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THE SCOTT LETTER:
CLOSED-END FUND REPORT

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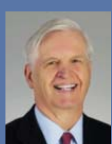
THE SCOTT LETTER is intended to educate global investors about closed-end funds. Closed-end funds can be a valuable and profitable investment tool. To learn about closed-end funds, visit our web site, www.CEFAdvisors.com, and in particular, read our article, What Are Closed-End Funds.

Feel free to forward this newsletter 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 Editor

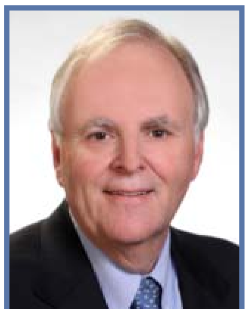
IN THIS ISSUE:

Tekla Capital Management LLC

Tekla Capital Management LLC (formerly known as Hambrecht & Quist Capital Management LLC) is a registered investment advisor based in Boston, Massachusetts.

Tekla is currently the investment advisor to four closed-end funds: Tekla Healthcare Investors (NYSE:HQH), Tekla Life Science Investors (NYSE:HQL), Tekla Health Care Opportunities Fund (NYSE:THQ) and Tekla World Healthcare Fund (NYSE:THW). These Funds invest in growth equities (both public and private), debt and pooled investment vehicles in the healthcare and life sciences industries.

We interviewed Daniel Omstead at his office in Boston on May 26, 2016 and followed up with Daniel in early August to get updated performance data.



Daniel R. Omstead

SL: Good morning, Daniel. What are your total assets under management?

Omstead: We have managed assets of about $3 billion.

SL: We like the fact that your company has continued to be successful. What is the difference between a diversified and a non-diversified fund in your context?

Omstead: As you might expect from the name, the principal difference relates to how concentrated or diversified assets may be. A non-diversified fund, while still strictly regulated by the SEC, may have a bit more concentration in its largest positions while diversified funds have somewhat less flexibility. Many equity sector funds (including the four Tekla Funds) are non-diversified.

SL: How much have you increased your staff now that you are managing four funds?

Omstead: We have more than doubled the size of the group in the last year or two. Our Research and Trading groups have increased from five to eleven people. We have also doubled the size of the Admin and Compliance group.

The Funds have also augmented the size and scope of their Service Provider group. In addition to our existing top tier legal, custody and agency functions, we now have accomplished firms helping us with marketing distribution and currency hedging functions.

I think we have consistently employed and contracted high quality talent, but now we have an even larger and more broadly capable and technically diversified team. This is particularly true in the Research group.

SL: Please tell us more about your use of the firm, Destra. How do they work for you?

Omstead: Destra helps us with marketing and distribution. Their principal role is to help us communicate with shareholders. Destra employs "wholesalers" throughout the country who meet with financial advisers to update them on various aspects of the Tekla Funds' characteristics and performance. The advisers, in turn, can use the information Destra provides to help update their clients about the Tekla Funds and about what we, as managers of the Funds, are thinking. Many large fund complexes have in-house marketing groups, while smaller complexes like Tekla often use third party experts like Destra.

SL: Now that you have four healthcare funds, many investors (including CEFA) often have a difficult time deciding which of the funds to invest in. Could you help us here?

Omstead: Well, as you mentioned we now have four funds. All invest almost exclusively in healthcare companies, and all seek to distribute an attractive dividend. However, each of the Tekla Funds is targeted to a somewhat different investor profile.

At a high level, the Healthcare Investors Fund (HQH) and the Life Sciences Fund

(HQL), which have existed for more than 20 years, are essentially pure equity funds.

They emphasize growing healthcare companies, particularly but not exclusively in the biotech sector. And while we are often overweight biotech relative to some other healthcare funds, each of these two Funds is underweight biotech relative to the Nasdaq Biotech Index.

Each of these Funds may invest a material portion of its assets in pre-public venture companies. This emphasis is one of the things that make HQH and HQL different from many other healthcare funds. While the venture component of the Funds can be higher, recently it is comprised of 5%-10% pre-public venture companies.

While HQH and HQL have similarities, they also have differences. Generally, HQH invests more broadly across the healthcare sector and in more companies that are a little larger and in later stages than does HQL. Conversely, HQL often has a little bit higher biotech exposure and its holdings can have a smaller median market cap.

As I have said, HQH and HQL can be thought of as straight healthcare equity growth funds that derive their distributions almost entirely from capital gains.

Alternatively, the Tekla Opportunities Fund (THQ) and the Tekla World Healthcare Fund (THW) are oriented to growth and income. They contain a large portion of assets in equities but also own income-producing assets, including health-care corporate debt that produces coupon income.

THQ and THW also own a material amount of dividend-producing equities. They derive income from covered call writing on a material portion of equities in their portfolios. As a result, we would expect the mean or median market cap of assets in THQ and THW to be greater that in HQH and HQL.

The most notable difference between THQ and THW is that THQ is much more focused on U.S. equities while THW holds greater than 40% of its assets in companies organized or located outside the U.S. or that do a substantial amount of business outside the U.S.

In summary, we have designed and are operating HQH and HQL in a way we expect is attractive to individuals interested in the healthcare sector in general – and to innovation in particular – and who want to be fully exposed to the equity market. Alternatively, we have designed THQ and THW to be attractive to those who like the healthcare equity market but also want to see a portion of assets dedicated to current income-generating investments. Individuals might consider THQ or THW, depending on their preference for mostly the U.S. market or for a more global focus.

SL: The two oldest Funds, HQH and HQL, provide quarterly distributions at a rate of 2% of the Funds' net assets to shareholders of record. THQ and THW provide fixed monthly distributions. Have any of the Tekla Funds created concern for you because of their volatility?

Omstead: Not really. In general, we operate the Funds with the goal of keeping volatility down on a relative basis. Based on our calculations, the Tekla Funds have generally exhibited volatilities in line with relevant equity benchmarks, including those sector-specific indices we typically use as benchmarks. Note that for the recently formed THQ and THW funds, the period of volatility comparison has been short, so there is less historical data for these Funds.

SL: The last reports for the Tekla Funds were published as of March 31, 2016. How many other reports does Tekla issue during the year, and how extensive are these reports?

Omstead: For each Fund, we publish both annual and semi-annual reports which we believe are thorough and comprehensive. Each of these provide detailed financials, a breakdown of Fund holdings and a detailed shareholder letter typically summarizing my view of the macro- and micro-sector environment, as well as details about the Funds.

In addition, every quarter we publish fact cards summarizing a description of each Fund, a summary of investment philosophy, a summary of performance, distribution and yield, top holdings and sector/asset allocations.

SL: As you know, both the healthcare and particularly the biotech stocks have underperformed in the first quarter of 2016. Was this due to the political atmosphere or related to concerns about high drug prices?

Omstead: I think underperformance of the healthcare sector was probably related both to political commentary and to a generalized fear of drug price escalation. A

Tekla Closed-End Funds
Performance as of June 30, 2016

		1-Year	3-Year	5-Year	10-Year	Since Inception	Inception Date
Tekla Healthcare Investors (HQH)							2/29/1988
	Market	-25.73	10.12	17.81	11.99	10.16	
	NAV	-24.63	12.23	16.71	12.11	10.50	
Tekla Life Science Investors (HQL)							5/29/1992
	Market	-28.31	9.59	18.06	10.47	8.97	
	NAV	-28.16	10.97	16.40	11.33	9.41	
Tekla Healthcare Opportunities Fund (THQ)							7/29/2014
	Market	-7.60	N/A	N/A	N/A	-1.75	
	NAV	-8.30	N/A	N/A	N/A	5.92	
Tekla World Healthcare Fund (THW)							7/1/2015
	Market	-23.14	N/A	N/A	N/A	-23.08	
	NAV	-10.26	N/A	N/A	N/A	-10.24	

Source: Tekla Capital Management LLC

Performance data quoted represents past performance, which is no guarantee of future results, and current performance may be lower or higher than the figures shown. The NAV total return takes into account the Fund's total annual expenses and does not reflect transaction charges. If transaction charges were reflected, NAV total return would be reduced. All distributions are assumed to be reinvested either in accordance with the dividend reinvestment plan (DRIP) for market price returns or NAV for NAV returns. Until the DRIP price is available from the Plan Agent, the market price returns reflect the reinvestment at the closing market price on the last business day of the month. Once the DRIP is available around mid-month, the market price returns are updated to reflect reinvestment at the DRIP price.

substantive portion of this concern was based on the actions of a few companies that had taken dramatic price increases that many felt were unwarranted. It is our experience and view that such actions are relatively uncommon and that most drug companies are thoughtful about drug pricing and seek to price their drugs consistent with the value their products provide.

SL: The last time *The Scott Letter* interviewed Tekla Capital Management was in September 2014. Since that time, Tekla has created another closed-end fund, Tekla World Healthcare Fund (THW). This Fund is a non-diversified closed-end fund trading under the symbol THW and invests primarily in the global healthcare industry.

On April 16, 2016, THW paid a monthly distribution of $0.1167 per share. It is currently estimated that this distribution is derived from return of capital. The composition of this and subsequent distributions may vary from month to month because it may be materially impacted by future realized gains and losses on securities.

The aggregate of the net unrealized depreciation of portfolio securities and net realized gains on sale of securities is -$62,300,454 of which $78,499,881 represent net unrealized depreciation of portfolio securities.

Prior to this interview, we looked at THW and were sorry that the Fund has yet to return to its offering price of $20. on June 30, 2016. THW's latest price to-date has dropped about 25% from its offering price. Comments?

[**Editor's Note:** CEFA has not made any decisions to invest in Tekla World Healthcare Fund yet as we wait to evaluate the Fund's performance.]

Omstead: It is true that the stock price of THW is down about 25% from its original offering price. We note that the total market return of the Fund, including distributions in the same time period (through August 10, 2016), is down more like 18%. Having said this, we think that NAV return is probably the best measure of fund performance.

SL: It seems THW intends to use net realized income and realized capital gains when making quarterly distributions, if available, but this policy would result in a return of capital to shareholders, if the amount of distribution exceeds the Fund's net investment income and realized capital gains.

Omstead: Yes, this is correct.

SL: We have a long history of investing in HQH and HQL – going back to the founder of these Funds and prior to your purchase of management. Shareholders had two choices: HQH or HQL that were marginally different because, as I recall, HQL purchased more of the biotech start-ups that had more potential for large capital gains/losses than HQH. Is that correct?

Omstead: This is also generally correct.

SL: You wrote in HQH's September 2015 annual report that the Nasdaq Biotech Index (NBI) was up 11.14% but that HQH NAV return at 8.76% fell short of the NBI's return for the 12-month period ending September 30, 2015. How often has this happened in your experience?

Omstead: HQH uses the NBI as its narrow benchmark. This index can be comprised of 80% or more in biotechnology stocks. While we like the biotech sector, we don't seek to operate HQH with this level of biotech concentration as biotech can be quite volatile. Rather, we seek a more diversified portfolio of healthcare assets which we believe will more consistently produce sufficient gains to fund HQH's distribution.

As a consequence, in periods when the broader healthcare sector outperforms the NBI, we would expect HQH to outperform. In an analogous manner, when the biotech sector outperforms the broader healthcare sector, we would expect that HQH might underperform the NBI. This is what appears to have happened in the period ending September 30, 2015.

SL: Separately, we noticed that the global component of THW as of September 30, 2015 had 13.3% of its assets in non-convertible notes. Is that another way to generate distribution income?

Omstead: Yes, these non-convertible notes refer to the traditional debt of healthcare companies, and they do produce income.

SL: We also noted that in THW's March 31, 2016 semi-annual report that the largest healthcare sectors were biotechnology and pharmaceuticals. Is that correct?

Omstead: Yes, this is correct. Biotech represented just under 40% of net assets, while pharmaceuticals represented over 40% of net assets.

SL: You also wrote that 44.5% of the THW portfolio was invested in six European countries including Ireland, the United Kingdom, France, Denmark, Switzerland and Belgium. That interests us. Comments?

Omstead: As we indicated in our THW filings and on the Fund's road show, there are interesting investment options broadly across the world. Europe, as evidenced by our investments, is a good example.

SL: To conclude, do you have any other comments?

Omstead: My grandmother always told me to say *thank you.* So I want to *thank you* for taking the time to talk with me. It has been a pleasure, as always.

SL: What are your views on achieving a long life?

Omstead: Eat well and exercise if you can. Not that I have such a great record in this regard. Everything in moderation.

SL: That should speak well for your longevity. ■

Investments in the Tekla Funds involve risks, including loss of principal. Please consider the investment objective and risks of each Tekla Fund carefully before you invest. Investment return and principal value will fluctuate so that, when sold, an investor's shares may be worth more or less than their original cost. For more information about the Tekla Funds, visit www.teklacap.com or call 617-772-8500.

Closed-End Fund Advisors Disclaimer

Clients and employees of CEFA as well as its family members own shares of HQH, HQL and THQ at the time of this interview. We will wait three business days after publication before executing any buys or sells in HQH, HQL, THQ or THW.

The Green Century and Other Sustainable Mutual Funds

The Green Century Funds presses companies to improve their environmental practices and policies. These Funds invest in well-managed companies that strive to maximize their environmental advantages and minimize their environmental risks.

The Green Century Equity Fund and The Green Century Balanced Fund are part of a group of sustainable green mutual funds. There are many categories of sustainable funds, which are also called Socially Responsible Mutual Funds. How do these funds impact the investor?

"Socially responsible mutual funds hold securities in companies that adhere to social, moral, religious or environmental beliefs. To ensure that the stocks chosen have values that coincide with the fund beliefs, companies undergo a careful screening process." (Source: Socially Responsible Investing, September 1, 2012)

Green Century told us that there are 60 or so socially responsible investment (SRI) funds (in about 25 fund families) in the U.S.

Many investors ask: Which SRI funds are green funds?" The answer isn't as simple as you think. There are only a handful of SRI mutual funds in the U.S. that call themselves "green" funds. Each fund has a different approach to choosing companies.

Besides, investing with your values, you also want your money to grow. That's the rub. SRI portfolio managers have a fiduciary responsibility to invest your money wisely (as we do as well) – which is the core reason you won't see lists of the most exciting renewable energy or other "green" companies in funds' top holdings.

These funds includes two funds in which we have invested: The Brown Advisory Sustainable Fund (formerly the Winslow Green Growth Fund) and the Green Century Funds.

[**Editor's Note**: The Brown Advisory Sustainable Fund worked out well for our clients, but it has a different focus from the Green Century Funds as their focus is on small-cap stocks.]

Once an obscure corner of the asset management industry, mutual funds dedicated to environmental, social, and corporate governance (ESG) issues are now a legitimate asset management category that includes roughly $7 trillion in assets to make companies more sustainable.

There is a history of the desire to rid funds whose investors no longer wish to invest in funds that hold fossil fuel stocks. The campaign began in 2012, when individuals and institutions started divesting their holdings from the coal, oil and gas industries. This included several objectives.

1. **Moral: Align Your Investments with Your Values**

Most mutual funds, such as those used in IRAs and retirement plans, invest in coal, oil, and fracking companies. Because you don't want to support companies that drive climate change in order to reflect your morals and ethics, this is the prime motivation to change a portion of your investments to fossil free funds.

2. **Financial: Risk, Dividends, Stranded Assets**

According to global index provider MSCI, the "energy sector has consistently been among the most risky financial sector in the global economy since 2005."

There is also a growing concern about current capital expenditure spending by fossil fuel companies as "capital could easily be wasted in developing new high cost projects" such as offshore or Arctic oil drilling instead of returning the cash to shareholders as dividend distributions.

If governments move to restrict carbon emissions, the reserves of coal, oil, and gas held by many fossil companies may become devalued or what is known as "stranded assets."

By naming the fossil fuel industry's influence – and by highlighting its role in causing climate change – the divestment movement hopes to break the hold it has on the economy and governments. Inspired by the successful South African disinvestment campaign, the fossil fuel divestment movement already has mobilized millions of people and billions of dollars to put the industry on the defensive. Divesting frees up funds to invest in a clean, sustainable economy.

Both The Green Century's Equity Fund and the Green Century Balanced Fund seek to invest in companies focused on renewable energy. By using energy efficiency and water conservation, this makes them a combined divestment-reinvestment solution.

Green Century is proud to play a role in supporting the transition to a cleaner economy. Their financial and moral case is to avoid investing in coal, oil and gas companies. This has led thousands of people and a growing number of institutions to cut financial ties to the fossil fuel industry.

Green Century wrote: "While our Forest Protection Campaign has captured most of the headlines for its successes in preserving rain forests, reducing carbon emissions and protecting endangered species, making companies more sustainable is the direct work that we do."

Green Century plans to launch its Green Century International Index Fund by late September. We feel that a percentage holding in this and other funds may be the right choice for most of our clients.

For more about increasing concerns about stranded assets or other matters, please call 800-934-7336 or visit Green Century's Fossil Fuel Free Investing web page at greencentury.com/why-choose-green-century/#ffinvesting.

Please also contact us if you have further questions about these funds at cefa@cefadvisors.com. ■

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Clients and employees of CEFA as well as its family members own shares of The Green Century Equity Fund at the time of this interview. We will wait three business days after publication before executing any buys or sells in The Green Century Equity Fund or The Green Century Balanced Fund.

Portfolio Managers' Review

In this Letter, we covered two types of mutual funds. Four are closed-end mutual funds from Tekla Capital Management. The other funds that we covered are known as "Socially Responsible Investments" (SRI).

We have followed and invested in the Tekla funds for many years. Each year Dr. Olmstead has expanded and improved his mission to educate his shareholders about the virtues of healthcare funds.

The Tekla funds include two new Funds: The Tekla Opportunities Fund, launched in 2013 and the Tekla World Healthcare Fund, launched in 2015. As is often the case, these funds have had a slow start but have picked up in the last few months. We have increased our investments accordingly.

Tekla has also expanded their staff with an outside service, Destra Capital Investments that is available to investors who need help with their portfolios. Destra helps Tekla to communicate better with their shareholders. Please contact them via phone (877-855-3434) or visit their website (destracapital.com).

The Green Century Funds are very different from closed-end funds for two reasons. They are mutual funds, with a special classification known as "Socially Responsible" funds.

These funds hold securities that adhere to social, moral, religious or environmental beliefs that focus on responsible and impact investing – an investment discipline that considers "environmental, social and corporate governance (ESG) criteria to generate long-term competitive financial returns and a positive societal impact." (Source: The Forum on Sustainable and Responsible Investment, US SIF, 2015)

This unique format means they are non-profit index funds with no sales charges, brokerage commission or other fees, which makes these funds not only consumer-friendly, but unique investments.

The ratings of leading fund observers show that The Green Century Fund has been rated by U.S. News as No. 35 out of 1,638 large growth mutual funds as of August 30, 2016.

SRI funds have never pursued the closed-end fund format as far as we know. However, we must remember that both closed-end and open-end funds have a net asset value (NAV) based on the total sum of the market values of all of the fund securities, plus its cash and minus its liabilities. Open-end mutual funds, unlike closed-end funds, always stand ready to offer or redeem their shares to incoming investors at the current NAV or sales charge.

According to the US SIF Foundation's 2014 Report on Sustainable and Responsible Investing Trends in the United States, "as of year-end 2013, more than one out of every six dollars under professional management in the United States – $6.57 trillion or more – was invested according to SRI strategies."

Although the Tekla Funds and the Green Century Funds are very different investment types, we wanted our readers to know that we cover all types of investment funds as part of our responsibility to meet our clients' investment objectives.

As always, we are interested in your comments, questions, or suggestions that you may have about anything in this Letter. We are aware that the SRI funds may be a new concept for many of you, and we will be glad to explain how they work. Please contact us at any time at 800-356-3508 or at cefa@cefadvisors.com. ■

"Anyone who stops learning is old, whether this happens at twenty or eighty. Anyone who keeps on learning not only remains young, but becomes constantly more valuable regardless of physical capacity." – Harvey Ullman

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