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**DEPARTMENT OF BUDGET AND FINANCE**  
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December 18, 2023

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 2023 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

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EMPLOYEES' RETIREMENT SYSTEM  
OF THE STATE OF HAWAII

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

HAWAII VENTURE CAPITAL INVESTMENT  
2023

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 Hawaii venture capital investment. For calendar-year 2023, the ERS has supported Act 260 through the following investment measures:

- Since inception, \$131.2 million has been committed across three tranches. HiTIP I, at \$25.25 million of total capital, is fully committed to eight investments, which include 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 \$70.7 million to fourteen 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 thirty-two.
- 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, 2023, is 48% Healthcare/Biotechnology/Biopharmaceuticals, 16% Consumer Products and Services, 11% Tech and Software, and 25% Other. For HiTIP II the sector exposure, as a percent of remaining value as of September 30, 2023, is 55% Tech and Software, 17% Healthcare Services, 5% Business Products and Services, 2% Real Estate, and 21% Other. For HiTIP III, the sector exposure, as a percent of remaining value as of September 30,

2023, is 60% Tech and Software, 10% Financial Services, 10% Healthcare Services, 6% Real Estate, and 14% Other.

- Since inception, HiTIP funds have looked at 2,659 investment opportunities with 1,503 Hawaii based companies. Of these companies, 408 are currently being tracked for a potential future investment.
- HiTIP I funds have invested into five companies operating in or that were started in Hawaii. 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, \$423 million has been invested into Hawaiian companies, 1,675% of ERS's HiTIP I commitment. HiTIP II funds have invested into nineteen companies operating in or that were started in Hawaii. Total direct investment by HiTIP II funds into Hawaiian companies is \$5.0 million, 14.3% of ERS' HiTIP II commitment. Including capital from co-investors, \$66.1 million, 187% of ERS' HiTIP II commitment. HiTIP III funds, which in aggregate are still in their investment periods, have invested into three companies operating in or that were started in Hawaii. While still early in its investment period, total direct investments by HiTIP III funds into Hawaiian companies is \$2.6 million, 3.5% of ERS' HiTIP III commitment. Including capital from co-investors, \$12.7 million, 16.9% of ERS' HiTIP III commitment. In total \$488.9 million has been invested into twenty-four unique local Hawaii companies, three of these companies are included in both HiTIP II & HiTIP III.
- As of September 2023, the HiTIP I portfolio has distributed 104.2% 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 6.6% with a Distributed to Paid-In Ratio (DPI) of 1.04x and a Total Value to Paid-In Ratio (TVPI) of 1.44x.
- As of September 2023, a number of the HiTIP II funds are still in the investment stage with only 11.1% of invested capital being distributed. Over this respective time period, HiTIP II has a gross Internal Rate of Return (IRR) of 15.2% with a Distributed to Paid-In Ratio (DPI) of 0.11x and a Total Value to Paid-In Ratio (TVPI) of 1.54x. Since inception a total of 361 investments have been made across these funds.
- As of September 2023, all HiTIP III funds are still in the active investment stage with only 0.7% of invested capital being distributed. Over this respective time period, the gross Internal Rate of Return (IRR) of the HiTIP III fund is 6.0% with a Distributed to Paid-In Ratio (DPI) of .01x and a Total Value to Paid-In Ratio (TVPI) of 1.09x. Since inception a total of 301 investments have been made across these funds.
- For the 12 months ended June 30, 2023, HiTIP Fund managers were able to accumulate 36 trips and 218 days to Hawaii. In these sessions, approximately 80% of the reported activity related to instances of one-on-one mentorship for local companies and 18% of the reported activity related to conferences.
- Hawaiian HiTIP fund companies have spent \$19.4 million in Hawaii and produced a gross output of \$23.0 million in goods and services in the state. These companies employed 278 people in total, 173 of which were based in Hawaii. The companies have also paid \$7.6 million in wages and salaries to full-time employees and \$1.2 million to part-time employees in Hawaii.