

TEKLA LIFE SCIENCES INVESTORS
Form N-CSR
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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 811-06565

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

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

02110
(Zip code)

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

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

Date of fiscal year end: September 30

Date of reporting period: October 1, 2015 to September 30, 2016

ITEM 1. REPORTS TO STOCKHOLDERS.

TEKLA LIFE SCIENCES INVESTORS

Annual Report

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TEKLA LIFE SCIENCES INVESTORS

Distribution policy: The Fund has implemented a managed distribution policy (the Policy) that provides for quarterly distributions at a rate set by the Board of Trustees. Under the current Policy, the Fund intends to make quarterly distributions at a rate of 2% of the Fund's net assets to shareholders of record. The Policy would result in a return of capital to shareholders, if the amount of the distribution exceeds the Fund's net investment income and realized capital gains. A return of capital may occur, for example, when some or all of the money that you invested in the Fund is paid back to you. A return of capital distribution does not necessarily reflect the Fund's investment performance and should not be confused with "yield" or "income."

The amounts and sources of distributions reported in the Fund's notices pursuant to Section 19(a) of the Investment Company Act of 1940 are only estimates and are not being provided for tax reporting purposes. The actual amounts and sources of the amounts for tax reporting purposes will depend upon the Fund's investment experience during its fiscal year and may be subject to changes based on tax regulations. The Fund will send you a Form 1099-DIV for the calendar year that tells you how to report distributions for federal income tax purposes.

You should not draw any conclusions about the Fund's investment performance from the amount of distributions pursuant to the Policy or from the terms of the Policy. The Policy has been established by the Trustees and may be changed or terminated by them without shareholder approval. The Trustees regularly review the Policy and the frequency and rate of distributions considering the purpose and effect of the Policy, the financial market environment, and the Fund's income, capital gains and capital available to pay distributions. The suspension or termination of the Policy could have the effect of creating a trading discount or widening an existing trading discount. At this time there are no reasonably foreseeable circumstances that might cause the Trustees to terminate the Policy.

Consider these risks before investing: As with any investment company that invests in equity securities, the Fund is subject to market risk—the possibility that the prices of equity securities will decline over short or extended periods of time. As a result, the value of an investment in the Fund's shares will fluctuate with the market generally and market sectors in particular. You could lose money over short or long periods of time. Political and economic news can influence market-wide trends and can cause disruptions in the U.S. or world financial markets. Other factors may be ignored by the market as a whole but may cause movements in the price of one company's stock or the stock of companies in one or more industries. All of these factors may have a greater impact on initial public offerings and emerging company shares. Different types of equity securities tend to shift into and out of favor with investors, depending on market and economic conditions. The performance of funds that invest in equity securities of Healthcare Companies may at times be better or worse than the performance of funds that focus on other types of securities or that have a broader investment style.

TEKLA LIFE SCIENCES INVESTORS

Dear Shareholders,

As you know, Tekla Life Sciences Investors ("HQL" or "the Fund") invests in healthcare/biotechnology. As you may also know, after an extended period of growth, volatility in this sector has been elevated and performance weak as of late. Part of the increased volatility is inherent in our sector while another part probably results from the election season discussion we have been having in the U.S. about the value healthcare brings to our citizens and to what extent the prices of drugs should reflect that value rather than merely production cost. Healthcare fundamentals have been solid in recent years (as reflected generally by the S&P Composite 1500 Healthcare Index^{®*}) and particularly in the biotech sector (as reflected by the NASDAQ Biotechnology Index^{®*}). Strength in healthcare relative to the S&P 500 Index^{®*} over the last five years is illustrated in the following chart.

**5 Year Performance
Ending September 30, 2016**

It seems pretty clear that questions about pricing have attenuated the upward climb in the healthcare sector since a mid-2015 high. In the last 12 months, this has resulted in a more moderate return for the healthcare sector in general and for biotechnology in particular. We see much of this result as a disconnect between sector potential and performance. It is our view that, as we head into 2017, we may well experience heightened volatility as Mr. Trump's intentions and priorities become clear, but over the longer term we are confident that we will return to a period where fundamentals drive performance. We see this as a positive for the healthcare/biotechnology sector.

Respectfully yours,

Daniel R. Omstead, Ph.D.
President and Portfolio Manager

**Thoughts on the State of the Healthcare/
Biotechnology Industry**

The healthcare/biotechnology sector has been much in the news of late. Moreover, this sector has been drawn into the political discussion surrounding the 2016 national election season. At times, this has caused some volatility and probably some downward movement within the healthcare/biotechnology sector. It is not the first time the sector has been drawn into national debate (recall the discussions surrounding the creation and implementation of the Affordable Care Act ("Obamacare")) nor will it likely be the last.

The current discussion undoubtedly results from a number of both macro and micro factors. On the macro level, healthcare represents nearly 20% of the US economy. Moreover, the sector is growing relatively rapidly and projections suggest that this growth could overwhelm other parts of the economy. Such concern results in much debate, but in the end we believe sector growth reflects its contribution to societal welfare and is good for the Fund and its shareholders.

On the micro level, healthcare is also a significant portion of the "economy". Obamacare has increased the number of people who are covered by health insurance and imposed a number of mandated criteria. Healthcare products and services are difficult and expensive to develop and therefore expensive to purchase. For many years, most Americans paid health insurance premiums (or had them largely paid for by their employers) and received services at relatively modest out-of-pocket costs (i.e., at a low "co-pay") to the individual. Recent trends have, in our view, produced a change in this profile. For a variety of reasons, probably related to the increasing cost/price of healthcare products, we have seen what we expect will be a migration to higher deductible healthcare insurance plans. The consequence has been that, in some cases, the cost to the consumer for certain basic medical products or services has increased, sometimes dramatically. Focusing for the moment on healthcare products rather than services, in some cases, such increases can be the result of over-reaching drug company pricing strategies while in other cases the increases might be the result of fairly priced drugs where the individual or employers have elected to use high deductible plans. Such plans decrease insurance premiums but increase out of pocket costs to the individual at or near the point of care.

This topic has become a controversial issue generating a great deal of public and political attention. Politicians at the national level have spoken aggressively about the need to limit price increases for some drugs. Our

view is that a significant portion of this discussion is political rather than substantive as we believe that most drug companies do and will price their drugs based on the value they provide to patients. It is also our view that many or most drugs produce a significant benefit to patients. We would expect that as time goes on, drugs will be more and more targeted to specific patients with specific conditions and that, in the extreme, companies will get paid more when a drug successfully treats a patient's malady and less (or nothing) when the drug is ineffective. We don't see the likelihood of drug price controls or the introduction of a single payer solution as some have suggested or pushed for. In our view, these solutions won't work well. Having said this, the fact of the matter is that we are currently in an environment where a tweet from a national political candidate or other politician can have an impact on the price of a given company's stock and in some cases on the price of a group of stocks. It is our expectation that after Mr. Trump's priorities have been articulated, sector volatility will decrease and the market will be able to focus on the fundamentals of the healthcare/biotechnology sector. We believe these fundamentals are sound.

We continue to be impressed by the potential of the healthcare sector to improve the quality and durability of patients' lives. As we have previously noted, there have been approximately 250 new public companies formed in the healthcare/biotechnology sector over the last several years. These companies are seeking to develop treatments for a myriad of diseases in nearly every area of clinical research. It is difficult to generalize, but we see promising opportunities in treatments aimed at a wide variety of cancers, as well as in the areas of rare diseases, ophthalmology, various blood disorders, the central nervous system, dermatology and antibiotics, among a wide variety of indications.

In addition, we see many developments in the next year or so which are poised to have an effect on healthcare. For example, we note that there are several drugs in late stage development intended for use in Alzheimer's disease. Many people experience a loss of cognitive function, but there are few effective treatments. Results from several late stage clinical trials sponsored by prominent pharmaceutical and biotech companies involving the use of antibody based therapies are expected to be reported in the coming years. If successful, these drugs would be widely used and would help a large number of patients in need.

We are also impressed by progress in the general area of immuno-oncology. This is a field in which drugs or other treatments are used to boost a patient's own immune system, typically to treat hematologic or solid tumors. Initial generations of so-called checkpoint inhibitors which

take the "brakes" off a patient's own self limited response to cancer have been remarkably effective in treating lung and other cancers. An additional generation of drugs and treatments stimulate or enhance other aspects of a patient's intrinsic immune response to cancer. Clinical trial results for these so-called immuno-oncology agents have been particularly impressive and have the potential to dramatically improve the lives of certain cancer patients. We would expect FDA approval of one or more new groups in this class soon.

The development of drugs to treat rare diseases is a further example of recent progress. These are diseases which affect a small number of patients. There are upwards of a thousand such diseases which result from a single gene defect. In recent years, we have seen the development of more and more drugs to treat such diseases. We were particularly impressed in the last year to note the FDA's benevolence in approving a drug which appears to have activity in a very rare disease called Duchenne's Muscular Dystrophy. This disease causes debilitating effects and ultimately death, predominantly in young males.

The emergence of generic biological drugs is also notable. Both traditional generic and branded pharmaceutical companies are moving ahead diligently to create and gain approval of drugs that are biosimilar to the now extensive group of biological drugs that have reached the marketplace. This trend should allow the price of some drugs to decrease through competition to the benefit of payers and patients but should also allow the original sponsors to continue to benefit (if at a lower economic reward) after the expiration of governing patents.

Beyond the developments described above, we would also note trends we have observed in the product reimbursement area as being significant. Over the last several years we have seen more competition even for branded products. As an example, multiple antibody products (so-called PCSK9 inhibitors) capable of treating recalcitrant hypercholesterolemia have reached the marketplace. While each of these products is patent protected, due to their similar therapeutic effects, payers have been able to negotiate attractive pricing for these products. We see this trend, along with the development of generic biosimilars, as evidence of enhanced competition in the drug industry.

TEKLA LIFE SCIENCES INVESTORS**Fund Essentials****Objective of the Fund**

The Fund's investment objective is to seek long-term capital appreciation by investing primarily in securities of Life Sciences companies. In addition, the Fund seeks to provide regular distribution of realized capital gains.

Description of the Fund

Tekla Life Sciences Investors ("HQL") is a non-diversified closed-end healthcare fund traded on the New York Stock Exchange under the ticker HQL. HQL primarily invests in the life sciences industries and will emphasize the smaller, emerging companies with a maximum of 40% of the Fund's assets in restricted securities of both public and private companies.

Investment Philosophy

Tekla Capital Management LLC, the Investment Adviser to the Fund, believes that:

- Aging demographics and adoption of new medical products and services can provide long-term tailwinds for healthcare companies
- Late stage biotechnology product pipeline could lead to significant increases in biotechnology sales
- Robust M&A activity in healthcare may create additional investment opportunities

Fund Overview and Characteristics as of 9/30/16

Market Price ¹	\$	18.73
NAV ²	\$	20.00
Premium/(Discount)		-6.35%
Average 30 Day Volume		78,200
Net Assets	\$	414,972,879
Ticker		HQL
NAV Ticker		XHQLX
Commencement of Operations Date		5/8/92
Fiscal Year		
Distributions Per Share	\$	2.85

¹ The closing price at which the Fund's shares were traded on the exchange.

² Per-share dollar value of the Fund, calculated by dividing the total value of all the securities in its portfolio, plus any other assets and less liabilities, by the number of Fund shares outstanding.

Holdings of the Fund (Data is based on net assets)

Asset Allocation as of 9/30/16

Sub-Sector Allocation as of 9/30/16

*Amount is less than 0.05%

This data is subject to change on a daily basis.

TEKLA LIFE SCIENCES INVESTORS**Largest Holdings by Issuer****(Excludes Short-Term Investments)***As of September 30, 2016*

Issuer	Sector	% of Net Assets
Gilead Sciences, Inc.	<i>Biotechnology</i>	8.4%
Celgene Corporation	<i>Biotechnology</i>	6.9%
Biogen Inc.	<i>Biotechnology</i>	6.0%
Incyte Corporation	<i>Biotechnology</i>	5.9%
Regeneron Pharmaceuticals, Inc.	<i>Biotechnology</i>	4.3%
Vertex Pharmaceuticals Incorporated	<i>Biotechnology</i>	4.0%
Alexion Pharmaceuticals, Inc.	<i>Biotechnology</i>	3.8%
BioMarin Pharmaceutical Inc.	<i>Biotechnology</i>	3.4%
Illumina, Inc.	<i>Life Sciences Tools & Services</i>	3.2%
Supernus Pharmaceuticals, Inc.	<i>Pharmaceuticals</i>	2.3%
Cepheid, Inc.	<i>Biotechnology</i>	2.2%
Neurocrine Biosciences, Inc.	<i>Biotechnology</i>	2.2%
Amgen Inc.	<i>Biotechnology</i>	2.2%
Retrophin, Inc.	<i>Biotechnology</i>	1.8%
Jazz Pharmaceuticals plc	<i>Pharmaceuticals</i>	1.7%
Medicines Company (The)	<i>Pharmaceuticals</i>	1.7%
IDEXX Laboratories, Inc.	<i>Health Care Equipment & Supplies</i>	1.5%
Alkermes plc	<i>Biotechnology</i>	1.3%
Vitae Pharmaceuticals, Inc.	<i>Biotechnology</i>	1.3%
Depomed, Inc.	<i>Pharmaceuticals</i>	1.2%

Fund Performance

HQL Investors is a closed-end fund which invests predominantly in life science companies. Subject to regular consideration, the Trustees of HQL have instituted a policy of making quarterly distributions to shareholders. The Fund seeks to make such distributions in the form of long-term capital gains.

The Fund considers investments in companies of all sizes and in all life science subsectors, including but not limited to, biotechnology, pharmaceuticals, healthcare equipment, healthcare supplies, life science tools and services, healthcare distributors, managed healthcare, healthcare technology, and healthcare facilities. The Fund emphasizes innovation, investing both in public and pre-public venture companies. The Fund considers its venture investments to be a differentiating characteristic. Among the various healthcare subsectors, HQL has considered the biotechnology subsector, including both pre-public and public companies,

to be a key contributor to the healthcare sector. The Fund holds biotech assets, including both public and pre-public, often representing 65-75% of net assets.

There is no commonly published index which matches the investment strategy of HQL. The S&P Composite 1500 Healthcare Index® ("S15HLTH") consists of more than 160 companies representing most or all of the healthcare subsectors in which HQL typically invests; biotechnology often represents 15-20% of this index. By contrast, the NASDAQ Biotechnology Index® ("NBI"), which contains approximately 180 constituents, is much more narrowly constructed. The vast majority of this index is comprised of biotechnology, pharmaceutical and life science tools companies. In recent years, biotechnology has often represented 72-82% of the NBI. Neither the S15HLTH nor NBI indices contain any material amount of pre-public company assets.

We present both NAV and stock returns for the Fund in comparison to several commonly published indices. One index, the S&P 500 Index® ("SPX") is a commonly considered broad based index; this index is broadly comprised of companies in many areas of the economy, including, but not limited to healthcare. As described above, the NBI is a healthcare index mostly focused in three healthcare sectors with a uniquely high level of biotechnology comparison. The S15HLTH contains a wider representation of healthcare subsectors, but typically contains a much lower biotechnology composition.

HQL generally invests in a combination of large cap growth-oriented and earlier stage innovative healthcare companies with a focus on the biotechnology sector. Generally, HQL targets biotechnology exposure below that of the NBI. HQL generally targets a higher biotechnology exposure than does the S15HLTH. We note that in recent periods, biotechnology has been a significant contributor to returns (both positive and negative) associated with those indices. We believe this sector continues to still have significant potential for growth in the future.

Fund Performance for the Period Ended September 30, 2016

Period	HQL NAV	HQL MKT	NBI	S15HLTH	SPX
6 month	15.64	10.95	11.23	7.56	6.40
1 year	-2.52	-4.66	-4.09	11.01	15.42
5 year	22.52	23.66	26.03	20.33	16.36
10 year	12.99	12.79	15.34	10.57	7.24

All performance over one-year has been annualized.

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.

Portfolio Highlights as of September 30, 2016

Among other investments, Tekla Life Sciences Investors' performance benefitted in the past year by the following:

Vitae Pharmaceuticals, Inc. (VTAE) was a small cap dermatology company with novel agents to treat plaque psoriasis and atopic dermatitis. HQL invested in Vitae VTAE in July 2016. The company was acquired by Allergan plc in September 2016.

Cepheid, Inc. (CPHD) is a molecular diagnostics company with what we believed was underappreciated growth and pipeline potential. In September 2016, CPHD agreed to be acquired by Danaher Corporation at a significant premium.

Cynapsus Therapeutics, Inc. (CYNA) was developing a sublingual apomorphine strip for off-episodes in Parkinson's disease, which we believed was an attractive alternative to the current injectable formulations. The company was acquired by Sunovion at the end of August 2016.

Among other examples, Tekla Life Sciences Investors' performance was negatively impacted by the following investments:

The fund was underweight *Amgen Inc. (AMGN)*. Our thesis has been that the company's high exposure to generic biologics coupled with low or no volume growth would lead to underperformance. It appears that we were a bit early in this thesis.

Gilead Sciences, Inc. (GILD) had a disappointing year as growth of its treatments for Hepatitis C slowed more than expected. In contrast, we believe the HIV market should continue to drive future growth. At the moment, the company continues to hold an attractive valuation with very high free cash flow yield.

*The trademarks NASDAQ Biotechnology Index[®], S&P Composite 1500 Healthcare Index[®] and S&P 500 Index[®] referenced in this report are the property of their respective owners. These trademarks are not owned by or associated with the Fund or its service providers, including Tekla Capital Management LLC.

TEKLA LIFE SCIENCES INVESTORS

SCHEDULE OF INVESTMENTS

SEPTEMBER 30, 2016

**CONVERTIBLE PREFERRED AND
WARRANTS**

SHARES	(Restricted) ^(a) ^(b) - 5.6% of Net Assets	VALUE
	<i>Biotechnology - 0.5%</i>	
665,681	BioClin Therapeutics, Inc. Series A	\$ 432,693
2,568,939	EBI Life Sciences, Inc. Series A ^(c)	13,102
933,333	GenomeDx Biosciences, Inc. Series C	1,400,000
		1,845,795
	<i>Health Care Equipment & Supplies - 2.9%</i>	
2,338,198	AlterG, Inc. Series C	958,661
79,330	CardioKinetix, Inc. Series C	79
142,574	CardioKinetix, Inc. Series D	363,279
439,333	CardioKinetix, Inc. Series E	1,250,781
403,207	CardioKinetix, Inc. Series F	1,377,355
N/A ^(e)	CardioKinetix, Inc. warrants (expiration 12/11/19)	0
N/A ^(e)	CardioKinetix, Inc. warrants (expiration 6/03/20)	0
8,822	CardioKinetix, Inc. warrants (expiration 8/15/24)	0
951,000	IlluminOss Medical, Inc. Series AA	951,000
895,848	IlluminOss Medical, Inc. Series Junior Preferred	895,848
5,126,388	Insightra Medical, Inc. Series C ^(c)	5,126
3,891,340	Insightra Medical, Inc. Series C-2 ^(c)	3,891
366,171	Insightra Medical, Inc. warrants (expiration 3/31/25) ^(c)	0
2,013,938	Insightra Medical, Inc. warrants (expiration 5/28/25) ^(c)	0
1,464,682	Insightra Medical, Inc. warrants (expiration 8/18/25) ^(c)	0
9,606,373	Palyon Medical Corporation Series A ^(c)	0
18,832,814	Palyon Medical Corporation Series B ^(c)	0
N/A ^(e)	Palyon Medical Corporation warrants (expiration 4/26/19) ^(c)	0
3,280,000	Tibion Corporation Series B	0
N/A ^(e)	Tibion Corporation warrants (expiration 07/12/17)	0
N/A ^(e)	Tibion Corporation warrants (expiration 10/30/17)	0
N/A ^(e)	Tibion Corporation warrants (expiration 11/28/17)	0
2,606,033	Veniti, Inc. Series A ^(c)	3,326,341

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1,307,169	Veniti, Inc. Series B ^(c)	1,733,829
716,720	Veniti, Inc. Series C ^(c)	1,114,643
		11,980,833

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

TEKLA LIFE SCIENCES INVESTORS**SCHEDULE OF INVESTMENTS**

SEPTEMBER 30, 2016

(continued)

SHARES		VALUE
	<i>Life Sciences Tools & Services - 1.1%</i>	
2,161,090	Dynex Technologies, Inc. Series A	\$ 1,080,545
	Dynex Technologies, Inc. warrants (expiration 4/01/19)	0
98,824		
7,877	Dynex Technologies, Inc. warrants (expiration 5/06/19)	0
2,446,016	Labcyte, Inc. Series C	3,399,962
107,178	Labcyte, Inc. Series D	161,410
		4,641,917
	<i>Pharmaceuticals - 1.1%</i>	
2,862,324	Euthymics Biosciences, Inc. Series A ^(c)	2,862
53,948	Neurovance, Inc. Series A ^(c)	178,568
670,837	Neurovance, Inc. Series A-1 ^(c)	2,220,470
240,770	Ovid Therapeutics, Inc. Series B	2,260,108
		4,662,008
	TOTAL CONVERTIBLE PREFERRED AND WARRANTS (Cost \$31,417,932)	23,130,553
	CONVERTIBLE AND NON-CONVERTIBLE NOTES - 2.8% of Net Assets	
PRINCIPAL AMOUNT	Convertible Notes - 2.8%	
	<i>Biotechnology - 0.4%</i>	
\$ 1,485,000	Merrimack Pharmaceuticals, Inc., 4.50%, due 7/15/20	1,878,525
	<i>Health Care Equipment & Supplies - 0.0%</i>	
186,000	Insightra Medical, Inc. Promissory Note (Restricted), 8.00%, due 4/15/17 ^{(a) (c)}	0
	<i>Pharmaceuticals - 2.4%</i>	
187,101	Neurovance, Inc. Cvt. Promissory Note (Restricted), 6.00%, due 3/1/17 ^{(a) (c)}	187,101
93,551	Neurovance, Inc. Cvt. Promissory Note (Restricted), 6.00%, due 3/1/17 ^{(a) (c)}	93,551
280,652	Neurovance, Inc. Cvt. Promissory Note (Restricted), 6.00%, due 3/17/17 ^{(a) (c)}	280,652
2,000,000	Supernus Pharmaceuticals, Inc., 7.50%, due 5/1/19 ^(g)	9,333,750
		9,895,054
	TOTAL CONVERTIBLE NOTES	11,773,579

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

TEKLA LIFE SCIENCES INVESTORS

SCHEDULE OF INVESTMENTS

SEPTEMBER 30, 2016

(continued)

PRINCIPAL AMOUNT	Non-Convertible Notes (Restricted) ^(a) ^(b) - 0.0%	VALUE
	<i>Health Care Equipment & Supplies - 0.0%</i>	
	Tibion Corporation Non-Cvt. Promissory Note,	
\$ 28,211	0.00%, due 12/31/18	\$ 0
	Tibion Corporation Non-Cvt. Promissory Note,	
238,286	0.00%, due 12/31/18	0
	TOTAL NON-CONVERTIBLE NOTES	0
	TOTAL CONVERTIBLE AND NON-CONVERTIBLE NOTES	
	(Cost \$4,524,478)	11,773,579
	COMMON STOCKS AND WARRANTS	
	- 87.1%	
SHARES	of Net Assets	
	<i>Biotechnology - 69.0%</i>	
27,500	Adaptimmune Therapeutics plc ^(b) ^(f)	193,875
127,799	Alexion Pharmaceuticals, Inc. ^(b)	15,660,489
116,453	Alkermes plc ^(b)	5,476,785
73,025	Alnylam Pharmaceuticals, Inc. ^(b)	4,949,634
53,557	Amgen Inc.	8,933,843
258,000	Amicus Therapeutics, Inc. ^(b)	1,909,200
811,227	ARCA biopharma, Inc. ^(b) ^(c)	2,344,447
	ARCA biopharma, Inc. warrants	
324,491	(Restricted, expiration 6/11/22) ^(a) ^(b) ^(c)	113,572
334,470	Ardelyx, Inc. ^(b)	4,328,042
140,560	ARIAD Pharmaceuticals, Inc. ^(b)	1,924,266
60,000	Bellicum Pharmaceuticals, Inc. ^(b)	1,194,000
79,512	Biogen Inc. ^(b)	24,889,641
154,100	BioMarin Pharmaceutical Inc. ^(b)	14,257,332
26,545	bluebird bio, Inc. ^(b)	1,799,220
275,871	Celgene Corporation ^(b)	28,836,796
40,000	Cellectis S.A. ^(b) ^(d) ^(f)	963,200
174,590	Cepheid, Inc. ^(b)	9,199,147
308,892	Chimerix, Inc. ^(b)	1,711,262
132,472	Cidara Therapeutics, Inc. ^(b)	1,516,804
226,826	CytomX Therapeutics, Inc. ^(b)	3,556,632
23,954	Dermira, Inc. ^(b)	810,124
120,475	Dynavax Technologies Corporation ^(b)	1,263,783
329		0

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	Eiger BioPharmaceuticals, Inc. warrants (Restricted, expiration 10/10/18) ^(a) ^(b)	
84,000	Epizyme, Inc. ^(b)	826,560
165,599	Exelixis, Inc. ^(b)	2,118,011

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

TEKLA LIFE SCIENCES INVESTORS

SCHEDULE OF INVESTMENTS

SEPTEMBER 30, 2016

(continued)

SHARES	<i>Biotechnology - continued</i>	VALUE
46,000	Galapagos NV ^{(b) (d)}	\$ 2,952,140
67,896	Galapagos NV ^{(b) (f)}	4,390,155
443,120	Gilead Sciences, Inc.	35,059,654
125,000	Global Blood Therapeutics, Inc. ^(b)	2,881,250
200,000	Halozyme Therapeutics, Inc. ^(b)	2,416,000
259,915	Incyte Corporation ^(b)	24,507,385
94,564	Inotek Pharmaceuticals Corporation ^(b)	896,467
71,842	Intellia Therapeutics, Inc. ^(b)	1,222,751
54,600	Merus B.V. ^(b)	914,550
87,983	Merus B.V. (Restricted) ^{(a) (b)}	1,326,344
170,641	Natera, Inc. ^(b)	1,895,822
178,519	Neurocrine Biosciences, Inc. ^(b)	9,040,202
358,000	Novavax, Inc. ^(b)	744,640
829,191	Pieris Pharmaceuticals, Inc. ^(b)	1,517,420
23,821	Pieris Pharmaceuticals, Inc., Series A warrants (Restricted, expiration 6/8/21) ^{(a) (b)}	7,623
11,911	Pieris Pharmaceuticals, Inc., Series B warrants (Restricted, expiration 6/8/21) ^{(a) (b)}	5,479
44,622	Regeneron Pharmaceuticals, Inc. ^(b)	17,938,936
329,949	Retrophin, Inc. ^(b)	7,384,259
64,000	Sage Therapeutics, Inc. ^(b)	2,947,200
18,850	Sarepta Therapeutics, Inc. ^(b)	1,157,579
26,520	Ultragenyx Pharmaceutical Inc. ^(b)	1,881,329
191,377	Vertex Pharmaceuticals Incorporated ^(b)	16,689,988
250,000	Vitae Pharmaceuticals, Inc. ^(b)	5,230,000
20,000	Xencor, Inc. ^(b)	489,800
466,662	Xenon Pharmaceuticals Inc. ^(b)	3,779,962
13,307	Zafgen, Inc. ^(b)	44,046
		286,097,646
	<i>Health Care Equipment & Supplies - 2.5%</i>	
495,000	Alliqua BioMedical, Inc. ^(b)	386,100
130,000	Cercacor Laboratories, Inc. (Restricted) ^{(a) (b)}	214,007
93,349	GenMark Diagnostics, Inc. ^(b)	1,101,518
55,158	IDEXX Laboratories, Inc. ^(b)	6,217,962
25,000	Nevro Corp. ^(b)	2,609,750
7,157	TherOx, Inc. (Restricted) ^{(a) (b)}	143
		10,529,480
	<i>Health Care Providers & Services - 0.0%</i>	
148,148		126,667

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	InnovaCare Health, Inc. (Restricted) ^(a) ^(b) ^(g)	
	<i>Life Sciences Tools & Services - 4.0%</i>	
120,000	Accelerate Diagnostics, Inc. ^(b)	3,271,200
73,258	Illumina, Inc. ^(b)	13,308,048
		16,579,248

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

TEKLA LIFE SCIENCES INVESTORS**SCHEDULE OF INVESTMENTS**

SEPTEMBER 30, 2016

(continued)

SHARES	<i>Pharmaceuticals - 11.6%</i>	VALUE
53,342	Akorn, Inc. ^(b)	\$ 1,454,103
17,915	Allergan plc ^(b)	4,126,004
232,351	Auris Medical Holding AG ^(b)	401,967
200,000	Depomed, Inc. ^(b)	4,998,000
29,100	Endo International plc ^(b)	586,365
233,000	Flamel Technologies SA ^{(b) (f)}	2,889,200
48,637	Flex Pharma, Inc. ^(b)	572,944
124,140	Foamix Pharmaceuticals Ltd. ^(b)	1,149,536
35,949	Impax Laboratories, Inc. ^(b)	851,991
57,022	Jazz Pharmaceuticals plc ^(b)	6,927,032
181,570	Medicines Company (The) ^(b)	6,852,452
127,980	Mylan NV ^(b)	4,878,598
207,300	Paratek Pharmaceuticals, Inc. ^(b)	2,696,973
75,000	Revance Therapeutics, Inc ^(b)	1,215,750
21,315	Shire plc ^(f)	4,132,126
88,764	Tetraphase Pharmaceuticals Inc. ^(b)	339,966
307,000	TherapeuticsMD, Inc. ^(b)	2,090,670
46,452,687	Verona Pharma plc ^{(b) (d)}	1,926,708
18,581,075	Verona Pharma plc, warrants (Restricted, expiration 7/31/17) ^{(a) (b) (d)}	64,304
		48,154,689
	TOTAL COMMON STOCKS AND WARRANTS (Cost \$246,263,204)	361,487,730
PRINCIPAL AMOUNT	SHORT-TERM INVESTMENT - 2.4% of Net Assets	
	Repurchase Agreement, Fixed Income Clearing Corp., repurchase value \$9,853,000, 0.03%, dated 09/30/16, due 10/03/16 (collateralized by Treasury Inflation Index Note 2.625%, due 07/15/17, market value \$5,607,751, U.S. Treasury Note 1.50%, due 3/13/23, market value \$192,138 and U.S. Treasury Note 2.5%, due 8/15/23, market value \$4,250,275	9,853,000
\$ 9,853,000		
	TOTAL SHORT-TERM INVESTMENT (Cost \$9,853,000)	9,853,000
	TOTAL INVESTMENTS BEFORE MILESTONE INTERESTS - 97.9%	406,244,862

(Cost \$292,058,614)

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

TEKLA LIFE SCIENCES INVESTORS**SCHEDULE OF INVESTMENTS**

SEPTEMBER 30, 2016

(continued)

MILESTONE INTERESTS (Restricted)		
(a) (b) - 0.3%		
INTEREST	of Net Assets	VALUE
	<i>Pharmaceuticals - 0.3%</i>	
1	Afferent Milestone Interest	\$ 1,123,203
1	TargeGen Milestone Interest	0
	TOTAL MILESTONE INTERESTS	
	(Cost \$4,085,566)	1,123,203
	TOTAL INVESTMENTS - 98.2%	
	(Cost \$296,144,180)	407,368,065
	OTHER ASSETS IN EXCESS	
	OF OTHER LIABILITIES - 1.8%	7,604,814
	NET ASSETS - 100%	\$414,972,879

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

(b) Non-income producing security.

(c) Affiliated issuers in which the Fund holds 5% or more of the voting securities (total market value of \$11,618,155).

(d) Foreign security.

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

(f) American Depository Receipt

(g) Security exempt from registration under Rule 144A of the Securities Act of 1933, as amended. These securities may be resold in transactions exempt from registration, normally to qualified institutional buyers.

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

TEKLA LIFE SCIENCES INVESTORS
STATEMENT OF ASSETS AND LIABILITIES

SEPTEMBER 30, 2016

ASSETS:	
Investments in unaffiliated issuers, at value (cost \$269,457,168)	\$394,626,707
Investments in affiliated issuers, at value (cost \$22,601,446)	11,618,155
Milestone interests, at value (cost \$4,085,566)	1,123,203
Total investments	407,368,065
Cash	10,069
Dividends and interest receivable	101,505
Receivable for investments sold	9,753,043
Prepaid expenses	25,443
Other assets (see Note 1)	374,787
Total assets	417,632,912
LIABILITIES:	
Payable for investments purchased	2,104,270
Accrued advisory fee	337,701
Accrued investor support service fees	16,702
Accrued shareholder reporting fees	30,481
Accrued trustee fees	405
Accrued other	170,474
Total liabilities	2,660,033
Commitments and Contingencies (see Notes 1 and 5)	
NET ASSETS	\$414,972,879
SOURCES OF NET ASSETS:	
Shares of beneficial interest, par value \$.01 per share, unlimited number of shares authorized, amount paid in on 20,743,470 shares issued and outstanding	\$301,308,305
Accumulated net investment loss	(2,726,499)
Accumulated net realized gain on investments, milestone interests and foreign currencies	5,167,188
Net unrealized gain on investments and milestone interests	111,223,885
Total net assets (equivalent to \$20.00 per share based on 20,743,470 shares outstanding)	\$414,972,879

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

TEKLA LIFE SCIENCES INVESTORS**STATEMENT OF OPERATIONS***YEAR ENDED SEPTEMBER 30, 2016*

INVESTMENT INCOME:	
Dividend income (net of foreign tax of \$19,323)	\$ 1,195,381
Interest and other income	241,831
Total investment income	1,437,212
EXPENSES:	
Advisory fees	4,270,499
Administration fees	83,108
Auditing fees	109,440
Shareholder reporting	172,004
Investor support service fees	144,537
Trustees' fees and expenses	139,664
Custodian fees	83,870
Transfer agent fees	55,017
Legal fees	40,414
Other (see Note 2)	129,310
Total expenses	5,227,863
Net investment loss	(3,790,651)
REALIZED AND UNREALIZED GAIN (LOSS):	
Net realized gain (loss) on:	
Investments in unaffiliated issuers	4,959,064
Investments in affiliated issuers	(104,965)
Foreign currency transactions	(2,401)
Net realized gain	4,851,698
Change in unrealized appreciation (depreciation)	
Investments in unaffiliated issuers	(7,640,257)
Investments in affiliated issuers	(5,332,414)
Change in unrealized appreciation (depreciation)	(12,972,671)
Net realized and unrealized gain (loss)	(8,120,973)
Net decrease in net assets resulting from operations	(\$ 11,911,624)

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

TEKLA LIFE SCIENCES INVESTORS

STATEMENTS OF CHANGES IN NET ASSETS

	Year ended September 30, 2016	Year ended September 30, 2015
NET INCREASE (DECREASE) IN NET ASSETS RESULTING FROM OPERATIONS:		
Net investment loss	(\$ 3,790,651)	(\$ 4,722,227)
Net realized gain	4,851,698	89,719,889
Change in net unrealized depreciation	(12,972,671)	(44,498,340)
Net increase (decrease) in net assets resulting from operations	(11,911,624)	40,499,322
DISTRIBUTIONS TO SHAREHOLDERS FROM:		
Net realized capital gains	(56,868,411)	(40,251,147)
Total distributions	(56,868,411)	(40,251,147)
CAPITAL SHARE TRANSACTIONS:		
Reinvestment of distributions (1,057,106 and 680,458 shares, respectively)	20,912,776	18,504,747
Total capital share transactions	20,912,776	18,504,747
Net increase (decrease) in net assets	(47,867,259)	18,752,922
NET ASSETS:		
Beginning of year	462,840,138	444,087,216
End of year	\$414,972,879	\$462,840,138
Accumulated net investment loss included in net assets at end of year	(\$ 2,726,499) ^(a)	\$ 0 ^(a)

(a) Reflects reclassifications to the Fund's capital accounts to reflect income and gains available for distribution under income tax regulations.

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

TEKLA LIFE SCIENCES INVESTORS

FINANCIAL HIGHLIGHTS

	For the years ended September 30,				
	2016	2015	2014	2013	2012
OPERATING PERFORMANCE FOR A SHARE OUTSTANDING THROUGHOUT EACH YEAR					
Net asset value per share, beginning of year	\$ 23.51	\$ 23.37	\$ 20.16	\$ 15.74	\$ 11.70
Net investment loss (1)	(0.19)	(0.25)	(0.23)	(0.22)	(0.09)(2)
Net realized and unrealized gain (loss)	(0.47)	2.48	5.71	5.94	5.54
Total increase (decrease) from investment operations	(0.66)	2.23	5.48	5.72	5.45
Distributions to shareholders from:					
Net realized capital gains	(2.85)	(2.09)	(1.70)	(1.30)	(1.49)
Total distributions	(2.85)	(2.09)	(1.70)	(1.30)	(1.49)
Increase resulting from shares repurchased					0.08
Change due to rights offering			(0.57)(3)		
Net asset value per share, end of year	\$ 20.00	\$ 23.51	\$ 23.37	\$ 20.16	\$ 15.74
Per share market value, end of year	\$ 18.73	\$ 22.51	\$ 22.10	\$ 19.25	\$ 15.39
Total investment return at market value	(4.66%)	9.92%	24.20%	34.96%	64.66%
Total investment return at net asset value	(2.52%)	8.56%	25.40%	38.19%	50.56%
RATIOS					
Expenses to average net assets	1.27%	1.21%	1.34%	1.47%	1.72%
Expenses to average net assets with waiver		1.17%	1.32%		
Net investment loss to average net assets	(0.92%)	(0.91%)	(1.07%)	(1.26%)	(0.64%)(2)
SUPPLEMENTAL DATA					
Net assets at end of year (in millions)	\$ 415	\$ 463	\$ 444	\$ 302	\$ 227
Portfolio turnover rate	30.99%	45.94%	30.62%	42.23%	77.70%

(1) Computed using average shares outstanding.

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(2) Includes special dividends from three issuers in the aggregate amount of \$0.13 per share. Excluding the special dividends, the ratio of net investment loss to average net assets would have been (1.58%).

(3) See Note 1. The rights offering shares were issued at a subscription price of \$19.750 which was less than the Fund's net asset value of \$22.78 on June 27, 2014 thus creating a dilution effect on the net asset value per share.

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

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TEKLA LIFE SCIENCES INVESTORS
NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2016

(1) Organization and Significant Accounting Policies

Tekla Life Sciences Investors (the Fund) is a Massachusetts business trust formed on February 20, 1992, and registered under the Investment Company Act of 1940 as a non-diversified closed-end management investment company. The Fund commenced operations on May 8, 1992. The Fund's investment objective is long-term capital appreciation through investment in U.S. and foreign companies in the life sciences industry (including biotechnology, pharmaceutical, diagnostics, managed healthcare and medical equipment, hospitals, healthcare information technology and services, devices and supplies), agriculture and environmental management. The Fund invests primarily in securities of public and private companies that are believed by the Fund's Investment Adviser, Tekla Capital Management LLC (the Adviser), to have significant potential for above-average growth. The Fund may invest up to 20% of its net assets in securities of foreign issuers, expected to be located primarily in Western Europe, Canada and Japan, and securities of U.S. issuers that are traded primarily in foreign markets.

The preparation of these financial statements requires the use of certain estimates by management in determining the Fund's assets, liabilities, revenues and expenses. Actual results could differ from these estimates and such differences could be material. The following is a summary of significant accounting policies followed by the Fund, which are in conformity with accounting principles generally accepted in the United States of America ("GAAP"). The Fund is an investment company and follows accounting and reporting guidance in the Financial Accounting Standards Board Accounting Standards Codification 946. Events or transactions occurring after September 30, 2016, through the date that the financial statements were issued, have been evaluated in the preparation of these financial statements.

Change of Sub-classification

On June 14, 2016, shareholders of the Fund approved the change of the Fund's sub-classification from diversified to non-diversified (see "Annual Meeting Report" below). This change in sub-classification means that the Fund is no longer limited by the Investment Company Act of 1940 in the proportion of its assets that may be invested in the obligations of a single issuer or the percentage of an issuer's voting securities it may acquire. As a result, the Fund may hold a smaller number of issuers than if it remained diversified. Investing in a non-diversified fund could involve more risk than investing in a fund that holds a broader range of securities because the non-diversified fund's net asset value may be more vulnerable to changes in the market value of a single issuer or group of issuers and may be relatively more susceptible to adverse effects from any single corporate, industry, economic, market, political or regulatory occurrence.

Investment Valuation

Shares of publicly traded companies listed on national securities exchanges or trading in the over-the-counter market are typically valued at the last sale price, as of the close of trading, generally 4 p.m., Eastern time. The Board of Trustees of the Fund (the "Trustees") has established and approved fair valuation policies and procedures with respect to securities for which quoted prices may not be available or which do not reflect fair value. Convertible bonds, corporate and government bonds are valued using a third-party pricing service. Convertible bonds are valued using this pricing service only on days when there is no sale reported. Restricted securities of companies that are publicly traded are typically valued based on the closing market quote on the valuation date adjusted for the impact of the restriction as determined in good faith by the Adviser also using fair valuation policies and procedures approved by

the Trustees described below. Non-exchange traded warrants of publicly traded companies are generally valued using the Black-Scholes model, which incorporates both observable and

TEKLA LIFE SCIENCES INVESTORS

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2016

(continued)

unobservable inputs. Short-term investments with a maturity of 60 days or less are generally valued at amortized cost, which approximates fair value.

Convertible preferred shares, warrants or convertible note interests in private companies, milestone interests, and other restricted securities, as well as shares of publicly traded companies for which market quotations are not readily available, such as stocks for which trading has been halted or for which there are no current day sales, or which do not reflect fair value, are typically valued in good faith, based upon the recommendations made by the Adviser pursuant to fair valuation policies and procedures approved by the Trustees.

The Adviser has a Valuation Sub-Committee comprised of senior management which reports to the Valuation Committee of the Board at least quarterly. Each fair value determination is based on a consideration of relevant factors, including both observable and unobservable inputs. Observable and unobservable inputs the Adviser considers may include (i) the existence of any contractual restrictions on the disposition of securities; (ii) information obtained from the company, which may include an analysis of the company's financial statements, the company's products or intended markets or the company's technologies; (iii) the price of the same or similar security negotiated at arm's length in an issuer's completed subsequent round of financing; (iv) the price and extent of public trading in similar securities of the issuer or of comparable companies; or (v) a probability and time value adjusted analysis of contractual terms. Where available and appropriate, multiple valuation methodologies are applied to confirm fair value. Significant unobservable inputs identified by the Adviser are often used in the fair value determination. A significant change in any of these inputs may result in a significant change in the fair value measurement. Due to the uncertainty inherent in the valuation process, such estimates of fair value may differ significantly from the values that would have been used had a ready market for the investments existed, and differences could be material. Additionally, changes in the market environment and other events that may occur over the life of the investments may cause the gains or losses ultimately realized on these investments to be different from the valuations used at the date of these financial statements.

Options on Securities

An option contract is a contract in which the writer (seller) of the option grants the buyer of the option, upon payment of a premium, the right to purchase from (call option) or sell to (put option) the writer a designated instrument at a specified price within a specified period of time. Certain options, including options on indices, will require cash settlement by the Fund if the option is exercised. The Fund enters into option contracts in order to hedge against potential adverse price movements in the value of portfolio assets, as a temporary substitute for selling selected investments, to lock in the purchase price of a security or currency which it expects to purchase in the near future, as a temporary substitute for purchasing selected investments, or to enhance potential gain or to gain or hedge exposure to financial market risk.

The Fund's obligation under an exchange traded written option or investment in an exchange-traded purchased option is valued at the last sale price or in the absence of a sale, the mean between the closing bid and asked prices. Gain or loss is recognized when the option contract expires, is exercised or is closed.

If the Fund writes a covered call option, the Fund foregoes, in exchange for the premium, the opportunity to profit during the option period from an increase in the market value of the underlying security above the exercise price. If the Fund writes a put option it accepts the risk of a decline in the market value of the underlying security below the exercise price. Over-the-counter options

TEKLA LIFE SCIENCES INVESTORS**NOTES TO FINANCIAL STATEMENTS***SEPTEMBER 30, 2016*

(continued)

have the risk of the potential inability of counterparties to meet the terms of their contracts. The Fund's maximum exposure to purchased options is limited to the premium initially paid. In addition, certain risks may arise upon entering into option contracts including the risk that an illiquid secondary market will limit the Fund's ability to close out an option contract prior to the expiration date and that a change in the value of the option contract may not correlate exactly with changes in the value of the securities or currencies hedged.

All options on securities and securities indices written by the Fund are required to be covered. When the Fund writes a call option, this means that during the life of the option the Fund may own or have the contractual right to acquire the securities subject to the option or may maintain with the Fund's custodian in a segregated account appropriate liquid securities in an amount at least equal to the market value of the securities underlying the option. When the Fund writes a put option, this means that the Fund will maintain with the Fund's custodian in a segregated account appropriate liquid securities in an amount at least equal to the exercise price of the option.

Milestone Interests

The Fund holds financial instruments which reflect the current value of future milestone payments the Fund may receive as a result of contractual obligations from other parties. The value of such payments are adjusted to reflect the estimated risk based on the relative uncertainty of both the timing and the achievement of individual milestones. A risk to the Fund is that the milestones will not be achieved and no payment will be received by the Fund. The milestone interests were received as part of the proceeds from the sale of two private companies. Any payments received are treated as a reduction of the cost basis of the milestone interests with payments received in excess of the cost basis treated as a realized gain. The contractual obligations with respect to the Afferent Milestone Interest and TargeGen Milestone Interest provide for payments at various stages of the development of Afferent's and TargeGen's principal product candidate as of the date of the sale.

The following is a summary of the impact of the milestone interests on the financial statements as of and for the year ended September 30, 2016:

Statement of Assets and Liabilities, Milestone interests, at value	\$1,123,203
Statement of Assets and Liabilities, Net unrealized gain on investments and milestone interests	(\$2,962,363)
Statement of Operations, Change in unrealized appreciation (depreciation) on milestone interests	\$ 0

Other Assets

Other assets in the Statement of Assets and Liabilities consists of amounts due to the Fund at various times in the future in connection with the sale of investments in five private companies.

Investment Transactions and Income

Investment transactions are recorded on a trade date basis. Gains and losses from sales of investments are recorded using the "identified cost" method. Interest income is recorded on the accrual basis, adjusted for amortization of premiums and accretion of discounts. Dividend income is recorded on the ex-dividend date, less any foreign taxes withheld. Upon notification from issuers, some of the dividend income received may be redesignated as a reduction of cost of the related investment if it represents a return of capital.

The aggregate cost of purchases and proceeds from sales of investment securities (other than short-term investments) for the year ended September 30, 2016 totaled \$124,504,855 and \$165,328,503, respectively.

TEKLA LIFE SCIENCES INVESTORS
NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2016

(continued)

Repurchase Agreements

In managing short-term investments the Fund may from time to time enter into transactions in repurchase agreements. In a repurchase agreement, the Fund's custodian takes possession of the underlying collateral securities from the counterparty, the market value of which is at least equal to the principal, including accrued interest, of the repurchase transaction at all times. In the event of default or bankruptcy by the other party to the agreement, realization and/or retention of the collateral by the Fund may be delayed. The Fund may enter into repurchase transactions with any broker, dealer, registered clearing agency or bank. Repurchase agreement transactions are not counted for purposes of the limitations imposed on the Fund's investment in debt securities.

Distribution Policy

Pursuant to a Securities and Exchange Commission exemptive order, the Fund may make periodic distributions that include capital gains as frequently as 12 times in any one taxable year in respect of its common shares, and the Fund has implemented a managed distribution policy (the Policy) providing for quarterly distributions at a rate set by the Board of Trustees. Under the current Policy, the Fund intends to make quarterly distributions at a rate of 2% of the Fund's net assets to shareholders of record. The Fund intends to use net realized capital gains when making quarterly distributions, if available, but the Policy would result in a return of capital to shareholders if the amount of the distribution exceeds the Fund's net investment income and realized capital gains. If taxable income and net long-term realized gains exceed the amount required to be distributed under the Policy, the Fund will at a minimum make distributions necessary to comply with the requirements of the Internal Revenue Code. The Policy has been established by the Trustees and may be changed by them without shareholder approval. The Trustees regularly review the Policy and the frequency and rate of distribution considering the purpose and effect of the Policy, the financial market environment, and the Fund's income, capital gains and capital available to pay distributions. The Trustees initially adopted a distribution policy in May, 1999, and since then the Fund has made quarterly distributions at a rate of 2.00% of the Fund's net assets, except for the periods from August 4, 2009 to April 5, 2010 (during which distributions were suspended) and from April 5, 2010 to November 1, 2010 (during which the Fund made distributions at a rate of 1.25% of the Fund's net assets).

The Fund's policy is to declare quarterly distributions in stock. The distributions are automatically paid in newly-issued full shares of the Fund unless otherwise instructed by the shareholder. Fractional shares will generally be settled in cash, except for registered shareholders with book entry accounts of the Fund's transfer agent who will have whole and fractional shares added to their accounts. The Fund's transfer agent delivers an election card and instructions to each registered shareholder in connection with each distribution. The number of shares issued will be determined by dividing the dollar amount of the distribution by the lower of net asset value or market price on the pricing date. If a shareholder elects to receive a distribution in cash, rather than in shares, the shareholder's relative ownership in the Fund will be reduced. The shares reinvested will be valued at the lower of the net asset value or market price on the pricing date. Distributions in stock will not relieve shareholders of any federal, state or local income taxes that may be payable on such distributions. Additional distributions, if any, made to satisfy requirements of the Internal Revenue Code may be paid in stock, as described above, or in cash.

Share Repurchase Program

In March 2016, the Trustees approved the renewal of the repurchase program to allow the Fund to repurchase up to 12% of its outstanding shares in the open market for a one year

TEKLA LIFE SCIENCES INVESTORS**NOTES TO FINANCIAL STATEMENTS***SEPTEMBER 30, 2016*

(continued)

period beginning July 11, 2016. Prior to this renewal, in March 2015, the Trustees approved the renewal of the share repurchase program to allow the Fund to repurchase up to 12% of its outstanding shares for a one year period beginning July 11, 2015. The share repurchase program is intended to enhance shareholder value and potentially reduce the discount between the market price of the Fund's shares and the Fund's net asset value.

During the years ended September 30, 2016 and 2015, the Fund did not repurchase any shares through the repurchase program.

Federal Taxes

It is the Fund's policy to comply with the requirements of the Internal Revenue Code applicable to regulated investment companies and to distribute to its shareholders substantially all of its taxable income and its net realized capital gains, if any. Therefore, no Federal income or excise tax provision is required.

As of September 30, 2016, the Fund had no uncertain tax positions that would require financial statement recognition or disclosure. The Fund's federal tax returns are subject to examination by the Internal Revenue Service for a period of three years.

Distributions

The Fund records all distributions to shareholders on the ex-dividend date. Such distributions are determined in conformity with income tax regulations, which may differ from GAAP. These differences include temporary and permanent differences from losses on wash sale transactions, installment sale adjustments and ordinary loss netting to reduce short term capital gains. Reclassifications are made to the Fund's capital accounts to reflect income and gains available for distribution under income tax regulations. At September 30, 2016, the Fund reclassified \$2,610 from accumulated net realized gain on investment and \$1,064,152 from accumulated net investment loss to paid in capital, with a net impact of \$1,061,542, to adjust for current period book/tax differences.

The tax basis components of distributable earnings and the tax cost as of September 30, 2016 were as follows:

Cost of Investments for tax purposes	\$294,567,182
Gross tax unrealized appreciation	\$160,973,456
Gross tax unrealized depreciation	(\$ 48,172,573)
Net tax unrealized appreciation on investments	\$112,800,883
Undistributed long-term capital gains	\$ 3,590,190
Late year annual loss deferral	(\$ 2,726,499)

The Fund has designated the distributions for its taxable years ended September 30, 2016 and 2015 as follows:

	2016	2015
Ordinary income (includes short-term capital gain)	\$	\$21,544,714
Long-term capital gain	\$56,868,411	\$18,706,433

Commitments and Contingencies

Under the Fund's organizational documents, its officers and Trustees may be indemnified against certain liabilities and expenses arising out of the performance of their duties to the Fund. Additionally, in the normal course of business, the Fund enters into agreements with service providers that may contain indemnification clauses. The Fund's maximum exposure

TEKLA LIFE SCIENCES INVESTORS
NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2016

(continued)

under these agreements is unknown as this would involve future claims that may be made against the Fund that have not yet occurred. However, based on experience, the Fund expects the risk of loss to be remote.

Investor Support Services

The Fund has retained Destra Capital Investment LLC to provide investor support services in connection with the ongoing operation of the Fund. The Fund will pay Destra a fee in an annual amount equal to 0.05% of the average aggregate daily value of the Fund's Managed Assets from January 1, 2016 through the remaining term of the investor support services agreement.

(2) Investment Advisory and Other Affiliated Fees

The Fund has entered into an Investment Advisory Agreement (the Advisory Agreement) with the Adviser. Pursuant to the terms of the Advisory Agreement, the Fund pays the Adviser a monthly fee at the rate when annualized of (i) 2.50% of the average net assets for the month of its venture capital and other restricted securities up to 25% of net assets and (ii) for all other net assets, 0.98% of the average net assets up to \$250 million, 0.88% of the average net assets for the next \$250 million, 0.80% of the average net assets for the next \$500 million and 0.70% of the average net assets thereafter. The aggregate fee may not exceed a rate when annualized of 1.36%.

The Fund has entered into a Services Agreement (the Agreement) with the Adviser. Pursuant to the terms of the Agreement, the Fund reimburses the Adviser for certain services related to a portion of the payment of salary and provision of benefits to the Fund's Chief Compliance Officer. During the year ended September 30, 2016, these payments amounted to \$33,244 and are included in the other category in the Statement of Operations, together with insurance and other expenses incurred to unaffiliated entities. Expenses incurred pursuant to the Agreement as well as certain expenses paid for by the Adviser are allocated to the Fund in an equitable fashion as approved by the Trustees of the Fund.

The Fund pays compensation to Independent Trustees in the form of a retainer, attendance fees, and additional compensation to Board and Committee chairpersons. The Fund does not pay compensation directly to Trustees or officers of the Fund who are also officers of the Adviser.

(3) Other Transactions with Affiliates

An affiliate company is a company in which the Fund holds 5% or more of the voting securities. Transactions involving such companies during the year ended September 30, 2016 were as follows:

Issuer	Value on September 30, 2015	Purchases	Sales	Income	Value on September 30, 2016
ARCA Biopharma, Inc.	\$ 4,408,210				\$ 2,458,019
	13,102				13,102

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EBI Life Sciences, Inc.					
Euthymics Biosciences, Inc.	1,099,991				2,862
IlluminOss Medical, Inc.	*	\$ 1,050,000	\$ 99,000		**
Insightra Medical, Inc.	3,817,204	186,000		\$ 6,861	9,017
Neurovance, Inc.	3,964,574	561,304		15,068	2,960,342
Palyon Medical Corporation	3,469				0
Veniti, Inc.	2,989,998				6,174,813
	\$ 16,296,548	\$ 1,797,304	\$ 99,000	\$ 21,929	\$ 11,618,155

* Not an affiliated holding at September 30, 2015.

** Not an affiliated holding at September 30, 2016.

TEKLA LIFE SCIENCES INVESTORS
NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2016

(continued)

(4) Fair Value Measurements

The Fund uses a three-tier hierarchy to prioritize the assumptions, referred to as inputs, used in valuation techniques to measure fair value. The three-tier hierarchy of inputs is summarized in the three broad levels. Level 1 includes quoted prices in active markets for identical investments. Level 2 includes prices determined using other significant observable inputs (including quoted prices for similar investments, interest rates, credit risk, etc.). The Independent pricing vendor may value bank loans and debt securities at an evaluated bid price by employing methodologies that utilize actual market transactions, broker-supplied valuations, and/or other methodologies designed to identify the market value for such securities and such securities are considered Level 2 in the fair value hierarchy. Level 3 includes prices determined using significant unobservable inputs (including the Fund's own assumptions in determining the fair value of investments). These inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities.

The following is a summary of the inputs used as of September 30, 2016 to value the Fund's net assets. For the year ended September 30, 2016, there were no transfers between Levels 1 and 2. The Fund accounts for transfers between levels at the beginning of the period.

Assets at Value	Level 1	Level 2	Level 3	Total
Convertible Preferred and Warrants				
Biotechnology			\$ 1,845,795	\$ 1,845,795
Health Care				
Equipment & Supplies			11,980,833	11,980,833
Life Sciences				
Tools & Services			4,641,917	4,641,917
Pharmaceuticals			4,662,008	4,662,008
Convertible Notes and Non-Convertible Notes				
Biotechnology		\$ 1,878,525		1,878,525
Health Care				
Equipment & Supplies			0	0
Pharmaceuticals		9,333,750	561,304	9,895,054
Common Stocks and Warrants				
Biotechnology	\$284,644,628	1,326,344	126,674	286,097,646
Health Care				
Equipment & Supplies	10,315,330		214,150	10,529,480
Health Care				
Providers & Services			126,667	126,667
Life Sciences				
Tools & Services	16,579,248			16,579,248

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Pharmaceuticals	48,090,385		64,304	48,154,689
Short-term Investment		9,853,000		9,853,000
Milestone Interests				
Pharmaceuticals			1,123,203	1,123,203
Other Assets			374,787	374,787
Total	\$359,629,591	\$22,391,619	\$25,721,642	\$407,742,852

TEKLA LIFE SCIENCES INVESTORS

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2016

(continued)

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, 2015	Net realized gain (loss) and change in unrealized appreciation (depreciation)	Cost of purchases and conversions	Proceeds from sales and conversions	Net transfers in (out of) Level 3	Balance as of September 30, 2016
Convertible Preferred and Warrants						
Biotechnology	\$ 2,694,891	\$ 2,506,789	\$ 1,835,696	(\$ 4,009,794)	(\$ 1,111,787)	\$ 1,845,795
Health Care Equipment & Supplies	5,337,282	(2,326,146)	969,956	(2,000,259)		11,980,833
Life Sciences Tools & Services	2,913,225	1,728,692				4,641,917
Pharmaceuticals	6,164,562	(1,906,836)	4,282			4,662,008
Convertible and Non-Convertible Notes						
Health Care Equipment & Supplies	105	(186,145)	214,252	(28,212)		0
Pharmaceuticals		(1,654)	562,958			561,304
Common Stocks and Warrants						
Biotechnology	1,074,084	(1,728,958)	5,103	(555)	(1,200,000)	126,674
Health Care Equipment & Supplies	118,144	96,006				214,150
Health Care Providers & Services	314,074	(187,407)				126,667
Pharmaceuticals	2,386	41,280	638			64,304

Milestone Interests

Pharmaceuticals		1,123,203			1,123,203
Other					
Assets	255,284	313,084	(193,581)		374,787
Total	\$ 31,201,037	(\$ 1,964,379)	\$ 5,029,172	(\$ 6,232,401)	(\$ 2,311,787)

Net change in unrealized appreciation (depreciation) from investments still held as of September 30, 2016 (\$ 3,119,412)

During the year ended September 30, 2016, the amount of transfers between Level 3 and Level 2 was \$1,111,787. The investment was transferred from Level 3 to Level 2 due to the company's initial public offering and the value is now being supported by significant observable inputs.

During the year ended September 30, 2016, the amount of transfers between Level 3 and Level 1 was \$1,200,000. The investment was transferred from Level 3 to Level 1 due to the company's initial public offering and the value is now being supported by quoted prices.

TEKLA LIFE SCIENCES INVESTORS
NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2016

(continued)

The following is a quantitative disclosure about significant unobservable inputs used in the determination of the fair value of Level 3 assets.

	Fair Value at 9/30/2016	Valuation Technique	Unobservable Input	Range (Weighted Average)
Private Companies and Other Restricted Securities	\$404,985	Income approach, Black-Scholes	Discount for lack of marketability	20%-80% (58%)
	22,293,407	Adjusted capital asset pricing model	Discount rate Price to sales multiple	16.11 1.36%-8.66% (4.00)%-49.24% (26.36%)
	1,525,260	Market approach, recent transaction	(a)	N/A
	1,497,990	Probability adjusted value	Probability of events Timing of events	20 0.25-8 (2.84) years%-95% (35.14%)
	\$25,721,642			

(a) The valuation technique used as a basis to approximate fair value of these investments is based upon subsequent financing rounds. There is no quantitative information as these methods of measure are investment specific.

(5) Private Companies and Other Restricted Securities

The Fund may invest in private companies and other restricted securities if these securities would currently comprise 40% or less of net assets. The value of these securities represented 6% of the Fund's net assets at September 30, 2016.

At September 30, 2016, the Fund had a commitment of \$267,063 relating to additional investments in one private company.

The following table details the acquisition date, cost, carrying value per unit, and value of the Fund's private companies and other restricted securities at September 30, 2016. The Fund on its own does not have the right to demand that such securities be registered.

Security (#)	Acquisition Date	Cost	Carrying Value per Unit	Value
Afferent Milestone Interest	7/27/16	\$1,123,203	\$ 1,123,203	\$1,123,203
AlterG, Inc. Series C Cvt. Pfd	4/12/13	1,427,310	0.41	958,661
ARCA biopharma, Inc.				

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Warrants (expiration 6/11/22)	6/11/15	521	0.35	113,572
BioClin Therapeutics, Inc.				
Series A Cvt. Pfd	1/19/16	432,976	0.65	432,693
CardioKinetix, Inc.				
Series C Cvt. Pfd	5/22/08	1,653,315	0.00†	79
Series D Cvt. Pfd	12/10/10	545,940	2.55	363,279
Series E Cvt. Pfd	9/14/11	1,253,611	2.85	1,250,781
Series F Cvt. Pfd	12/04/14	1,377,889	3.42	1,377,355
Warrants (expiration 12/11/19)	12/10/09, 2/11/10	123	0.00	0
Warrants (expiration 6/03/20)	6/03/10, 9/01/10	123	0.00	0
Warrants (expiration 8/15/24)	8/15/14	126	0.00	0
Cercacor Laboratories, Inc.				
Common	3/31/98	0	1.65	214,007

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(continued)

Security (#)	Acquisition Date	Cost	Carrying Value per Unit	Value
Dynex Technologies, Inc.				
Series A Cvt. Pfd	1/03/12††	\$ 199,963	\$ 0.50	\$1,080,545
Warrants (expiration 4/01/19)	1/03/12††	60	0.00	0
Warrants (expiration 5/06/19)	1/03/12††	5	0.00	0
EBI Life Sciences, Inc.				
Series A Cvt. Pfd	12/29/11††	13,597	0.01	13,102
Eiger BioPharmaceuticals, Inc.				
Warrants (expiration 10/10/18)	10/10/13	161	0.00	0
Euthymics Biosciences, Inc.				
Series A Cvt. Pfd	7/14/10 - 5/21/12	2,635,558	0.00†	2,862
GenomeDx Biosciences, Inc.				
Series C Cvt. Pfd	2/22/16	1,401,014	1.50	1,400,000
IlluminOss Medical, Inc.				
Series AA Cvt. Pfd	1/21/16	955,833	1.00	951,000
Series Junior Preferred Cvt. Pfd	1/21/16	1,560,433	1.00	895,848
InnovaCare Health, Inc. Common	12/21/12††	643,527	0.86	126,667
Insightra Medical, Inc.				
Series C Cvt. Pfd	4/29/13 - 4/17/14	2,175,483	0.00†	5,126
Series C-2 Cvt. Pfd	5/25/15	1,648,199	0.00†	3,891
Cvt. Promissory Note	4/15/16	186,022	0.00†	0
Warrants (expiration 3/31/25)	7/24/15	85	0.00	0
Warrants (expiration 5/28/25)	5/28/15	469	0.00	0
Warrants (expiration 8/18/25)	8/8/15	341	0.00	0
Labcyte, Inc.				
Series C Cvt. Pfd	7/18/05	1,283,959	1.39	3,399,962
Series D Cvt. Pfd	12/21/12	68,607	1.51	161,410
Merus B.V.				
Common	8/17/15	1,175,002	15.08	1,326,344
Neurovance, Inc.				
Series A Cvt. Pfd	12/29/11††	204,205	3.31	178,568
Series A-1 Cvt. Pfd		2,498,176	3.31	2,220,470

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10/11/12 -
10/10/13, 3/17/15

Cvt. Promissory Note	7/12/16	187,295	100.00	187,101
Cvt. Promissory Note	2/23/16	93,692	100.00	93,551
Cvt. Promissory Note	3/14/16	281,124	100.00	280,652
Ovid Therapeutics, Inc. Series B Cvt. Pfd	8/7/15	1,499,997	9.39	