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

STATE OF HAWAII
DEPARTMENT OF BUDGET AND FINANCE

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December 15, 2025

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

The Honorable Nadine K. Nakamura
Speaker and Members of the
House of Representatives
Thirty-Third State Legislature
State Capitol, Room 431
Honolulu, Hawaii 96813

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

For your information and consideration, I am transmitting a copy of the Innovation Economy 2025 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/

SETH S. COLBY, Ph.D.
Acting 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 2025

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 2025, the ERS has supported Act 260 through the following investment measures:

- Since inception, \$135.75 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 million of total capital is fully committed to twelve private equity funds. HiTIP III, a \$75.25 million pool, began investing in late 2019 and is fully committed into sixteen 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-four.

- 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, 2025, is 70% Healthcare/Biotechnology/Biopharmaceuticals, 11% Consumer Products and Services, 7% Tech and Software, and 12% Other. For HiTIP II the sector exposure, as a percent of remaining value as of September 30, 2025, is 60% Tech and Software, 11% Healthcare Services, 6% Business Products and Services, 3% Real Estate, and 20% Other. For HiTIP III, the sector exposure, as a percent of remaining value as of September 30, 2025, is 58% Tech and Software, 13% Healthcare Services, 7% Financial Services, 3% Real Estate, and 19% Other.
- Since inception, HiTIP funds have looked at 3,553 investment opportunities with 1,978 Hawaii based companies. Of these companies, 226 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, 14.1% of ERS' HiTIP II commitment. Including capital from co-investors, \$62.1 million, 176.3% of ERS' HiTIP II commitment. HiTIP III funds, which in aggregate are still in their investment periods, have invested into fifteen companies operating in or that were started in Hawaii. Total direct investments by HiTIP III funds into Hawaiian companies is \$6.5 million, 8.7% of ERS' HiTIP III commitment. Including capital from co-investors, \$17.9 million, 23.7% of ERS' HiTIP III commitment. In total \$494.8 million has been invested into thirty-six unique local Hawaii companies, three of these companies are included in both HiTIP II & HiTIP III.
- As of September 2025, the HiTIP I portfolio has distributed 128.1% 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 1.28x and a Total Value to Paid-In Ratio (TVPI) of 1.61x.
- As of September 2025, the majority of the HiTIP II funds are in the portfolio development stage, having distributed 19.5% of invested capital. Over this respective time period, HiTIP II has a gross Internal Rate of Return (IRR) of 9.2% with a Distributed to Paid-In Ratio (DPI) of 0.19x and a Total Value to Paid-In Ratio (TVPI) of 1.48x. Since inception a total of 396 investments have been made across these funds.
- As of September 2025, the majority of the HiTIP III funds are still in the active investment stage with only 1.3% of invested capital being distributed. Over this respective time period, HiTIP III has a gross Internal Rate of Return (IRR) of 4.9% with a Distributed to Paid-In Ratio (DPI) of .01x and a Total Value to Paid-In Ratio

(TVPI) of 1.12x. Since inception a total of 469 investments have been made across these funds.

- For the 12 months ended June 30, 2025, HiTIP Fund managers were able to accumulate 24 trips and 137 days to Hawaii. In these sessions, approximately 76.8% of the reported activity related to instances of one-on-one mentorship for local companies and 23.2% related to conferences, diligence and other activities.
- Hawaiian HiTIP fund companies have spent \$26.9 million in Hawaii and produced a gross output of \$43.5 million in goods and services in the state. These companies employed 707 people in total, 249 of which were based in Hawaii. The companies have also paid \$16.5 million in wages and salaries to full-time employees and \$961 thousand to part-time employees in Hawaii.