

H&Q HEALTHCARE INVESTORS  
Form N-CSRS  
May 27, 2010

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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

H&Q Healthcare Investors  
(Exact name of registrant as specified in charter)

2 Liberty Square, 9th Floor, Boston, MA  
(Address of principal executive offices)

02109  
(Zip code)

2 Liberty Square, 9th Floor, Boston, MA 02109  
(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, 2009 to March 31, 2010

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**ITEM 1. REPORTS TO STOCKHOLDERS.**

See Semiannual Report 3/31/10.

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**H&Q HEALTHCARE INVESTORS**

***Semiannual Report***

March 31, 2010

*(Unaudited)*

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**T**o our Shareholders:

On March 31, 2010, the net asset value (NAV) per share of the Fund was \$15.62. During the six month period ended March 31, 2010, total return at NAV of your Fund was 11.17%, with distributions reinvested. During the most recent quarter ended March 31, 2010, total return at NAV of your Fund was 7.13%, with distributions reinvested. The total investment return at market with distributions reinvested was 13.16% during the six month period ended March 31, 2010 and was 8.10% during the quarter ended March 31, 2010. Comparisons to relevant indices are listed below:

<b>Investment Returns</b>	<b>Quarter Ended 3/31/10</b>	<b>Six Months Ended 3/31/10</b>
Investment Return at Market	8.10%	13.16%
Net Asset Value	7.13%	11.17%
NASDAQ Biotech Index (NBI)	11.31%	11.84%
S&P 500 Index	5.39%	11.75%

The six month period ended March 31, 2010, representing the first six months of the Fund's 2010 fiscal year, continued a very active period for the markets dating back to at least October 2007. During September 2007, the broad based S&P 500 index reached a high of approximately 1500 and then began a precipitous drop, but by March 2010, the S&P 500 returned to a level that was about 25% below the September 2007 high. The healthcare sector, as represented by the NBI, also reached a high in late 2007, though it did not drop as precipitously thereafter. In fact, as of March 2010, the NBI had recovered all of its losses since the 2007 high, while the S&P 500 remains approximately 25% below its September 2007 high. The graph below illustrates these trends.

**Portfolio Highlights**

We continue to feel that healthcare performance in the last year or so, including the last six months, is tied to the protracted and complex discussions in Washington D.C. related to healthcare reform. We expected that once there was clarity regarding healthcare reform that the healthcare sector would begin to demonstrate improved performance. As you undoubtedly know, healthcare reform legislation was signed into law in late March 2010. Unfortunately, while the legislation has passed, there remains considerable uncertainty about many of the details. As such there is not as much clarity as we had hoped there would be. We are thus not surprised that in the three month period ended March 31, 2010, as it became clearer that legislation would pass, the healthcare sector (as represented by the NBI) did outperform the broad market. On the other hand, we have also not been surprised that in the six weeks or so since the end of March, as it has become clear that much uncertainty remains, that the NBI has underperformed. We feel this is partly related to the complicated macroeconomic factors, such as sovereign debt issues, financial reform debate, etc., that have been in play. We also think it will take time for generalist investors to analyze and act on the consequences of healthcare reform. Having said all this, we do believe that healthcare will perform well in the coming quarters.

Our assessment of the healthcare legislation that passed is that it is less healthcare reform than health insurance reform. The specifics of the complex legislation have been reported in great detail and will

accomplish several things including: 1) an increase in coverage for many Americans who are not now covered by health insurance, 2) the planned establishment of health exchanges which will allow individuals and ultimately small businesses to obtain insurance, 3) modifications to allowed underwriting standards, 4) various changes to Medicare and Medicaid, 5) planned subsidies for low income individuals and families and 6) a mandate that will ultimately require most individuals to obtain coverage or be subject to a moderate penalty. These and other changes will be paid for by a variety of taxes and fees to individuals and various healthcare subsector company groups. Overall the changes will cost approximately \$1 trillion according to the Congressional Budget Office (CBO). The CBO scores the legislation as roughly revenue neutral though this is accomplished by initiating many of the taxes quickly while slowly phasing in many of the benefits.

We have many thoughts about the impact of this bill, but overall it looks to us like the effect on the healthcare industry will be to significantly and beneficially increase the volume of products and services needed by virtue of increasing the number of covered individuals. On the other hand, the costs involved will put undesired, from an industry point of view, pressure on pricing of such products and services.

There will be specific impacts on healthcare subsectors. As a group we don't see a tremendous negative impact on the pharmaceutical, biotechnology and medical technology subsectors. These groups may benefit from volume increases but will be challenged by significant fees and pricing pressure. Most biotechnology companies may be largely unaffected except as the specific approvability and pricing of their particular products are impacted. At this point, there is no way to predict the severity of these issues. Some biotechnology companies will benefit from a provision that extends the commercial exclusivity of certain biological products by twelve years. We don't think this legislation provides a reason to increase or decrease weighting in the medical technology, pharmaceutical and biotechnology sectors. We do think that we should continue to buy and own the stocks of companies developing and commercializing differentiated products serving unmet medical needs.

We think that the generic pharmaceuticals subsector will likely benefit from this legislation due to product volume increases resulting from more individuals with health insurance. We continue to own a significant weighting in this sector through our positions in Teva, Mylan, Akorn, Perrigo and Impax. We also think that pharmacy benefit managers will benefit from increased

volumes and continue to play this group through positions in Medco and CVS.

The payor (i.e., HMO/Insurance) subsector is a more difficult challenge to analyze for investment. Over the long term, we feel there is little question that this group will struggle to thrive in the face of this legislation. We expect serious pressure from regulators to both maximize the portion of revenue used to pay for patient benefits and limit premium increases. This would ultimately limit the ability of this group to demonstrate sustained earnings growth. Over the next five years, we expect to see significant consolidation among the payor group to maximize synergies, market share and geographic spread. However, we also note that the marketplace seems to have assumed the worst case for the payor group and as a result has driven down valuations in this group to very low levels. It seems to us that in the next year or so, due to potential decreases in unemployment (which would increase the number of individuals covered) and increases in interest rates (which would improve investment returns of payors), that this payor group may exhibit price appreciation. We don't see this group returning to price/earnings multiples of five to ten years ago, but we do feel that this group is oversold at the moment.

In addition we would like to make a few comments about our venture/restricted securities portfolio. As you know, this part of our portfolio, which can account for up to 40% (but which typically accounts for 10-25%) of the Fund's assets, is a differentiating characteristic of the Fund. It allows our investors to participate in the potential of startup healthcare investments in a way which we think is unique and advantaged in the public market. Since the inception of the Fund, it has invested in more than one hundred companies in its venture/restricted securities portfolio including a number that have gone public or have been acquired. As a recent example, one medtech company owned by the Fund was acquired. To our knowledge there are few if any other public funds through which the typical investor could have access to such investments. Though there is never any certainty, we expect there will be opportunities for profitable exits from the Fund's venture/restricted securities portfolio in the future.

While we have not routinely calculated segregated returns for the Fund's venture/restricted securities portfolio, our calculations do indicate that the returns on that portfolio since 2001, during my tenure as portfolio manager, are at or above the venture/restricted securities industry average for that period. Having said this, we



note that venture investing is a highly cyclical business and requires a relatively long term investment horizon as such investments are typically slow to mature and are often quite illiquid. We note that the holding period for our average venture/restricted investments have often lasted upwards of three or more years. Moreover, the value of even ultimately successful investments can exhibit a so-called "J Curve," where investments can decline in value before ultimately succeeding.

With all this in mind, I note that the overall portfolio, considering the venture/restricted, public and cash holdings, has underperformed the NBI benchmark somewhat over the six and twelve months ended March 31, 2010. We believe our segregated public company investment results have approached those of the NBI. By our calculation, the majority of Fund underperformance has about equally been the result of i) owning significant cash in a period when market prices were advancing rapidly and ii) our significant ownership of venture/restricted securities which did not participate in the market rally. It is our understanding that most venture investments in other traditional venture capital portfolios also underperformed the NBI, which contains only public companies, during this period. We believe that the underperformance of the restricted portfolio in the last year may have been related to the recent economic slump and hope and expect that it will reverse in the coming quarters. We are firmly committed to the value of our venture/restricted portfolio, but in the recent period, the restricted portfolio has had a negative effect on overall performance.

Please be aware that we continue to feel strongly that the NBI is the most appropriate benchmark for our Fund. This index does contain many companies that are relevant to the Fund's investment objective. However, the NBI does not contain any venture/restricted securities components. To our knowledge there are no other widely acknowledged indices that contain significant pre-public venture or PIPE (i.e. Private Investment in Public Equity) investments typical of the Fund's venture/restricted securities portfolio.

#### **Investment Changes**

During the six month period ended March 31, 2010, within the public portfolio, the Fund increased its position in several companies including Gilead Sciences, Inc., PerkinElmer, Inc., Stryker Corporation, Teva Pharmaceuticals, Ltd. and WellPoint, Inc. During the same six month period the Fund exited its positions in several companies including Amylin Pharmaceuticals, Inc., Biogen Idec Inc., Onyx Pharmaceuticals, Inc., OSI Pharmaceuticals, Inc. and Vertex

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Pharmaceuticals Inc. The Fund also exited its position in Wyeth when it was acquired by Pfizer Inc.

During the six month period ended March 31, 2010, within the venture portfolio, the Fund made follow-on investments in CardioKinetix, Inc., Elemé Medical, Inc. and TargeGen, Inc.

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

Daniel R. Omstead  
President

## H&Q HEALTHCARE INVESTORS

### LARGEST HOLDINGS BY ISSUER (Excludes Short-Term Investments)

As of March 31, 2010  
(Unaudited)

Issuer - Sector	% of Net Assets
<b>Teva Pharmaceutical Industries, Ltd.</b> <i>Generic Pharmaceuticals</i>	6.0%
<b>Celgene Corporation</b> <i>Biotechnologies/Biopharmaceuticals</i>	4.7%
<b>Gilead Sciences, Inc.</b> <i>Biotechnologies/Biopharmaceuticals</i>	4.2%
<b>Amgen Inc.</b> <i>Biotechnologies/Biopharmaceuticals</i>	3.9%
<b>CVS Caremark Corporation</b> <i>Healthcare Services</i>	3.4%
<b>Stryker Corporation</b> <i>Medical Devices and Diagnostics</i>	3.2%
<b>Forest Laboratories, Inc.</b> <i>Pharmaceuticals</i>	3.1%
<b>PerkinElmer, Inc.</b> <i>Medical Devices and Diagnostics</i>	2.9%
<b>Laboratory Corporation of America Holdings</b> <i>Healthcare Services</i>	2.8%
<b>WellPoint, Inc.</b> <i>Healthcare Services</i>	2.8%

### PORTFOLIO

As of March 31, 2010  
(Unaudited)



## H&Q HEALTHCARE INVESTORS

### SCHEDULE OF INVESTMENTS

MARCH 31, 2010

(Unaudited)

<b>CONVERTIBLE SECURITIES AND WARRANTS - 10.2% of Net Assets</b>		
<b>SHARES</b>	<b>Convertible Preferred (Restricted) <sup>(a)</sup> <sup>(b)</sup> - 9.8%</b>	<b>VALUE</b>
<i>Biotechnologies/Biopharmaceuticals - 1.0%</i>		
306,413	MacroGenics, Inc. Series D	\$ 199,812
75,217	MacroGenics, Inc. Series D 18 Month Lock-up	0
2,123,077	TargeGen, Inc. Series C	2,760,000
586,871	TargeGen, Inc. Series D	762,932
		3,722,744
<i>Drug Discovery Technologies - 1.3%</i>		
2,380,953	Agilix Corporation Series B <sup>(c)</sup>	141,809
375,000	Ceres, Inc. Series C	2,437,500
32,193	Ceres, Inc. Series C-1	209,255
280,105	Ceres, Inc. Series D	1,820,683
40,846	Ceres, Inc. Series F	265,499
8,170	Ceres, Inc. warrants (expiration 9/05/15)	0
		4,874,746
<i>Healthcare Services - 1.3%</i>		
5,384,615	PHT Corporation Series D <sup>(c)</sup>	4,200,000
1,204,495	PHT Corporation Series E <sup>(c)</sup>	939,506
149,183	PHT Corporation Series F <sup>(c)</sup>	116,363
		5,255,869
<i>Medical Devices and Diagnostics - 6.2%</i>		
3,424,756	CardioKinetix, Inc. Series C <sup>(c)</sup>	2,359,999
N/A	CardioKinetix, Inc. warrants (expiration 12/11/19) <sup>(c)</sup> <sup>(d)</sup>	0
4,852,940	Concentric Medical, Inc. Series B <sup>(c)</sup>	2,523,529
1,744,186	Concentric Medical, Inc. Series C <sup>(c)</sup>	906,977
683,000	Concentric Medical, Inc. Series D <sup>(c)</sup>	355,160
652,013	Concentric Medical, Inc. Series E <sup>(c)</sup>	339,047
1,724,230	Elemé Medical, Inc. Series C <sup>(c)</sup>	927,636
2,292,152	FlowCardia, Inc. Series C	3,736,208
1,877,273	Interlace Medical, Inc. Series C <sup>(c)</sup>	2,065,000
3,669,024	Labcyte Inc. Series C	1,920,000
3,109,861	Magellan Biosciences, Inc. Series A	3,109,861
142,210	Magellan Biosciences, Inc. warrants (expiration 4/01/19)	0
11,335	Magellan Biosciences, Inc. warrants (expiration 5/06/19)	0
1,547,988	OmniSonics Medical Technologies, Inc. Series A-1	1,548

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1,263,099	OmniSonics Medical Technologies, Inc. Series B-1	1,263
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The accompanying notes are an integral part of these financial statements.

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## H&Q HEALTHCARE INVESTORS

### SCHEDULE OF INVESTMENTS

MARCH 31, 2010

(Unaudited)

(continued)

SHARES	Convertible Preferred (Restricted) <sup>(a)</sup> <sup>(b)</sup> - continued	VALUE
13,823,805	Palyon Medical Corporation Series A <sup>(c)</sup>	\$ 2,950,000
65,217	TherOx, Inc. Series H	108,181
149,469	TherOx, Inc. Series I	247,939
4,220	TherOx, Inc. warrants (expiration 1/26/11)	0
8,141	TherOx, Inc. warrants (expiration 6/09/10)	0
921,875	Xoft, Inc. Series D	2,304,688
176,647	Xoft, Inc. Series E	441,618
N/A	Xoft, Inc. warrants (expiration 6/12/14) <sup>(d)</sup>	0
		24,298,654
		38,152,013
PRINCIPAL AMOUNT	Convertible Notes (Restricted) <sup>(a)</sup> - 0.4%	
	<i>Biotechnologies/Biopharmaceuticals - 0.1%</i>	
\$219,313	TargeGen, Inc., Cvt Promissory Notes, 8.00% due 2010	219,313
	<i>Medical Devices and Diagnostics - 0.3%</i>	
354,118	CardioKinetix, Inc., Cvt. Promissory Notes, 4.25% due 2010 <sup>(c)</sup>	354,118
291,075	Elemé Medical, Inc., Subordinated Cvt. Promissory Notes, 10.50% due 2012 <sup>(c)</sup>	291,075
590,000	Xoft, Inc., Cvt. Promissory Note, 10.00% due 2010	590,000
		1,235,193
		1,454,506
	<b>TOTAL CONVERTIBLE SECURITIES AND WARRANTS</b> (Cost \$52,170,976)	<b>39,606,519</b>
SHARES	COMMON STOCKS AND WARRANTS - 85.0%	
	<i>Biotechnologies/Biopharmaceuticals - 23.1%</i>	
229,701	Acorda Therapeutics Inc. <sup>(b)</sup>	7,855,774
11,800	Alexion Pharmaceuticals, Inc. <sup>(b)</sup>	641,566
252,444	Amgen Inc. <sup>(b)</sup>	15,086,053
5,910,745	Antisoma plc <sup>(b)</sup> <sup>(e)</sup>	672,451
118,000	Athersys, Inc. warrants (Restricted, expiration 6/08/12) <sup>(a)</sup> <sup>(b)</sup>	0
296,744	Celgene Corporation <sup>(b)</sup>	18,386,258
105,850	Cephalon, Inc. <sup>(b)</sup>	7,174,513
211,280	Cubist Pharmaceuticals, Inc. <sup>(b)</sup>	4,762,251
89,719	Genzyme Corporation <sup>(b)</sup>	4,650,136
359,928	Gilead Sciences, Inc. <sup>(b)</sup> <sup>(i)</sup>	16,369,526

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## H&Q HEALTHCARE INVESTORS

### SCHEDULE OF INVESTMENTS

MARCH 31, 2010

(Unaudited)

(continued)

SHARES	<i>Biotechnologies/ Biopharmaceuticals - continued</i>	VALUE
164,616	Martek Biosciences Corporation <sup>(b)</sup>	\$ 3,705,506
138,720	United Therapeutics Corporation <sup>(b)</sup>	7,675,378
302,054	XenoPort, Inc. <sup>(b)</sup>	2,797,020
		89,776,432
	<i>Drug Delivery - 0.4%</i>	
385,938	Penwest Pharmaceuticals Co. <sup>(b)</sup>	1,331,486
287,106	Penwest Pharmaceuticals Co. warrants (Restricted, expiration 3/11/13) <sup>(a) (b)</sup>	321,559
		1,653,045
	<i>Drug Discovery Technologies - 0.1%</i>	
11,441	Clinical Data, Inc. <sup>(b)</sup>	221,955
243,433	Clinical Data, Inc. CVR (Restricted) <sup>(a) (b) (f)</sup>	44,392
70	Zyomyx, Inc. (Restricted) <sup>(a) (b)</sup>	18
		266,365
	<i>Generic Pharmaceuticals - 10.8%</i>	
1,321,151	Akorn, Inc. <sup>(b)</sup>	2,021,361
202,223	Akorn, Inc. warrants (Restricted, expiration 3/08/11) <sup>(a) (b)</sup>	14,155
204,934	Impax Laboratories, Inc. <sup>(b)</sup>	3,664,220
169,148	Mylan Inc. <sup>(b)</sup>	3,841,351
157,414	Perrigo Company	9,243,350
369,487	Teva Pharmaceutical Industries, Ltd. <sup>(g)</sup>	23,307,240
		42,091,677
	<i>Healthcare Services - 16.1%</i>	
286,221	Aetna Inc.	10,049,219
222,222	Aveta, Inc. (Restricted) <sup>(a) (b) (h)</sup>	2,222,220
116,446	Charles River Laboratories International, Inc. <sup>(b)</sup>	4,577,492
363,200	CVS Caremark Corporation	13,278,592
144,476	Laboratory Corporation of America Holdings <sup>(b)</sup>	10,938,278
56,514	Medco Health Solutions, Inc. <sup>(b)</sup>	3,648,544
300,452	Pharmaceutical Product Development, Inc.	7,135,735
169,359	WellPoint, Inc. <sup>(b)</sup>	10,903,333
		62,753,413
	<i>Medical Devices and Diagnostics - 25.3%</i>	
528,630	Align Technology, Inc. <sup>(b)</sup>	10,223,704
71,016	Becton, Dickinson and Company	5,591,090

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509,696	Hologic, Inc. <sup>(b)</sup>	9,449,764
179,487	IDEXX Laboratories, Inc. <sup>(b)</sup>	10,329,477
173,229	Illumina, Inc. <sup>(b)</sup>	6,738,608

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

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**H&Q HEALTHCARE INVESTORS****SCHEDULE OF INVESTMENTS**

MARCH 31, 2010

(Unaudited)

(continued)

SHARES	<i>Medical Devices and Diagnostics - continued</i>	VALUE
18,045	Intuitive Surgical, Inc. <sup>(b)</sup>	\$ 6,282,006
241,604	Inverness Medical Innovations, Inc. <sup>(b)</sup>	9,410,476
59,155	Johnson & Johnson	3,856,906
130,780	Life Technologies Corporation <sup>(b)</sup>	6,835,870
109,720	Masimo Corporation	2,913,066
160,000	Masimo Laboratories, Inc. (Restricted) <sup>(a) (b)</sup>	81,561
830,292	Medwave, Inc. <sup>(b) (c)</sup>	8,303
207,573	Medwave, Inc. warrants (Restricted, expiration 8/21/11) <sup>(a) (b) (c)</sup>	0
115,798	Myriad Genetics, Inc. <sup>(b)</sup>	2,784,942
93,008	OmniSonics Medical Technologies, Inc. (Restricted) <sup>(a) (b)</sup>	93
474,391	PerkinElmer, Inc.	11,337,945
208	Songbird Hearing, Inc. (Restricted) <sup>(a) (b)</sup>	139
215,477	Stryker Corporation	12,329,594
		98,173,544
	<i>Pharmaceuticals - 9.2%</i>	
84,445	Abbott Laboratories	4,448,563
390,301	Forest Laboratories, Inc. <sup>(b)</sup>	12,239,839
562,063	Pfizer Inc.	9,639,380
62,432	Shire plc <sup>(g)</sup>	4,118,015
206,323	Warner Chilcott plc <sup>(b)</sup>	5,271,553
		35,717,350
	<b>TOTAL COMMON STOCKS AND WARRANTS</b> (Cost \$292,801,987)	330,431,826
	<b>EXCHANGE-TRADED FUNDS - 1.0%</b>	
44,000	iShares Nasdaq Biotechnology Index Fund <sup>(b)</sup>	4,001,360
	<b>TOTAL EXCHANGE-TRADED FUNDS</b> (Cost \$3,764,939)	4,001,360
<b>NUMBER OF CONTRACTS (100 SHARES EACH)</b>	<b>PUT OPTION CONTRACTS PURCHASED - 0.0%</b>	
266	Medivation, Inc., strike @ 35, expires Jun - 2010 <sup>(a) (b)</sup>	266
	<b>TOTAL PUT OPTION CONTRACTS PURCHASED</b> (Cost \$362,558)	266

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

**H&Q HEALTHCARE INVESTORS****SCHEDULE OF INVESTMENTS**

MARCH 31, 2010

(Unaudited)

(continued)

PRINCIPAL AMOUNT	SHORT-TERM INVESTMENTS - 3.8%	VALUE
\$ 9,000,000	General Electric Capital Co. Commercial Paper, 0.13% due 04/05/10 Repurchase Agreement, State Street Bank and Trust Co., repurchase value \$5,755,000 (collateralized by U.S. Treasury Bill 0.24% discount, 09/16/10, market value \$5,749,245);	\$ 8,999,870
5,633,000	0.01% due 04/01/10	5,633,000
	<b>TOTAL SHORT-TERM INVESTMENTS</b> (Cost \$14,632,870)	14,632,870
	<b>TOTAL INVESTMENTS BEFORE OUTSTANDING OPTIONS WRITTEN - 100.0%</b> (Cost \$363,733,330)	388,672,841
NUMBER OF CONTRACTS (100 SHARES EACH)	CALL OPTION CONTRACTS WRITTEN - 0.0%	
266	Medivation, Inc., strike @ 55, expires Jun - 2010 <sup>(a)</sup>	(266)
	<b>TOTAL CALL OPTION CONTRACTS WRITTEN</b> (Premiums received \$182,740)	(266)
	<b>TOTAL INVESTMENTS NET OF OUTSTANDING OPTIONS WRITTEN - 100.0%</b>	388,672,575
	<b>OTHER LIABILITIES IN EXCESS OF ASSETS - (0.0%)</b>	(16,263)
	<b>NET ASSETS - 100%</b>	\$ 388,656,312

(a) Security fair valued.

(b) Non-income producing security.

(c) Affiliated issuers in which the Fund holds 5% or more of the voting securities (total market value of \$18,478,522).

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

(e) Foreign security.

(f) Contingent Value Rights

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

**H&Q HEALTHCARE INVESTORS****SCHEDULE OF INVESTMENTS**

MARCH 31, 2010

(Unaudited)

(continued)

(g) American Depositary Receipt

(h) 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.

(i) A portion of security is pledged as collateral for call options written.

*Other Information*

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

Level 1 quoted prices in active markets for identical investments

Level 2 prices determined using other significant observable inputs (including quoted prices for similar investments, interest rates, prepayment speeds, credit risk, etc.)

Level 3 prices determined using significant unobservable inputs (including the Fund's own assumptions in determining the fair value of investments)

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

The following is a summary of the inputs used as of March 31, 2010 to value the Fund's net assets:

Assets at Value	Level 1	Level 2	Level 3	Total
<b>Convertible Securities and Warrants</b>				
Biotechnologies/Biopharmaceuticals			\$ 3,942,057	\$ 3,942,057
Drug Discovery Technologies			4,874,746	4,874,746
Healthcare Services			5,255,869	5,255,869
Medical Devices and Diagnostics			25,533,847	25,533,847
<b>Common Stocks and Warrants</b>				
Biotechnologies/Biopharmaceuticals	\$ 89,776,432			89,776,432
Drug Delivery	1,331,486		321,559	1,653,045
Drug Discovery Technologies	221,955		44,410	266,365
Generic Pharmaceuticals	42,077,522		14,155	42,091,677
Healthcare Services	60,531,193		2,222,220	62,753,413
Medical Devices and Diagnostics	98,091,751		81,793	98,173,544
Pharmaceuticals	35,717,350			35,717,350
Exchange-Traded Funds	4,001,360			4,001,360
Option Contracts Purchased			266	266
Short-Term Investments		\$ 14,632,870		14,632,870
Other Assets			202,066	202,066
<b>Total</b>	<b>\$ 331,749,049</b>	<b>\$ 14,632,870</b>	<b>\$ 42,492,988</b>	<b>\$ 388,874,907</b>

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Liabilities at Value	Level 1	Level 2	Level 3	Total
Option Contracts Written	\$	\$	( \$266)	( \$266)

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

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**H&Q HEALTHCARE INVESTORS****SCHEDULE OF INVESTMENTS**

MARCH 31, 2010

(Unaudited)

(continued)

*Other Information, continued*

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

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

Level 3 Assets	Balance as of September 30, 2009	Accrued discounts/premiums	Realized gain (loss) and change in unrealized appreciation (depreciation)	Net purchases/sales	Net transfers in (out of) Level 3	Balance as of March 31, 2010
<b>Convertible Securities and Warrants</b>						
Biotechnologies/ Biopharmaceuticals	\$ 2,690,796		\$ 1,134,542	\$ 116,719		\$ 3,942,057
Drug Discovery Technologies	4,874,746					4,874,746
Healthcare Services	5,255,869					5,255,869
Medical Devices and Diagnostics	27,394,646		(2,531,329)	670,530		25,533,847
<b>Common Stocks and Warrants</b>						
Biotechnologies/ Biopharmaceuticals	277,541		8,037		(\$ 285,578)	
Drug Delivery	267,009		54,550			321,559
Drug Discovery Technologies	38,163		6,247			44,410
Generic Pharmaceuticals	30,333		(16,178)			14,155
Healthcare Services	2,222,220					2,222,220
Medical Devices and Diagnostics	69,480		12,313			81,793
Option Contracts Purchased			(1,064)		1,330	266
Other Assets	922,146		640,256	(1,360,336)		202,066

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Total	\$ 44,042,949		(\$ 692,626)	(\$ 573,087)	(\$ 284,248)	\$ 42,492,988
Level 3 Liabilities						
Option						
Contracts						
Written	\$	\$	\$ 1,064	0	(\$ 1,330)	(\$ 266)
Net change in unrealized appreciation (depreciation) from						
investments still held as of March 31, 2010						(\$ 1,344,878)

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



**H&Q HEALTHCARE INVESTORS****STATEMENT OF ASSETS AND LIABILITIES**

MARCH 31, 2010

*(Unaudited)*

<b>ASSETS:</b>	
Investments in unaffiliated issuers, at value (cost \$335,909,715)	\$ 370,194,319
Investments in affiliated issuers, at value (cost \$27,823,615)	18,478,522
Cash	10,298
Dividends and interest receivable	324,317
Prepaid expenses	62,345
Other assets (see Note 4)	202,066
<b>Total assets</b>	<b>389,271,867</b>
<b>LIABILITIES:</b>	
Accrued advisory fee	355,977
Accrued shareholder reporting fees	48,056
Accrued trustee fees	39,665
Options written, at value (premium received \$182,740)	266
Accrued other	171,591
<b>Total liabilities</b>	<b>615,555</b>
<b>NET ASSETS</b>	<b>\$ 388,656,312</b>
<b>SOURCES OF NET ASSETS:</b>	
Shares of beneficial interest, par value \$.01 per share, unlimited number of shares authorized, amount paid in on 24,889,277 shares issued and outstanding	\$ 369,295,006
Accumulated net investment loss	(1,610,955)
Accumulated net realized loss on investments and options	(4,149,724)
Net unrealized gain on investments and options	25,121,985
<b>Total net assets (equivalent to \$15.62 per share based on 24,889,277 shares outstanding)</b>	<b>\$ 388,656,312</b>

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

**H&Q HEALTHCARE INVESTORS****STATEMENT OF OPERATIONS**

SIX MONTHS ENDED MARCH 31, 2010

*(Unaudited)*

<b>INVESTMENT INCOME:</b>	
Dividend income (net of foreign tax of \$19,622)	\$ 942,482
Interest income from unaffiliated issuers	44,222
Interest income from affiliated issuers	8,883
Total investment income	995,587
<b>EXPENSES:</b>	
Advisory fees	2,063,051
Legal fees	126,821
Trustees' fees and expenses	93,484
Administration and auditing fees	91,246
Shareholder reporting	59,332
Custodian fees	50,960
Transfer agent fees	13,468
Other (see Note 2)	108,180
Total expenses	2,606,542
Net investment loss	(1,610,955)
<b>REALIZED AND UNREALIZED GAIN (LOSS):</b>	
Net realized gain on:	
Investments in unaffiliated issuers	743,808
Closed or expired options contracts written	26,358
Net realized gain	770,166
Change in unrealized appreciation (depreciation) on:	
Investments in unaffiliated issuers	42,467,085
Investments in affiliated issuers	(3,817,507)
Options contracts written	182,474
Change in unrealized appreciation (depreciation)	38,832,052
Net realized and unrealized gain (loss)	39,602,218
Net increase in net assets resulting from operations	\$ 37,991,263

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

**H&Q HEALTHCARE INVESTORS****STATEMENTS OF CHANGES IN NET ASSETS**

	Six months ended March 31, 2010 (Unaudited)	Year ended September 30, 2009
<b>NET INCREASE (DECREASE) IN NET ASSETS RESULTING FROM OPERATIONS:</b>		
Net investment loss	(\$ 1,610,955)	(\$ 4,255,811)
Net realized gain	770,166	186,925
Change in net unrealized appreciation (depreciation)	38,832,052	(32,375,879)
Net increase (decrease) in net assets resulting from operations	37,991,263	(36,444,765)
<b>DISTRIBUTIONS TO SHAREHOLDERS FROM:</b>		
Net realized capital gains		(3,059,014)
Return of capital (tax basis)		(17,889,262)
Total distributions		(20,948,276)
<b>CAPITAL SHARE TRANSACTIONS:</b>		
Fund shares repurchased (463,390 and 0 shares, respectively)	(5,618,868)	
Reinvestment of distributions (0 and 1,042,480 shares, respectively)		10,691,777
Total capital share transactions	(5,618,868)	10,691,777
Net increase (decrease) in net assets	32,372,395	(46,701,264)
<b>NET ASSETS:</b>		
Beginning of period	356,283,917	402,985,181
End of period*	\$ 388,656,312	\$ 356,283,917
*Includes accumulated net investment loss of:	(\$ 1,610,955)	\$ 0

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

**H&Q HEALTHCARE INVESTORS****STATEMENT OF CASH FLOWS***PERIOD ENDED MARCH 31, 2010**(Unaudited)*

<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>	
Purchases of portfolio securities	(\$ 79,344,041)
Purchases to close option contracts written	(5,057)
Net maturities of short-term investments	12,761,505
Sales of portfolio securities	73,028,715
Proceeds from option contracts written	358,494
Interest income received	6,849
Dividend income received	685,723
Other operating receipts (expenses paid)	(1,863,695)
Net cash provided from operating activities	5,628,493
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>	
Fund shares repurchased	(5,618,868)
Net cash used for financing activities	(5,618,868)
<b>NET INCREASE IN CASH</b>	<b>9,625</b>
<b>CASH AT BEGINNING OF PERIOD</b>	<b>673</b>
<b>CASH AT END OF PERIOD</b>	<b>\$ 10,298</b>
<b>RECONCILIATION OF NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS TO NET CASH PROVIDED FROM OPERATING ACTIVITIES:</b>	
Net increase in net assets resulting from operations	\$ 37,991,263
Purchases of portfolio securities	(79,344,041)
Purchases to close option contracts written	(5,057)
Net maturities of short-term investments	12,761,505
Sales of portfolio securities	73,028,715
Proceeds from option contracts written	358,494
Accretion of discount	(5,375)
Net realized gain on investments and options	(770,166)
Increase in net unrealized appreciation (depreciation) on investments and options	(38,832,052)
Increase in dividends and interest receivable	(297,640)
Increase in accrued expenses	8,999
Decrease in prepaid expenses and other assets	733,848
Net cash provided from operating activities	\$ 5,628,493

Noncash operating activity not included herein consists of corporate actions of \$2,363,740.

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





## H&Q HEALTHCARE INVESTORS

### FINANCIAL HIGHLIGHTS

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

	Six months ended March 31, 2010 (Unaudited)	2009	2008	Years ended September 30,		
				2007	2006	2005
<b>PER SHARE OPERATING PERFORMANCE</b>						
Net asset value per share, beginning of period	\$ 14.05	\$ 16.58	\$ 19.14	\$ 17.31	\$ 19.65	\$ 18.12
Net investment loss (1)	(0.06)	(0.17)	(0.18)	(0.18)	(0.13)(2)	(0.21)
Net realized and unrealized gain (loss)	1.58	(1.51)	(0.95)	3.45	(0.60)	3.18
Total increase (decrease) from investment operations	1.52	(1.68)	(1.13)	3.27	(0.73)	2.97
Distributions to shareholder from:						
Net realized capital gain		(0.12)	(1.43)	(1.44)	(1.61)	(1.44)
Return of capital (tax basis)		(0.73)				
Total distributions		(0.85)	(1.43)	(1.44)	(1.61)	(1.44)
Increase resulting from shares repurchased (1)	0.05					
Net asset value per share, end of period	\$ 15.62	\$ 14.05	\$ 16.58	\$ 19.14	\$ 17.31	\$ 19.65
Per share market value, end of period	\$ 12.81	\$ 11.32	\$ 13.70	\$ 17.30	\$ 16.74	\$ 18.64
Total investment return at market value	13.16%*	(10.33%)	(12.96%)	12.34%	(1.58%)	11.56%
<b>RATIOS AND SUPPLEMENTAL DATA:</b>						
Net assets, end of period (in millions)	\$ 389	\$ 356	\$ 403	\$ 444	\$ 385	\$ 417
Ratio of operating expenses to average net assets	1.42%**	1.52%	1.51%	1.52%	1.54%	1.56%

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Ratio of net investment loss to average net assets						
Portfolio turnover rate	20.36%*	66.34%	65.38%	115.77%	63.78%	92.68%
net assets	(0.88%)**	(1.30%)	(0.99%)	(1.00%)	(0.73%)(2)	(1.17%)

\* Not Annualized.

\*\* Annualized.

(1) Computed using average shares outstanding.

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

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

## H&Q HEALTHCARE INVESTORS

### NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2010

(Unaudited)

#### *(1) Organization and Significant Accounting Policies*

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

The preparation of these financial statements requires the use of certain estimates by management in determining the Fund's assets, liabilities, revenues and expenses. Actual results could differ from these estimates. The following is a summary of significant accounting policies consistently followed by the Fund, which are in conformity with accounting principles generally accepted in the United States of America. Events or transactions occurring after March 31, 2010 through the date that the financial statements were issued have been evaluated in the preparation of the financial statements.

#### *Investment Valuation*

Investments traded on national securities exchanges or in the over-the-counter market that are National Market System securities are valued at the last sale price or, lacking any sales, at the mean between the last bid and asked prices. Other over-the-counter securities are valued at the most recent bid prices as obtained from one or more dealers that make markets in the securities. Publicly traded investments for which market quotations are not readily available or whose quoted price may otherwise not reflect fair value and the fair value of venture capital and other restricted securities are valued in good faith by the Adviser pursuant to valuation policies and procedures approved by the Trustees. Such values are subject to regular oversight and ratification by the Trustees. Because of the uncertainty of fair valuations, these estimated values may differ significantly from the values that would have been used had a ready market for the securities existed, and the differences could be material. Each such fair value determination is based on a consideration of relevant factors. Factors the Adviser considers may include (i) the existence of any contractual restrictions on the disposition of securities; (ii) information obtained from the issuer, which may include an analysis of the company's financial statements, the company's products or intended markets or the company's technologies; (iii) the price of a security negotiated at arm's length in an issuer's completed subsequent round of financing; and (iv) the price and extent of public trading in similar securities of the issuer or of comparable companies. See Note 4 below.