



EXECUTIVE CHAMBERS

HONOLULU

December 23, 2010

NEIL ABERCROMBIE
GOVERNOR

The Honorable Calvin Say, Speaker
House of Representative
Twenty-Sixth 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 on this matter, please call Mr. Rodney June, ERS' Chief Investment Officer, at 586-1727.

Sincerely,

/s/

NEIL ABERCROMBIE

Enclosure



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HONOLULU

December 23, 2010

NEIL ABERCROMBIE
GOVERNOR

The Honorable Shan Tsutsui, President
Senate
Twenty-Sixth State Legislature
State Capitol, Room 409
Honolulu, Hawaii 96813

Dear President Tsutsui:

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.

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Enclosure

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

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. To date, the ERS has supported Act 260 through the following investment measures:

- 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.
- Since inception, the HiTIP has identified five funds totaling \$16 million in contemplated or actual commitments allocated as follows: \$6 million in Hawai'i based venture capital funds, \$5 million to regional domestic funds, and \$5 million to a national fund. HiTIP is actively considering additional fund commitments for 2010 and 2011.
- An additional \$9 million in commitments in two funds are contemplated in 2011 to complete the \$25 million in total capital allocated to the HiTIP.
- The HiTIP was an active participant in a local high technology conference held in Honolulu on March 11, 2010 that brought together a number of early-stage technology firms, investors, and local industry organizations.
- As of October 2010, the three regional and national HiTIP venture funds have reviewed investment opportunities with 39 Hawaii-based technology companies. Of these companies, eight are being tracked for a potential future investment.