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STOCK PICKS & MARKET INSIGHT OF INVESTMENT GURUS

Tom Gayner's Interview with GuruFocus

Photo Courtesey Markel Corp

Thomas S. Gayner
PRESIDENT AND CHIEF INVESTMENT OFFICER
MARKEL CORPORATION

Tom Gayner, a renowned valued investor, is Thomas S. Gayner, President and Chief Investment Officer since May 2010. Chief Investment Officer since January 2001. President, Markel-Gayner Asset Management Corporation, a subsidiary, since December 1990. Mr. Gayner also serves as director on the boards of Calfax Corp. and Washington Post company (WPO).

In his role, he oversees the investment of the $2 billion float of the insurance company. He achieved a 10-year cumulative return of 101.6 percent compared to the S&P's return of 16.4 percent.

Recently, Tom Gayner joined GuruFocus for an interview and took question from readers. His answers are below:

How did you get started with value investing?

TG: Well, I started out life as an accountant, from the University of Virginia. Then a CPA, working at PriceWaterhouseCoopers. I found as I got

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into accounting that I was more interested in dollars than numbers, so investing seemed to be a little more in tune with business itself and the world of finance. Now, I think accounting is a phenomenally good way to begin to be an investor because accounting is the language of business, and you need to understand the language and what accounting entries mean in economic sense. But once I had that language down, I found the craft of investing was just very attractive to me. So that was sort of my mental switch. There was a local investment firm in town called Davenport and Company of Virginia, which was a small group here in Richmond. They had an interesting practice where they were brokers, and they did research on regional

Performance of Markel Corp. Equity Portfolio

Year	Return (%)	S&P500 (%)	Excess Gain (%)
2010	20.8	15.1	5.7
2009	25.7	26.5	-0.8
2008	-34	-37	3.0
2007	-0.4	5.61	-6.0
2006	25.9	15.79	10.1
5-Year Cumulative	25.7	12.2	13.5
2005	-0.3	4.91	-5.2
2004	15.2	12	3.2
2003	31	28.7	2.3
2002	-8.8	-22.1	13.3
2001	16.9	-11.9	28.8
10-Year Cumulative	101.6	16.4	85.2
2000	26.4	-9.1	35.5
1999	-10.3	21	-31.3
1998	13.3	28.6	-15.3
1997	31.4	33.4	-2.0
1996	26.9	23	3.9
15-Year Cumulative	331.8	170.2	161.6

Top 10 holdings

Company	Shares	% Weighting
CarMax Inc.	5,199,169	7.59%
Berkshire Hathaway B	1,576,897	6.86%
Fairfax Fin Ltd	279,459	6.58%
Berkshire Hathaway Inc. Cl A	958	6.26%
Diageo PLC ADS	1,248,181	5.80%
Brookfield Asset Management	3,086,983	5.21%
WalMart Stores	1,071,904	3.41%
Exxon Mobil Corp.	757,476	3.37%
United Parcel Service, Inc.	742,466	2.87%
Walt Disney	1,540,794	2.84%

companies in Virginia and North Carolina. I had the opportunity to go there and work as a stock broker, and as a research analyst covering companies in Virginia and North Carolina, to be exposed to a lot of different industries, a lot of different companies, and I enjoyed it thoroughly. One of the companies that I covered starting in 1986 when they went public was Markel. I got to meet Steve Markel, and from 1986 through 1990, I covered the company. He was doing acquisitions for Markel, then Markel did the second half of the Shand acquisition, which more than doubled the size of the company and the investment portfolio. Steve was managing things himself and decided that he would like a wingman to help him out. He mentioned something to me about coming out here, and I said, "Great," because I saw an insurance company that I liked and respected, that made underwriting profits, and was willing to invest underwriting profits for the long term. I knew that that was the formula that Buffett, at Berkshire practiced. And I got to stay right here in Richmond, Virginia. That sounded great, sign me up. That is the short story of how it happened.

So you made it all the way up to the Chief Investment Officer and President. But, we know that accounting is different from value investing, right. Over the process, were there any persons or books that influenced you?

TG: Yes, there are two levels of reading that I would suggest to people. The first would be the traditional stuff that most people are probably aware of, and that starts with Graham and Dodd, Security Analysis, and The Intelligent Investor. I also always thought John Train was a great financial writer, I'm looking in my bookcases here, I like Peter Lynch's book, Beating the Street, A Hundred to One on the Stock Market that was recommended to me by Chuck Akre, so a lot of financial books that a lot of people have already read. The next tier of books are much broader and they're not really financial books, but I would call them human nature books. What makes people tick? Why do people do the things they do? My favorite author is Mark Twain, and I tell people that if you've already studied accounting, and if you've already read the first set of financial books, then the next thing you should read is a lot of Mark Twain kind of stuff. And you should read it with the sense that Mark Twain was broke and rich, and broke and rich, several times in his life, so there's sort of a subtext of money, and finance, and investing, and behavior that underlies much of Mark Twain's work. And if you read and study Mark Twain, I think you get a good sense of the qualitative factors that affect investing as opposed to just the pure numbers. And then the last thing after that is that I like reading a lot of biographies, people of accomplishment, military figures, leaders, athletes, and coaches. Reading how these people did what they did is worth studying.

If you've already read the first set of financial books, then the next thing you should read is a lot of Mark Twain kind of stuff.

So these books basically help you to understand much better in life, and business, probably.

TG: That's correct.

How about Warren Buffett?

Picture courtsey of Forbes.com

TG: Well, he is the leading example of our day, of someone who thinks comprehensively, and intelligently, and flexibly. He is a role model for how you should make investment decisions, and business decisions.

You have been in the insurance business for many years, can you tell us how to evaluate an insurance company, how to judge if this insurance company is a good company, or if it's a good company, if it's a good investment?

TG: Sure. Okay, let's take the first statement about whether it's a good company, because you can have a good company that is priced so high that it may not be a good investment, so that may be different things. However, you can have a bad company that can be priced so cheaply that if you can buy it at the right price and get a hold of it which is what Markel has done in several insurance acquisitions, then you can turn a bad company into a very good investment. So in terms of being a good company, one of the markers to me would be the reserve development triangles that are published every year in the annual report, because with an insurance company, like any other financial institution, the financial statements are a wrestling match between the income statement and the balance sheet. So anything that goes in the income statement as net income, was sort of paid out from the balance sheet. If you are a balance sheet oriented company, and that's what you're culture emphasizes, in the short run, you're penalizing the reported income in the income statement. So how can you tell? Well, look at the reserve development triangle, where in any given year they show what they estimate for losses. That is the biggest liability that an insurance company typically has. Then you look at how that develops year after year after year. If those losses come down, then the company was protecting its balance sheet, it was balance sheet oriented, and it was inherently conservative in the way it set reserves. And that's the number one marker for a company that really is caring about the right thing, and in my opinion probably a good insurance company. Second thing is the proxy statement. I look at the way people are paid. Does the pay make sense? Is it logical, is it reasonable, and is it multi-year? In most forms of insurance the claims pay out over multiple years so I like to see incentives for compensation be measured over multiple years as opposed to any one year. That prevents the people from gaming the system and trying to make any one year look better. Those are the two primary things that I'm going to look at.

Okay, so basically as investors we need to look at the reserves compared with liabilities that they have, is that how it goes over the years?

TG: Yes, how the reserves develop over time.

Okay. How about combined ratios?

TG: The combined ratios are very important, and obviously we'd like them to be below 100. You need to look at how things, the components of the combined ratio hold over time. In any given year, combined ratios can look better than they really are. You see that play out over time. If, in contrast, you're conservative in your reserving process, you're going to see that the company reported something like a 98 combined year in the calendar year that they reported it in. But as time goes by, and you see how well the reserves develop, you can look back and see that in the accident year maybe that ended up being 94 or 95. That was really better than originally reported. And that trend is incredibly important. When the ultimate development is better than what is initially reported, that is a mark of all sorts of good things.

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Insurance industry itself is cyclical. And what should investors pay attention to the cycle of the business?

TG: Well, there's not a whole lot one can do about cycles. If you have a trader's mentality, you may try to time things. When the cycle gets better they think that they are going to get in, and when the cycle gets worse, they'll get out. I don't know how to do that myself very well, in general. I try to focus more on the inherent quality of the company and my comfort with the management team. In the good years they're picking up a lot of ground when the cycles are favorable. And when the cycles are against you maybe you go sideways or struggle a bit. But if you have the right company and the right management team, I think you'll do fine over the course of time, and probably you'll end up doing better than if you tried to trade in and out depending on what you thought the cycle was going to be.

Okay. Now back to the second part of the question: What makes a good insurance company a good investment, or a bad insurance company, the price part.

TG: Right, when you find good companies that you like at a reasonable price and you have a quality management team that continues to compound the value over time, that's when you really do well as an investor. Making sure that you have the right management team that's making the decisions every day that causes the value to compound over time is the most important thing to me.

So the management is the most important part for insurance businesses?

TG: That's my opinion, yes.

Making sure that you have the right management team that's making the decisions every day that causes the value to compound over time is the most important thing to me.

Okay. How about valuation? If we have good management and a good business, what's the best price for the buying, or shouldn't we pay much attention to the price?

TG: Well, it is not you shouldn't pay attention to the price, but here are the things that you should think about: One, I mean obviously the book value of a pure financial company is a reasonable starting point to think about a rough approximation of the value. And if you look at what the change in the book value is over a period of years, you get a good sense of sort of at what rate the management is creating underlying intrinsic value of the company. If somebody is compounding it at 12% over a ten year period and somebody else is compounding at 8% over a ten year period, clearly the people doing the 12% job are better, more skilled, and they are worth more and a higher premium than those that are compounding at 8%. That's one component. The other thing is that if you look at a Markel, or a Berkshire, or a Loews, those companies that have a lot of non-insurance operations in them, those are more of what I would call an income statement business rather than a pure balance sheet business. They should be judged on income statement measures such as earnings, cash flow, EBITDA, and things of that nature, to come up with a comprehensive picture of how well the company is doing and what it's worth. But the mistake to avoid is to not think that you can distill things to any one or two or three measures and say that is the answer.

Okay, just like Berkshire Hathaway. They have different businesses and we should evaluate them differently.

TG: That is correct.

Okay. Then how about different kinds of insurance companies? There are P&C insurance, reinsurance, title insurance. How should they be studied or researched differently, analyzed differently?

TG: Yes, and that's where being knowledgeable about accounting is very helpful. For example, think about the differences between life and P&C, if you're a large life insurance company and you're selling life insurance, the dispersion of possible outcomes is pretty tight. Large numbers of people, suddenly dying at 69, when they were dying at 74, just doesn't happen. Whereas in a property casualty company, you might have a series of things, just like in 2011. You had the Japanese Tsunami, Thai Flood, and earthquakes. Those are big catastrophic events that happen in the P&C world that don't really happen in the life world. That gives us a sense of what the possible outcomes for businesses might be. One of the things that you should be also knowledgeable about when you're looking at life or P&C companies is DAC, or deferred acquisition cost. P&C companies are going to have certain methodologies and certain ways of putting DAC costs on their balance sheets. A life company is going to have a very different way of doing that, and usually a much higher amount of DAC than what a P&C company does. That introduces some components of uncertainty that you just need to be thoughtful in thinking about.

So they are quite different. As you said, life insurance is more predictable and others maybe not as predictable, and probably we should look at a longer cycle of the business. Now let's go to a different topic. Our readers are asking how do you manage cash in your investment portfolio, how do you decide how much cash position you have in your portfolio relative to in stocks or bonds or others.

TG: Right. Well, there are multiple parts to it. Part of it is this is not purely just an investment operation. This is an investment operation that's connected to operating businesses in both the insurance and non-insurance world. So cash needs to be managed in the context of the needs of the business itself. Cash is not a great asset to own; but it's something that you always want to have more than enough of. When you need cash that you don't have, bad things happen. So, that is the first rule. The second rule is when you have more cash than what makes sense for the business, you look around and you see what investment opportunities are out there. If there are good investment opportunities that make sense, then we buy them. But if we can't find anything to buy, then our cash balances might indeed grow. That's a residual of the fact that we can't find enough investment ideas; rather than a theory about how much cash you should have.

Okay. So it Markel's portfolio hedged in any way?

TG: No.

So what's your opinion on hedging itself?

TG: It's not something that we try to do. We are naturally hedged in the sense that when we write an insurance policy and we did that in dollars or pounds, or euros, or Australian dollars we identify a similar amount of investments in those currencies to make sure that we are hedged in those currencies. We don't try to speculate on what the exchange rates are going to do, we just try to have a natural hedge in the portfolio so that we own about as much as in fixed income assets in a particular currency as we would have liability in any one currency. Beyond that, the costs of hedging are substantial, so we try not to incur those. We don't assume that we have a more accurate view of the future than others. So in general we try to avoid incurring those costs, which helps the returns.

Okay. One of the shareholders is asking, what's your opinion on Markel's intrinsic value?

TG: I would not put a specific number on it, but the mentality that I would have in thinking about it is, I would think about a our insurance businesses with a normalized amount of premium volume, and a normalized amount of underlying profitability. That gives a normalized amount of operating earnings from the insurance company. Then I would look at our net investments per share, which was total investments minus all the debt. I would then think to myself, well, if this insurance company continues to operate at an underwriting profit, and at least stays the same size, then all of the net investments per share are actually working for the shareholder, so that value should be added. Then the third thing I would think about is the Markel ventures set of companies and what the operating cash flows and operating earnings are on a normalized basis and assign a multiple of that. I would divide that by the number of shares outstanding, and get a sense of what Markel each share is worth.

Okay. You don't have to answer, but currently do you think Markel is close to fair value, or undervalued.

TG: I'm going to let everybody else do their homework on that.

What's your estimate of the growth of the insurance part of the business?

TG: Over one period of time, the roughly 20 years I've been here, the book value has compounded in the high teens, which is directionally a pretty good description of how the value and the growth has compounded, since 1990. Going forward, I'd say that that's an aggressive goal, but we'll certainly do the best we can; and I would hope that would end up being a double digit return to our shareholders from doing so.

Let's look at the world; in 2008 we had a financial crisis and now we are having another one. One question was, in 2008, what was the best investment that Markel did?

TG: Well, the best thing we probably had in 2008 were government bonds.

Yeah, but did you make any new investments in 2008 that turned out to do very well today?

TG: Fortunately, one of the great weapons that I have is that Markel investments are tied to the operating business in the insurance and non-insurance side, which produces cash flows. As a result, we did buy some equities in the normal course of business like we normally do. Obviously things we bought in the middle of the financial crisis are doing great, but I don't describe that as any particular genius on my part.

Okay. I think that the context is, for example, in 2008 Warren Buffett made a new investment in GE, in Goldman Sachs, those worked very well.

TG: That's why he is Warren Buffett, and I'm not.

Did you buy a lot more stocks in 2008 or 2009?

TG: We bought some, but it was within the steady and normal flow, not looking to do market timing calls.

How about Fairfax? What are your views on Fairfax? That's one of your largest holdings.

TG: Well obviously we're shareholders, so in the sense that actions speak louder than words, we have a lot of respect for what they're doing and how they've compounded value over the years.

Okay. What's your view on Prem Watsa?

TG: A very talented and honest businessman.

We know that, of course, Fairfax had a history that was from Markel, part of Markel. When did you start to buy Fairfax?

TG: We owned bits and pieces of Fairfax for decades. A couple of years ago, when they were raising capital, we bought some more and that turned out be an attractive purchase. But we have long been familiar with and long been a shareholder of the company.

You also owned Berkshire Hathaway, of course, for many years. What's your view on the current Berkshire Hathaway situation, especially on the new managers that Warren Buffett has hired for the investments portfolio?

TG: Well, for 20 years I've thought that Buffett has done a marvelous job at all of the tasks that he has faced, and I don't see a reason to change that opinion now. I think he's made good decisions to hire those two managers. I met Todd Combs and I don't know Ted Weschler. I have a high degree of confidence that they are skilled, thoughtful, high integrity people. I'm very happy that Berkshire is our largest position.

One question that I wanted to ask: We know that Warren Buffett, other than Berkshire Hathaway, also runs a personal portfolio which invests in different stocks than Berkshire Hathaway's equity portfolio because the sizes of the portfolios are different. Do you do similar things?

TG: A little bit, and also largely because of size. There are some things that are too small for Markel, but for 90% or something like that, things that I do for myself I also do for Markel.

What percentage of your investable net worth is in MKL shares?

TG: About two-thirds.

Okay. One question was asking what were your largest investment mistakes during your tenure at Markel?

TG: Owning the financial companies going in to the 2008 crisis. I had not fully appreciated how badly leverage hurts when things are going the wrong way. Fortunately we sold the positions and got out of the way before the worst of the storms but we really ripped off a few chunks of flesh along the way, and that was the most bitter and painful experience, but a great learning experience going forward.

Is that why you don't own lots of financials or banks right now?

TG: Banks in particular, I do not have much of a position in. The only banks that we own are Union First Market Bankshares (UBSH), which is the legacy of a private investment that we did here with a family here in Richmond, a privately owned bank which merged into a public bank. It is the largest community bank in Virginia. It is a good; solid operation. We also own some Bank of New York and State Street Bank, which are service businesses as much as they are banks.

Will you talk about the results of your investment into First Market Bank and how MKL made out following the merger with Union Bank? I've never seen detail results for what was initially a private investment.

TG: We do not break out the results of any single investment. As you can see in our filings, we retain our interest in Union First Market and we are optimistic about their prospects. They, like every other bank, face challenges, but they are well capitalized and plowing ahead.

We know that the large bank stocks are going down every day almost, do you see opportunities there?

TG: There might well be, but I have decided that they're beyond my circle of competence to invest in them.

Could you please shed some light on your thoughts about US Banking Industry as an investment? Would be great if you could talk about Bank Of America and Citigroup?

TG: Unfortunately, this continues to be a difficult area. We do not own either of these 2 companies and I don't know how to make a value judgment about them. A few weeks ago, Tom Friedman wrote a piece in the NYT discussing banks. He suggested 4 steps to improve the current situation. In essence I agree with his four points which were one, that banks that were too big to fail were just too big and should be broken up into smaller entities, two, that we should reinstate Glass Steagall, three, that derivatives should be exchange traded and transparent and that, four, we need to figure out a way to reduce the interplay of big business and big government.

His language was more eloquent than mine but I agree with the essence of his thoughts.

How about Europe? Europeans are going through the crisis and we know that Prem Watsa invested in Bank of Ireland (IRE). Do you see opportunities there?

TG: He has different skills than me, so I would not be making those investments. I don't know how to do it the way he does. By contrast one of our largest holdings is Nestle. It is a European company but

If you look at Nestle and Diageo whether Europe goes up, down, sideways, whether they solve the problem in one month, or one year, or ten years, the economics of those companies are likely to do pretty darn well. Being shareholders and owning through the whole period of time, we think we will do pretty well.

sells around the world. Another company we own is Diageo (DEO), it is a UK based company but it also sells products around the world. That is the kind of company that we see as a solution to invest in Europe. If you look at Nestle and Diageo whether Europe goes up, down, sideways, whether they solve the problem in one month, or one year, or ten years, the economics of those companies are likely to do pretty darn well. Being shareholders and owning through the whole period of time, we think we will do pretty well.

Because they are high quality companies. Lots of other investors we track also love those companies, such as Tom Russo. He loves those companies too. And he loves the family-operated businesses too, their long term history. Are there any other reasons that you own those companies?

TG: Well, part of the reasons that he likes families is because families often times tend to have a longer time horizons than the next quarter or what their next bonus payment is going to be. It's their legacy. There's a cultural, mental ownership that's different than just pure financial ownership, and you don't have to be a family member to feel that way. Using Markel as an example, I'm not a member of the Markel family, a lot of my peers and colleagues here are not members of the Markel family, but we feel as if we are. I think that makes our business better.

Okay. I guess your experience in Markel probably helps you understand the family part of business very well.

TG: That is correct.

How about Japan?

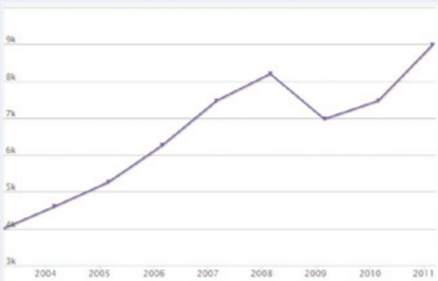
TG: The stocks have been cheap for a long time. I don't have any particular expertise in that market.

How about China?

TG: That is highly controversial. There are very intelligent, skilled people who talk about the ongoing growth of China. There are other highly intelligent skilled thoughtful people who point out a potential real estate bubble and think that China is going to pop. I don't really know. But I do believe that people are getting connected to other people around the world through trade, through communication, through travel. All of those forces are just unstoppable. Everybody is going to benefit from this.

Okay. One of the questions is about Carmax (KMX). It's one of your largest holdings and what are your thoughts on the business, the future growth, the valuation, the management?

CARMAX ANNUAL REVENUE ($MILLION):



CARMAX STOCK PRICE ($):

TG: I think that is a business that will continue to grow. They only had eight or ten dealerships when we first started buying it. But those days they thought they could have 100. I don't see any reason why you can't have a Carmax in a lot of towns way beyond what they're talking about right now. I think being the number one dealer, and having the number one market share in used car arena gives you great information on what transaction prices are. Then you work on the process to be as quick and as cost efficient in fixing the car and getting it sold, and have the confidence from customers when you offer warranties on the products. Those factors create a virtuous cycle. The more you do, the more you can do, the better the pricing is, the more the customers like you, the more your brand matters. The company will be around for a good long time. The management has done a very good job of creating the system and executing it.

How about the current valuation? The stock has gone up a lot.

TG: Well that happens when you have a good company doing the right thing.

That makes sense. That's actually the kind of company that value investors should buy and hold forever. If you had to choose one investment other than Markel, with a long term holding period now, which one would you recommend?

TG: Well, I don't have a specific name that I want to suggest for that, because if you only choose one, you would make that choice differently than if you could choose ten or twenty. I need to allow something to go wrong, which is what diversification allows you to do. Charlie Munger is correct when he said that diversification is, "protection against ignorance". You may minimize ignorance as much as possible, but I think it is arrogant to say that you can completely eliminate it. Maybe someone else can, but I can't. I don't know how to do that. So I always want to allow myself some room to be wrong, to be ignorant, to find out that things didn't play out the way I expected. Therefore having a portfolio having more than one position makes a lot of sense, and it's the way I view things. What I would say, is that a lot of people are just very negative about stocks, and owning businesses. I still want to own businesses with global growth prospects, as opposed to earning fixed income levels of interest rates that they're paying. So I'm pretty positive about the equity markets in general. The global companies we talked about are the core of my portfolio.

Okay. So basically, mostly high quality large cap companies.

TG: Right now, because I think that's where the value is. It changes over time. 15 years ago I owned a lot of micro cap, small cap companies, and REITS because that's where the values were in my opinion. I didn't own of the any of the large cap companies. Today it's sort of the reverse. The vast majority of my portfolio is in the large cap global companies. It goes through a normal cycle.

The vast majority of my portfolio is in the large cap global companies.

Okay. That's why you own WalMart, Exxon Mobil, UPS, Disney?

TG: Yes. I love all of those companies, I think that they're marvelous companies at great prices right now.

Okay. Do you have any opinion on a very hot stock, Apple?

TG: I don't. It's something I wish I had, but I don't know how to make any money on that one.

You've talked a lot about why you buy a stock, can you discuss your sell strategy?

TG: In general, we hope to be able to buy a stock and never sell it. That would mean that we own a successful business that is continuing to grow and compound value. As such, the main reason we sell is that we recognize we made a mistake when we bought something i.e. it is not as good a business as we hoped, or we reach the conclusion that the business will not grow and compound value going forward.

I think that if you limit your buying to things you will be able to own for a long time, you will put more thought into whether to buy it or not and that leads to better long term decisions. We are not traders or looking to buy and sell quickly, so our sell strategy largely reflects mistakes and disappointments. Unfortunately, we've got our share of those and likely will continue to have them as well!

Also, sometimes, meaningful amounts of over or under valuation occur in certain areas of the market. For instance the global, dominant, franchise companies that we own now are good values in my opinion and we've been buying them for the last several years. 12-15 years ago, they were global, dominant, franchise companies but we didn't own any of them because the prices were too high. I would suspect that over the course of the next decade, they will return to favor and sell at very high prices again and we will gradually shift away from them towards more attractively priced securities.

I don't know when and I don't know what we will be buying but that is why I come to work every day and I will try to just thoughtfully steer the portfolio by judicious selling and buying to make sure I own the best portfolio I can construct and do so in a tax efficient manner without too many short term trades.

It seems all Brookfield affiliates (BAM, BIP, BPO) are run by excellent management with focus on high quality assets. With respect to various Brookfield affiliates, what would recommend individual investor with small capital to invest in? Does it make more sense to go with smaller caps like BIP or BPO as opposed to BAM.

TG: I have a high regard for Brookfield and its management. As our filings show, we are long term holders of the company. I usually find myself with a bias towards owning parent or general partner type interests as opposed to subsidiary or limited partnership investments but every situation is unique. The "daughter" companies at Brookfield give investors the opportunity to be very specific about what sorts of assets they like and as such serve a good purpose.

From my understanding MKL only invests shareholder equity into stocks while BRK invests its float and shareholder equity into stocks. Could you discuss this difference (or tell me that I'm totally incorrect)?

TG: Berkshire has a much bigger balance sheet than Markel and a much bigger base of equity compared to its insurance liabilities than we do. As such, they can allocate more of the investment portfolio towards equities. Over time, if we continue to grow and build up our equity capital we should be able to move in the same direction as Berkshire.

Other than a fair and non-turbulent exit strategy for owners, what does Markel Ventures offer its newly acquired businesses?

TG: I think that one of the underappreciated features for a business when it becomes part of Markel Ventures is the idea of operating a business for the best long term outcomes with low leverage and a long time horizon. We don't focus on quarters. We're not trying to dress something up for sale. We don't do financial engineering and load things up with leverage and we stay focused on serving customers and building the value of the business. I think that sort of time horizon and discipline helps keep a business focused on the basics and really creates the best business over time.

We've seen the advantage of increased customer loyalty and value of this mentality already at Markel Ventures and I think that this will prove to be a durable competitive advantage that will grow over time.

Can you discuss your share repurchase strategy?

TG: Our first priority is to make sure that we have more than enough capital to run our insurance business. Then we look at public and private investment opportunities to search for opportunities to deploy capital. As we are doing so, we compare the investment prospects for those investments to that represented by Markel stock and we'll pursue whatever makes the most sense for the shareholders.

As you know, we take the share count seriously here at Markel and we don't have massive grants or compensation programs which cause a leakage in the shares outstanding. Over the last severals years, we've gradually reduced the share count through repurchases and we will always look for the opportunity to keep doing that when it makes sense.

You became Good Haven's first managed account after you helped fund the company. Do you see outsourcing capital management as a bigger part of MKL's future? Or was this a PR type of investment? How much was invested with Good Haven?

TG: I've known Larry Pitkowsky and Keith Trauner for decades and I was delighted to be able to participate in the formation of their new firm. I invested in Goodhaven because I thought it would be a good investment for Markel. I'm confident that the firm will serve its clients well over the years and that we will benefit from being associated with them.

Keith and Larry are smart and honest guys. I like seeing what they are doing with capital and talking about investment ideas with them. We are all long term investors and just looking for the best ways to steward capital so it is good to be on the same team with them in my opinion.

We enjoy a good reputation among many of our long term investors and I'm always open minded about figuring out ways that we can be mutually successful and help one another over time.

Would you ever consider buying an insurance business purely for runoff purposes or would this go against building Markel's franchise value?

TG: Yes we are interested in run off opportunities in the insurance world. In fact, some of our insurance acquisitions involved a blend of both ongoing and run off opportunities. That has worked well for us in the past and we'd be interested in pursuing similar opportunities in the future.

Can you discuss the different mental models of buying into a private business versus funding a newly formed private business?

TG: In general, we are interested in existing rather than start up businesses. The only exceptions are where we have such confidence in the prospects of a start up AND in the skills and experiences of the managers that we can invest modest capital to help build a big business over time. We are not venture capitalists in the traditional sense.

Do you have any plans for greater disclosure of Markel Venture's financials? For example an annual supplemental release?

TG: The revenues and expenses of the Markel Ventures companies are included in the other revenues and expenses lines of our financial statements. Additionally, we provide a reconciliation of EBITDA to net income each quarter which I think provides insight into the performance of the companies. As we regularly report those items, and as investors get used to seeing them, I think folks will feel comfortable with that reporting structure.

Stocks mentioned:

MKL, KMX, UBSH, BRK.A, BRK.B, FFH, IRE, DEO, DIS, WMT, and MSFT

Learn more about Tom Gayner:

- Tom Gayner Stock Picks
- Current Portfolio
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