



MINUTES OF THE MEETING OF THE BOARD OF DIRECTORS

Monday, 25 September 2017

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

MINUTES

PRESENT

Michael O'Malley, Chair
Mark Tsuda
James Moonier
Jon Wallenstrom
Craig Nakanishi
Luis Salaveria (departed 12:40pm)
Elijah Yip
William Mielcke

EXCUSED

Ann Chung
Marissa Sandblom
Keiki-Pua Dancil, Vice Chair

STAFF

Karl Fooks, President
Sara Lin, Associate
Jennifer Waihee-Polk, DAG

GUESTS

Len Higashi

- **CALL TO ORDER:** Meeting called to order by the Chair at 12:04 PM.
- **17 July 2017 MEETING MINUTES:** Minutes were approved.
- **Strategic Growth Initiative:**
 - The President presented an overview of the shift in strategy away from an ecosystem approach to a strategy that focuses on targeted industry initiatives.
 - Chair O'Malley said the shift to an industry focus is welcome, but that HSDC will have balance the number of industries we support against the strategic impact we can create.
 - Member Wallenstrom asked Director Salaveria if DBEDT is supportive of this new direction and whether there will be a willingness to provide funding for this effort. Director Salaveria said DBEDT is supportive of the new direction as the innovation space has gotten crowded and this new direction for HSDC reflects its statutory mandate to attract capital to promising sectors. To attract capital, HSDC needs to be nimble and this approach allows for that. The cooperation with NELHA will be helpful in competing for funding.
 - The President noted that NELHA and HSDC are jointly developing an aquaculture accelerator. NELHA is providing the physical resources and HSDC is looking at Federal grants to pay for operating costs. HSDC has some resources to put in place for a small investment fund for cohort companies.
 - Member Yip asked how the targeted industries were identified and whether aquaculture is a good sector for HSDC to support. The President replied that HSDC follows the lead from the state in targeting sectors. Diversifying the economy by supporting the tech industry has been a longstanding state economic development objective. HSDC targeted this sector initially with an accelerator and funding program. With the success of HSDC efforts, there are now others entering the space with more resources to deploy to build on those initial efforts. The

state expends tens of millions of dollars a year to support the film industry. HSDC put in place an accelerator, a funding program and broadband infrastructure to support the development and production needs of local content creators. Given the state's strong interest in a clean energy future, HSDC followed a similar approach with the Clean Tech sector with its partnership with Elemental Excelerator. Similarly with agriculture, another sector identified by the state, HSDC has focused on supporting entrepreneurs in the value added food segment of this industry on Maui, a county facing significant changes in its agriculture industry. Aquaculture fits in with this effort to support food sustainability in Hawaii, while at the same time taking advantage of global growth trends in the industry. HSDC's mission is to attract private capital to sectors the state has already identified as important. To execute on this mission HSDC tries to establish platforms for each sector that leverage Hawaii's strengths and is attractive to private investors. Working in sectors where the state has already committed significant resources makes it easier to attract investors.

- Member Tsuda noted that aquaculture represents a sector where new companies will be more likely to stay in Hawaii as compared to the tech sector where the temptation to move to the Mainland is high. The President noted that the ocean touches many countries and Hawaii does not necessarily have a competitive advantage. To impact the economy, any sector has to be globally relevant and needs to compete and collaborate globally.
- Member Yip asked what criteria are used to establish HSDC's strategic interest in these various sectors. The President said that criteria outlined are: 1) The industry must have global growth potential and be attractive to investors; 2) Hawaii must have an advantage that can be leveraged; 3) Hawaii should have residents with domain expertise and industry networks that can partner with HSDC; and 4) Hawaii should have a specialized facility that can serve as a center of gravity to attract entrepreneurs and investors in that sector. Aquaculture is the just one of three new sectors for HSDC to investigate. It just happened that NELHA is interested to grow its presence in this sector now and the national industry conference is taking place in Hawaii in 2020. As a result, there was some urgency to get the industry moving ahead of the 2020 national conference.
- Member Nakanishi said he agrees that this is not a departure from HSDC's previous efforts. HSDC's mission is to start things and then have the initiatives taken on by industry champions once the initiative is established.
- **ACTIONS:** The Board expressed its support and thanked the President for preparing the overview.
- **2017 Annual Report:**
 - The President presented the draft 2017 Annual Report that uses the series of articles written by Associate Sara Lin that highlight the many activities supported by HSDC in the development of Hawaii entrepreneurial ecosystem.
 - **DECISIONS:** The Board unanimously approved the 2017 Annual Report and authorized President to submit it to the Legislature.
- **EDA Grant**
 - The President reported that HSDC was awarded a \$275,000 grant under the Regional Innovation Strategies program of the US Dept. of Commerce, Economic Development Administration. He introduced Lauren Primiano of Reef Capital Ventures, the co-applicant under this grant. Reef will be the party responsible for executing the scope of work under the grant.
 - Lauren Primiano said that this was a competitive grant and HSDC/Reef were one of 42 awardees nationwide. The grant will provide additional operating funds that will allow Reef to 1) evaluate commercialization opportunities; 2) market these opportunities to corporate

- partners; 3) market the fund to investors with the target of raising a \$20 million fund; and 4) to use the larger fund to attract more commercialization startups.
 - These efforts will increase the value add of Reef to potential investees and partners by providing resources to prepare due diligence reports, for both entrepreneurs and potential corporate partners, to support the capital raising efforts of Hawaii companies commercializing research. The resources to market the fund and scale it to a \$20 million size will bring in new capital and allow the fund to target a broader group of potential investments.
 - Lauren Primiano requested an Executive Session to review developments in Reef's investment portfolio that include confidential business information of the portfolio companies.
 - **DECISIONS:** The Board unanimously approved entering into Executive Session at 12:54 PM.
 - **The following section will be redacted from the public version of the minutes**
 - *Reef Fund I:*
 - *DFC was restructured to provide Reef with a potential 2x return in return for restructuring the shareholder group and limiting any further Reef capital investment in the company.*
 - *Vantage Sports is looking to reboot with a new team based in Maui.*
 - *Ozolio is profitable, but has turned into a lifestyle company. The investment was restructured to a loan, which the company is repaying, and a residual equity stake in the company.*
 - *Area Metrics is doing well, but is looking to raise a small extension on the last round to set them up for a larger fund raise next year.*
 - *ReadyCart negotiated a sale of their IP to a new company in exchange for shares in the new company.*
 - *Reef Fund II:*
 - *Ibis Networks is the first investment by Reef II. It represents the poster child of the target sector for Reef: grant funded IP developed by Oceanit and incubated at the Elemental Excelsator. Ibis just landed a large pilot project at a California community college that will be a significant demonstration project for the company.*
 - **The preceding section will be redacted from the public version of the minutes.**
 - **DECISIONS:** The Board unanimously approved exiting Executive Session at 1:03 PM.
 - Lauren Primiano reported that Reef expanded their team by adding Paul Budak. Paul brings strong technical, investment and capital raising expertise.
- **UPSIDE Funds:**
 - The President reported that he is in discussions with the University of Hawaii Foundation to close down the two UPSIDE Funds. Since the fund's founding in 2011 UPSIDE II has only 2 portfolio companies. The fund is now in its sixth year. A typical investment window for a fund is 4-5 years followed 5-6 years to harvest the investment. Given that the existing portfolio companies will not require any follow-on funding and it is not prudent to invest in new companies this late in the fund's life, HSDC has requested the fund be restructured to limit the fees HSDC is paying and to free up its committed capital that has not been called.
 - Chair O'Malley asked if we are obligated to maintain our current commitments. The President replied yes and that is why it will require mutual agreement to restructure the fund.
 - **ACTIONS:** The Board expressed its support for the efforts to restructure the UPSIDE Funds.
- **Associate:**
 - Sara Lin will be leaving HSDC at the end of September. The Board and the President thanked Sara Lin for her contributions over the past couple of years in communicating HSDC's mission and accomplishments.
- **Portfolio Report:**

- The Maui Food X-celerator graduated their fourth cohort. HSDC provided the cash prizes for the pitch competition. Kings Hawaiian Bakery also provided prizes. First prize went to HI Spice, second prize went to Niu Food Co. and third prize went to Get Real Desserts.
- HSDC is sponsoring, with NELHA, the Hawaii Aquaculture Summit on November 16.
- **HTDC Report:**
 - HTDC has formally changed its name to Hawaii Technology Development Corporation.
 - HTDC closed on the purchase of 150 acres for the first responders tech park.
 - The RFP for the Excelerator Program has been released.
- **NELHA Report:**
 - A Japanese corporation acquired Big Island Abalone.
 - The internal connector road has been completed ahead of schedule and under budget. This will open 100 acres for development.
- **MEETING ADJOURNED:** Meeting adjourned at 1:25 PM.

Kurt Fada