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The Liist, January 2025: Glimmers of hope for impact fund managers shine through the fundraising fog

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Despite a challenging fundraising environment – Leapfrog's Andy Kuper called it "one of the most challenging fundraising cycles for private equity this century" – impact fund managers see reason for optimism in the year ahead. *Among the promising signals:* the hopeful return of M&A activity fueling exits and freeing up capital to invest in new funds. *Also:* "overwhelming" investor interest in backing *new* private fund managers in particular.

"The fundraising environment has been drier than expected across the board for many funds, however our view is that it has begun to improve and this will continue in the first quarter," says Bryony Parker of Savia Ventures, a first-time fund manager investing in early stage climate tech in Latin America.

Savia Ventures was one of 67 funds – and one of 29 first time fund managers – featured on *ImpactAlpha's* Liist of actively raising impact funds last year. To kick off the new year, we mapped the trends of funds features on last year's Liist to get a sense of what lies ahead.

Emerging managers

Mega funds grab the headlines, but some of the most impactful work is being done by smaller, and often first-time or diverse-led, funds.

The Liist, which we curate via reporting and solicitations, offers a unique snapshot of today's opportunities in impact investing. Most of the funds coming across *ImpactAlpha's* desk are not mega-funds; they're raising $100 million or less. The median fund size on the Liist last year was $50 million. Just five of the funds on last year's Liist are targeting more than $500 million (two are led by first-time fund managers).

That tracks with the broader impact investing industry. Of the roughly $1.6 trillion today invested for impact across nearly 4,000 organizations, the median portfolio size is just $42 million, according to the GIIN's latest *"Sizing the Impact Investing Market"* report.

Funds featured on the Liist tend to be more diverse, more niche and more focused on underinvested opportunities. More than 40% are led by first-time fund managers. More than half have at least one female general partner. The same proportion also have at least one general partner of color. Nearly a third of the funds specifically target and track gender-based metrics.

Collectively the 67 funds featured on the Liist in 2024 have disclosed about $1.1 billion in commitments against a target of $6.6 billion. First-time fund managers have secured about 30% of those commitments against a goal of $2.9 billion.

These funds have likely raised more capital but haven't yet made it public.

Rethinking targets

To more quickly deploy capital into their markets and communities, some fund managers have revised their fundraising targets. Savia launched with a goal of raising $10 million to cut pre-seed and seed-stage equity checks in Latam's under-invested climate tech startups. It had notched $3 million by July and has since lowered its target for a final close to $5 million, which it expects to achieve and surpass early in the year.

Pangea Ventures, another fund manager profiled on the Liist last year, announced an $85 million final close of its second climate tech fund in September, after initially targeting $100 million. LeapFrog (not part of the Liist) closed its fund at $808 million, shy of its $1 billion target.

"Many 2020, 2021 and maybe 2022 vintage funds are underwater, making LPs nervous," Pangea's Sarah Applebaum tells *ImpactAlpha*. A "massive slowdown" in returned capital is also impacting investors' appetite for new venture capital investments.

But, Applebaum adds, "interest rates are coming down [and] it seems like we'll start to see more M&A activity in 2025, which should help improve the fundraising environment."

Fresh opportunities

Fund managers' patience and perseverance could pay off this year: investors are on the hunt for new managers.

"An overwhelming 86% of LPs plan on making a first commitment to a new manager relationship in any of the strategies in the next one to two years," Coller Capital reported in a survey late last year. Three quarters are interested in new private equity strategies; more than 60% are interested in private debt. "This proactive stance highlights LPs' efforts to diversify and explore opportunities across the spectrum of alternative investment strategies."

Avaana Capital, a women-led climate tech fund in India, actually surpassed its fundraising target, raising $135 million for its first fund last year. Cerulean Ventures in the US succeeded in raising a $10 million fund for tech founders developing solutions for biodiversity and natural resource protection. New Majority Capital, which acquires small and mid-sized businesses in the US and helps them become employee owned, is still early in its fundraising process but is optimistic it'll reach its $50 million target in 2025.

"Now that we have completed our first close with institutional investors and have a track record of fund investments, we expect to see more interest in our fund, which is a unique impact alpha-generation play," New Majority Capital's Elizabeth Letailleur tells *ImpactAlpha.*

The fund also offers something investors are seeking: liquidity. Within a year or two, it will begin making distributions back to investors from the cash flows of the businesses it acquires.

Growing the pie

To help grow the pipeline of new impact fund managers, and with them, their creative and often overlooked investment strategies, Mission Driven Finance last year launched its own unique fund of funds. The San Diego-based organization's Capital Partners provides bridge financing, working capital advances and subscription lines, as well as offering deal warehousing. It raised $4.4 million for the strategy toward a $10 million goal, and is close to closing an additional $2 million.

"We are pushing to raise the remaining $3.6 million of our targeted $10 million demonstration fund by the end of the first quarter," says MDF's Wilda Wong.

Without support for new fund managers to weather fundraising uncertainty, the field risks losing out on promising new investment voices, theses and instruments. "We and many emerging managers navigated long diligence timelines and covenant negotiations, especially for anchor/lead investments," she says.

Mission Driven Finance recently made its second Capital Partners investment: **Mural Real Estate Partners** in New York, which refurbishes mixed-use buildings in underinvested markets. Its first investment was in **iimpact capital**, a woman-led fund making equity investments in female real estate developers of color.

Other fund managers are betting on the appeal of counter-cyclical asset classes and new strategies that help them diversify their portfolio risk.

"The fundraising environment can always be a bit tricky during times of economic uncertainty, but we believe we are well positioned since real estate can be an effective hedge against inflation," says Allie O'Shea of Ownify, which is in the market with a $10 million fund that helps first-time homebuyers build equity a little at a time through a fractional ownership model.

Fibers Fund is one of more than 30 funds on last year's Liist leveraging blended finance and catalytic instruments to bring investors into a new investment thesis. The women-led fund provides grants and flexible financing to small, diverse-led fiber producers in the textile industry. Fibers Fund's Sarah Kelley's optimism for 2025 stems partly from the fact that it's serving small business owners, who are essential to the health and wealth of local communities.

"We think their stories and the opportunities they offer will become even more relevant going forward," she says.

Kelley has observed another promising trend: investors' increasing comfort with and understanding of the value of blended finance. "We're seeing increasing awareness of the importance of aligning these tools within and across funders to support the needs of underrepresented founders and business owners."