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THE SCOTT LETTER is intended to educate global investors about closed-end funds. Closed-end funds can be a valuable and profitable investment tool. To learn about closed-end funds, visit our web site, www.CEFAdvisors.com, and in particular, read our article, What Are Closed-End Funds.

Feel free to forward this news-letter to anyone who you believe could benefit from information on closed-end funds or global portfolios.

– George Cole Scott, Editor-in-Chief

– John Cole Scott, Contributing Author

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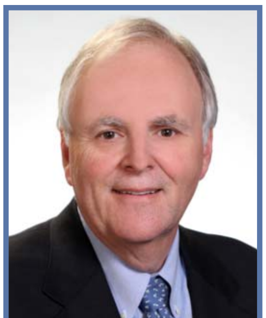
Tekla Capital Management: New Healthcare Fund Launched, Earnings Growth Drives Price, Good Performance Is Good Performance

Tekla Capital Management (NYSE: HQCM) is a registered investment advisor based in Boston, Massachusetts and currently serves as the investment advisor for three closed-end funds: H&Q Healthcare Investors (NYSE:HQH), H&Q Life Sciences Investors (NYSE:HQL) and Tekla Healthcare Opportunities Fund (NYSE:THQ). The Funds invest in growth equities, both public and private, debt and pooled investments vehicles in the healthcare and life sciences industries. (Source: Tekla Capital Management, August 2, 2014)

Dr. Daniel R. Omstead is President and CEO of Tekla Capital Management, LLC ("Tekla"). He is also President of H&Q Lifesciences Investors and H&Q Healthcare Investors.



Dr. Daniel R. Omstead

Prior to joining Tekla in 2000, Omstead was President and CEO of Reprogenesis, Inc., a private development stage biotech company developing therapies in the field of regenerative medicine.

Before joining Reprogenesis, Omstead was Senior Vice President of Research and Development at Cytotherapeutics, Inc., a public biotech company that developed CNS therapies. Prior to entering the biotech industry, Dan was employed for 14 years in the pharmaceutical industry at divisions of Johnson and Johnson and Merck.

Omstead holds a B.S. in Civil Engineering from Lehigh University, a M.S. in Chemical Engineering and a Ph.D. in Applied Chemistry from Columbia University.

H&Q Healthcare Investors

HQH is a diversified closed-end healthcare fund that primarily invests in the healthcare industry, including biotechnology, medical devices and pharmaceuticals.

HQH's objective is to provide long-term capital appreciation through investments in companies in the healthcare industry believed to have significant potential for above-average long-term growth.

Selection may include emerging growing companies with a maximum of 40% (typically targeting 10%-20%) of the Fund's assets in restricted securities of both public and private companies. HQH had assets as of June 30, 2014 of $1,001,827,922. (Source: Tekla Capital Management, August 2, 2014)

H&Q Life Sciences Investors

HQL primarily invests in the life sciences including biotechnology, pharmaceuticals, diagnostics, managed healthcare, medical equipment, hospitals, healthcare information technology and services, devices and supplies.

Like HQH, this Fund's selection may include emerging growth companies with a maximum of 40% (typically targeting 10%-20%) of the Fund's assets in restricted securities of both public and private companies. Management believes this provides a unique opportunity for both HQL and HQH that is not usually available to mutual fund investors. H&Q Life Sciences Investors had total net assets of $419,471,422 as of June 30, 2014. (Source: Tekla Capital Management, August 2, 2014)

The Interview

We telephoned Dr. Omstead at his office in Boston on August 2, 2014. We learned that he and two of his colleagues spent most of July on what is called an IPO "road show" that took them to many cities to tell investors about Tekla's new fund, Tekla Healthcare Opportunities Fund, which we will describe later.

SL: Good afternoon, Dr. Omstead. It is a pleasure to speak with you again. My last interview with you was in October 2003. To begin, please tell us about your recent rights offerings in HQH and HQL.

Omstead: We are happy about the results. We designed the rights offerings to allow existing shareholders to participate in purchasing shares at a discount if they chose to do so. As we said in our filings, we feel the opportunities in healthcare are quite good for shareholders going forward.

The rights offerings provided us with assets to deploy in what we feel is a good market without having to sell existing positions. So, from my perspective the rights offerings were a success.

SL: We are glad to hear that it went well. THQ should give your investors new opportunities going forward.

Please tell us about the present state of the healthcare industry.

Omstead: In our view, the opportunities in healthcare are good. Population demographics are favorable for creating demand for new products, and there are lots of new and differentiated products being developed by biotech, pharmaceutical and medtech companies. We think the healthcare area is poised for growth.

SL: The website for a company you hold says:

"Biology is about life, about understanding the body's inner workings, about exploring new discoveries and insights to improve lives. Technology is about practical application, about making things work, about developing new products to help people ...." (Source: Biogen Idec, Inc., August 2, 2014)

Do you think that sums up the industry well?

Omstead: Yes, I think that this quote summarizes my views of the industry, though the specific comments from Biogen Idec apply to many companies. The quote also addresses why I came into biotechnology in the first place.

Biotech is an area where you can see product opportunities that allow patients to live longer and better lives. Investing in this area is a rewarding thing.

It fits with my experiences as I was formerly the CEO of a biotech company as well as an executive of a big pharmaceutical company. I enjoy having the opportunity to make investments in companies that develop the kind of products that really make a difference. Doing so allows me to try to help the world to be a better place.

SL: Keep up the good work. Regarding THQ, we were surprised that you were able to sell so many shares in a new fund at this time. Is this because your firm is so well known, especially by institutional investors?

Omstead: Mostly I think interest in the new fund was confirmation that healthcare provides an interesting investment opportunity and that the income and growth goals of THQ provide a differentiated and attractive way to invest in the sector.

SL: What are the primary differences between the two funds, H&Q Healthcare Investors and H&Q Life Sciences Investors, particularly since each of them has similar top ten holdings?

Omstead: Although there are other options, HQH and HQL invest primarily in the stocks of healthcare companies. Both funds have a significant portion of assets invested in biotechnology but typically more so in HQL.

While there is some overlap, particularly in the biggest biotech stocks, HQH tends to invest in companies that are, on average, a bit larger and later stage, while HQL tends to invest in companies that on average are a bit smaller and earlier stage.

Both HQH and HQL invest in restricted securities, including both pre-public venture and small public companies.

SL: That sounds good and is similar to what other closed-end funds do. That said, are you expanding the venture capital portion of the portfolios?

Omstead: The goal is to have 10%-20% in restricted public and venture securities in the HQH and HQL portfolios, consistent with our long-term average. However, because of the very significant price moves on the public side in the last

Top Ten Holdings (Unaudited)
(Excluding Short-Term Investments)
as of June 30, 2014

H&Q Healthcare Investors

Issuer	Sector	Net Assets
Gilead Sciences, Inc.	Biotechnologies/Biopharmaceuticals	8.6%
Celgene Corporation	Biotechnologies/Biopharmaceuticals	5.6%
Biogen Idec, Inc.	BiotechnologiesIBiopharmaceuticals	3.8%
Regeneron Pharmaceuticals, Inc.	BiotechnologiesIBiopharmaceuticals	3.7%
Amgen, Inc.	BiotechnologiesIBiopharmaceuticals	3.7%
Alexion Pharmaceuticals, Inc.	BiotechnologiesIBiopharmaceuticals	3.7%
Vertex Pharmaceuticals, Inc.	BiotechnologiesIBiopharmaceuticals	3.6%
Actavis plc	Generic Pharmaceuticals	3.5%
Incyte Corporation	Drug Discovery Technologies	2.9%
Allergan, Inc.	BiotechnologiesIBiopharmaceuticals	2.7%

H&Q Life Sciences Investors

Issuer	Sector	Net Assets
Gilead Sciences, Inc.	BiotechnologiesIBiopharmaceuticals	9.2%
Celgene Corporation	BiotechnologiesIBiopharmaceuticals	6.0%
Regeneron Pharmaceuticals, Inc.	BiotechnologiesIBiopharmaceuticals	4.1%
Biogen Idec, Inc.	BiotechnologiesIBiopharmaceuticals	4.1%
Amgen, Inc.	BiotechnologiesIBiopharmaceuticals	3.9%
Alexion Pharmaceuticals, Inc.	BiotechnologiesIBiopharmaceuticals	3.8%
Vertex Pharmaceuticals, Inc.	BiotechnologiesIBiopharmaceuticals	3.6%
Incyte Corporation	Drug Discovery Technologies	3.5%
Actavis plc	Generic Pharmaceuticals	2.5%
Shire plc	Pharmaceuticals	2.1%

Source: Tekla Capital Management

few years, our current holdings are closer to the lower end of our target range. We tend to invest in venture opportunities at a steady rate, so we believe that portion of HQH and HQL assets invested in venture will return to our long-term average over time. We believe our venture returns over the years have been solid so increasing assets devoted to venture is justified.

For small public companies, we often invest in the form of Private Investments in Public Companies or PIPEs. These are often structured investments that are in some ways analogous to venture investments in pre-public venture companies. HQH and HQL have been making such investments since their inception.

[**Editor's Note:** According to Placement Tracker, PIPEs are securities where "the issuer commits to registering the securities with the SEC so they can be resold to the public, typically within 90-120 days." Nowadays, with the PIPE market maturing, they are increasingly becoming a more mainstream vehicle. Their most common characteristic is that they are "mostly high growth companies, not making money in their core business but that need to expand quickly." (Source: Placement Tracker, August 2, 2014)]

SL: We have full positions in HQH and HQL in our clients' portfolios. We haven't invested in THQ yet because we always wait for a discount to develop in a new fund. However, because of your excellent performance record, that may be a long time.

Do you think there was much dilution from the IPO, and will you will buy shares of restricted stocks for THQ?

Omstead: We think any dilution associated with the THQ offering was consistent with what other recent CEF IPOs exhibited. Our approach is to perform as well as we can, and let investors decide what price and associated premium or discount they want to pay. It is my belief that if you perform well, there will be demand for the fund's stock, and it will trade at a premium or relatively narrow discount.

SL: What are the prime differences among HQH, HQL and THQ?

Omstead: There are distinct differences among the three funds, particularly with THQ.

The goal of HQH and HQL is to invest almost entirely in equities. HQH and HQL have managed distribution plans currently projected at 2% per quarter. Essentially, all of their distributions come from long-term capital gains rather than other sources of income. Additionally HQH and HQL are overweighted in biotech stocks compared to some other healthcare funds – that's a distinct profile difference.

HQL generally tends to contain more biotech assets than does HQH. We expect that THQ will typically also have a commitment to biotech, but it will contain less biotech than HQH.

"Every pharmaceutical company has made major efforts in biotechnology, whereas ten years ago that was less true."

With THQ, we are trying to make more investments in companies that pay dividends as well as make investments in other assets like convertible securities. THQ will own some corporate debt and some covered call options, each of which provide current income. In this way, we feel THQ is providing an option for investors who want a distribution, if targeted a little lower than that of equity-focused HQH and HQL, that comes from a combination of both income and growth sources. We feel this is a somewhat lower risk strategy, providing both downside protection from income sources as well as providing what we believe is the upside potential of healthcare and biotech stocks.

SL: My readers will want to know how you can provide both upside and downside protection as this is a new concept for many of them.

Omstead: As I said, THQ will invest a little more in companies that provide some income. We also plan to use covered call option writing as well as convertible securities to provide additional income.

While the healthcare domain is the same, the three funds really target different investors. We anticipate that THQ shareholders may be more income-oriented than those of HQH and HQL.

THQ intends to pay a portion of its distributions from long-term capital gains, as well as a significant amount of distributions from coupons from corporate debt, convertible securities and covered call writing. Hence, THQ is very different from the other two funds, which are designed to be growth funds, while THQ aims to be a balanced growth and income fund.

THQ will generally invest in larger companies that pay dividends to provide more income. When we think that the market is "flat to up," we might write covered calls or at other times we might sell puts when there is an opportunity to make a better return for our shareholders. That should provide more income for distribution over time.

SL: Does that mean that you will be buying higher dividend-paying, large cap drug stocks like Merck and Johnson & Johnson for THQ?

Omstead: Yes, quite possibly we would invest in that kind of company.

SL: As you've said, what we see today versus what you saw when we spoke in 2003 is very different. Wasn't 2003 a time when the biotech industry was just getting started as a viable commercial entity?

Omstead: Yes, 11 years later, the sector is an integral part of the healthcare industry. Every pharmaceutical company has made major efforts in biotechnology, whereas ten years ago that was less true.

For example, if you look at the ten largest selling drugs in the world today, six of them have a biotechnology origin. This shows biotech is really just coming into its own. In our view, biotech stocks are really the leaders in medical innovation in the world today. They have truly differentiated products.

SL: Has THQ lived up to your expectations?

Omstead: Well, it is early, but the fundraising went well. We were able to meet a large and diversified set of financial advisors, and it seems that the Fund's design was attractive to a significant number of investors. The total amount raised was certainly at the high end of what we had hoped for.

SL: In 2013, both HQH and HQL were up over 40%.

Omstead: Actually, I think they were up something like 50%.

SL: Now, what do you think will be the impact of the Affordable Care Act ("ACA") on healthcare reform, the economic situation on healthcare and FDA actions, particularly with respect to drug approvals and merger-and-acquisition activities?

Omstead: The ACA is more about health insurance reform than about broader healthcare reform. There are lots of parts of the ACA, but what is most important to us is that more people will be covered by insurance and that will have a positive effect on the healthcare sector.

The more people who have insurance, the more they get the care they want and need. This will lead to growth in the healthcare sector. I think that is the most important aspect for us. It is a win/win for people who are sick and need treatment and for the companies that produce and market the needed products.

SL: What is the impact of the curent economic situation on healthcare?

We live close to West Virginia where we read that coal plants are going under, because natural gas is replacing the need for coal in the U.S. I am sure you agree that coal workers suffer from serious health risks from working deep underground. It amazes me that the coal companies still talk about a "recovery" in their industry, ignoring the health risks.

Do you agree?

Omstead: I am no expert on the coal industry, but from what I do know, working in underground mines is hazardous to one's health.

As for the impact of the economic situation on healthcare, it would seem that as GDP growth accelerates, there will be more money to spend on important things. And there is nothing more important than a company's workforce, in particular the health of its workforce.

Maybe I am naive, but I would think that as profits improve, the coal industry would work to generally improve conditions for its employees. It's good business to do that, so I would think that improving safety and the health of its workforce would be high on the list of things to focus on.

SL: Will the ACA help people affected by the downturn as well as treating those that have illnesses like what is cited above?

Omstead: Generally, I think yes. Much of ACA is targeted at providing easier access to health insurance for the population in general. Children can stay on their parents' health insurance plans longer, and individuals cannot be denied coverage for pre-existing conditions. More people at the lower end of the income spectrum now receive free health insurance through Medicaid expansion, and ACA provides insurance premium subsidies for a significant portion of those in the middle of the income spectrum.

Having said this, I also note that ACA looks expensive to me. Most people think it is a worthy goal to provide near universal healthcare insurance coverage. I would agree with that sentiment but think there are probably other ways to more cost effectively provide such coverage. But the political situation being what it was/is, I guess I would agree with ACA's supporters who generally argue that ACA in its current form is better than no ACA at all.

SL: What are your views about the Food and Drug Administration ("FDA")? Alan Carr, founder of HQH and HQL, was quite critical of the agency when I interviewed him in the 1990s.

Annualized Returns (as of June 30, 2014)

		1-Year	5-Year	10-Year
H&Q Healthcare Investors	NAV	41.15%	24.67%	12.11%
	Stock	25.84%	28.50%	12.91%
H&Q Life Sciences Investors	NAV	40.46%	25.32%	11.70%
	Stock	29.38%	29.08%	12.45%

Source: Tekla Capital Management

Omstead: My impression is that over the last couple of years, the FDA has been more accommodating in approving drugs than previously. That is a good thing. The more drugs approved, the more people will benefit by living longer and better lives.

SL: Now that the discounts of HQH and HQL have narrowed, we have momentarily stopped buying shares of these funds, although we are now close to having full positions.

It surprises me that so many investors have been bidding up the shares, but I think that much of it comes from mutual fund managers who have to invest new cash assets that come in all at once. This is another example that favors CEF buyers who are willing to bide their time to get good prices for the long term.

Please tell us more about what you think about opportunities for the healthcare industry.

Omstead: At some level, it is very simple. The population of the U.S. is getting older, and older individuals spend more money on healthcare. At the same time, biotech and pharmaceutical companies are developing new and differentiated products that are effective and have limited side effects. To us, this is a prescription for growth of the healthcare sector.

SL: We note CEFConnect has reported that a fund's use of leverage can create the possibility of higher volatility in the fund's per share NAV, market price and distributions. Any comments?

Omstead: I think it is a common belief that leverage increases volatility. My view is that fund managers should try to provide the best performance they can. Investors can then decide at what discount or premium they are willing to invest.

SL: Regarding HQH and HQL, please tell us if you are going to buy more biotech stocks like Amgen or Gilead Sciences?

Omstead: It is quite possible. We have a long experience of investing in that kind of company in those two funds.

Those are fine companies and are stalwarts of the biotech industry. We certainly have invested in these companies over time. In fact, I believe Carr was one of the first to invest in Gilead. We are also seeking to find the next Gilead, Amgen and Celgene. If we can, it should benefit our shareholders.

SL: When I first called Tekla, Jenny Fowler in your office told me that Jane Carr, Alan's widow, still often comes to your annual meetings. I agree that Alan not only bought Gilead Sciences in the early 1990's but also some other early winners, so you have a tough act to follow. I will just say, keep up the good work. Any comments?

Omstead: Alan Carr was a great mentor. He taught us much of what we know about investing. Certainly, whatever we have accomplished in the last ten years has been the result of the efforts of a fine group of senior analysts at Tekla, but Alan's legacy has certainly had an impact on our firm.

SL: I have some experience in call and put writing on stocks. Do you write options on any of the stocks you own in the Fund?

Omstead: Yes, in HQH and HQL, we sometimes write calls when we don't see any events in the near future for a company we own. In THQ, option writing is one of the investment techniques we rely on to provide current income.

SL: What about buying puts to protect the portfolio?

Omstead: We can and may do this; it depends on the macro situation.

SL: It sounds as if you may be as risk-averse as we are.

Omstead: We try to avoid risk wherever we can. But one needs to take some risk in order to make solid returns. So it is a balance.

SL: Please tell us more about how you serve the best interests of your shareholders?

Omstead: We seek to provide a good return to our shareholders. We understand that investors have different levels of risk tolerance. Many have needs for reliable income. Some want to reinvest all or part of their capital gains distributions to help make their portfolios grow faster if they don't need the cash distributions. We try to provide as many options as we can with our three funds.

HQH and HQL are set up for investors to reinvest quarterly distributions in new fund shares or, if desired, shareholders can elect to take distributions in cash.

THQ makes monthly distributions in cash, although shareholders who participate in the Fund's Dividend Reinvestment and Stock Purchase Plan are automatically reinvested in additional shares.

SL: HQH and HQL have had a long history of investing in venture capital stocks, beginning in the late 1980s/early 1990s. As CEF investors we have found that closed-end fund investments are a way to have some leverage to get more bang for the buck in our investments. Do you agree?

"... good performance is good performance, no matter what you do."

Omstead: I think so, but good performance is good performance, no matter what you do.

SL: I strongly agree and hope more investors will realize that closed-end funds have the advantage of the leverage of discounts. Many investors do not understand that discounts and share repurchases can make a big difference in total returns.

When Alan Carr first managed HQH and HQL in the 1990s, he held many private companies and other restricted stocks during his tenure. Many of these became blockbusters. Today, we could only find a few restricted stocks in HQH and none in HQL. Can you tell us how we should place either fund into any of our portfolios other than the level of the discount?

Omstead: There are more than a handful of venture/restricted investments – 15 or so – in HQH and HQL, but they can sometimes be a little bit hard to find.

As for how to position these funds in a portfolio, I think our three funds meet the needs of varied healthcare investors, should they be focused more on income or growth, quarterly or monthly distributions, smaller/earlier stage investments or larger/later stage investments.

SL: My next questions will concern HQH and HQL. Gilead Sciences discovers, develops and commercializes innovative medicines, including Sovaldi, the major – but very expensive – drug to treat chronic Hepatitis C as a component of a combination antiviral treatment. Do you have any comments about Gilead being able to charge as much as $80,000 for each treatment of the Sovaldi drug? Is there any pressure to reduce its high price?

Omstead: In my view, Sovaldi is a remarkable and differentiated drug. It cures many forms of Hepatitis C quickly and at a previously unheard of rate. There is no question that there is pressure to reduce the price of the drug, but in my view, current pricing is well justified.

Ten years ago treatment for Hepatitis C was limited in response rate and exhibited high levels of side effects. There have been a couple of drugs approved in the last several years that improved this situation, but Solvadi has really changed the course of treatment for Hepatitis C.

The cure rate of this drug for Hepatitis C is over 90%. It works in just a few months, has relatively modest side effects and will prevent many patients from progressing to debilitating conditions, including liver failure.

If you look at the direct cost of curing Hepatitis C and avoiding the suffering that people go through over the course of 15 or 20 years, I think that $80,000 is a fair price for that drug, given that without it, many people would progress to needing liver transplants that cost several hundred thousands of dollars. So, in my view, the price Gilead is charging is fair and reasonable for a drug that really transforms the treatment of this disease.

It is my impression that the concern over Sovaldi pricing is less about whether it is fairly priced as a treatment for hepatitis and more about the total cost Sovaldi could present to the healthcare system as a whole. I think there are upwards of five million people in the U.S. who have Hepatitis C. So at $80,000 per patient, the fear is that Sovaldi could “bankrupt” the healthcare payment system. Personally I think this is a more reasonable concern than whether the current price of Sovaldi is justified in light of its effectiveness against Hepatitis C.

It’s my view that there should be a national discussion of whether the price of some drugs is justified. There are some drugs that have more limited effects in other disease settings that are probably overpriced. But honestly, I don’t think Sovaldi is one of them.

It will be interesting to see, given the current political climate, whether and when we can, as a society, have a civil discussion about what is a fair price to pay for some drugs, who should pay for them and under what conditions drug costs should be reimbursed. I am not optimistic that that conversation will occur any time soon.

SL: Gilead has just reported a profit of $2.2 billion, triple what it was a year ago, thanks to its runaway success with Sovaldi which had sales of $2.3 billion in the first quarter. This makes Sovaldi one of the most successful drug launches ever. Gilead shares have been trading at 26.7x earnings.

Omstead: That’s about right. Gilead continues to be a major force in the biotech sector. Many investors would say that Gilead has had a significant role in how the sector has traded – both in the recent multi-year uptrend and some of the volatility that has occurred of late. Certainly the prospects of Sovaldi have influenced sentiment positively in the last several years. It’s also quite possible that Gilead was a factor in the recent pullback that you asked about earlier.

My theory is that early in 2014, questions about costs of Solvadi and letters about it from Congress to the chairman of Gilead contributed to the recent pullback. It is also my impression that, once people examine the cost versus benefits of Sovaldi, concerns about its price will abate somewhat. It is not surprising to me that the biotech sector has done well, since these concerns seem to have abated.

SL: Please tell us about the biotech stock, Amgen.

Omstead: They are a fine company with a solid management team and good products.

SL: Would you care to comment on concerns about biotech stocks selling at higher price-to-earnings (“P/E”) multiples than the rest of the market?

Omstead: My impression is that people look at valuations in different ways. Some use the P/E ratio as a primary metric. On that basis, the U.S. stock market is about 16x earnings for the next 12 months. Also, on a P/E basis, biotech stocks are currently selling about 20x or higher. So, if P/E is your principal method of assessment, the biotech sector is on the expensive side.

On the other hand, we believe that earnings growth drives price. We further believe you have to incorporate growth into your assessment of valuation.

We use P/E divided by growth (the so-called PEG ratio) as our principal measure of value. Most analysts expect biotech earnings to grow at about 20% per year for quite a while, compared to the broad market which is expected to grow more like 10%. So, on a growth adjusted PEG basis, biotech is actually less expensive than the broad market.

While we don’t discount the possibility of another correction at some point, we are generally bullish about biotechnology.

SL: That is the way we see it as well. We read in the September 2014 issue of Consumer Reports:

“America is in pain – and being killed by its painkillers. It starts with drugs such as OxyContin, Percocet, and Vicodin – prescription narcotics that can make days bearable if you are recovering from surgery or suffering from cancer ….”

Do you think this is an overreaction?

Omstead: It’s true that some pain drugs can provide significant benefits to some patients. As such, they are a very important class of drugs. However, the other side of that is some drugs meant to control pain can be abused.

The regulation of pain drugs is very complicated. The FDA has to balance the need to provide drugs that relieve pain to some patients while reducing or eliminating the availability of the same drugs to those who would abuse them. Overall, I think the FDA has done a good job of trying to balance these divergent interests.

SL: Would you summarize what we have discussed about the healthcare industry?

Omstead: The population of the U.S. is getting older, and as you get older, you use more healthcare. It is well documented that as you reach the age of 65, your use of healthcare increases by several folds.

At the moment, about 12% of the population is over 65. Within the next 30 years, it will be nearly 20%; that means one in five people in the U.S. will be over 65. So, the need for drugs and healthcare services will continue to grow for the foreseeable future. This provides an economic opportunity for the healthcare sector and a challenge for those that have to pay for those drugs and services.

It is my view that drugs are expensive but not overly expensive so that a combination of reasonable valuations in healthcare stocks, great growth of new drugs coming along and demand by people who are getting older with insurance can create a really good environment of growth within a sector that is both very interesting and opportunistic.

SL: Dan, thank you very much for sharing your valuable time with us. ■

Readers may learn more about Tekla Capital Management by visiting their website at www.teklacap.com or by calling 617-772-8500.

Disclosure: Clients and employees of CEFA as well as its family members own shares of HQH and HQL at the time of this interview. We will wait three business days after publication before making any purchases or sales in the position.

Portfolio Managers' Review

From our interview with Dr. Omstead, we learned we'll use more healthcare as providers expand their use of drugs to cure ills. Tekla Capital Management sees continued growth in restricted securities, because "population demographics are favorable for creating demand for new products."

We remind our readers that closed-end fund managers do not have to listen to Wall Street chatter in making portfolio decisions. Unlike mutual fund managers, they can modestly leverage their portfolios to increase income. This is important for the growing number of retirees.

From our Universe data, closed-end funds ended the week of September 26, 2014 at very attractive historical levels. U.S. and non-U.S. equity funds are now trading just below -9% discounts, and sector equity funds are trading at -7.8% discounts on average. Taxable bond funds are at -7% discounts, and municipal bond CEFs are wider than -8% on average. Debt-based BDC funds ended the week at -0.50%, and equity-based BDCs ended at almost -27% discounts to NAV.

Closed-end equity yields are currently averaging 7.8% based on market prices, taxable bond funds average 7.4%, and national municipal bond funds average 6.1%, while BDCs average 8.9%. Year-to-date, market price total returns for equity funds are +9.1%, taxable bond funds +4.5%, and national municipal bond funds +13.4%. Year-to-date, debt-BDCs have averaged +0.4%, while equity-BDCs have averaged -2.8%.

NAV performance continues to outperform market prices of many funds. This may give investors a very attractive entry point across most CEF subgroups. In addition, investors can often make event-driven decisions in inefficient CEF markets when investors overreact to market and fund level news.

In the U.S., the consumer price index is expected to rise by 1.8%, and inflation should continue to behave well overall according to Commerce Department reports. Energy prices will also remain low for the foreseeable future because of higher oil and natural gas production. (Source: David Payne, "Inflation," *Kiplinger Letter,* September 24, 2014)

With regards to emerging markets, China is still the fastest growing of the larger nations at 7.5%, despite concerns about its slowing growth. Mark Mobius still favors the Middle East, Africa and Latin America. While he is cautious on Russia, he has a good record of finding bargains. He has been successful with his Templeton Frontier Markets Fund which is now closed to new investors.

CEFA is keenly aware of the potential for more market volatility. Because of this, during recent market weakness, we have added sovereign (government) bond funds to some of our client portfolios. These pay monthly income but can also provide portfolio protection.

Despite some concerns about slower global growth and the possibility of more volatile markets, U.S. markets as measured by the S&P 500 are within 2% of their high. This is bolstered by a revised pace of U.S. economic growth to 4.6% that is expected to continue into 2015. (Source: Josh Mitchell, "U.S. Economy Grew at 4.6% Rate in Second Quarter," *The Wall Street Journal,* September 26, 2014)

Sir John Templeton showed investors that "if you want to be successful, you need to keep an open mind and be willing to learn … by pursuing undervalued stocks and looking globally." At CEFA, we always strive to put our clients' interests first and foremost when we manage portfolios. That is simply doing the right thing. ■

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