



EXECUTIVE CHAMBERS
HONOLULU

NEIL ABERCROMBIE
GOVERNOR

February 28, 2013

The Honorable Donna Mercado Kim, President
and Members of the Senate
Twenty-Seventh State Legislature
State Capitol, Room 409
Honolulu, Hawaii 96813

The Honorable Joseph Souki, Speaker
and Members of the House of Representatives
Twenty-Seventh State Legislature
State Capitol, Room 431
Honolulu, Hawaii 96813

Dear President Mercado Kim, Speaker Souki, and Members of the Legislature:

For your information and consideration, I am transmitting two (2) copies of the **Employees' Retirement System's report on Act 260** regarding its Hawaii venture capital investment program. In accordance with Section 93-16, Hawaii Revised Statutes, I am also informing you that the report may be viewed electronically at **<http://budget.hawaii.gov/budget/reports-to-the-legislature/>**.

Sincerely,

/s/

NEIL ABERCROMBIE
Governor, State of Hawaii

EMPLOYEES' RETIREMENT SYSTEM
OF THE STATE OF HAWAII
INNOVATION ECONOMY
2012

Act 260, Session Laws of Hawaii 2007, expresses the State's desire to increase economic growth through the development of the State's human resources, and employing these highly skilled resources to leverage increases in innovation across the State's economy.

The Board of Trustees of the Employees' Retirement System (ERS) acknowledges the intent of Act 260. Accordingly, the ERS, through its investment policies and an appropriate-sized funding allocation, has demonstrated a commitment to supporting an innovation economy while at the same time pursuing its objectives of achieving attractive venture capital investment return for the benefit of its beneficiaries.

The ERS Board approved the creation of a Hawaii Targeted Investment Program (HiTIP) Policies and Procedures on March 10, 2008, which included the adoption of funding criteria, as required by Act 260. A \$25 million program funding allocation and a comprehensive HiTIP operating structure were approved on November 10, 2008 and December 8, 2008, respectively. The purpose of the HiTIP is to invest venture capital in locally-based early-stage technology companies through a portfolio of local, regional, and national venture capital funds within an institutional investment program structure. Under a competitive search process, the ERS selected a discretionary investment manager to operate and manage the HiTIP, which is projected to have a program lifespan of up to 15 years.

The ERS is required to annually report any Hawaii venture capital investment. For calendar-year 2012, the ERS has supported Act 260 through the following investment measures:

- Since inception, the HiTIP has committed its full allocation of \$25.25 million into seven private equity funds and one Hawaii-based co-investment.
- The HiTIP program was designed to cover the major industry sectors of the Hawaiian entrepreneurial ecosystem. As a percent of committed capital, the HiTIP is allocated 28% to Information Technology, 27% to Clean Technologies, 24% to Life Sciences, 11% to Basic Industries and Services, and 10% to Dual-Use.
- As of October 2012, the seven HiTIP funds have looked at investment opportunities with 213 Hawaii-based technology companies. Of these companies, 51 are being tracked for a potential future investment.
- One of the underlying HiTIP funds has made an equity investment of \$28.5 million in a Hawaii-based renewable fuels power plant. This investment leverages HiTIP's \$4 million investment in the fund by over 7x of capital returned to Hawaii. Including the HiTIP's \$1.5 million co-invest commitment in the same Hawaii-based company, the HiTIP program has benefited from \$30 million of investment into Hawaii, 120% of the capital ERS committed to the program.

EMPLOYEES' RETIREMENT SYSTEM
OF THE STATE OF HAWAII
INNOVATION ECONOMY
2011

Act 260, Session Laws of Hawaii 2007, expresses the State's desire to increase economic growth through the development of the State's human resources, and employing these highly skilled resources to leverage increases in innovation across the State's economy.

The Board of Trustees of the Employees' Retirement System (ERS) acknowledges the intent of Act 260. Accordingly, the ERS, through its investment policies and an appropriate-sized funding allocation, has demonstrated a commitment to supporting an innovation economy while at the same time pursuing its objectives of achieving attractive venture capital investment returns for the benefit of its beneficiaries.

The Board of Trustees approved the creation of a Hawaii Targeted Investment Program (HiTIP) Policies and Procedures on March 10, 2008, which included the adoption of funding criteria, as required by Act 260. A \$25 million program funding allocation and a comprehensive HiTIP operating structure were approved on November 10, 2008 and December 8, 2008, respectively. The purpose of the HiTIP is to invest venture capital in locally-based early-stage technology companies through a portfolio of local, regional, and national venture capital funds within an institutional investment program structure. Under a competitive search process, the ERS selected a discretionary investment manager to operate and manage the HiTIP, which is projected to have a program lifespan of up to 15 years. The discretionary manager, Macquarie Funds Management (USA), Inc., has committed \$250,000 alongside ERS' allocation for a total fund investment of \$25.25 million.

The ERS is required to annually report any Hawaii venture capital investment. As of December 31, 2011, the ERS has supported Act 260 through the following investment measures:

- Since inception, the HiTIP has invested in six funds totaling \$21 million.
- A \$6 million commitment in MC Venture Partners V Fund through ERS's traditional private equity program. This fund has made an equity investment in a locally-based telecommunications company.
- An additional \$4.25 million of investments is contemplated across two investments in 2012. The first proposed investment is a co-investment in a Hawaii-based company alongside one of the six funds within the HiTIP portfolio. The second investment under consideration is an investment with a fund that has previously invested \$15 million into Hawaii-based companies.
- The HiTIP was an active participant in a local high technology conference held in Honolulu on October 4, 2011 that brought together a number of early-stage technology firms, investors, and local industry organizations. Every fund within the HiTIP portfolio was represented by at least one its managers at the conference.
- As of October 2011, the HiTIP funds have reviewed investment opportunities with 69 unique Hawaii-based technology companies. Of these companies, 24 are being tracked for a potential future investment. One fund has invested just under \$20 million into a Hawaii-based company.