

H&Q HEALTHCARE INVESTORS
Form N-CSRS
June 05, 2009

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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 September 30
end:

Date of reporting period: October 1, 2008 to March 31, 2009

ITEM 1. REPORTS TO STOCKHOLDERS.

H&Q HEALTHCARE INVESTORS

Semiannual Report

March 31, 2009

(Unaudited)

To our Shareholders:

On March 31, 2009, the net asset value (NAV) per share of the Fund was \$12.63. During the six month period ended March 31, 2009, total return at NAV of your Fund was -19.24%, with distributions reinvested. During the most recent quarter ended March 31, 2009, total return at NAV of your Fund was -4.03%, with distributions reinvested. The total investment return at market with distributions reinvested was -22.07% during the six month period ended March 31, 2009 and was -6.48% during the quarter ended March 31, 2009. Comparisons to relevant indices are listed below:

Investment Returns	Three Months Ended 3/31/09	Six Months Ended 3/31/09
Investment Return at Market	-6.48%	-22.07%
Net Asset Value	-4.03%	-19.24%
NASDAQ Biotech Index (NBI)	-6.41%	-18.33%
S&P 500 Index	-11.01%	-30.54%

While we typically focus on individual company fundamentals, macroeconomic events have played an unusually large role in how we managed the Fund during the last six months. As I am sure you are aware, virtually all sectors of the market have been dramatically impacted by the credit crunch and by the economic recession that has dominated the news during the six month period ended March 31, 2009. Within the Fund's portfolio, for example, several medical device companies with products in the aesthetics and/or capital equipment sectors seem to be particularly affected. As noted above, both the broad market and the healthcare sector have been down over this six month period. For much of the period, fundamentals appear to be secondary to credit availability and other factors affecting stock price movement. From our view, good companies those with growing products and solid balance sheets were taken down along with other less fundamentally strong companies. On the way down to the March 2009 lows, we sought to minimize losses by selling portions of the Fund's positions in what we believed were relatively weaker companies. As you know, over the last several years we have decreased our weighting of the smallest healthcare companies. We believe that, as a whole, this group (typified by non-profitable, development-stage companies) will continue to struggle to acquire needed access to investment funding and will under-perform the broader healthcare market. As the market has stabilized in March, we have cautiously begun to increase and accumulate positions in companies we think have longer-term potential for stock appreciation. We do not think the market is on an inevitable upward climb, but we are cautiously optimistic that we have seen the bottom. At this point, our biggest

concern is macroeconomic. We continue to be concerned about the financial sector in general and housing in particular. We are concerned that as the government slowly retreats from assertive support of financials and voluntary moratoria on housing foreclosures are lifted, there is a real chance that we will see another significant sharp decline in the markets. We are cautiously optimistic though that we have seen the stock market low. In our experience, fear drives over-selling and it looks to us that the general fear of broad economic system collapse, prevalent during the fourth quarter of 2008, has waned. The overall market does not look cheap to us at this point, but based on our assumptions about future earnings, it also does not look significantly overpriced.

We believe that similar fears have been a factor in the healthcare sector. As described above, healthcare (as generally represented by the NBI) outperformed the broader market during the six month period ended March 31, 2009. However, on an absolute basis, the NBI declined precipitously during a two week period around March 1, 2009. This decline immediately followed the release of the new Administration's proposed 2010 fiscal budget. It is our opinion that this decline was effected in significant part by fears that the healthcare sector would be disproportionately and negatively affected by implementation of many aspects of the President's healthcare agenda, including ultimately the creation of a single-payer system. We think that this response was an overreaction. In fact, the NBI has recovered somewhat since the March 9, 2009 low. Over time a single-payer option may well be created, but in our judgment the managed care industry will play a significant part in the creation and/or implementation of such a program. We do not think that the managed care group will be disenfranchised by the Administration's planned actions, as some appear to think. We also feel that there will be both winners and losers as a result of changes in the way healthcare, both clinically and on the R&D side, is administered. For example, given the Administration's intention to significantly increase the National Institute of Health's research budget, we agree with the commonly held belief that companies in the life sciences tools area will benefit at least incrementally. We also agree that companies that make large equipment (e.g., radiology and robotics systems) may face headwinds, but that is more an effect of the macro economy than of any government policy change. The magnitude of any impact on capital equipment is also likely to be very much company- and product-dependent.

Beyond macroeconomics, we note that the magnitude and breadth of merger and acquisition activity within the healthcare sector has been dramatic in recent months. A number of large bellwether companies such as Pfizer Inc. (which committed to acquire Wyeth), Merck & Co., Inc. (which committed to acquire Schering-Plough Corporation), Roche Holding AG

(which acquired Genentech, Inc.) and Abbott Laboratories (which committed to acquire Advanced Medical Optics) have participated. Notable mid-sized companies, such as Gilead Sciences, Inc. (which acquired CV Therapeutics, Inc.) also participated in this trend. A number of smaller transactions also occurred. This wave of M&A activity has led to some speculation about "which company is next?" and has resulted in short term price movement, both up and down, for the stocks of companies that investors speculate might be takeover candidates. In general, as more fundamental analysts, we have avoided acting on such speculation. On occasion though, we have taken advantage of speculation by others to sell positions in companies which we think are over-priced based on fundamentals.

As we have previously mentioned, we also see diagnostics as an area for growth in both the near and intermediate term. We believe that diagnostics hold the promise of delivering better and more cost effective treatment of patients, by tailoring the delivery of specific treatments to particular patients in need. For example, Myriad Genetics, Inc., a Fund holding, markets a test that evaluates the presence of specific breast cancer "markers". This test is currently used in determining a woman's long-term risk of cancer and helps to determine whether a woman with breast cancer should receive a treatment that has been shown to be more effective in the presence of the marker than in its absence. By avoiding treatment in women whose tumors lack the marker, the cost and side effects of the treatment can be avoided. Overall, this approach is becoming more common and should benefit specific patients and the healthcare system in general.

Finally we note that, as always, the healthcare sector has seen both encouraging and discouraging clinical events in recent months. The failure of Genentech's (now Roche's) Avastin product in the adjuvant colorectal cancer setting was one of the more disappointing events of recent years. Many observers had anticipated success. On the other hand, Vertex Pharmaceutical Inc.'s Phase II clinical data with its telaprevir product suggest that this product could well represent a breakthrough in the treatment of hepatitis.

During the six month period ended March 31, 2009, within the public portfolio, the Fund established positions in several holdings including Alexion Pharmaceuticals, Inc., Cephalon, Inc., Cubist Pharmaceuticals, Inc., Illumina, Inc. and iShares Nasdaq Biotechnology Index Fund, an exchange-traded fund. During the same six month period the Fund exited its positions in several holdings including Barr Pharmaceuticals, Inc., Baxter International Inc., Genentech, Inc., Momena Pharmaceuticals, Inc. and Thermo Fisher Scientific Inc.

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During the six month period ended March 31, 2009, within the venture portfolio, the Fund made a follow-on investment in Concentric Medical, Inc. Series E. The Fund exited its position in Cytologix, Inc. and wrote off its investment in EPR, 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

As of March 31, 2009

(Unaudited)

	% of Net Assets
Gilead Sciences, Inc.	6.4%
Teva Pharmaceutical Industries, Ltd.	4.9%
Celgene Corporation	4.4%
Genzyme Corporation	4.0%
Amgen Inc.	3.8%
Biogen Idec Inc.	3.7%
CardioNet, Inc.	3.2%
CVS Caremark Corporation	2.6%
iShares Nasdaq Biotechnology Index Fund	2.6%
United Therapeutics Corporation	2.6%

H&Q HEALTHCARE INVESTORS

PORTFOLIO

As of March 31, 2009

(Unaudited)

H&Q HEALTHCARE INVESTORS

SCHEDULE OF INVESTMENTS

MARCH 31, 2009

(Unaudited)

CONVERTIBLE SECURITIES AND WARRANTS - 11.3% of Net Assets		
SHARES	Convertible Preferred (Restricted) ^(a) - 11.3%	VALUE
	<i>Drug Discovery Technologies - 1.5%</i>	
2,380,953	Agilix Corporation Series B ^{(b) (c)}	\$ 141,809
375,000	Ceres, Inc. Series C ^(b)	2,437,500
32,193	Ceres, Inc. Series C-1 ^(b)	209,255
280,105	Ceres, Inc. Series D ^(b)	1,820,683
40,846	Ceres, Inc. Series F ^(b)	265,499
8,170	Ceres, Inc. warrants (expiration 9/05/15) ^(b)	0
	<i>Emerging Biopharmaceuticals - 0.8%</i>	
306,413	MacroGenics, Inc. Series D ^(b)	199,812
75,217	MacroGenics, Inc. Series D ^(b)	32,697
2,123,077	TargeGen, Inc. Series C ^(b)	1,840,007
586,871	TargeGen, Inc. Series D ^(b)	508,624
	<i>Healthcare Services - 1.7%</i>	
5,384,615	PHT Corporation Series D ^{(b) (c)}	4,200,000
1,204,495	PHT Corporation Series E ^{(b) (c)}	939,506
149,183	PHT Corporation Series F ^{(b) (c)}	116,363
	<i>Medical Devices and Diagnostics - 7.3%</i>	
3,424,756	CardioKinetix, Inc. Series C ^{(b) (c)}	2,359,999
4,852,940	Concentric Medical, Inc. Series B ^{(b) (c)}	4,852,940
1,744,186	Concentric Medical, Inc. Series C ^{(b) (c)}	1,744,186
683,000	Concentric Medical, Inc. Series D ^{(b) (c)}	683,000
652,013	Concentric Medical, Inc. Series E ^{(b) (c)}	652,013
1,724,230	Elemé Medical, Inc. Series C ^{(b) (c)}	1,159,372
2,292,152	FlowCardia, Inc. Series C ^(b)	2,458,333
3,669,024	Labcyte Inc. Series C ^(b)	1,920,000
2,950,000	Magellan Biosciences, Inc. Series A ^(b)	2,950,000
1,547,988	OmniSonics Medical Technologies, Inc. Series A-1 ^(b)	1,548
1,263,099	OmniSonics Medical Technologies, Inc. Series B-1 ^(b)	1,263
65,217	TherOx, Inc. Series H ^(b)	216,364
149,469	TherOx, Inc. Series I ^(b)	495,878
4,220	TherOx, Inc. warrants (expiration 1/26/10) ^(b)	0
8,141	TherOx, Inc. warrants (expiration 6/09/09) ^(b)	0
921,875	Xoft, Inc. Series D ^(b)	3,079,063
176,647	Xoft, Inc. Series E ^(b)	590,001
	TOTAL CONVERTIBLE SECURITIES AND WARRANTS	
	(Cost \$45,476,964)	\$ 35,875,715

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

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H&Q HEALTHCARE INVESTORS

SCHEDULE OF INVESTMENTS

MARCH 31, 2009

(Unaudited)

(continued)

COMMON STOCKS AND WARRANTS - 78.4%		
SHARES	Biopharmaceuticals - 30.6%	VALUE
1,321,151	Akorn, Inc. ^(b)	\$ 1,136,190
202,223	Akorn, Inc. warrants (expiration 3/08/11) ^{(a) (b)}	64,711
176,776	Alexion Pharmaceuticals, Inc. ^(b)	6,657,384
240,438	Amgen Inc. ^(b)	11,906,490
80,000	Amylin Pharmaceuticals, Inc. ^(b)	940,000
756,876	Antisoma plc ^{(b) (d)}	287,490
4,624,175	Antisoma plc 12 Month Lock-up (Restricted) ^{(a) (b) (d)}	1,580,793
513,798	Antisoma plc 18 Month Lock-up (Restricted) ^{(a) (b) (d)}	165,886
223,032	Biogen Idec Inc. ^(b)	11,691,338
160,705	Cubist Pharmaceuticals, Inc. ^(b)	2,629,134
127,450	Forest Laboratories, Inc. ^(b)	2,798,802
214,747	Genzyme Corporation ^(b)	12,753,824
433,775	Gilead Sciences, Inc. ^(b)	20,092,458
262,804	Hologic, Inc. ^(b)	3,440,104
12,785	Intuitive Surgical, Inc. ^(b)	1,219,178
76,175	Martek Biosciences Corporation	1,390,194
119,150	Medicines Company ^(b)	1,291,586
111,902	Myriad Genetics, Inc. ^(b)	5,088,184
242,430	Vertex Pharmaceuticals Inc. ^{(b) (e)}	6,965,014
42,300	Wyeth	1,820,592
147,689	XenoPort, Inc. ^(b)	2,859,259
		96,778,611
	Biotechnology - 1.7%	
472,000	Athersys, Inc. ^(b)	424,800
118,000	Athersys, Inc. warrants (expiration 6/08/12) ^{(a) (b)}	1,180
157,773	Life Technologies Corporation ^(b)	5,124,467
		5,550,447
	Drug Delivery - 3.3%	
164,200	Alkermes, Inc. ^{(b) (e)}	1,991,746
304,000	CVS Caremark Corporation	8,356,960
		10,348,706
	Drug Discovery Technologies - 12.8%	
243,433	Avalon Pharmaceuticals, Inc. ^(b)	109,545
314,964	Celgene Corporation ^(b)	13,984,402
62,569	Cephalon, Inc. ^(b)	4,260,949
80,536	Cougar Biotechnology, Inc. ^(b)	2,593,259

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102,060	OSI Pharmaceuticals, Inc. ^(b)	3,904,816
574,211	Penwest Pharmaceuticals Co. ^(b)	941,706
287,106	Penwest Pharmaceuticals Co. warrants (expiration 3/11/13) ^(a) ^(b)	310,074
140,340	Pfizer Inc.	1,911,431

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

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

MARCH 31, 2009

(Unaudited)

(continued)

SHARES	Drug Discovery Technologies - continued	VALUE
185,740	Pharmaceutical Product Development, Inc.	\$ 4,405,753
122,600	United Therapeutics Corporation ^(b)	8,102,634
70	Zyomyx, Inc. (Restricted) ^{(a) (b)}	17
		40,524,586
	Emerging Biopharmaceuticals - 1.2%	
621,473	ACADIA Pharmaceuticals Inc. ^(b)	590,400
170,698	DOV Pharmaceutical, Inc. warrants (expiration 12/31/09) ^{(a) (b)}	0
617,850	Exelixis, Inc. ^(b)	2,842,110
454,078	NitroMed, Inc. ^(b)	345,099
		3,777,609
	Generic Pharmaceuticals - 8.2%	
123,979	Illumina, Inc. ^(b)	4,616,978
311,800	Mylan Inc. ^(b)	4,181,238
73,369	Perrigo Company	1,821,752
342,525	Teva Pharmaceutical Industries, Ltd. ^(f)	15,430,751
		26,050,719
	Healthcare Services - 9.9%	
126,700	Aetna Inc.	3,082,611
222,222	Aveta, Inc. (Restricted) ^{(a) (b)}	2,222,220
355,898	CardioNet, Inc. ^(b)	9,986,498
134,660	Catalyst Health Solutions, Inc. ^(b)	2,668,961
245,420	ICON Plc ^{(b) (f)}	3,963,533
130,385	Medco Health Solutions, Inc. ^(b)	