



EXECUTIVE CHAMBERS

HONOLULU

NEIL ABERCROMBIE
GOVERNOR

February 5, 2014

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 M. 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, pursuant to the provisions of Act 260, I am transmitting a copy of the Employees' Retirement System (ERS) report on 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 via the ERS website at <http://ers.ehawaii.gov/wp-content/uploads/2014/01/Innovation-Economy-2013.pdf>.

Sincerely,

/s/

NEIL ABERCROMBIE
Governor, State of Hawaii

Enclosures

EMPLOYEES' RETIREMENT SYSTEM
OF THE STATE OF HAWAII
INNOVATION ECONOMY
2013

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 2013, the ERS has supported Act 260 through the following investment measures:

- Since inception, HiTIP has committed \$25.25 million into seven private equity funds with investments into 73 companies 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, 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 November, the seven HiTIP funds have looked at investment opportunities with 322 Hawaii-based companies. Of these companies, 78 are being tracked for a potential future investment.
- HiTIP Funds have invested into three companies operating in or that were started in Hawaii. Total direct investment by HiTIP funds into Hawaiian companies is \$31.2 million, 125% of HIERS' HiTIP commitment.
- The HiTIP portfolio had 3 companies IPO in 2013. Conatus Pharmaceuticals (CNAT) and Aratana Therapeutics (PETX) from MPM BioVentures V and Receptos (RCPT) from

Polaris Venture Partners VI. In total the HiTIP portfolio has experienced 4 IPOs since inception. The fourth is Versastem (VSTM) from MPM BioVentures V, which went public in 2012.

- As of September 30, 2013, the gross IRR of the HiTIP fund is 1.0%.