



## **MINUTES OF THE LUNCHEON MEETING OF THE BOARD OF DIRECTORS**

**Friday, 4 December 2015**

**#1 Capitol District Building, 250 South Hotel Street, Room 436, Honolulu, HI 96813**

### **MINUTES**

#### **PRESENT**

H. Brian Moore, Chair  
Ann Chung  
Jon Wallenstrom  
James Moonier  
Michael O'Malley  
Mary Alice Evans, Acting Director DBEDT  
Roderick Becker  
Fred Hemmings

#### **EXCUSED**

Keiki-Pua Dancil, Vice Chair

#### **STAFF**

Karl Fooks, President  
Sara Lin, Associate

#### **GUESTS**

Senator Glenn Wakai  
Karen Dang  
Dane Wicker

- **CALL TO ORDER:** Meeting called to order by the Chairman at 12:12 PM.
- **28 October 2015 MEETING MINUTES:** All Minutes were approved.
- **HI Growth Initiative Overview:**
  - Chair Moore welcomed Senator Wakai and other guests.
  - Chair Moore noted that HSDC has welcomed 4 new board members and this was an appropriate time to review HSDC's implementation of the HI Growth Initiative to get everyone briefed on HSDC's investment activities. Starting in 2011, HSDC was allocated a \$13 million Federal grant and then subsequently in 2012 and 2013 at total of \$8 million from the State Legislature that allowed it to restart its investment program.
  - The President presented an overview of the HI Growth Initiative and noted that HSDC started its recent investment program in 2012 and the results reflect 3 years of activity. Within that 3 year period a vibrant innovation ecosystem has been established represented by various entrepreneurial events around the state, numerous accelerator programs, Hawaii-based investment funds, and the active participation of business, government and community organizations. This program is in line with best practices and priorities pursued by other states around the country in their economic development programs.
  - At the conclusion of the presentation, Chair Moore said that given the importance of the innovation sector as an engine of economic growth, the initial success of the HI Growth Initiative and the fact that HSDC has expended or encumbered most of its resources, the Board recommends the Legislature consider another allocation of funding for the HI Growth Initiative. This will ensure the current initiatives don't wither away before they have had time to establish and that new efforts can be pursued to broaden and deepen the innovation ecosystem. He welcomed comments from the Board and guests.
  - Senator Wakai asked about the timeline for the investments to generate profits and when the private sector would be able to support an investment ecosystem on its own. The President

replied that around \$5mm of capital has been invested over the last 21/2 years in mostly early stage companies. It will take between 7-15 years for the successful companies to develop and mature to the point where they can return capital to HSDC. HSDC's goal is for the private sector to fully support investment programs in Hawaii, but there will always be a role for government to catalyze investment in new, developing sectors of the economy in the government's role as an economic development entity.

Senator Wakai mentioned that the state needs to allocate more money to economic development initiatives like the HI Growth Initiative, but the industry must engage with the Legislature to make their case and ask for state support. The state needs to look to leveraging its strengths and investing in sectors where Hawaii has a competitive advantage, like aerospace and aqua culture.

- James Moonier emphasized HSDC's role as a fund of funds investor and in that capacity, HSDC identifies fund managers for target sectors that can mobilize co-investment into a fund from private investors. HSDC does not invest directly in companies.
- Michael O'Malley asked if other states, other than California, have created access to equity capital, noting that he was aware of Texas and North Carolina's efforts. The President replied that several states, Pennsylvania and Ohio have had successful state equity programs. Also, the burden of the GET is detrimental to startups, and other businesses, as it taxes revenue before a company has generated a profit.
- Fred Hemmings commented that Hawaii does not have a good business climate for technology companies given the state's tax and regulatory regimes. HSDC's investment strategy should take into account this inhospitable environment.
- Ann Chung asked about how much of the money is going to Hawaii companies. The President replied that at least half of the money invested by accelerators are going to Hawaii entrepreneurs, all of UPSIDE investments have been in Hawaii companies, 5 out of 7 mbloom investments have been companies started in Hawaii and Startup Capital just closed on its first Hawaii company investment out of its 5 investments to date. Ann suggested that HSDC partner with the Chamber of Commerce of Hawaii to get its message communicated to Legislators.
- Jon Wallenstrom asked about the contribution of Federal and private sources to HSDC's investment program. The President replied that for each dollar of state money invested in a fund, \$7 dollars of Federal and private investment is leveraging the state contribution.
- Chair Moore pointed out that HSDC's investment is matched at least dollar for dollar in each of its funds. This is a great check and balance as private investors' capital is at risk and they will be watching the performance of the fund. HSDC's early commitment to these funds allows funds to bring in private investors as the fund will be able to reach critical mass to be effective. Any profits earned on successful investments will be recouped by HSDC and could be used to fund a new investment program.
- Dane Wicker asked about HSDC's equity participation in the companies receiving investments from the funds and whether there is any guarantee on the return of capital. The President replied that HSDC has an indirect stake in a company that is fixed at the time of investment. That money is at risk and not guaranteed. If the company performs well there will be an opportunity to recoup its investment with a profit.

Dane encouraged the accelerators and the startups that benefit from state support to show up at the Legislature and be visible in supporting legislation for this sector.

- **President Performance Evaluation:**
  - **Actions:** The Board deferred action on this item until the next meeting.
- **Member Chung left the meeting at 1:27 PM.**

- **HTDC Report:**
  - The President noted that HTDC hosted an Innovation Crawl for the State Legislature and site visits were made to MIC, Energy Excelerator, Blue Startups, and XLR8UH.
- **NELHA Report:**
  - There will be a NELHA board meeting later this month.
- **MEETING ADJOURNED:** Meeting adjourned at 1:30 PM.