

April 2016

Re: 10 Year Anniversary Reflections

Dear Clients & Friends:

This year Marquet International celebrates ten years in business – providing clients and their advisors with critical due diligence, litigation support and general investigative & corporate security services. While we have always operated internationally via our global network of agents and operatives, during this time we have added, new significant capabilities in Eastern Europe, Latin America, Asia and Africa, all the while maintaining our boutique culture. ***We are grateful to all of you who have supported and worked with us over these years.***

To mark our 10 year milestone, I would like to share with you some of my observations, including the business risks / opportunity trends we have observed over the tenure of Marquet International's existence.

Since the late 2008 market crash, the US economy, indeed the global economy, has been sputtering. The overall Gross World Product growth rate has dropped from 5.5% in 2006 to 3.5% in 2015, according to the IMF's World Economic Outlook statistics.¹ With such an economic environment, risks and opportunities present themselves to our corporate and financial clients. Investments in companies both foreign and domestic have been made on favorable terms for our clients. However, investing in distressed assets, consolidating industries as well as growth industries, to name a few, can be perilous should management teams not be properly scrutinized. ***We have seen a wide array of white collar frauds rise in this climate***, including investment frauds, bribery, kickbacks, vendor schemes, corruption and embezzlement, to name a few.

Moreover international investments – particularly in developing countries – bring their own set of potential pitfalls – from market, political, currency, labor, fraud and security risks. ***Rigorous due diligence in all cases is necessary to address these issues*** – particularly as it relates to the reputational aspects of the parties involved. This has been a core business for Marquet International, accounting for more than a quarter of our work.

In the past decade we have seen the ***rise of the activist investor*** – aggressively targeting publicly traded companies like never before.² At Marquet International we have played a regular and

¹ <http://www.imf.org/external/ns/cs.aspx?id=28>

² <http://www.businessinsider.com/activist-investors-are-on-the-rise-2014-2>

ongoing role working with counsel and other advisors to thoroughly investigate the backgrounds, track records, *bonafides* and reputations of existing board members and proposed slates – a critically important process to protect shareholder interests.

Employee misconduct, including fraud & embezzlement, theft of proprietary information, workplace violence, threats & harassment continues to be a problem as we have seen these issues regularly raise their ugly heads over the past decade. ***On the fraud front***, our own unique analysis from the regularly published ***Marquet fraud reports*** has shown a significant uptick during this period in large scale and long term embezzlements throughout the United States (and indeed internationally).³ Employee theft appears to be an almost universal occurrence across all industry categories, but poses a particularly high risk to financial institutions, government entities, non-profits and privately held entities.

Property crime, excluding arson, as outlined as defined by the FBI, including larceny and embezzlement, accounted for some \$14.3 billion in losses to US businesses in 2015.⁴

Occupational fraud, as the Association of Certified Fraud Examiners defines those frauds committed against businesses, accounted for some \$6.3 billion in losses to victim organizations as reported in their 2016 report.⁵ Indeed it is commonly estimated that at least 5% of annual revenue is lost by companies due to fraud in the US. ***Active oversight, fraud auditing and preventive actions must be taken in order to address this problem.*** Imagine reducing the “leakage” from your organization from 5% to 2% (it is impossible to completely eliminate it altogether). What would an extra three percentage points do for your bottom line? Organizations should take both an active business controls posture along with robust investigation when frauds do occur – fostering a strong anti-fraud culture.

In the non-fraud employee misconduct arena, including theft of proprietary information, workplace violence, threats & harassment, our experience has shown that these problems cannot ever be fully eradicated from a given organization. When it comes to dealing with people in any corporate entity, there will “always be someone who is up to no good” as one of my old Kroll colleagues once put it. With the increased mobility of the American workplace, coupled with ever smarter technology, we do not expect that the problem of IP theft will abate. Nor will human nature change enough to prevent unstable employees from becoming threatening. Over the past decade we have consistently worked with clients to help prevent and respond to these issues.

³ <http://www.marquetinternational.com/reports.htm>

⁴ <https://www.fbi.gov/about-us/cjis/ucr/crime-in-the-u.s/2014/crime-in-the-u.s.-2014/offenses-known-to-law-enforcement/property-crime>

⁵ <http://www.acfe.com/rtn2016.aspx>

While much of our business comes through corporate counsel who engage us in a wide spectrum of matters, including some of the aforementioned due diligence cases as well as corporate contest and fraud matters, the primary role we play is in supporting litigation in business disputes. This includes traditional fact finding about opposing parties, witnesses and experts, as well as providing forensic accounting, computer forensics expertise and asset recovery projects. While the traditional investigative support work has been robust for Marquet International, the after-the-fact asset recover cases have increased since the 2008 market crash. The digital age has also required that most litigation support cases have a computer forensics component. Likewise fraud case necessarily requires a forensic accounting effort.

On the global security front – we have seen a marked increase in violent attacks against Western businesses and interests – coinciding with the emergence of the Islamic State (“IS”) and its many adherents inspired by their jihadist ideology. While there have been some noteworthy successes – such as the killings of Al-Qaeda leader Osama bin Laden in 2011 and IS finance head, Abu Syyaf just recently, we believe that radical Islamic terrorism will continue unabated. In fact, ***we expect it to increase in frequency and lethality for the foreseeable future*** putting business and people at greater risk.

Locally inspired and seemingly random IS attacks will likely become more frequent outside the Middle East, creating the toughest threat for law enforcement and private entities to thwart. It should be noted that the number of fatalities due to terrorism has increased five-fold from 9/11/2001 to 2014.⁶ What this means for Western businesses operating internationally is that increased security preparation and vigilance is required. ***Regular security audits – physical and electronic, as well as crisis planning & response training are essential.***

We at Marquet International appreciate all of the trust and confidence our clients have placed in us over this past decade and look forward to the next ten years serving you.

Sincerely,

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⁶ <http://www.theguardian.com/uk-news/2014/nov/18/fivefold-increase-terrorism-fatalities-global-index>