BLOCK ASSET MANAGEMENT · INSTITUTIONAL FRAMEWORK

The Operational Due Diligence Framework

What we assess before capital moves, in what order, and what ends a review.
Written for allocators, consultants and operational due diligence teams.

> “A compelling strategy is worthless if assets are not properly safeguarded or if operational controls are weak.”

DOCUMENT	AUDIENCE	VERSION
Operational due diligence framework	Professional and institutional investors	August 2026

01 — THE PREMISE

Operational risk is part of investment risk

Operational due diligence assesses everything around an investment decision rather than the decision itself: how assets are held and who can move them, who produces the valuation and whether they are independent, which venues and counterparties the strategy depends on, and how an error would be caught.

In digital assets it carries more weight than in traditional markets, where much of the operational infrastructure can be taken as read — established custodians, standardised settlement, and a chain of intermediaries that provides redundancy. Digital assets inherit none of that by default. Assets can be held in ways that have no traditional equivalent. Venues can act as exchange, broker and custodian at once. Settlement can be instant and irreversible.

The failures of recent years were, with few exceptions, operational rather than strategic. The strategy was not what broke.

02 — WHERE IT SITS

The operational review comes first, not second

Every allocation follows the same sequence. **The operational review is not a formality that follows the investment review.** A strategy that cannot pass it does not proceed to be assessed on its merits, however compelling its returns.

STAGE 01	STAGE 02	STAGE 03	STAGE 04	STAGE 05
Research	**Operational review**	**Investment review**	**Approval**	**Monitoring**
Markets, managers and models, and where a source of return actually comes from	This document. Most candidates do not proceed beyond it	Only what survives stage 02 is assessed on its return profile	By the investment committee of the relevant structure. Those who research do not approve	Investment behaviour, operational developments and organisational change, continuously

03 — THE FRAMEWORK

Eleven areas, each reducible to one question

The areas below are assessed before any allocation, and re-examined for as long as it is held. Each is stated as the question it exists to answer, because that is the form in which it is actually put.

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01 **Legal structure**

What do I actually own, and under whose law?

The structure through which an investment is held, the jurisdiction that governs it, and the rights and protections that structure actually confers — as distinct from those it appears to confer.

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02 **Custody and key management**

Who can move the assets?

How assets are held, whether qualified or institutional custody is used, and how private keys are secured, segregated and controlled. In digital assets this is the single question with the least margin for error.

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03 **Segregation of duties**

Can one person do the whole thing alone?

Whether the people who instruct a transaction are the people who authorise it and the people who reconcile it. Concentration of authority is a risk regardless of the good faith of the person holding it.

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04 **Counterparty and venue exposure**

Who else has to stay solvent for this to work?

The venues, brokers and counterparties relied upon, and the concentration and settlement risk that reliance creates — including where one party occupies several roles at once.

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05 **Administration and valuation**

Who produces the number, and are they independent?

The presence of a credible fund administrator, independent pricing and valuation policies, and how instruments that do not price readily are treated.

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06 **Audit**

Has anyone independent examined this?

The presence of a recognised auditor, the scope of the engagement, and whether the audit history is continuous rather than recently begun.

07 **Reconciliation and controls**

How would an error be caught?

Cash and trade controls, the frequency and independence of reconciliation, and the governance framework that oversees operations day to day.

08 **Infrastructure and cyber resilience**

What happens when something fails?

The security, redundancy and resilience of the technology stack against operational failure and cyber threats, and the business-continuity arrangements that apply when it is tested.

09 **Key-person dependence**

What happens if one person leaves?

How much of the process, the relationships and the access depends on a single individual, and what arrangements exist for their absence.

10 **Regulatory standing**

Who authorised this, and to do what?

The regulatory posture, licensing and jurisdiction of the manager and of the parties around it — first-order questions rather than afterthoughts, because classification and oversight determine what protections actually apply.

11 **Service providers**

Is the supporting cast credible?

The quality and independence of the legal, banking, administration and technology partners appointed, and whether their standing matches the claims made about the structure.

04 — WHAT THE FRAMEWORK REJECTS

Most managers do not get past stage two

~1,500	~300	23
Managers screened at least once since 2017	Completed operational assessments since 2017	Managers held across the firm, as at 27 August 2026

Method. A manager is counted as screened where a filter or contact actually took place, and as assessed where a full operational assessment was completed. The screened and assessed figures are approximate and are stated as such; the held figure is exact and carries its date. Figures cover the firm as a whole, not a single vehicle. Block Asset Management's pipeline is not a representative sample of the manager universe, and no inference about that universe should be drawn from these figures.

05 — LIMITS

What this does not do

- Operational due diligence **reduces the probability of avoidable failure. It does not eliminate it**, and it does not make an investment safe. These are alternative investment strategies in volatile markets, and loss — including substantial loss — remains possible.
- Nor is it a guarantee about any third party. **A review is an assessment made on the information available at the time**, and information can be incomplete or wrong.
- Findings on any individual manager or structure are confidential and are not published. **What is described here is the process, not the results of any individual review.** Aggregate statistics across the review population may be published, with their method, period and limitations stated.

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