



## THE CONSCIOUS FUND MANIFESTO

Helping psychedelic medicine create change.



We support innovators using plant medicine to solve healthcare, mental illness and addiction challenges.

# Introduction

We believe the best way to generate market beating returns for our investors is to help strong, smart teams drive meaningful positive change. The vast range of psychedelic plants and compounds are packed with possibilities, from molecules which can transform medical outcomes to foods which can mitigate some of the issues driving global warming. Our mission is to turn these possibilities, and many more, into realities.

After millenia of therapeutic and agricultural use, and decades of prohibition, our attitude to psychedelics is undergoing an evolution. We are learning to appreciate this unique range of substances once again, we are reversing some of the damage caused by stigmatisation, and criminalisation, and we are beginning to unlock some of their latent secrets.

Today we have seen ripples of liberalisation begin to spread. In Canada, the sector has been commercialised to a degree that seemed unimaginable a few years ago. Meanwhile, countries like Jamaica, Mexico and Peru are showing how governments can allow patients access to treatments in safe, open regulatory frameworks.

For some, these developments have been overwhelmingly positive. Access to psychedelic medicine for certain types of patients has undoubtedly changed lives, such as the many people who have successfully used Ibogaine to battle serious addictions. For those with lifestyle or work issues microdosing has proved an effective way to improve performance and wellbeing.

However, this does not mean that the sector will continue to develop in a positive way. We recognise our responsibility as investors to ensure the right kind of evolution takes place. From our philanthropic structure to our collaborations with advocates, patient groups, veterans, investment banks, likeminded funds and the founders we love, we are working towards a responsible future for psychedelic medicine.

## Investor Challenges

The rush to commercialise has not come without cost, and there are clear risks on the horizon. Hype bubbles are in danger of driving poor investment choices, spurious companies will jump on the bandwagon, and misinformation abounds. The sheer speed of the advances we have made is already leaving confusion in its wake.

Venture capital world is facing much the same challenges as it did during the first internet boom. The same tornado of rushed startups will begin chasing unsustainable valuations, there will be shocked delayed reactions from regulators where unscrupulous companies push boundaries too fast, while Wild West mentalities and short term thinking will sweep through our industry.

Investors face two key challenges. They must wade through an intimidating volume of scientific and legal due diligence for each opportunity, and they must resist the temptation of the cannabis style hype cycles and the risks they bring with them.

## Complex Due Diligence

The most immediate issue for any investor is how to conduct due diligence, both on specific companies but also across the wider marketplace to find comparables. It is a tale of two diametrically opposed issues.

On the one hand there is a lack of data, and the market is simply too early to have the numbers other industries take for granted. It is also very difficult to find experts who are not already attached to projects, independent advice is rarer than hens' eggs. There is nothing to compare these companies to directly, and no-one to help fill in the blanks.

On the other hand, each opportunity comes with a deluge of science and IP to assess. Typically this combines medicine, chemistry, biology, psychology, regulatory law and usually at least one rare branch of science, along with a wealth of other detail.

Each discipline requires its own expertise. Without decades of academic and practical exposure to these broad categories of science and law, it is impossible to make informed choices, or even to know which questions to ask.

## Avoiding Cannabinification

Investors must steer clear of the issues which have dogged the cannabis market, with the foremost being dollar bill blinkers. Cannabis should have brought with it dramatic positive change, yet ask most insiders and they will tell you the overriding feeling is one of disappointment at what might have been. So what went wrong?

Firstly, a misperception that anything cannabis would turn to gold produced greed and impatience in some parts of the investment community. By July 2017, pot stocks had outperformed the S&P index by 23 times over the previous year, and returns averaged 400% in 2018. This raised expectations to unrealistic levels, and the inevitable then occurred.

Once Canada legalised recreational cannabis in October 2018, and the hype reached its peak, shares in the 10 biggest listed cannabis companies tanked, producing a negative return of over 57% last year. Those hoping to strike it lucky on shroom stocks should take heed.

This correction reflected growing worldwide uncertainty over the prospects and management of these industry behemoths, and was paralleled by morality tales such as the CannTrust scandal, where illegal operations were run side by side with legal operations. The industry was crying out for a measured, long term view of investments, and the strict corporate governance that should always go with it. Yet it never came.

Secondly, there was an underlying belief that monopolistic corporations could be built which would dominate the globe. This led investors to pour funding into a handful of totemic operations instead of spreading risk with a more diverse basket of investments.

The truth was that no-one was big enough to capture or control the market. Neither vast cultivation projects nor massive marketing spend could stop the flow of competitors and innovators. Those who now believe the big names in psychedelic medicine will grow to straddle the globe should consider if they are simply over valued.

The third factor involved was an oversimplification of the marketplace. Build it and customers will come was the mantra, and as a result major farms were constructed, money poured into extraction, and companies blindly produced products. Profits from all this activity proved elusive, while copycat operators poured into the market by the thousands.

Just as app development software and code libraries created a deluge of almost indistinguishable technology plays, so the cannabis market has spawned hordes of imitators. Every investor should be wary of companies with a mushroom brand, a few scientific advisors and big dreams.

## The Solution

To come good on the promise inherent in plant medicines, investors must work to overcome the challenges in the sector. It is our responsibility as a fund to be part of creating solid foundations and imposing order.

Picking winners requires a return to traditional proven venture capital models built around world class teams, tangible revenue streams and playbooks for scale. The discipline of the old ways keeps our eyes open and helps us avoid being influenced by hype.

For our investors this means we deploy an army of advisors who can tackle the science, the law and the conceptual questions which every opportunity brings with it. We are also constantly looking for new opportunities, and cross referencing every deal.

For us it means approaching the market with the right ethics. We have already built mechanisms into our structure to give back profits to good causes and indigenous cultures, while rewarding our portfolio companies to encourage collaboration and a culture of mutual success within our fund.

Our ethics and belief in the space take us far outside The Conscious Fund. Too many funds believe ecosystem is just a word to throw into marketing materials, but for us it means building something real, a structure which spans our fund and the wider psychedelic medicine space.

# Our Story

Our fund grew from a serendipitous meeting of minds. In the very earliest days of the European cannabinoid market, and during the height of the US & Canadian green rush, our two founding partners were both running startups in the space.

By chance they came together through a leading deep tech fund, and the idea of creating a specialised plant medicine fund began to take shape. We found the mood amongst investors was positive. They were enthusiastic about the sector, but were wary of taking risks on single companies, and most lacked the specialist insights needed to vet and scale new ventures.

The concept of a professionally managed fund with deep sector knowledge and a network of advisors in every discipline was appealing. Our founding partners and our key advisors were perfectly aligned on the excitement of finding and growing a new breed of plant medicine venture, and creating a true support system for them.

Fostering the right mix of high ethical standards, practical skills and excellence were our guiding principles, and while we were excited about the future, the honeymoon was a short one.

## Solid Foundations

There were many challenges, a mirror of the challenges facing the companies we work with. We scoured the typical fund jurisdictions looking for a progressive stance. It took months to find a bank with a progressive agenda, still longer to convince the specialised service providers we needed that our sector was legitimate.

As a domicile, Malta became the clear winner as we foresaw that it would become a hub for the industry, and because speed and efficiency was of the essence. We forged strong local partnerships and were lucky enough to gain an audience with the prime minister.

Despite this, regulatory approval was a long, hard slog. We are a full disclosure fund and we wanted the authorities to be aware of everything we planned to do. This meant endless compliance checks, and piles of forms that seemed to reach to the sky. When we were finally ready, we submitted our final application and the waiting began.

We stayed busy, began to structure the fund, encourage the flow of deals and establish our brand. To bridge the investment world and the sector we ran successful symposia in London, Luxembourg and Malta. By late 2019 all the elements were in place, and the real journey was about to begin.

## Depth of Knowledge

In early 2020, just as we finally gained regulatory approval, the world went into lockdown. The moment we had waited for came and went in a heartbeat. It was a very short party, our partners a long way apart. We could have slowed down, and waited it out, but that isn't in our nature, or the nature of the market. We redoubled our efforts.

Our next move was to run the world's largest virtual conference for psychedelic medicine - Microdose. With 104 speakers and 1,100 participants, we were able to bring together everyone from grassroots advocates to leading scientists, with support from all the major companies and investors in the sector.

This was a chance for us to listen to everyone. We learned more in one month than we could ever have dreamed. From truly understanding opportunity and risk, to discovering how the citizens of the psychedelic world wanted to shape its future, we discovered the things which truly mattered.

With the insights, connections and the deal flow we gained, we have been working hard with founding teams to build for this future. We have been developing messaging and investor relations programs for companies who need to reach out to new capital allocators. We have also been setting up go public tracks that put responsible, sustainable growth above pumping stocks for short term gain.

To help the very earliest stage ventures we deployed through an SPV, and we have been lucky enough to see our investments grow, and to have two companies IPO within months of our investments. Our portfolio continues to grow, and our work to bring the space together and keep it in the limelight goes on.

And so, with the final pieces of our puzzle slotting into place, we are building out our advisory board further and raising capital, ready to do good work...

## Are We Looking for the Next Compass?

Every venture capitalist is chasing unicorns, and the key in any market is knowing where to find them and what they might look like. Second guessing promising sub-sectors and regions might seem impossible given the speed and complexity of developments, but we already have some valuable clues.

It is obvious that Canada, the US and Europe are the most likely places, if nothing else because of their large populations, spending power and most importantly for their undeveloped markets. The major players like Compass and ATAI grew in part because they were early players in virgin territory.

In fact there are plenty of emerging markets, both geographical and sector specific where giant new success stories are not just likely, they are inevitable. The trick, of course, is finding them before anyone else.

Our aim is to look deeper and harder than any other fund to find the roots of these successes and nurture them from early – so our possible returns over the life of the company are the highest they could be.

We are looking for companies trying to solve the toughest challenges in the marketplace, because these are the challenges which bring with them defensible moats. Those seeking a

quick buck from copycat models and sketchy RTOs, will find it hard to hold market share because it is so easy to start a competitor and pull the same tricks.

By contrast, medical, technology and science plays with high barriers to entry are far more promising and far more difficult to emulate.

## Teams Trump Abstract Concepts

We have already seen how fast our industry is evolving, and this means the people we invest in have to be able to adapt, to endure and to battle for supremacy. We look to back strong teams, not rigid business models. We want agile, determined, expert founders who can see how to refine offerings, change strategy and tactics, and carve out niches as they appear.

Often, elite teams in smaller outfits can outgun larger, better established companies run by more orthodox people which lack that vital spark and sharper edge. We have seen this principle at work particularly when groups flush with investment add stifling management layers in a quest for solidity over genius.

We also look for diversity. Groups which blend industry know-how with financial, sales, marketing, public markets and operational experience are more likely to succeed as markets become more mainstream. Equally, a rich mixture of perspectives, backgrounds, ethnicities and genders produces creative flair, lateral thinking and inspired problem solving. We are actively involved in efforts to promote inclusivity and diversity across the psychedelic space.

## Spiritual Roots

New age belief does not often cloud our thinking, we are venture capitalists after all, but we have come to truly respect plants and compounds which have been in continuous human use for thousands of years. We are working with some of nature's most profound miracles, and they deserve to be handled with reverence, not brutally commercialised for the sake of short term profits.

Those taking short cuts, from those looking to produce pills that can be swallowed blindly in the hope they cure complex mental illnesses in a snap, to retailers who sell weak or adulterated products which are little more than placebos, will learn that customers share this sense of respect. They do not take kindly to those who see psychedelic medicine as just another cash cow.

More importantly, those who have used psychedelic compounds know that there are no shortcuts, they rely on deep thinking and long reflection. They are not magic bullets, they are enablers which demand engagement from patients and users.

The fervour with which many people in the space have pushed back against the

pharmaceutical industry, with all their side effects, scandals and poor patient outcomes has been the fuel powering much of the early research and development in our industry. Woe betide companies and investors who are not similarly enlightened and who think they can impose big pharma models on a sector so determined to do better.

There is a vast gulf between those simply looking to create quick profits, and the people looking to do good, for whom profits are a welcome secondary benefit. Some cynical sections of the investment community believe profit is king, but for us, this is a short term attitude.

The plant medicine market has grown because exceptional individuals refused to accept a biased status quo. From medical reformers to entheogen evangelists – the industry has relied on strength of character and vision.

Consumers of every hue are now imbued with the same revolutionary fervour. They are looking for alternatives, not carbon copies of the conglomerates and corporations which have caused so much damage.

We have already seen plant medicine acting as a lodestone, attracting a scrambling pack of new companies and investors that threaten to saturate the market and create a lemming mentality. Instead of dropping over the proverbial cliff, we are always looking to do the right thing, not the same thing.

## Playing the Long Game

We see the fruits of our work making gains far into the future. The truth is that nobody really knows how markets will evolve, what new benefits R&D will discover, and how we will produce, utilise, and consume psychedelic compounds in all their forms tomorrow.

Shifting landscapes of consumption, regulation, tax and ownership make the future impossible to predict. The industry is so new that typical venture capital playbooks cannot be blindly applied, and accurate data has not been compiled yet. The more uncertain the space, the more we have to rely upon our principles.

Already industry darlings like Compass and ATAI are being forced to learn the art of pivoting and the discipline of tenacity as they look to maintain their lead. In early stage ventures, companies are fighting for oxygen and realising that toughness is as essential as a slick brand. On the technology side, new players are discovering they are not the only smart people in the room.

We are not in this for quick flips, we know our work needs the same bravery, grit and commitment that we demand from the companies we invest in. In the very early days, it was the companies with the determination to fight the invective and negative associations inherent in psychedelic medicine which seized the initiative and created the foundations for today's industry.



# Demystifying Psychedelic Medicine

## BIOMASS & PRODUCTION

It is already clear that production and extraction of psychedelic compounds will become commodified. Land costs, wage levels and agricultural efficiencies will matter as much as they do for cocoa or wheat farmers. Geography, mechanisation and technology will play a huge part in deciding the winners.

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*The problem for producers is a race to the bottom, either through vast organic plantations or large scale biosynthetic factories. The current high price levels for psychedelic compounds are already beginning to drop.*

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There are benefits to both whole plant approaches where they may be entourage effects from multiple compounds working in concert, and also homogenised biosynthesis which promises tightly controlled, GMP approved products with predictable dosing and delivery, alongside huge cost advantages.

## TECHNOLOGY

Whether through innovations in telemedicine, mood monitoring, biological delivery mechanisms, patient or scientific data mining projects or technologies for improving production, the future of psychedelic medicine is rooted in research and development. Technology promises better remedies, approaches and patient outcomes.

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*AI systems to speed up clinical trials, big data plays around patient data and onboarding and aftercare applications for treatment centres are already at an advanced stage within the space.*

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Yet companies must apply the same sanity checks and disciplines which innovators in the deep tech world have learned the hard way. Without customer uptake, without the business acumen to turn discoveries into revenues, these are risky projects. Obsolescence is an ever present issue, sometimes blue sky thinking can be a curse, and what happens in a business today is as important as the prospects for tomorrow.

## DRUG DISCOVERY

New drugs and analogs promise methods to control the time frame and potency of treatments, fine tune responses and efficacy, and above all push psychedelic medicine into mainstream adoption through clinical trials and regulatory approval. These companies offer huge upside if successful, but they are long term, capital intensive plays.

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*J&J has already shown the potential of this model, and its first development, Spravato, seeing significant sales volumes and rising uptake against a backdrop of decline for most mental health drugs.*

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Investors must assess both the new ventures seeking to challenge big pharma, and also the incumbents fighting back. For new drugs, persuading physicians to prescribe and patient education are the critical drivers of sales. At the development stage, companies must have the funding and the long term planning to see drug trials and licensing through.

## CLINICS & RETREATS

For most typical patients and users, the maximum benefit from psychedelic medicine requires

an intermediary and a program. Whether it is a therapist or a physician, help and guidance is needed before, during and after a treatment, and the setting for the experience must be conducive to healing.

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*Mexican clinics and Dutch retreats have set the standard for the next generation of wellness centres across the globe, while North American operators are ready for the next wave.*

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The high costs of establishing a bricks and mortar site are balanced against very short routes to revenue, high demand and an unmet need. The best operations will combine psychedelic medicine with other treatments such as CBT and psychotherapy, and offer both mental illness, general wellbeing and even spirituality programs to appeal to the broadest markets.

## ADDICTION

Substance dependency has arguably the highest costs of any affliction both for the patient and for healthcare systems, a vicious circle of spiralling expenditure and hopelessly resource heavy interventions which often fail. Both psychedelic addiction treatments and clinic programs are already showing it is possible to break this cycle and interrupt addiction.

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*Data from thousands of clinical sessions shows astonishing success rates in excess of 85% for serious addictions, radically changing outcomes for drug addiction, smoking, alcohol and substance dependency.*

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Successful addiction ventures will probably begin as high end services before trickling down to wider patient populations using economies of scale. There are risks to manage, especially cardiac issues in Ibogaine, and protocols and processes to refine, but the underlying potency of the treatments leaves no doubt this sector will transform addiction programs globally.

## SALES & DISTRIBUTION

Margins are highest the closer companies are to consumers. Already there are retail brands finding sophisticated ways to add value and reach the public, whether through early plays in liberal global jurisdictions or through non-psychoactive gateway brands in the nutraceutical and nootropic sub-sectors.

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*Given the mixture of market scale and novelty, we believe that brands which begin building audiences and stories today are the ones which will dominate the narrative in the future, becoming synonymous with the sector.*

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Equally, as we have seen in other sectors, the people making the most consistent profits are often distributors, who will soon enter the market. Both brands and distributors need to operate in multiple channels, from bricks and mortar retail to online sales via key influencers, the right mix of platforms will give successful companies true reach.

## ANCILLARY BUSINESSES

The industry is coming to rely on providers of media platforms, conferences, laboratory testing, and many more specialised offerings. The market has its own ecosystem, which developed because conventional service providers do not understand psychedelic medicine. By investing in selling shovels we can balance risks in other parts of our portfolio and truly embed ourselves in the psychedelic universe.

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*Corona has pushed the sector into early, widespread adoption of virtual conferences, patient information services, specialised online marketing solutions and a wide array of niche services to allow growth to continue at pace.*

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The most successful of these are not simply exploiting a need, they provide benefits that truly resonate with companies, understand the issues in the market and have smart ways to turn problems into opportunities. They are enablers, empowers and multipliers, and they are always focused on driving revenue increases.

# What We Already Learned

For most companies it can be uncomfortable to straddle both the financial and the psychedelic medicine sectors. Too often we see organisations with too much weight either side of the line.

Some are wizards with money, but fail to understand the complex forces at work in our industry, others are proven psychedelic gurus who cannot grasp the numbers. The result is usually a project fizzling out when it should be flourishing.

We are lucky to have a team which includes both experienced venture capitalists and also partners and advisors who have run companies within the space. We have already seen hundreds of decks and looked at hundreds of opportunities.

This early research and the combined experience of our team has led us to some conclusions about the type of companies which have an above average chance of success:

## **1) They are built around a vision to do lasting good using sustainable methods.**

We would be hypocrites if our plant based category was not at the forefront of addressing climate issues, and to appeal to today's customers, every company must have a clear green agenda, so our money is on ventures with a sense of environmental responsibility.

## **2) They have the fundamentals right – team, revenue streams & competitiveness.**

Nothing exempts psychedelic medicine companies from needing to master good business practises. Just as technology companies have learned to post profits, so too must our ventures focus on talent, earnings and defending market share.

## **3) They have a plan B and a plan C and are open to change.**

Anyone who tells you they know where the market will go, hasn't spent enough time in the market to know that no-one knows. Companies that can pivot will win in this shifting landscape.

## **4) They have additional strings to their bow.**

Technologies, methodologies and concepts that can be applied to other industries, and projects that can cross borders are more likely to continue to deliver value than pure psychedelic plays.

We remain sector agnostic, because these companies could be involved in any part of the industry.

# Our Pledge

We believe our collaborative approach, the rigor of our methods and our professionalism will empower our portfolio companies to perform at the top of their game. We hope that our combination of smart thinking and hard work can help the industry get to where it should be.

We pledge to:

- Treat companies and founders with respect, and where possible help anyone in the sector who needs guidance, irrespective of whether we make an investment.
- Share knowledge, good working practises and connections, so that we can all collectively benefit from learning and growing together.
- Keep our investors informed about evolving opportunities and risks, engaged with the market and abreast of developments.

## Giving Back

We will give 5% of our profits to good causes, and 5% for distribution amongst our portfolio companies, giving everyone a share in our success.

From patient and veteran access programs, to indigenous projects and education, we know the power of psychedelic medicine to create change. Our goal is a true ecosystem inside and around the fund.

Recognising the debt we owe to the sector, and to the people who are the drivers of our success, we have built these two donations into our structure.