



speech

Speech by Bill Richardson before the University Connection's Private Equity Capital Conference and Hawaii Society of Corporate Planners.

With the convening of the 2002 Legislature, our elected officials will once again try to legislate the diversification of the Hawaii economy, which we all know is dangerously dependent on the one engine of tourism.

But government can't do the whole job.

At least one promising new economic segment – knowledge-based businesses – will need the fuel and fire of private investment and private enterprise. Knowledge-based businesses ranging from communications and software development to biotechnology and aquaculture can diversify our economy with the clean development we all want.

Knowledge-based industry can never replace the importance of tourism but it can help counter the business cycles, the feast and famines of the visitor industry, and soften the overall hardship on the economy.

I believe that it will take only a few companies, only a few successful start-up stories and a movement towards a new knowledge-based segment of the economy will build, and gain momentum as people talk and invest even more.

To bring knowledge-based industry to Hawaii we need private action and private equity investing from individuals and organizations that could benefit from diversifying their portfolios just as the economy could benefit from diversification.

To many, private equity investments are seen as risky and volatile. But the record shows that private equity has averaged returns of 20 percent over the last 15 years. That is better than either the Standard and Poors 500 of 17 percent or bonds of 8 percent.

For the right kind of investor, a 10 to 20 percent allocation to private equity can enhance overall portfolio return. Of course, such investments are relatively illiquid so to be a player you need patience and a long-time horizon. But the record shows that investors in private equity have benefited from a higher rate of return with far less volatility than investment portfolios solely dependent on publicly-traded stocks.

Major endowment funds from Yale and Harvard to Stanford and the University of Texas have grown from private equity investment.

Take the example of Yale, where private equity investments constitute about one-third of its endowment. With such a large proportion invested in private equity, the Yale endowment of \$10.7 billion grew a remarkable 9.2 percent in the year ending June 30, 2001. Yale grew while other endowments shrank. Over the past 10 years, in part due to that one-third stake in private equity, the annual return on Yale's endowment has averaged an enviable 18.3 percent.

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So why knowledge-based industry? Because Hawaii already has established unfair advantages waiting to be tapped.

In communications and software, we have an untried advantage in the University of Hawaii with the Hawaii Center for Advanced Communications as well as the departments of Electrical Engineering and Computer Science. Hawaii is also the ideal place for American companies to adapt software for the Asia market. It's an easy geographic stepping stone for companies who are not quite ready to set up operations in Asia.

In biotechnology, we have more than cloned mice. Hawaii is the only state with a tropical disease research capability that could take a significant role in the new national war against bio-terrorism. We have research capabilities such as the UH College of Tropical Research, Cancer Research center and of course the Medical School.

In aquaculture, Hawaii is the optimum spot in the world to grow algae: We have 340 days of sun shining over a geographically isolated

area with clean, cold seawater. And the UH Marine Bioengineering Center already owns the largest "library" of marine organisms in the world.

I see private equity investing in knowledge-based industry as a boost at the micro level to individual investors and organizations at the same time that it is fuel at the macro level for our economy. It is a way to create jobs, cushion the economy from the harsh vicissitudes of the visitor industry, reverse the brain drain from our shores and offer our children new opportunities.

It only needs to start with a few individuals ready to risk the investment to fuel a few success stories, and I believe it will take our economy in newer and stronger directions, bringing Hawaii into the 21st century.

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