



EXECUTIVE CHAMBERS  
HONOLULU

LINDA LINGLE  
GOVERNOR

December 30, 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

December 30, 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.

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**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 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' traditional private equity program. This fund has made an equity investment in a locally-based telecommunications company.
- The ERS Investment Office staff continues regular on-going discussions with the HiTIP Manager with respect to potential investment commitments in 2009 and 2010. An investment commitment to a venture capital fund with high technology business relationships is pending finalization by the end of 2009, subject to the completion of a comprehensive due diligence review. Other investment commitments in 2010 are in the initial discussion and evaluation stages with several venture capital funds that may take one or more positions in Hawaii high technology businesses.