C (c)	826,031
		30,648,388
	TOTAL CONVERTIBLE PREFERRED AND WARRANTS (Cost $57,165,151)	50,365,558
PRINCIPAL AMOUNT	**CONVERTIBLE AND NON-CONVERTIBLE NOTES - 0.4%** **Convertible Notes - 0.4%**	
	Medical Devices and Diagnostics - 0.0%	
$ 37,421	Palyon Medical Corporation Promissory Note, 8.00% due 12/15/15 (Restricted) (a) (c)	37
16,145	Palyon Medical Corporation Promissory Note, 8.00% due 12/29/15 (Restricted) (a) (c)	16
53,818	Palyon Medical Corporation Promissory Note, 8.00% due 5/15/16 (Restricted) (a) (c)	54
43,658	Palyon Medical Corporation Promissory Note,	44

	8.00% due 7/15/16 (Restricted) [a] [c]	
		151
	Pharmaceuticals - 0.4%	
3,500,000	Spectrum Pharmaceuticals, Inc., 2.75% due 12/15/18 [b] [g]	3,117,188
3,150,000	TetraLogic Pharmaceuticals Corporation, 8.00% due 6/15/19 [b] [g]	1,651,781
		4,768,969
	TOTAL CONVERTIBLE NOTES	4,769,120

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

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TEKLA HEALTHCARE INVESTORS

SCHEDULE OF INVESTMENTS

SEPTEMBER 30, 2015

(continued)

PRINCIPAL AMOUNT	**Non-Convertible Notes (Restricted) [a] [b] - 0.0%**	**VALUE**
	Medical Devices and Diagnostics - 0.0%	
$ 342,899	Tibion Corporation Non-Cvt. Promissory Note, 0.00%, due 12/31/18	$ 0
40,596	Tibion Corporation Non-Cvt. Promissory Note, 0.00%, due 12/31/18	0
	TOTAL NON-CONVERTIBLE NOTES	0
	TOTAL CONVERTIBLE AND NON-CONVERTIBLE NOTES (Cost $7,276,494)	4,769,120
SHARES	**COMMON STOCKS AND WARRANTS - 89.1%**	
	Biotechnologies/Biopharmaceuticals - 50.8%	
345,400	ACADIA Pharmaceuticals Inc. [b]	11,422,378
348,916	Alexion Pharmaceuticals, Inc. [b]	54,566,973
426,717	Alkermes plc [b]	25,035,486
165,885	Alnylam Pharmaceuticals, Inc. [b]	13,330,519
122,083	Amgen Inc.	16,886,521
187,390	Biogen Inc. [b]	54,682,276
406,545	BioMarin Pharmaceutical Inc. [b]	42,817,319
842,970	Celgene Corporation [b]	91,184,065
10,996	Celladon Corporation warrants (Restricted, expiration 10/10/18) [a] [b]	4,838
35,000	Cidara Therapeutics, Inc. [b]	445,200
162,820	Flex Pharma, Inc. [b]	1,955,468
14,000	Galapagos NV [b]	569,940
997,392	Gilead Sciences, Inc.	97,933,921
105,000	Intra-Cellular Therapies, Inc. [b]	4,204,200
218,874	Neurocrine Biosciences, Inc. [b]	8,708,997
483,700	Paratek Pharmaceuticals, Inc. [b]	9,190,300
1,770,168	Pieris Pharmaceuticals, Inc. [b]	3,239,407
109,644	Regeneron Pharmaceuticals, Inc. [b]	50,999,810
103,558	Tetraphase Pharmaceuticals Inc. [b]	772,543
220,400	The Medicines Company [b]	8,366,384
61,880	Ultragenyx Pharmaceutical Inc. [b]	5,959,663
62,800		8,241,872

	United Therapeutics Corporation (b)	
296,713	Verastem, Inc. (b)	531,116
474,879	Vertex Pharmaceuticals Incorporated (b)	49,453,899
		560,503,095

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

TEKLA HEALTHCARE INVESTORS

SCHEDULE OF INVESTMENTS

SEPTEMBER 30, 2015

(continued)

SHARES	*Drug Delivery - 0.8%*	**VALUE**
219,000	Heron Therapeutics, Inc. (b)	$ 5,343,600
230,000	Heron Therapeutics, Inc. warrants (Restricted, expiration 7/01/16) (a) (b)	3,277,500
460,200	IntelliPharmaceutics International Inc. warrants (Restricted, expiration 2/01/16) (a) (b)	32,214
		8,653,314
	Drug Discovery Technologies - 5.1%	
508,323	Incyte Corporation (b)	56,083,277
	Generic Pharmaceuticals - 13.3%	
594,432	Akorn, Inc. (b)	16,944,284
171,201	Allergan plc (b)	46,534,144
245,214	Impax Laboratories, Inc. (b)	8,633,985
916,393	Mylan NV (b)	36,893,982
286,650	Sagent Pharmaceuticals, Inc. (b)	4,394,344
598,158	Teva Pharmaceutical Industries Ltd. (f)	33,772,001
		147,172,740
	Healthcare Services - 6.5%	
247,541	Aetna, Inc.	27,083,461
891,470	Allscripts Healthcare Solutions, Inc. (b)	11,054,228
120,000	Centene Corporation (b)	6,507,600
222,222	InnovaCare Health, Inc. (Restricted) (a) (g)	471,110
67,862	McKesson Corporation	12,556,506
212,541	Molina Healthcare, Inc. (b)	14,633,448
		72,306,353
	Medical Devices and Diagnostics - 7.4%	
331,850	Agilent Technologies, Inc.	11,392,410
286,540	Alere, Inc. (b)	13,796,901
1,155,000	Alliqua BioMedical, Inc. (b)	3,661,350
160,000	Cercacor Laboratories, Inc. (Restricted) (a) (b)	145,232
77,194	IDEXX Laboratories, Inc. (b)	5,731,655
200,009	Illumina, Inc. (b)	35,165,582
362,047	Natera, Inc. (b)	3,928,210
60,645	Thermo Fisher Scientific Inc.	7,415,671
214,686	TherOx, Inc. (Restricted) (a) (b)	215

		81,237,226
	Pharmaceuticals - 5.2%	
1,473,684	Auris Medical Holding AG (b)	5,246,315
202,600	Bristol-Myers Squibb Co.	11,993,920
85,667	Eli Lilly & Co	7,169,471
147,000	Endo International PLC (b)	10,184,160
289,660	Foamix Pharmaceuticals Ltd. (b)	2,123,208

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

TEKLA HEALTHCARE INVESTORS

SCHEDULE OF INVESTMENTS

SEPTEMBER 30, 2015

(continued)

SHARES	*Pharmaceuticals - continued*	**VALUE**
673,204	Pfizer, Inc.	$ 21,145,338
		57,862,412
	TOTAL COMMON STOCKS AND WARRANTS (Cost $638,151,401)	983,818,417
	EXCHANGE TRADED FUND - 1.6%	
57,670	iShares Nasdaq Biotechnology ETF	17,493,041
	TOTAL EXCHANGE TRADED FUND (Cost $11,259,769)	17,493,041
PRINCIPAL AMOUNT	**SHORT-TERM INVESTMENT - 5.3%**	
$ 59,065,000	Repurchase Agreement, Fixed Income Clearing Corp., repurchase value $59,065,000, 0.01%, dated 09/30/15, due 10/01/15 (collateralized by U.S. Treasury N/B 1.375%, due 02/29/20, market value $60,250,094)	59,065,000
	TOTAL SHORT-TERM INVESTMENT (Cost $59,065,000)	59,065,000
	TOTAL INVESTMENTS BEFORE MILESTONE INTEREST - 101.0% (Cost $772,917,815)	1,115,511,136
INTEREST	**MILESTONE INTEREST (Restricted) [(a) (b)] - 0.0%**	
	Biotechnologies/Biopharmaceuticals - 0.0%	
1	Targegen Milestone Interest	0
	TOTAL MILESTONE INTEREST (Cost $4,194,994)	0
	TOTAL INVESTMENTS - 101.0% (Cost $777,112,809)	1,115,511,136

OTHER LIABILITIES IN EXCESS OF ASSETS - (1.0)%	(11,153,814)
NET ASSETS - 100%	$1,104,357,322

(a) Security fair valued. See Investment Valuation and Fair Value Measurements.

(b) Non-income producing security.

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

TEKLA HEALTHCARE INVESTORS

SCHEDULE OF INVESTMENTS

SEPTEMBER 30, 2015

(continued)

(c) Affiliated issuers in which the Fund holds 5% or more of the voting securities (total market value of $29,874,250).

(d) Foreign security.

(e) Number of warrants to be determined at a future date.

(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.

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

TEKLA HEALTHCARE INVESTORS

STATEMENT OF ASSETS AND LIABILITIES

SEPTEMBER 30, 2015

ASSETS:	
Investments in unaffiliated issuers, at value (cost $735,119,078)	$1,085,636,886
Investments in affiliated issuers, at value (cost $37,798,737)	29,874,250
Milestone interest, at value (cost $4,194,994)	0
Total investments	1,115,511,136
Cash	209,547
Dividends and interest receivable	247,854
Receivable for investments sold	1,660,944
Prepaid expenses	50,554
Other assets (see Note 1)	380,021
Total assets	1,118,060,056
LIABILITIES:	
Payable for investments purchased	12,232,286
Accrued advisory fee	961,689
Accrued shareholder reporting fees	46,045
Accrued trustee fees	34,270
Accrued other	428,444
Total liabilities	13,702,734
Commitments and Contingencies (see Note 1 and 5)	
NET ASSETS	$1,104,357,322
SOURCES OF NET ASSETS:	
Shares of beneficial interest, par value $.01 per share, unlimited number of shares authorized, amount paid in on 37,297,947 shares issued and outstanding	$ 670,986,331
Accumulated net realized gain on investments, milestone interest and foreign currencies	94,972,664
Net unrealized gain on investments and milestone interest	338,398,327
Total net assets (equivalent to $29.61 per share based on 37,297,947 shares outstanding)	$1,104,357,322

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

TEKLA HEALTHCARE INVESTORS

STATEMENT OF OPERATIONS

YEAR ENDED SEPTEMBER 30, 2015

INVESTMENT INCOME:	
Dividend income (net of foreign tax of $101,349)	$ 3,963,657
Interest and other income	367,901
Total investment income	4,331,558
EXPENSES:	
Advisory fees	11,047,084
Administration and auditing fees	352,305
Legal fees	319,333
Custodian fees	183,323
Shareholder reporting	178,991
Trustees' fees and expenses	155,549
Transfer agent fees	61,912
Other (see Note 2)	253,350
Total expenses	12,551,847
Less: Management fee waiver (see Note 2)	(369,495)
Net expenses	12,182,352
Net investment loss	(7,850,794)
REALIZED AND UNREALIZED GAIN (LOSS):	
Increase from payments by affiliate for loss realized on the disposal of investments in violation of restrictions	577,009
Net realized gain (loss) on:	
Investments in unaffiliated issuers	154,382,006
Investments in affiliated issuers	9,536,297
Foreign currency transactions	5,874
Net realized gain	164,501,186
Change in unrealized appreciation (depreciation)	
Investments in unaffiliated issuers	(49,552,989)
Investments in affiliated issuers	(10,932,034)
Change in unrealized appreciation (depreciation)	(60,485,023)
Net realized and unrealized gain (loss)	104,016,163
Net increase in net assets resulting from operations	$ 96,165,369

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

TEKLA HEALTHCARE INVESTORS

STATEMENTS OF CHANGES IN NET ASSETS

	Year ended September 30, 2015	Year ended September 30, 2014
NET INCREASE (DECREASE) IN NET ASSETS RESULTING FROM OPERATIONS:		
Net investment loss	($ 7,850,794)	($ 7,157,179)
Net realized gain	164,501,186	92,343,953
Change in net unrealized appreciation (depreciation)	(60,485,023)	136,830,058
Net increase in net assets resulting from operations	96,165,369	222,016,832
DISTRIBUTIONS TO SHAREHOLDERS FROM:		
Net realized capital gains	(94,874,666)	(63,835,631)
Total distributions	(94,874,666)	(63,835,631)
CAPITAL SHARE TRANSACTIONS:		
Reinvestment of distributions (1,480,798 and 1,203,029 shares, respectively)	49,869,683	32,613,567
Net proceeds of shares issued in connection with the Fund's rights offering (0 and 6,899,838 shares, respectively)		172,297,485
Total capital share transactions	49,869,683	204,911,052
Net increase in net assets	51,160,386	363,092,253
NET ASSETS:		
Beginning of year	1,053,196,936	690,104,683
End of year	1,104,357,322	1,053,196,936
Accumulated net investment loss included in net assets at end of year	$ 0(a)	$ 0(a)

(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.

TEKLA HEALTHCARE INVESTORS

FINANCIAL HIGHLIGHTS

	For the years ended September 30,				
	2015	2014	2013	2012	2011
OPERATING PERFORMANCE FOR A SHARE OUTSTANDING THROUGHOUT EACH PERIOD					
Net asset value per share, Beginning of year	$ 29.40	$ 24.90	$ 19.20	$ 14.46	$ 14.47
Net investment loss (1)	(0.22)	(0.24)	(0.20)	(0.05)(2)	(0.16)(3)
Net realized and unrealized gain	3.04	7.66	7.51	6.07	1.40
Total increase (decrease) from investment operations	2.82	7.42	7.31	6.02	1.24
Distributions to shareholders from:					
Net realized capital gains	(2.61)	(2.13)	(1.61)	(1.32)	(1.26)
Total distributions	(2.61)	(2.13)	(1.61)	(1.32)	(1.26)
Increase resulting from shares repurchased				0.04	0.01
Change due to rights offering		(0.79)(4)			
Short term gain due to trading error	0.00(5)				
Net asset value per share, end of year	$ 29.61	$ 29.40	$ 24.90	$ 19.20	$ 14.46
Per share market value, end of year	$ 27.60	$ 28.40	$ 23.97	$ 18.36	$ 13.15
Total investment return at market value	4.94%	28.08%	41.12%	51.43%	18.90%
Total investment return at net asset value	8.76%(6)	27.64%	40.18%	44.01%	9.15%
RATIOS					
Expenses to average net assets	1.03%	1.15%	1.26%	1.42%	1.47%
Expenses to average net assets with waiver	1.00%	1.13%			

Net investment loss to average net assets	(0.65%)	(0.87%)	(0.92%)	(0.28%)(2)	(1.00%)(3)
SUPPLEMENTAL DATA					
Net assets at end of year (in millions)	$ 1,104	$ 1,053	$ 690	$ 510	$ 379
Portfolio turnover rate	37.43%	28.96%	35.41%	86.28%	93.75%

(1) Computed using average shares outstanding.

(2) Includes special dividends from four issuers in the aggregate amount of $0.13 per share. Excluding the special dividends, the ratio of net investment loss to average net assets would have been (1.05%).

(3) 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%).

(4) See Note 1. These rights offering shares were issued at a subscription price of $25.037 which was less than the Fund's net asset value per share of $29.01 on June 27, 2014 thus creating a dilution effect on the net asset value per share.

(5) Rounds to less than $0.005 per share

(6) Total return includes payment by the Adviser. Excluding this payment, total return would have been 8.68% at net asset value.

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

TEKLA HEALTHCARE INVESTORS

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2015

(1) Organization and Significant Accounting Policies

Tekla Healthcare Investors (the Fund) is a Massachusetts business trust formed on October 31, 1986, and registered under the Investment Company Act of 1940 as a diversified closed-end management investment company. The Fund commenced operations on April 22, 1987. The Fund's investment objective is long-term capital appreciation through investment in U.S. and foreign companies in the healthcare industry. The Fund invests primarily in securities of public and private companies that are believed by the Fund's Investment Adviser, Tekla Capital Management LLC (the Adviser), to have significant potential for above-average growth. The Fund may invest up to 20% of its net assets in securities of foreign issuers, expected to be located primarily in Western Europe, Canada and Japan, and securities of U.S. issuers that are traded primarily in foreign markets. Effective October 15, 2014, the name of the Fund changed from H&Q Healthcare Investors to Tekla Healthcare Investors.

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 followed by the Fund, which are in conformity with accounting principles generally accepted in the United States of America ("GAAP"). The Fund is an investment company and follows accounting and reporting guidance in the Financial Accounting Standards Board Accounting Standards Codification 946. Events or transactions occurring after September 30, 2015, through the date that the financial statements were issued, have been evaluated in the preparation of these financial statements.

Investment Valuation

Shares of publicly traded companies listed on national securities exchanges or trading in the over-the-counter market are typically valued at the last sale price, as of the close of trading, generally 4 p.m., Eastern time. The Board of Trustees of the Fund (the "Trustees") has established and approved fair valuation policies and procedures with respect to securities for which quoted prices may not be available or which do not reflect fair value. Shares of publicly traded companies 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 value process pursuant to policies and procedures approved by the Trustees described below. Restricted securities of companies that are publicly traded are typically valued based on the closing market quote on the valuation date adjusted for the impact of the restriction as determined in good faith by the Adviser also using fair valuation policies and procedures approved by the Trustees described below. Non-exchange traded warrants of publicly traded companies are generally 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 generally valued at amortized cost, which approximates fair value.

Convertible preferred shares, 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 typically valued in good faith, based upon the recommendations made by the Adviser pursuant to fair valuation policies and procedures approved by the Trustees. The Adviser has a Valuation Sub-Committee comprised of senior management which reports to the Valuation Committee of the Board at least quarterly. Each fair value determination is based on a consideration of relevant

TEKLA HEALTHCARE INVESTORS

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2015

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factors, including both observable and unobservable inputs. Observable and unobservable inputs 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 the same or similar 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. Where available and appropriate, multiple valuation methodologies are applied to confirm fair value. Significant unobservable inputs identified by the Adviser are often used in the fair value determination. A significant change in any of these inputs may result in a significant change in the fair value measurement. Due to the uncertainty inherent in the valuation process, 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 life of the investments may cause the gains or losses ultimately realized on these investments to be different from the valuations used at the date of these financial statements.

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 enters 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, or to gain or hedge exposure to financial market risk.

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 or currencies 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

TEKLA HEALTHCARE INVESTORS

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2015

(continued)

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.

Milestone Interest

The Fund holds a financial instrument which reflects 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 based on the relative uncertainty of both the timing and the achievement of individual milestones. A risk to the Fund is that the milestone will not be achieved and no payment will be received by the Fund. The milestone interest was received as part of the proceeds from the sale of one private company. Any payments received are treated as a reduction of the cost basis of the milestone interest with payments received in excess of the cost basis treated as a realized gain. The contractual obligations with respect to the TargeGen Milestone Interest provide for payments at various stages of the development of TargeGen's principal product candidate as of the date of the sale.

The following is a summary of the impact of the milestone interest on the financial statements as of and for the year ended September 30, 2015:

Statement of Assets and Liabilities, Milestone interest, at value	$ 0
Statement of Assets and Liabilities, Net unrealized loss on investments and milestone interest	($4,194,994)
Statement of Operations, Change in unrealized appreciation (depreciation) on milestone interest	$ 0

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 four 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, less any foreign taxes withheld. Upon notification from issuers, some of the dividend income received may be redesignated as a reduction of cost of the related investment if it represents a return of capital.

The aggregate cost of purchases and proceeds from sales of investment securities (other than short-term investments) for the year ended September 30, 2015 totaled $430,645,496 and $468,991,823, respectively.

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

TEKLA HEALTHCARE INVESTORS

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2015

(continued)

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. The Fund may enter into repurchase transactions with any broker, dealer, registered clearing agency or bank.

Distribution Policy

Pursuant to a Securities and Exchange Commission exemptive order, the Fund may make periodic distributions that include capital gains as frequently as 12 times in any one taxable year in respect of its common shares, and the Fund has implemented a managed distribution policy (the Policy) providing for 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. If taxable income and net long-term realized gains exceed the amount required to be distributed under the Policy, the Fund will at a minimum make distributions necessary to comply with the requirements of the Internal Revenue Code. The Policy has been established by the Trustees and may be changed by them without shareholder approval. The Trustees regularly review the Policy and the frequency and rate of distribution 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 Trustees initially adopted a distribution policy in May, 1999, and since then the Fund has made quarterly distributions at a rate of 2.00% of the Fund's net assets, except for the periods from August 4, 2009, to April 5, 2010 (during which distributions were suspended) and from April 5, 2010, to November 1, 2010 (during which the Fund made distributions at a rate of l.25% of the Fund's net assets).

The Fund's policy is to declare quarterly distributions in stock. The distributions are automatically paid in newly-issued full shares of the Fund unless otherwise instructed by the shareholder. Fractional shares will generally be settled in cash, except for registered shareholders with book entry accounts of the Fund's transfer agent who will have whole and fractional shares added to their accounts. The Fund's transfer agent delivers an election card and instructions to each registered shareholder in connection with each distribution. 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. Additional distributions, if any, made to satisfy requirements of the Internal Revenue Code may be paid in stock, as described above, or in cash.

Share Repurchase Program

In March 2015, the Trustees approved the renewal of the repurchase program to allow the Fund to repurchase up to 12% of its outstanding shares in the open market for a one year period beginning July 11, 2015. Prior to this renewal, in March 2014, the Trustees approved the renewal of the share repurchase program to allow the Fund to repurchase up to 12% of its outstanding shares for a one year period beginning July 11, 2014. The share repurchase

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TEKLA HEALTHCARE INVESTORS

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2015

(continued)

program is 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 years ended September 30, 2015 and September 30, 2014, the Fund did not repurchase any shares through the repurchase program.

Rights Offering

On June 27, 2014, the Fund issued 6,899,838 common shares in connection with a rights offering of the Fund's shares. Shareholders of record on May 30, 2014 were issued one non-transferable right for each share held on that date. The rights entitled the shareholder to purchase one new common share for every three rights held. These shares were issued at a subscription price of $25.037. Proceeds to the Fund were $172,751,244 before deducting the rights offering costs of $453,759.

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, 2015, 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 on the ex-dividend date. Such distributions are determined in conformity with income tax regulations, which may differ from GAAP. These differences include temporary and permanent differences from losses on wash sale transactions, installment sale adjustments 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, 2015, the Fund reclassified $7,850,794 from accumulated net realized gain on investment and $7,850,794 to undistributed net investment loss, to adjust for current period book/tax differences.

The tax basis components of distributable earnings and the tax cost as of September 30, 2015 were as follows:

Cost of Investments for tax purposes	$777,320,373
Gross tax unrealized appreciation	$408,334,398
Gross tax unrealized depreciation	($ 70,143,635)
Net tax unrealized appreciation on investments	$338,190,763
Undistributed long-term capital gains	$ 95,180,228

The Fund has designated the distributions for its taxable years ended September 30, 2015 and 2014 as follows:

	2015	2014
Ordinary income (includes short-term capital gain)	$22,780,958	$ 9,931,273
Long-term capital gain	$72,093,708	$53,904,358

TEKLA HEALTHCARE INVESTORS

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2015

(continued)

Commitments and Contingencies

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 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 Adviser contractually agreed to waive a portion of management fees for a one-year period following the completion of the rights offering. During the one-year period ended June 27, 2015, the Adviser waived its fees such that the Fund paid 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, 0.70% of the average net assets for the next $500 million and 0.70% of the average net assets thereafter.

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, 2015, these payments amounted to $95,790 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 to the Fund in an equitable fashion as approved by the Trustees 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.

Payment by Affiliates

During the fiscal year ended September 30, 2015, the Advisor fully reimbursed the Fund for $577,009 for losses incurred related to investment restriction violations. The amount of these reimbursements was 0.0005% of the Fund's average net assets.

TEKLA HEALTHCARE INVESTORS

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2015

(continued)

(3) Other Transactions with Affiliates

An affiliate company is a company in which the Fund holds 5% or more of the voting securities. Transactions involving such companies during the year ended September 30, 2015 were as follows:

Issuer	Value on September 30, 2014	Purchases	Sales	Income	Value on September 30, 2015	
CardioKinetix, Inc.	$ 4,548,481	$ 1,982,283	$ 361,416		$ 6,169,346	
Dynex Technologies, Inc.	1,554,931					*
EBI Life Sciences, Inc.	18,854				18,854	
Euthymics Biosciences, Inc.	1,582,914				1,582,914	
IlluminOss Medical, Inc.	2,232,357	1,217,643			3,593,974	
Insightra Medical, Inc.	4,830,000	5,391,358	1,725,000		8,496,358	
IntelliPharmaceutics International Inc.	2,787,891		2,475,266			*
Magellan Diagnostics, Inc.	2,131,188					*
Neurovance, Inc.	2,159,333	1,707,094			5,705,132	
Palyon Medical Corporation	954,225	257,074	53,822		4,992	
PHT Corporation	11,769,706		15,046,674			*
Veniti, Inc.	5,784,370	1,180,000			4,302,680	
	$40,354,250	$11,735,452	$19,662,178	$	$29,874,250	

* No longer an affiliate as of September 30, 2015

(4) Fair Value Measurements

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, 2015 to value the Fund's net assets. For the year ended September 30, 2015, there were no transfers between Levels 1 and 2. The Fund accounts for transfers between levels at the beginning of the period.

Assets at Value	Level 1	Level 2	Level 3	Total
Convertible Preferred and Warrants				
Biotechnologies/Biopharmaceuticals			$19,717,170	$19,717,170
Medical Devices and Diagnostics				