



MINUTES OF THE MEETING OF THE BOARD OF DIRECTORS

Monday, 25 February 2019

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

Member	Present	Excused	Guests
Michael O'Malley, Chair	X		Chenoa Farnsworth
Keiki-Pua Dancil, Vice Chair	X		Maya Rogers
James Moonier		X	
Jon Wallenstrom	X		
Ann Chung		X	
Marissa Sandblom		X	
Mark Tsuda	X		
Craig Nakanishi	X		
vacant			
DBEDT: Michael McCartney	X		
NELHA: Greg Barbour	X		
HTDC: Elijah Yip	X		
Staff			
Karl Fooks, President	X		
Jennifer Waihee-Polk, DAG	X		

- **CALL TO ORDER:** Meeting called to order by the Chair at 12:07 PM.
- **7 February 2019 MEETING MINUTES:** The 7 February meeting was canceled due to lack of quorum. The President previously circulated a written summary of the presentations heard by the members present at the meeting. The Board unanimously approved the minutes from the 10 December 2018 meeting.
- **Financial Overview;**
 - The President presented an overview of the available resources for new investment commitments and the proposed impact if all investment commitments are approved. The result will be a small negative balance, that is expected to be offset by interest and investment earnings in 2019. As the commitments will not be 100% drawn in 2019, HSDC would have the resources to fund all commitments over their expected drawdown period, but HSDC would only be left with 1-2 years of funds to cover operating costs at current expense levels.
 - Member Yip asked about the status of the investment portfolio if the proposed legislative proposals repealing HSDC are passed. The President answered that the bills have provisions for HSDC to transfer all its assets to the new entity and that entity would step into

HSDC's contractual obligations. HSDC could also take the step of pre-funding all its contractual obligations ahead of the restructuring to avoid any potential problems.

- Member Wallenstrom asked if it was necessary to create the short-term deficit to fund all the commitments. The President replied that it was not necessary. The purpose of today's board decision making was to determine if and how much the Board was comfortable committing to each of the four investment opportunities up for discussion. Member Dancil pointed out that the short-term deficit is small enough that reducing committed amounts by a small amount on each proposal would avoid generating the deficit.
- Chair O'Malley suggested that as each commitment is reviewed and decided upon, the caveat will be, that in aggregate all commitments approved will not generate a short-term deficit and the President will have the flexibility to adjust the approved commitment amount downward to achieve this outcome.

- **Hatch Fund I & II:**

- The President reviewed the Investment Memo outlining the recommendation to invest \$1.9 million in Hatch Fund, a new fund established to run the accelerator program at NELHA and manage the associated investment fund to provide funding to the cohort companies. Hatch was selected by HSDC, NELHA and the UH by an RFI process. NELHA, UH and EDA are contributing funds to provide funding for the operating costs of the accelerator.
- The Hatch team presented their proposal to the members present at the February 7 meeting. Hatch Fund is targeting an €8 million fund and plans on attracting 10-12 companies a year to startup at NELHA's facility.
- Member O'Malley asked how the proposed commitment amount was determined. The President replied that the Fund is planning to raise over \$8 million. HSDC's participation level will create a requirement for the Fund to invest that amount in Hawaii companies. Hatch has requested a \$2 million commitment and is comfortable committing to that level to Hawaii opportunities.
- Member Barbour said that the NELHA team has been impressed with their interactions with the Hatch team and NELHA is excited that Hatch intends to make the NELHA base a centerpiece of their global activities.
- Member Yip asked if the proposed commitment is in addition to HSDC's EDA grant of \$275,000. The President answered that it is in addition. The grant and UH's cash match will be used to pay for fund marketing and promotion expenses and will offset HSDC's management fee obligations.
- **DECISIONS:** The Board unanimously approved authorizing the President execute the investment with Hatch Fund in an amount up to \$1.9 million as long as HSDC does not evidence negative balances in any of its source funding accounts after all other new commitments are factored in. The approval is contingent on final due diligence review by the President and approval of documents from legal counsel and the AG Office.

- **Infinite Percent Partners Sidecar Fund:**

- The President reviewed the Investment Memo outlining the recommendation to invest \$1.9 million in Infinite Percent Partners Sidecar Fund, a new fund established to in sponsored research efforts of the Queens Medical Systems and other wellness related companies in Hawaii.
- Queens is spinning out innovations developed from their research group into a new company and this fund is partnering with Queens to provide the investment capital. The sidecar fund structure is needed to avoid HSDC capital from inadvertently investing in cannabis growing and distribution business that IPP might target, as HSDC is using Federal money for its investment and cannabis is not legal at the Federal level.

- Member Wallenstrom asked for clarification on the purpose of the sidecar fund. The President replied that the sidecar fund would provide a mechanism to physically, financially, and operationally wall HSDC away from any non-conforming investments while maintaining the ability and intent to invest pro rata in the conforming IPP investment portfolio.
- Member Yip asked if this structure would prevent HSDC from investing in the most lucrative part of the investment portfolio and whether there were other areas we could allocate funds to that would not be as restrictive. The President answered that it is the reverse, HSDC's investment would be focused on the biomedical opportunities and would not have exposure to the more limited and competitive growing activities, although they generate the most excitement. Queens research activities represent a local competitive advantage we should commercialize to build an innovative life science sector. This has always been a target for HSDC and we have co-invested with Queens in the past.
- Member McCartney advised that HSDC should be careful that the Fund activities do not create banking problems that might impact HSDC.
- Chair O'Malley asked about the range of areas the Queens research covers that will be targets for commercialization. The President replied that the two immediate areas are new medications for skin diseases and medical cannabis formulations coming out of one of the few DEA sanctioned cannabis research facilities in the nation, located at Queens.
- Member Yip asked how this investment opportunity was introduced to HSDC. The President replied that he had been working with the Queens group for several years assisting them on their fundraising efforts. Independently, he met the fund manager Steve Koskie who was looking for investment opportunities in Hawaii. He introduced the two parties, and now a couple of years onward they have cemented a partnership, developed a sponsored research effort and now are looking to raise the investment capital to commercialize the research.
- Member McCartney asked about the remaining due diligence required on this investment. The President answered that it is primarily on the documentation issues as the sidecar fund structure has been agreed to in principle, but now must be documented. HSDC works with outside counsel and the AG to review the legal issues and approve the final documents. HSDC is usually the early investor in funds and has to develop the investment documents. HSDC's practice is to approve the commitment at the Board level subject to approvals on final due diligence from the President and legal review. If there are any material deviations from the approved commitment, the President brings the deal back to the Board for review.
- The Infinite Percent Partners team presented their proposal to the members present at the February 7 meeting. The fund is targeting a total capital raise of approximately \$12 million.
- **DECISIONS:** The Board unanimously approved authorizing the President execute the investment with Infinite Percent Partners, in a sidecar fund, in an amount up to \$1.9 million as long as HSDC does not show negative balances in any of its source funding accounts after all other new commitments are factored in. The approval is contingent on final due diligence review by the President and approval of documents from legal counsel and the AG Office.
- **Ecosystem Follow Investment in Blue Ventures, GTA Development Fund and Startup Capital Ventures:**
 - The President reviewed the Investment Memo outlining the recommendation to invest \$750,000 in Blue Ventures III, \$250,000 in GTA Development Fund and to defer an investment decision on Startup Capital Ventures Fund III pending any new state appropriations for HSDC.
 - The 3 funds are in HSDC's current fund of funds portfolio. On June, 13, 2018 each fund presented their investment proposal to the Board. The Board approved investment commitments to all three funds at that board meeting, but those commitments expired at the end of 2018.

- Blue Startups is raising their third fund to support their next several cohorts. ERS, Hawaii Angels and a Singapore fund have all expressed interest to commit to this new fund, but HSDC's participation is needed to have the fund achieve critical mass and to trigger all the matching commitments.
- Similarly, GTA Development Fund has received investment interest of over \$4 million for the next production out of the GVS Transmedia cohort, but needs a minimum match to trigger this amount. GVS needs HSDC to increase its participation by \$250,000 along with a similar increase in angel investor participation, to reach that threshold.
- **DECISIONS:** The Board unanimously approved authorizing the President execute an investment in Blue Ventures III in the amount of \$750,000. The approval is contingent on final due diligence review by the President and approval of documents from legal counsel and the AG Office. The Board unanimously approved authorizing the President execute an investment in GTA Development Fund in the amount of \$250,000. The approval is contingent on final due diligence review by the President and approval of documents from legal counsel and the AG Office.
- **Legislative Agenda:**
 - The President reviewed the various bills impacting HSDC in the current session.
 - The President noted that the UH testified in favor of the bill that repeals HSDC and HTDC merges their functions into the UH.
 - President noted that the bills merging HSDC into HTDC have been rewritten to ask DBEDT to conduct a study on the appropriate policies and organization to implement a successful TBED strategy. Chair O'Malley and Member McCartney assisted in discussions with the legislature.
- **Portfolio Report:**
 - The President reported that Startup Capital Ventures had a successful exit on a portfolio investment and HSDC will receive a distribution later in the month.
- **HTDC Report:**
- **NELHA Report:**
- **MEETING ADJOURNED:** Meeting adjourned at 1:00 PM.