

JAN 25 2023

A BILL FOR AN ACT

RELATING TO THE EMPLOYEES' RETIREMENT SYSTEM OF THE STATE OF HAWAII.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF HAWAII:

1 SECTION 1. The legislature finds that Act 260, Session
2 Laws of Hawaii 2007 (Act 260), encouraged the employees'
3 retirement system to invest in Hawaii venture capital by
4 requiring the employees' retirement system to report annually to
5 the legislature on any Hawaii venture capital investments and,
6 if the system's board of trustees determines it is not prudent
7 to invest in any Hawaii venture capital, to report the rationale
8 for the decision. Further, Act 260 required the employees'
9 retirement system to develop criteria to determine the amount of
10 funds that may be prudently invested in Hawaii private placement
11 investments.

12 The legislature further finds that the employees'
13 retirement system created the Hawaii targeted investment program
14 (HiTIP) to fulfill the mandate of Act 260. Criteria and
15 investment guidelines for the HiTIP were developed and approved
16 by the employees' retirement system board of trustees and



1 codified in section E of its investment policy, most recently
2 amended in June 2021. According to the policy:

3 (1) The purpose of the HiTIP is to produce competitive
4 risk-adjusted investment returns for the employees'
5 retirement system by making investments in emerging
6 growth and growth-oriented businesses in traded sector
7 industries, with specific emphasis on Hawaii. The
8 HiTIP's mission is not economic development, but
9 economic development may be one significant byproduct
10 of the investment program;

11 (2) HiTIP funds will be invested only through external
12 general partners or managers or co-investments; and

13 (3) General partners or managers will be fully
14 discretionary, meaning that, after funds are allocated
15 to the limited partnership or limited liability
16 company, they are totally responsible for the
17 investment of these funds within their respective
18 investment guidelines.

19 HiTIP is a distinct component of the employees' retirement
20 system private equity portfolio.



1 The legislature also finds that since the inception of the
2 program, \$117,000,000 has been committed, which included
3 reviewing more than two thousand investment opportunities with
4 over one thousand two hundred being Hawaii-based companies. The
5 employees' retirement system is following more than four hundred
6 of those companies for possible future investments.

7 The legislature further finds that the employees'
8 retirement system produced investment returns that have
9 outperformed standard benchmarks in the long run. This
10 performance has been instrumental in helping to reduce the
11 employees' retirement system's large \$14,000,000,000 unfunded
12 actuarial accrued liability.

13 The legislature seeks opportunities that provide for
14 Hawaii's economic growth that benefit its residents, protect the
15 environment, and minimize financial burdens on current and
16 future generations.

17 The purpose of this Act is to encourage investment
18 opportunities in industries that will sustain Hawaii's natural
19 environment or produce economic opportunities for its residents,
20 including renewable energy businesses and businesses that use



1 the investment capital to acquire the infrastructure and
2 services needed to become energy sustainable, by:

- 3 (1) Requiring the employees' retirement system to consider
4 opportunities in industries that will sustain Hawaii's
5 natural environment or produce economic opportunities
6 for its residents, including renewable energy
7 businesses and businesses that use the investment
8 capital to acquire the infrastructure and services
9 needed to become energy sustainable, in evaluating
10 venture capital investments; provided that if the
11 board determines that it is not prudent to invest in
12 any Hawaii venture capital meeting this description,
13 the board shall report the rationale for the decision
14 in its annual report to the legislature; and
- 15 (2) Appropriating funds for the Hawaii targeted investment
16 program.

17 SECTION 2. Section 88-119, Hawaii Revised Statutes, is
18 amended to read as follows:

19 **"§88-119 Investments.** Investments may be made in:



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- 1 (1) Real estate loans and mortgages. Obligations (as
2 defined in section 431:6-101) of any of the following
3 classes:
- 4 (A) Obligations secured by mortgages of nonprofit
5 corporations desiring to build multirental units
6 (ten units or more) subject to control of the
7 government for occupancy by families displaced as
8 a result of government action;
- 9 (B) Obligations secured by mortgages insured by the
10 Federal Housing Administration;
- 11 (C) Obligations for the repayment of home loans made
12 under the Servicemen's Readjustment Act of 1944
13 or under Title II of the National Housing Act;
- 14 (D) Other obligations secured by first mortgages on
15 unencumbered improved real estate owned in fee
16 simple; provided that the amount of the
17 obligation at the time investment is made therein
18 shall not exceed eighty per cent of the value of
19 the real estate and improvements mortgaged to
20 secure it, and except that the amount of the
21 obligation at the time investment is made therein



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1 may exceed eighty per cent but no more than
2 ninety per cent of the value of the real estate
3 and improvements mortgaged to secure it; provided
4 further that the obligation is insured or
5 guaranteed against default or loss under a
6 mortgage insurance policy issued by a casualty
7 insurance company licensed to do business in the
8 State. The coverage provided by the insurer
9 shall be sufficient to reduce the system's
10 exposure to not more than eighty per cent of the
11 value of the real estate and improvements
12 mortgaged to secure it. The insurance coverage
13 shall remain in force until the principal amount
14 of the obligation is reduced to eighty per cent
15 of the market value of the real estate and
16 improvements mortgaged to secure it, at which
17 time the coverage shall be subject to
18 cancellation solely at the option of the board.
19 Real estate shall not be deemed to be encumbered
20 within the meaning of this subparagraph by reason
21 of the existence of any of the restrictions,



1 charges, or claims described in section 431:6-
2 308;

3 (E) Other obligations secured by first mortgages of
4 leasehold interests in improved real estate;
5 provided that:

6 (i) Each leasehold interest at the time shall
7 have a current term extending at least two
8 years beyond the stated maturity of the
9 obligation it secures; and

10 (ii) The amount of the obligation at the time
11 investment is made therein shall not exceed
12 eighty per cent of the value of the
13 respective leasehold interest and
14 improvements, and except that the amount of
15 the obligation at the time investment is
16 made therein may exceed eighty per cent but
17 no more than ninety per cent of the value of
18 the leasehold interest and improvements
19 mortgaged to secure it;

20 provided further that the obligation is insured
21 or guaranteed against default or loss under a



1 mortgage insurance policy issued by a casualty
2 insurance company licensed to do business in the
3 State. The coverage provided by the insurer
4 shall be sufficient to reduce the system's
5 exposure to not more than eighty per cent of the
6 value of the leasehold interest and improvements
7 mortgaged to secure it. The insurance coverage
8 shall remain in force until the principal amount
9 of the obligation is reduced to eighty per cent
10 of the market value of the leasehold interest and
11 improvements mortgaged to secure it, at which
12 time the coverage shall be subject to
13 cancellation solely at the option of the board;

14 (F) Obligations for the repayment of home loans
15 guaranteed by the department of Hawaiian home
16 lands pursuant to section 214(b) of the Hawaiian
17 Homes Commission Act, 1920; and

18 (G) Obligations secured by second mortgages on
19 improved real estate for which the mortgagor
20 procures a second mortgage on the improved real
21 estate for the purpose of acquiring the



1 leaseholder's fee simple interest in the improved
2 real estate; provided that any prior mortgage
3 shall not contain provisions that might
4 jeopardize the security position of the
5 retirement system or the borrower's ability to
6 repay the mortgage loan.

7 The board may retain or dispose of the real estate,
8 including leasehold interests therein, as it may
9 acquire by foreclosure of mortgages or in enforcement
10 of security, or as may be conveyed to it in
11 satisfaction of debts previously contracted in the
12 same manner as other investments in interest in real
13 property authorized by this section;

14 (2) Government obligations, etc. Obligations of any of
15 the following classes:

16 (A) Obligations issued or guaranteed as to principal
17 and interest by the United States or by any state
18 thereof or by any municipal or political
19 subdivision or school district of any of the
20 foregoing; provided that principal of and
21 interest on the obligations are payable in



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1 currency of the United States; or sovereign debt
2 instruments issued by agencies of, or guaranteed
3 by foreign governments;

4 (B) Revenue bonds, whether or not permitted by any
5 other provision hereof, of the State or any
6 municipal or political subdivision thereof,
7 including the board of water supply of the city
8 and county of Honolulu, and street or improvement
9 district bonds of any district or project in the
10 State; and

11 (C) Obligations issued or guaranteed by any federal
12 home loan bank, including consolidated federal
13 home loan bank obligations, the Home Owner's Loan
14 Corporation, the Federal National Mortgage
15 Association, or the Small Business
16 Administration;

17 (3) Corporate obligations. Below investment grade or
18 nonrated debt instruments, foreign or domestic, in
19 accordance with investment guidelines adopted by the
20 board;



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- 1 (4) Preferred and common stocks. Shares of preferred or
2 common stock of any corporation created or existing
3 under the laws of the United States or of any state or
4 district thereof or of any country;
- 5 (5) Obligations eligible by law for purchase in the open
6 market by federal reserve banks;
- 7 (6) Obligations issued or guaranteed by the International
8 Bank for Reconstruction and Development, the Inter-
9 American Development Bank, the Asian Development Bank,
10 or the African Development Bank;
- 11 (7) Obligations secured by collateral consisting of any of
12 the securities or stock listed above and worth at the
13 time the investment is made at least fifteen per cent
14 more than the amount of the respective obligations;
- 15 (8) Insurance company obligations. Contracts and
16 agreements supplemental thereto providing for
17 participation in one or more accounts of a life
18 insurance company authorized to do business in Hawaii,
19 including its separate accounts, and whether the
20 investments allocated thereto are comprised of stocks



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1 or other securities or of real or personal property or
2 interests therein;

3 (9) Interests in real property. Interests in improved or
4 productive real property in which, in the informed
5 opinion of the board, it is prudent to invest funds of
6 the system. For purposes of this paragraph, "real
7 property" includes any property treated as real
8 property either by local law or for federal income tax
9 purposes. Investments in improved or productive real
10 property may be made directly or through pooled funds,
11 including common or collective trust funds of banks
12 and trust companies, group or unit trusts, limited
13 partnerships, limited liability companies, investment
14 trusts, title-holding corporations recognized under
15 section 501(c) of the Internal Revenue Code of 1986,
16 as amended, similar entities that would protect the
17 system's interest, and other pooled funds invested on
18 behalf of the system by investment managers retained
19 by the system;

20 (10) Other securities and futures contracts. Securities
21 and futures contracts in which in the informed opinion



1 of the board, it is prudent to invest funds of the
2 system, including currency, interest rate, bond, and
3 stock index futures contracts and options on the
4 contracts to hedge against anticipated changes in
5 currencies, interest rates, and bond and stock prices
6 that might otherwise have an adverse effect upon the
7 value of the system's securities portfolios; covered
8 put and call options on securities; and stock; whether
9 or not the securities, stock, futures contracts, or
10 options on futures are expressly authorized by or
11 qualify under the foregoing paragraphs, and
12 notwithstanding any limitation of any of the foregoing
13 paragraphs (including paragraph (4)); and
14 (11) Private placements. Investments in institutional
15 blind pool limited partnerships, limited liability
16 companies, or direct investments that make private
17 debt and equity investments in privately held
18 companies, including but not limited to investments in
19 Hawaii high technology businesses or venture capital
20 investments that, in the informed opinion of the
21 board, are appropriate to invest funds of the system.



1 In evaluating venture capital investments, the board
2 shall consider, among other things, the impact an
3 investment may have on job creation in Hawaii and on
4 the state economy[+] and opportunities in industries
5 that will sustain Hawaii's natural environment or
6 produce economic opportunities for its residents,
7 including renewable energy businesses and businesses
8 that use the investment capital to acquire the
9 infrastructure and services needed to become energy
10 sustainable. The board shall report annually to the
11 legislature on any Hawaii venture capital investments
12 it has made; provided that if the board determines it
13 is not prudent to invest in any Hawaii venture capital
14 investments or in industries that will sustain
15 Hawaii's natural environment or produce economic
16 opportunities for its residents, including renewable
17 energy businesses and businesses that use the
18 investment capital to acquire the infrastructure and
19 services needed to become energy sustainable, the
20 board shall report the rationale for the decision.
21 The board, by January 1, 2008, shall develop criteria



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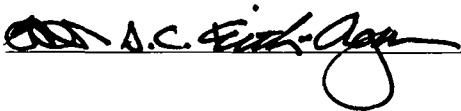
1 to determine the amount of funds that may be prudently
2 invested in Hawaii private placement investments."

3 SECTION 3. There is appropriated out of the general
4 revenues of the State of Hawaii the sum of \$ or so
5 much thereof as may be necessary for fiscal year 2023-2024 for
6 the Hawaii targeted investment program; provided that until the
7 employees' retirement system performs its due diligence in
8 accordance with section E of its investment policy and commits
9 and distributes these funds to the investment opportunity, the
10 employees' retirement system shall treat this appropriation as
11 an advance payment credit of state contributions in accordance
12 with section 88-126.5, Hawaii Revised Statutes.

13 The sum appropriated shall be expended by the employees'
14 retirement system for the purposes of this Act.

15 SECTION 4. This Act shall take effect on July 1, 2023.

16

INTRODUCED BY:  _____



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Report Title:

Employees' Retirement System; HiTIP; Investments; Report;
Appropriation

Description:

Requires the employees' retirement system, in evaluating venture capital investments, to consider opportunities in industries that will sustain Hawaii's natural environment or produce economic opportunities for its residents, including renewable energy businesses and businesses that use the investment capital to acquire the infrastructure and services needed to become energy sustainable. If the employees' retirement system board of trustees determines that it is not prudent to invest in any Hawaii venture capital meeting this description, requires the board to report the rationale for the decision in its annual report to the legislature. Appropriates funds to the Hawaii targeted investment program.

The summary description of legislation appearing on this page is for informational purposes only and is not legislation or evidence of legislative intent.

