



EXECUTIVE CHAMBERS
HONOLULU

LINDA LINGLE
GOVERNOR

April 23, 2009

The Honorable Calvin Say, Speaker
House of Representative
Twenty-Fifth State Legislature
State Capitol, Room 431
Honolulu, Hawaii 96813

Dear Speaker Say:

Subject: Act 260, SLH 2007 – Relating to the Innovation Economy

Pursuant to the provisions in Act 260, I am attaching the Employees' Retirement System's report on its Hawaii venture capital investment program. You may also electronically view the report at <http://hawaii.gov/budget/LegReports/> pursuant to Act 231, Session Laws of Hawaii 2001.

If you have any questions, please contact Mr. Rodney June, ERS' Chief Investment Officer, at 586-1727.

Sincerely,

/s/

LINDA LINGLE

Enclosure



EXECUTIVE CHAMBERS
HONOLULU

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GOVERNOR

April 23, 2009

The Honorable Colleen Hanabusa, President
Senate
Twenty-Fifth State Legislature
State Capitol, Room 409
Honolulu, Hawaii 96813

Dear President Hanabusa:

Subject: Act 260, SLH 2007 – Relating to the Innovation Economy

Pursuant to the provisions in Act 260, I am attaching the Employees' Retirement System's report on its Hawaii venture capital investment program. You may also electronically view the report at <http://hawaii.gov/budget/LegReports/> pursuant to Act 231, Session Laws of Hawaii 2001.

If you have any questions, please contact Mr. Rodney June, ERS' Chief Investment Officer, at 586-1727.

Sincerely,

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EMPLOYEES' RETIREMENT SYSTEM
OF THE STATE OF HAWAII

HAWAII VENTURE CAPITAL INVESTMENT PROGRAM

Act 260, which became effective July 1, 2007, directed the Board of Trustees of the Employees' Retirement System to develop criteria to determine the amount of funds that may be prudently invested in Hawaii private placement investments.

In developing the criteria, the Board relied on several sources of information. One source was the non-partisan report titled *Venture Capital in Hawaii – An Assessment of Market Opportunities* prepared by the Hawaii Institute of Public Affairs (HIPA). This research report, released in January 2008, provided information on the state of private equity investments in Hawaii and addressed both supply side opportunities and demand side capital needs. Another source of information was a preliminary findings report (based on the content of the HIPA report) prepared by the ERS' general investment consultant, Pension Consulting Alliance.

Based on these two sources of information, the ERS developed investment policies and procedures and funding level criteria for this new investment program.

A Request for Information was subsequently issued and after reviewing responses and listening to presentations, the Board retained GKM Newport Generation Capital Services, LLC (“GKM”), a Los Angeles-based private equity firm, to manage its Hawaii Targeted Investment Program (“HiTIP”). The Board also allocated \$25 million to GKM who will build and manage a portfolio of venture capital funds, each who have already funded (or will commit to funding) emerging growth business in traded sector industries, with specific emphasis on Hawaii.