

JOSH GREEN, M.D.  
GOVERNOR



LUIS P. SALAVERIA  
DIRECTOR

SABRINA NASIR  
DEPUTY DIRECTOR

EMPLOYEES' RETIREMENT SYSTEM  
HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND  
OFFICE OF THE PUBLIC DEFENDER

**STATE OF HAWAII**  
**DEPARTMENT OF BUDGET AND FINANCE**  
P.O. BOX 150  
HONOLULU, HAWAII 96810-0150

ADMINISTRATIVE AND RESEARCH OFFICE  
BUDGET, PROGRAM PLANNING AND  
MANAGEMENT DIVISION  
FINANCIAL ADMINISTRATION DIVISION  
OFFICE OF FEDERAL AWARDS MANAGEMENT (OFAM)

December 19, 2022

The Honorable Ronald D. Kouchi  
President and Members  
of the Senate  
Thirty-Second State Legislature  
State Capitol, Room 409  
Honolulu, Hawaii 96813

The Honorable Scott K. Saiki  
Speaker and Members of the  
House of Representatives  
Thirty-Second State Legislature  
State Capitol, Room 431  
Honolulu, Hawaii 96813

Dear President Kouchi, Speaker Saiki and Members of the Legislature:

For your information and consideration, I am transmitting a copy of the Innovation Economy 2022 report, as required by Act 260, Session Laws of Hawaii 2007. In accordance with Section 93-16, Hawaii Revised Statutes, a copy of this report has been transmitted to the Legislative Reference Bureau and the report may be viewed electronically at <http://ers.ehawaii.gov/resources/reports-to-legislature>.

Sincerely,

/S/

LUIS P. SALAVERIA  
Director of Finance

Enclosure

c: Legislative Reference Bureau

ec: Governor's Office: [Gov.ReportsDistribution@hawaii.gov](mailto:Gov.ReportsDistribution@hawaii.gov)  
Lieutenant Governor's Office: [LtGov.ReportsDistribution@hawaii.gov](mailto:LtGov.ReportsDistribution@hawaii.gov)  
Legislative Auditor: [lao.auditors@hawaii.gov](mailto:lao.auditors@hawaii.gov)  
Department of Budget and Finance: [DBFLeg.DIR@hawaii.gov](mailto:DBFLeg.DIR@hawaii.gov)  
Hawaii's State Public Library System: [ohsdoc@librarieshawaii.org](mailto:ohsdoc@librarieshawaii.org)

EMPLOYEES' RETIREMENT SYSTEM  
OF THE STATE OF HAWAII

ACT 260, SESSION LAWS OF HAWAII 2007  
RELATING TO THE INNOVATION ECONOMY

HAWAII VENTURE CAPITAL INVESTMENT  
2022

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. A \$35 million program for HiTIP II was approved on September 12, 2016 and closed in the first quarter of 2017. A \$50 million program for HiTIP III was approved on November 12, 2019 and closed in December 2019. In May 2020, the allocation to HiTIP III was increased by \$25 million to a total of \$75 million. 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 per fund.

The ERS is required to annually report any Hawai'i venture capital investment. For calendar-year 2022, the ERS has supported Act 260 through the following investment measures:

- Since inception, \$117.0 million has been committed across three tranches. HiTIP I, at \$25.25 million of total capital, is fully committed to seven private equity funds and one co-investment. HiTIP II, at \$35.25 of total capital is fully committed to twelve private equity funds. HiTIP III, a \$75.25 million pool, began investing in late 2019 and has committed \$56.50 million to eleven private equity funds. Note, two underlying fund investments are split across HiTIP II & HiTIP III so the total number of unique private equity investments across all three HiTIP programs is twenty-nine.
- HiTIP seeks to invest in the major industry sectors of the Hawaiian entrepreneurial ecosystem. The sector exposure of HiTIP I, as a percent of remaining value as of September 30, 2022, is 51% Healthcare/Biotechnology/Biopharmaceuticals, 13% Consumer Products and Services, 8% Tech – Cloud/SaaS/Software and 28% Other. For HiTIP II the sector exposure, as a percent of remaining value as of September 30, 2022, is 55% Tech – Cloud/SaaS/Software, 21% Healthcare, 5% Business Products and Services, 4% Real Estate and 15% Other. For HiTIP III, the sector exposure, as a percent

of remaining value as of September 30, 2022, is 54% Tech – Cloud/SAAS/Software, 13% Financial Services, 9% Real Estate, 8% Healthcare and 16% Other.

- Since inception, HiTIP funds have looked at 2,129 investment opportunities with 1,207 Hawai'i based companies. Of these companies, 446 are currently being tracked for a potential future investment.
- HiTIP I funds have invested into six companies operating in or that were started in Hawai'i. Total direct investment by HiTIP I funds into Hawaiian companies is \$35.8 million, 142% of ERS's HiTIP I commitment. Including capital from co-investors, \$304 million has been invested into Hawaiian companies, 1,203% of ERS's HiTIP I commitment. HiTIP II funds, which in aggregate are still respectively in their investment periods, have invested into eight companies operating in or that were started in Hawai'i. Total direct investment by HiTIP II funds into Hawaiian companies is \$0.9 million, 2.7% of ERS' HiTIP II commitment. Including capital from co-investors, \$23.5 million, 66.6% of ERS' HiTIP II commitment. HiTIP III funds, which in aggregate are still early in their investment periods, have invested into three companies operating in or that were started in Hawai'i. While still early in its investment period, total direct investments by HiTIP III funds into Hawaiian companies is \$1.3 million, 1.7% of ERS' HiTIP III commitment. Including capital from co-investors, \$10.4 million, 13.8% of ERS' HiTIP III commitment.
- As of September 2022, the HiTIP I portfolio has distributed 103.3% of invested capital. A major source of the portfolio's liquidity has come from eighteen Initial Public Offerings (IPOs). Over this respective time period, HiTIP I has a gross Internal Rate of Return (IRR) of 7.7% with a Distributed to Paid-In Ratio (DPI) of 1.03x and a Total Value to Paid-In Ratio (TVPI) of 1.51x.
- As of September 2022, a number of the HiTIP II funds are still in the investment stage with only 11.6% of invested capital being distributed. Over this respective time period, HiTIP II has a gross Internal Rate of Return (IRR) of 26.8% with a Distributed to Paid-In Ratio (DPI) of 0.12x and a Total Value to Paid-in Ratio (TVPI) of 1.78x. Since inception a total of 258 investments have been made across these funds.
- As of September 2022, all HiTIP III funds are still in the active investment stage and have not yet made any distributions. Over this respective time period, the gross Internal Rate of Return (IRR) of the HiTIP III fund is 23.5% with a Distributed to Paid-In Ratio (DPI) of .00x and a Total Value to Paid-in Ratio (TVPI) of 1.22x. Since inception a total of 202 investments have been made across these funds.
- For the 12 months ended June 30, 2022, HiTIP Fund managers were able to accumulate 22 trips and 151 days to Hawai'i. In these sessions, approximately 32% of the reported activity related to instances of one-on-one mentorship for local companies and 54% of the reported activity related to conferences.
- Hawaiian HiTIP fund companies have spent \$8.2 million in Hawai'i and produced a gross output of \$12.5 million in goods and services in the state. These companies employed 666 people in total, 111 of which were based in Hawai'i. The companies have also paid \$3.8 million in wages and salaries to full-time employees and \$295 thousand to part-time employees in Hawai'i.