# 2019

## To Our Business Partners

Here is your 2019 Markel Corporation annual report.

At Markel, we aspire to build one of the world's great companies. We believe that the pursuit of excellence in and of itself is a worthy goal. It provides a sense of meaning for the people of your company.

We follow a long term, win-win-win approach. We do our best to work in such a way that our customers, our employees, and our shareholders all win. When everyone wins they want to keep playing. James Carse described the sustainability of this central idea as an "infinite game." We love what we do and want Markel to keep going forever.

In this report we'll update you as our partners on our actions of the past year and our hopes and dreams for the future. We hope you enjoy it and share our enthusiasm as we continue to build Markel.

### The Markel Corporation

At Markel we're building and developing a culture that allows us to operate a diverse array of insurance, industrial and service businesses, and investment operations. Our culture unites them all. We describe attributes of the culture through the words of the "Markel Style." We practice the values of the Markel Style every day, in every business, in every place. We believe our approach attracts customers and employees. We believe these values create a dependable North Star. With that North Star in place, we can reliably steer.

We know that our culture may not appeal to everyone. We acknowledge that our explicit focus on these values may set us apart, but it strongly attracts those for whom it resonates. We offer a home for outstanding employees who want to be part of a long

### Financial Highlights

| *(in millions, except per share data)* | **2019** | 2018 | 2017 | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 |
|---|---|---|---|---|---|---|---|---|---|
| Total operating revenues | $ **9,526** | 6,841 | 6,062 | 5,612 | 5,370 | 5,134 | 4,323 | 3,000 | 2,630 |
| Gross written premiums | $ **8,780** | 7,864 | 5,507 | 4,797 | 4,633 | 4,806 | 3,920 | 2,514 | 2,291 |
| Combined ratio | **94%** | 98% | 105% | 92% | 89% | 95% | 97% | 97% | 102% |
| Investment portfolio | $ **22,258** | 19,238 | 20,570 | 19,059 | 18,181 | 18,638 | 17,612 | 9,333 | 8,728 |
| Portfolio per share | **$ 1,613.62** | 1,385.24 | 1,479.45 | 1,365.72 | 1,302.48 | 1,334.89 | 1,259.26 | 969.23 | 907.20 |
| Net income (loss) to shareholders | $ **1,790** | (128) | 395 | 456 | 583 | 321 | 281 | 253 | 142 |
| Comprehensive income (loss) to shareholders | $ **2,094** | (376) | 1,175 | 667 | 233 | 936 | 459 | 504 | 252 |
| Shareholders' equity | $ **11,071** | 9,081 | 9,504 | 8,461 | 7,834 | 7,595 | 6,674 | 3,889 | 3,388 |
| Book value per share | $ **802.59** | 653.85 | 683.55 | 606.30 | 561.23 | 543.96 | 477.16 | 403.85 | 352.10 |
| 5-Year CAGR in book value per share [1] | **8%** | 7% | 11% | 11% | 11% | 14% | 17% | 9% | 9% |
| Closing stock price | **$1,143.17** | 1,038.05 | 1,139.13 | 904.50 | 883.35 | 682.84 | 580.35 | 433.42 | 414.67 |

[1] CAGR — compound annual growth rate

term institution which stands for something. We offer a home for different businesses who want to focus on serving their customers and taking care of them year after year. We offer a home for shareholders looking to invest their capital in a successful long term institution that will work hard to increase in value.

We enjoyed a very good year in 2019. Our customers won. They demonstrated their satisfaction with our products and services by doing more business with us than ever before. Our employees won. We employed more people than ever before. They enjoyed the opportunity to serve our customers, learn new skills, provide for their families, and serve their communities. Our shareholders won. They owned a business that produced record comprehensive income and operated in such a way that we should be able to repeat these statements in future years.

We deploy three powerful financial engines at Markel, namely, our insurance businesses, our Markel Ventures operations, and our investment activities. All three of those engines provided positive thrust in 2019.

Every year we write this letter to accompany the array of numbers in the attached financial statements. We think this letter serves as a critical tool to provide a qualitative narrative to help understand our quantitative results.

All of the numbers, as well as those that we will report to you in the future, stem from forces often difficult to quantify, namely the fundamental values by which we manage Markel. This letter serves to discuss these values.

Some of the numbers reflect external forces beyond our control. We do not know what will happen in any one year in the realms of interest rates, man-made or natural catastrophes, economic activity, inflation, currency exchange rates, and other important but unknowable events. We will however always run Markel with the notion that we must be prepared to be resilient and durable through any and every kind of environment we face.

Richie and I take our roles as stewards of this company seriously. We want to thank you, our owners and fellow employees, for the responsibility and the privilege you've granted us in overseeing Markel. This is a unique company.

| | 2010 | 2009 | 2008 | 2007 | 2006 | 2005 | 2004 | 2003 | 2002 | 2001 | 2000 | 1999 | **20-Year CAGR[1]** |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | $ 2,225 | 2,069 | 1,977 | 2,551 | 2,576 | 2,200 | 2,262 | 2,092 | 1,770 | 1,397 | 1,094 | 524 | **16%** |
| | $ 1,982 | 1,906 | 2,213 | 2,359 | 2,536 | 2,401 | 2,518 | 2,572 | 2,218 | 1,774 | 1,132 | 595 | **14%** |
| | 97% | 95% | 99% | 88% | 87% | 101% | 96% | 99% | 103% | 124% | 114% | 101% | |
| | $ 8,224 | 7,849 | 6,893 | 7,775 | 7,524 | 6,588 | 6,317 | 5,350 | 4,314 | 3,591 | 3,136 | 1,625 | **14%** |
| | $846.24 | 799.34 | 702.34 | 780.84 | 752.80 | 672.34 | 641.49 | 543.31 | 438.79 | 365.70 | 427.79 | 290.69 | **9%** |
| | $ 267 | 202 | (59) | 406 | 393 | 148 | 165 | 123 | 75 | (126) | (28) | 41 | **21%** |
| | $ 431 | 591 | (403) | 337 | 551 | 64 | 273 | 222 | 73 | (77) | 82 | (40) | |
| | $ 3,172 | 2,774 | 2,181 | 2,641 | 2,296 | 1,705 | 1,657 | 1,382 | 1,159 | 1,085 | 752 | 383 | **18%** |
| | $326.36 | 282.55 | 222.20 | 265.26 | 229.78 | 174.04 | 168.22 | 140.38 | 117.89 | 110.50 | 102.63 | 68.59 | **13%** |
| | 13% | 11% | 10% | 18% | 16% | 11% | 20% | 13% | 13% | 18% | 21% | 22% | |
| | $378.13 | 340.00 | 299.00 | 491.10 | 480.10 | 317.05 | 364.00 | 253.51 | 205.50 | 179.65 | 181.00 | 155.00 | **11%** |

As we all work every day, we do so in a way that creates wins for our customers, our employees, and our shareholders. We do so with a forever mindset and an appreciation for the cumulative result that develops over time.

When we take care of customers each and every day, when we solve problems for them, when we provide meaningful jobs and career opportunities for our people, and when we earn financial rewards from doing so, we create the opportunity to wake up and do it again tomorrow.

That is the timeless and endless description of the Markel Corporation. It has worked now for 90 years and we believe it will continue to do so.

## 2019 Financial Results

During 2019 we reported top line total revenues of $9.5 billion compared to $6.8 billion a year ago, an increase of 39%. At the bottom line we reported comprehensive income of $2.1 billion compared to a comprehensive loss of $376 million last year.

Those are record highs for your company and we're delighted to report that headline to you.

As a first pass in providing context and explanation of this year's results, we'll continue the pattern we set last year by reviewing the cumulative results of the last five years. For the 2015-2019 five year period, we reported total revenues of $33.4 billion versus $17.3 billion in the 2010-2014 period, an increase of 93%. Over the same five year period we reported total comprehensive income of $3.8 billion compared to $2.6 billion, an increase of 47% and Markel shares closed the year at $1,143.17 compared to $682.84, an increase of 67% over the same five years.

We think that looking at the five year numbers provides better and more meaningful data than year-by-year results. In any given year, swings in investment markets cause volatility in the annual results. Insurance also regularly experiences meaningful volatility from catastrophes. Finally, within Markel Ventures we own several cyclical businesses whose results vary widely given general economic activity levels.

With a five year measurement period we think you as shareholders get a better gauge of our underlying economic progress. We also hold ourselves as managers accountable to the exact same standard. We use a five year measurement period to determine incentive compensation. We are with you side by side.

We are generally pleased with the long term results and the economic progress of your company. We know we have some specific challenges and corrections to make. We've learned immense lessons about new and existing businesses and we're incredibly optimistic about our ability to apply those lessons to continue to grow your company over time. We hope you share our optimism as well.

As always, to further reinforce the long term nature of Markel, we include a 21 year table of our results at the bottom of this letter. This tapestry of numbers paints a vivid picture of the success of our long term process over decades.

The longer term mindset guides us as we make decisions. We think about what would be best for our customers and our employees over the long term in each and every decision that we make. We're confident if we do that well, our shareholders will be pleased with the results.

## The Three Engines Of Markel

Markel stands as a resilient company able to adapt and grow in the face of ever changing landscapes. Technological progress changes business models. Financial markets experience volatile swings between ecstasy and gloom, governments change, and so on and so on.

The beauty of Markel is that we are open minded as we pursue business opportunities. We are not constrained by a narrow vision. As we wrote in the initial annual report in 1986, we pursue a strategy of "specialization and diversification."

Specialization means that we pursue excellence by being expert at what we do. Whether it is in a particular form of insurance, investments, transportation equipment, concierge medical care, houseplants, baking equipment, consulting, or any of the other myriad activities of the Markel Corporation, we strive to provide the absolute best value to our customer.

Diversification among specialization creates resilience for Markel. The world continues to change at an accelerating pace and we do not know what lies ahead. We do know, however, that some businesses of today will not exist in the future, even if they are the very best at what they do. As such we need to continue to diversify. We need to adapt and change our existing businesses to meet the needs of a changing world. We also need to continue to pursue new business opportunities as we have since our beginning 90 years ago.

We specialize and diversify to pursue the dual goals of providing the best products and services to our customers, and being adaptable to change in economic and technological landscapes that are beyond our control.

Today, one simple way to categorize the diversity of Markel is to think of your company as being comprised of three engines. Those engines are Insurance, Ventures and Investments.

## Engine #1 – Insurance (Insurance, Reinsurance, Insurance-Linked Securities, and Program Services)

### Insurance Engine – Insurance Cylinder

We enjoyed a very good year in our insurance businesses. We wrote total premiums of $5.3 billion compared to $4.7 billion, an increase of 12% from last year. We wrote more business than last year and we did so more profitably with a one point improvement in our combined ratio to 93% compared to 94% in 2018. Barring extraordinary catastrophes in 2020 we expect to be able to say the same thing this time next year.

As you can see in the 21 year chart at the bottom of this letter our consolidated combined ratio has ranged between 87% at its low point to 124% in our most challenging year. Our goal is to produce consistent underwriting profits. We continue to make progress against that goal.

Within our insurance business we enjoyed spectacular results from our Markel Assurance division which operates largely in the U.S. Markel Assurance comprises the legacy excess and surplus wholesale insurance lines on which Markel was founded along with a growing business to serve admitted retail markets.

Markel Assurance remains a crown jewel within Markel. We polish that jewel every day. Over the last several years, under the leadership of Bryan Sanders, we've continued to focus on making Markel easier to do business with. We continue to communicate to our current and prospective customers that we can do more for them than ever before. Our increased volumes show the message is getting through.

Within our U.S. based insurance operations we also enjoyed a tremendous year at our Markel Specialty operation under the leadership of Matt Parker. Matt and his team focus on program insurance products that cover an eclectic and growing list such as horses, farms, camps, classic boats and cars, electricians, plumbers, dry wall contractors, mom and pop restaurants, and others. We insure small businesses and the people who make things work.

In the past, our talented underwriting experts writing various forms of coverage for our customers tended to operate primarily within the confines of specific industries or niche areas. We've worked hard to communicate to our customers that Markel continues to increase in size and scale. We can do more for them. We can provide more coverages and we can create seamless solutions across multiple classes and types of insurance risks.

Our ongoing growth and profitability at Markel Assurance and Markel Specialty stands as powerful evidence that the process continues to work.

In our international operations headquartered in London, success in 2019 was more muted. The Lloyd's market in London remains an expensive place to do business. The City of London itself suffers from cost pressures and ample (read tough) competition as the concentration of insurance industry professionals remains intense.

Over the years, we've enjoyed solid profitability from our International insurance operations. We have consistently increased our capability to operate in the London marketplace as a stand-alone company and side stepped some of the costs inherent in the Lloyd's system. We've continued to increase our geographical presence throughout the U.K. in markets outside London and we've expanded our operations in Canada, Germany, India, the Netherlands, Spain, and other growing markets.

These expansions create profitable revenues for Markel and platforms to grow sustainably in the future. For example, we've operated in Germany since 2012, well before any talk of Brexit began. We leveraged that platform and now have an established, fully licensed insurance company operating in Continental Europe and we are prepared to operate on both sides of the English Channel in any foreseeable environment. We did not predict Brexit when we came across Frederik Wulff eight years ago. We just found a great leader who embodied the Markel Style and built a business together. In light of Frederik's accomplishments and future vision he now serves as head of our European insurance operations.

The worldwide insurance market continues to grow as billions of people move towards greater affluence. Our opportunity to serve these needs all around the globe is immense and we have the people, regulatory structure, and skills to grow for years to come as the global economy continues to develop.

## Insurance Engine – Reinsurance Cylinder

In our reinsurance operations our results improved compared to 2018. We wrote $1.1 billion of premiums in both years, with a combined ratio of 104% in 2019 compared to 113% in 2018.

Reinsurance over the decades has produced positive yet volatile results. We're taking steps to continue to improve our reinsurance operations. While we acknowledge that reinsurance remains a volatile business, we expect better returns in the future from these actions.

We are fortunate in that reinsurance is a part of, but not the totality of, our insurance business. Given the inherent volatility in both rates and losses in reinsurance, it is an excellent component within the larger entity of Markel.

In certain market environments, vivid recent memories of large losses cause many reinsurance providers to diminish their appetite for premiums. At those times, we can and do offer our capital, and we write more business with the expectation of earning appropriate returns.

In other market environments, capital is flush and memories of losses fade. In those markets, reinsurance capacity tends to be ample, and we appropriately diminish our writings as other participants displace us by pricing risk at rates we think are insufficient.

Because we are diversified and not dependent on reinsurance, as a mono line carrier might be, we can be opportunistic and grow and shrink our revenues like accordion bellows.

That sentence is easy to say and hard to do. The human beings who run our reinsurance business don't like to turn away business. But the reality of the market demands that they do. We can and must behave this way as responsible and dependable reinsurers.

Following the record level of property losses in 2017 and again in 2018 from hurricanes, wildfires, typhoons, and of course, lawyers, we began charging more per unit of risk. We did so in 2018 and results were better, but not wonderful, since 2018 also was a high catastrophe event year.

We again charged more per unit of risk in 2019 than in 2018. Once again, results improved, but not yet to satisfactory levels. In 2020, we continue to charge more per unit of risk. We will see how the year develops and whether losses industry-wide will continue to set new records, but we continue to be paid increasing rates to bear those risks.

We are prepared to allocate our capital to reinsurance markets when we believe that it will earn appropriate results but we are willing to allocate our capital elsewhere within Markel when we do not have that expectation.

### Insurance Engine – Insurance-Linked Securities and Program Services Cylinder

In last year's letter we discussed the nature of Insurance-Linked Securities (ILS) and their role in the insurance eco-system. To review the bidding, we entered into the ILS business with our purchase of CATCo in 2015, followed by State National in 2017, and Nephila in 2018.

These stand as transformative acquisitions for Markel. While the learning curve has had unexpected and painful bumps along the way, we believe the advantages for Markel will continue to accelerate and grow over time. We are proceeding through the learning curve. We expect increasing returns from our ILS operations over time.

As is the case with every other industry in the world, progress brought about by technological change means that we need to be "Better, Faster, and Cheaper" in providing goods and services to our customers. In the halcyon days of the past you could pick any two of those, but not all three at the same time. That is no longer the case. For every product and every service, at every time and everywhere, all businesses need to figure out how to be Better, Faster, and Cheaper. If any given business can't figure out how to do so, a competitor will.

It is in the DNA of Markel that we innovate and adapt. ILS and our efforts in this arena, stand as a paramount example of how we are attempting to compete effectively in a changing world.

In traditional insurance offerings, we as a company put up our capital to stand behind the risk we take when we write an insurance policy. We underwrite specific risks to determine appropriate pricing, we write a spread of business to keep systemic risk in check, we manage the claims process, and we handle the legal and regulatory issues connected to the provision of insurance.

In ILS, we do all of the above except for one thing. With ILS, third parties such as endowments, pension funds, and other investors, provide the capital. We manage all of the other processes and are paid management fees and incentive fees for doing so. But the pure return on capital flows to the external capital providers, not to Markel as an insurance company. The same is true of our Program Services operations, which match insurance risk to third-party capital and provide services for a fee when doing so.

To some degree, the provision of traditional insurance can be viewed as railroad tracks that run between the ultimate risk insured and the capital base of an insurance company. In ILS transactions, that rail line starts at the same place i.e. the risk a customer needs to insure. Those tracks run through the same mechanical and regulatory landscape, and then they spur off to a pool of externally provided capital rather than to the balance sheet of the insurance company.

You might ask, "What is better, faster, and cheaper" about this? The answer is that the speed and quality should be roughly the same but it should be cheaper. The returns demanded by the external investors are different than those we expect on our own capital. Often they are lower. The outside investors tend to focus on those returns not being correlated to the returns of other assets as well as the absolute level of returns themselves.

By contrast, we at Markel are well designed through our diversified three engine structure to accept volatility from any one stream of capital returns. We primarily focus on the rate of the return in and of itself. We can accept volatility and correlations on our balance sheet due to our diversification and structure. Through the ILS mechanism we can earn excellent returns as managers of the process rather than through the provision of our own capital.

Well, you might ask, "Why has this not worked out like you hoped so far?"

The answer is that in 2017 and 2018 CATCo funds experienced severe losses due to the record levels of property catastrophes those years. In the wake of those losses, U.S. and Bermuda regulatory authorities initiated inquiries into the loss reserves recorded in late 2017 and early 2018.

As part of the inquiry process we retained outside counsel to conduct an internal review. The internal review found no evidence that CATCo personnel acted in bad faith in exercising business judgment in the setting of reserves and making related disclosures during late 2017 and early 2018. The governmental authorities' inquiries are ongoing and we continue to fully cooperate with them.

The unprecedented catastrophe losses of 2017 and 2018 simply exceeded CATCo's expectations used to determine pricing for the high severity, low frequency offerings they provided to the retrocessional reinsurance market. Severity turned out to be higher as did frequency.

Not surprisingly, due to the unpredictability of the duration, scope and outcome of the inquiries, substantially all of the capital invested in CATCo by ILS investors was tendered for redemption. Consequently, as announced in July 2019, CATCo has ceased accepting new investments and is not writing any more business, effectively going into runoff.

As we move forward, we've adjusted our pricing, and our appetite to write this business, to reflect this difficult experience. We've also developed additional tools to participate in this necessary market that should provide appropriate returns and risk management for Markel.

In addition to the expenses involved in investigating and dealing with the CATCo matter, we also were a significant investor in CATCo's ILS products. We thought it was valuable to demonstrate that we stood side by side with outside investors in putting up our own capital alongside theirs. We suffered losses on that capital alongside the outside investors.

The plan was that, over time, ILS mechanisms and results would become widely known and a historical track record would provide outside investors with comfort. As that took place, we would shift our own investment capital to other uses within the Markel Corporation and operate our ILS platforms as fee management businesses for other investors. The record level of property catastrophe losses in 2017 and 2018 interrupted the plan. We believe the disruption in ILS is a temporary circumstance. In the long run, we continue to believe in the ILS mechanism and its ability to provide better, faster, and cheaper insurance solutions in many circumstances.

By contrast, our experiences at State National, as led by founder Terry Ledbetter (who just retired on January 1 of this year with full regalia and a very honorable discharge) and his successor Matt Freeman, and at Nephila, led by Frank Majors and Greg Hagood, have gone well. Both of those businesses continue to perform according to our expectations prior to acquisition. We are absolutely thrilled with their progress to date, as well as their future path within Markel.

State National, through their Program Services operations, provides much of the regulatory and process framework that enables managing general agents (MGA's) to operate. They use many of those same skills and abilities to provide similar services to the ILS marketplace. State National provides access to ratings and licenses, and they manage the complicated 50 state, multi-country jurisdiction regulatory matters that accompany the provision of insurance. They are the leading firm in this marketplace and they continue to shine.

Nephila pioneered the ILS market over 20 years ago and they stand as the market leader in the industry. Nephila offers a wide array of insurance products that operate right at the heart of the insurance and reinsurance marketplaces. While their results were diminished by the record levels of catastrophe losses in recent years, their fundamental operations remain well within our expectations at the time of the acquisition.

Nephila's customer relationships continue to deepen and broaden as existing and new investors continue to add Insurance Linked Securities to their investment portfolios. Broadly speaking, "alternative assets" continue to be attractive to pension, endowment, and other pools of investment capital. Nephila started this market and continues to be a leader.

There's an old joke that goes, "What do you call alternative medicine when it works?"

The answer is, "Medicine."

Increasingly, the "alternative assets" of the ILS world continue to provide attractive, understandable, and non-correlated returns for many investors. We may not yet be at the point where they are just called "assets" in the investment world, but we are drawing closer to that day.

We expect ongoing consolidation in the ILS industry. We expect advantages of scale to become more and more important. Large and sophisticated investors need large and sophisticated counterparties to design, process, and execute various strategies for the growing array of ILS "alternative" assets. We are the leading company in this field and we expect to enjoy increasing advantages and profitability from that position over time.

Additionally, our operations in ILS address another strategic imperative at Markel. Namely, we want to be able to seamlessly provide any insurance customer with solutions that meet any specialty insurance need from soup to nuts. As we continue to develop the ILS mechanism to operate in more and more realms of the insurance world, we will continue to offer wider, deeper, and broader, products to our insurance customers in a seamless, better, faster, cheaper way.

We own and operate the leading ILS platform in the industry. We're just getting started in this world and the addressable market is immense. Weather and climate related risks are well suited to be addressed via the ILS market. Markel possesses unique opportunities to act as a dealer in the secondary market for ILS securities already in existence. ILS should also be well suited to expand beyond the original markets of large property catastrophe risks as the sector matures and learns to process longer tailed liability risks. The list goes on and on.

Our ILS platform makes the rest of Markel better by broadening the ways in which we can serve our insurance customers. It makes us a better and more skilled company that can do more for existing and potential customers.

Markel also makes our ILS businesses better by providing a stable and consistent ownership base from which the employees of those businesses can continue to expand and grow. That circular and virtuous circle between our various business units has and will continue to produce financial benefits for our shareholders. Win-win-win.

## Engine #2 – Markel Ventures

In 2019 total revenues of Markel Ventures reached $2.1 billion compared to $1.9 billion a year ago. Earnings before Interest, Taxes, Depreciation, and Amortization (EBITDA) totaled $264 million compared to $170 million a year ago. (We use EBITDA as the least-worst proxy to describe our sense of the economic profitability of Markel Ventures. Our reason for doing so is that in the early years following an acquisition, the A, or amortization number shows up as a major expense of the business. That is the cost of Markel purchasing the business, not the ongoing costs of running the business. We think it is important to separate that out to give you a better picture of how our underlying businesses are performing.)

The great news is the Markel Ventures, as led by Mike Heaton and his team, continue to perform wonderfully. We started Ventures in late 2005 and in the first full year, the run rate of Ventures was approximately $60 million of revenues and $5 million of EBITDA. As of 2019, revenues now stand at $2.1 billion with EBITDA of $264 million.

We make our decisions by thinking in "cash money" terms rather than GAAP accounting conventions. Over the last 15 years, up until our November 2019 acquisition of VSC, we've deployed a total of approximately $1.9 billion of “cash money” into Markel Ventures. During that same time, in addition to self-funding the day-to-day capital needs (including growth), the Markel Ventures companies have returned “cash money” to us and built up internal cash balances of roughly $900 million combined. As we currently stand, we’ve got a diversified array of operating businesses that produced EBITDA of $264 million in 2019 with approximately $1 billion of net investment in the businesses.

We are delighted with both the returns these businesses produced over the years and the additional resilience they add to the Markel Corporation. Markel Ventures provides a stream of cash flow over and above, and different to, that provided by our insurance operations. It stands as an amazing story and fundamental component as to how we can best assure the long term growth and sustainability of the Markel Corporation.

As is the case with any new endeavor, there is always a learning curve. Over the last 14 years we’ve learned immense lessons about what defines a wonderful operating company. We’ve learned how to retain and attract talented managers, we’ve learned how to deal with unexpected challenges, and we’ve learned how to build a team that can constantly grow and handle larger and larger opportunities and challenges.

There are several points about Markel Ventures that we’d like to highlight from 2019.

First- Within our diversified array of businesses it should come as no surprise that some are performing spectacularly well, some are on track with normal expectations, and that some are not meeting performance goals. Over the last 15 years of Markel Ventures operations, an increasing number of our businesses are performing well, and largely autonomously. That is the ultimate goal.

We will likely always have some businesses that face temporary, or more permanent, challenges. Over time if we do our job well, the proportion of Markel Ventures companies in that condition should continue to diminish. That has indeed been our experience and it makes us wildly optimistic about our future.

Second- During the last three years, we have not actively sought new acquisitions with traditional business development activities through traditional transaction processes. We observed that market prices for businesses increased markedly and created a “sellers” market. That dynamic kept us from participating in traditional auction based acquisition processes.

That said, our growing reputation as quality owners, with long term vision, autonomous operating practices, and all of the elements of the Markel Style, made us a preferred buyer in many circumstances. During the last five years we directly purchased VSC Fire & Security led by Mike Meehan, Brahmin Leather Works led by Susan Thacker, Costa Farms led by Joche and Maria Smith, and CapTech led by the co-founders Sandy Williamson and Slaughter Fitz-Hugh, with their leadership team of Kevin McQueen, Steve Holdych, Vinnie Schoenfelder, and Joanna Bergeron. We also partnered with Chas Burkhart to form Rosemont Investment Group. All of these acquisitions came about from principal to principal discussions without traditional intermediaries. Some of those conversations took place over multiple years and sometimes they led to very quick action.

We remain cautious about the overall environment to acquire additional Markel Ventures operations in the current pricing environment but we continue to be pleased and honored to receive inbound calls. Increasing arrays of spectacularly successful businesspeople know about Markel and they’re calling to see if they can join the family.

This is an immense business advantage. Our years of history and behavior continue to produce cascading opportunities to grow.

In true Markel fashion, the sellers of these businesses won by receiving appropriate and fair consideration for a lifetime of work. The employees of the companies won by joining forces with Markel, and finding a stable and long term oriented home where they could build careers. Our shareholders won by deploying capital in profitable and well run businesses with organic growth opportunities and further expansion possibilities. Win-win-win.

### Engine #3 – Investments

2019 stands as a record breaking year. In our equity portfolio we earned a return of 30% and in our fixed income operations we earned a return of 6.5%. The total investment portfolio produced a return of 14.6%. This is the highest total return from the portfolio in 24 years.

While we celebrate the wonderful returns of 2019 it is important to view them in a longer term context. We enjoyed a year where interest rates declined. In that environment, equity prices rose at a faster rate than our estimates of the intrinsic value of the companies themselves.

Long time readers of this report will probably recognize the consistency of this section.

Over the decades, our investment operations continue to produce fantastic returns for Markel. Our five and ten year equity portfolio returns stand at 11.7% and 15.2% respectively. We've consistently followed the same discipline in selecting investments and that discipline has, and in our opinion will continue to, stand the test of time.

Our total invested assets stood at $22.3 billion at year end. We manage the vast majority of our investments in house at an extraordinarily low cost (8 basis points for total management costs) and with tax efficiency (as witnessed by the current unrealized gain of $3.9 billion).

The first thing we do in making investment decisions is to allocate funds to our fixed income holdings to more than match our insurance liabilities (the reserves). We are holding those reserves on our balance sheet for the benefit of our policyholders and we take minimal credit risk as we do so. We merely wish to earn a positive spread between the cost of those funds as shown by our underwriting results and what we can earn on plain vanilla high quality fixed income investments.

In 2019 we reported a combined ratio of 94%. That means that during the year the cost of the reserves on our balance sheet stood at a negative 6%.

We then take that money and invest it in the fixed income markets. The low and sometimes negative interest rates seen in current bond market prices are a growing and troubling development in our opinion. Fortunately, the negative cost of funds generated by our insurance operations is more negative than the low and negative rates of interest on offer from the credit markets. We continue to earn a small but positive spread on our fixed income holdings but that spread is under pressure.

The next step in allocating investment capital within our insurance operations is to look for equity securities with the promise of higher rates of return than what would be available from fixed income alternatives.

As we look for equity securities we follow a consistent, time tested, and four part discipline. First, we look for businesses earning good rates of return that use only modest leverage to do so. Second, we look for management teams with equal measure of talent and integrity. Third, we look for businesses with opportunities to reinvest their capital and grow organically or by acquisition, and/or with capital discipline to repurchase shares or pay dividends. And fourth, we look to acquire these holdings at fair prices where our long term returns as shareholders should be similar to the underlying growth in intrinsic value of the company itself.

We've followed this four part process for decades and it worked spectacularly well in 2019. More importantly, it has worked for decades and produced higher returns for us than what would have been the case had we invested more similarly to most insurance based entities and limited ourselves to a predominantly fixed income portfolio.

In our fixed income operations we look for high credit quality instruments and we match those holdings in duration and currency to our insurance liabilities. That strategy serves us well as we've never experienced any meaningful credit losses in the portfolio, and we've earned positive spreads compared to the cost of those funds as measured by our underwriting results.

Count on us to continue this approach.

We remain wary of investing in an environment dominated by the forces unleashed by low and negative interest rates. There is simply no way to easily produce our historical results with those gale force headwinds. As we noted earlier in the year, we'd rather sell bonds than buy them at current rates. In May and September we did take advantage of the low interest rate environment to refinance our upcoming debt maturities at Markel, which included raising capital with a 4.15% coupon and a 31 year maturity.

More importantly, we think that the second and third order effects of how management teams, investors, and government leaders behave in the face of the unprecedented interest rate environment are worrisome and give us pause.

Capital markets are like the Wild West right now and anything goes. In an environment where anything goes, something is going to go wrong. We don't have any specific predictions or forecast. We just remain as extraordinarily disciplined and long term oriented as we know how to be in the face of the unprecedented challenge of producing positive investment returns in a low/negative interest rate world.

What we can control in the face of these forces is our own behavior. We will continue to behave according to, and in keeping with, our disciplined investment process no matter what. We also believe that behavior will continue to deliver dependable and delightful results.

## Capital

The productive thrust of the three engines of Markel Corporation creates a wonderful circumstance. Those firing engines all worked together to create a situation where we both have capital and keep creating more of it.

A great question you might have is, "What are you going to do with it?"

Over time, the answer to that question will determine how successful we are at building the financial value of your company as we pledge to do in the Markel Style.

As has been the case for many years, we have a four step triage in place for how we allocate the capital flowing into Markel.

Our first choice is to allocate capital within our existing business where we see opportunities to profitably grow and expand. We know and trust the people running the operations. They are proven veterans with a track record of producing excellent results. The people of this organization who historically produced good returns on capital stand first in line when it comes to funding growth and expansion. Fortunately, we see opportunities to deploy capital in this way both in our insurance and ventures operations. We will fund everything we can find that meets this test.

Our second choice is to acquire new businesses that we believe will produce appropriate returns on capital. We enjoy a long history of acquiring insurance and non-insurance businesses. We've bought big businesses that stretched our abilities and capital base at the time. We've learned how to do that and transform and adapt ourselves to big opportunities and changing conditions. We've bought smaller businesses as well. And we've bought businesses in and outside the U.S.

As we noted earlier, each and every one of these transactions involved learning curves of various shapes and slopes, but the net result remains extraordinarily positive for Markel. We will continue to allocate capital to acquisition opportunities as we find them.

Our third choice is to invest in publicly traded securities when we find stocks that meet our four part test. We've done so with excellent results for decades and we continue to see opportunities to allocate capital to equities in our long term and disciplined manner.

Our fourth choice is to repurchase shares of Markel Corporation when we've funded all the previous opportunities and when Markel shares are attractively priced. We've purchased modest amounts of Markel stock over the years but starting last year we increased the pace at which we are doing so. We will be disciplined and rational as we repurchase shares just as we are in every other capital allocation decision.

You might ask, "How do you value Markel stock?"

For many years following the IPO, Markel existed largely as an insurance company with the embedded investment operation that attaches to any insurance company. In that environment, the book value per share provided a reasonable proxy and starting point for how to value Markel shares. The activities of the company were well captured by the accounting process that sum to book value. The rates of growth of that book value per share provided a good indication of the economic progress of Markel over time.

As Markel has grown and entered new businesses through our Markel Ventures operations, as well as the ILS and Program Services businesses, and as we begin repurchasing more shares, the book value per share calculation begins to lose its ability to describe the intrinsic value and progress occurring at Markel. We are earning returns that are not well captured in the book value per share calculation.

In recognition of this fact, we as managers break down our operations into certain components. First, we look at our insurance operations and think about a normalized expectation of underwriting profitability. Second, we look at our investments and think about normalized amounts of return expectations from the portfolio. Third, we look at our Markel Ventures and think about normalized profits from those operations. Fourth, we look at our ILS and Program Services businesses and our normalized expectations of earnings from those operations. We add all of those up. After that, we subtract out the capital expenditures necessary to keep the businesses going.

We also subtract out all interest and taxes. These steps net to our sense of the recurring, comprehensive income of Markel.

We go through this process over rolling, multi-year time frames to adjust for normal volatility and cyclicality. We then apply a reasonable range of multiples to our estimate of our comprehensive income to develop our intrinsic sense of the enterprise value of Markel. We then subtract out the debt we owe and divide by the number of shares outstanding to determine our estimate of the intrinsic value of each share of Markel.

We've followed this process consistently for many years. We would never assign false precision to any single point estimate in any single year, but we think the exercise provides directionally correct data from which we can make rational capital allocation decisions.

The net of all of this discussion is that we're executing all four steps.

### Alan Kirshner

As we close this letter we want to take a moment to celebrate and commemorate the career of Alan Kirshner. There would not be the Markel Corporation of today if not for Alan.

As of the annual meeting, Alan will retire from his post as Executive Chair. Alan started in 1960 assisting Milton Markel in the underwriting department and in his 60 years at Markel, he's done every job along the way culminating in his current role.

There are so many aspects to Alan that it is impossible to do justice to him in a few paragraphs. That said, there are a few particular items that it is important to write at this time.

First, many people make contributions and do fantastic work in their careers. Alan's work rises above that standard. His work was not limited to his individual accomplishments and achievements along the way. Alan's work was systemic.

By that I mean that Alan, as the primary author of the Markel Style, created a document and guide for how all 19,000 people of Markel operate the company today. Alan himself couldn't talk individually to 19,000 people, or spend time with each of them on a regular basis. Given that physical reality, Alan crafted the Markel Style in preparation for the initial public offering of Markel back in 1986. By writing that document, each of those roughly 300 employees at the time, and the over 19,000 of today, could hear his voice and understand his vision for Markel.

The idea behind the phrase, "It is written" carries special meaning. That phrase means that a lasting statement is being made. It means that those who follow should pay special attention to the ideas and directions when written down.

The Markel Style represents exactly that idea for us as employees of Markel. Alan knew that the day would come when he and his partners, Tony and Steve Markel, would no longer be the day to day managers of the Markel Corporation. He knew that the day would come when the Markel Corporation would grow in size and scale such that the top executives could not personally know all of the employees, as was the case in the days before the public offering in 1986.

As such, he worked to create a written document that would serve as guideposts for Richie and me as well as those that will follow us in due time. He worked to create a document that people in every office around the globe, and in every business that Markel might someday enter, could read and understand the high purpose of this company.

In the Markel Style there are two words that Ken Newsome, the CEO of Markel Food Group (our first Markel Ventures acquisition), pointed out as being especially meaningful. Those two words were "winning" and "insurance." As a close reader of the Style might observe, the word "winning" is the final commanding word of the document and the word "insurance" is not mentioned.

Even prior to our IPO in 1986, Alan intuitively understood that a company dedicated to the service of others might someday expand beyond its initial business of insurance. He created a document that allowed for the ongoing creativity, and drive, of current and future Markel employees to "pursue excellence" and he recognized that none of us knew or know where that might lead.

"Winning" is the last word of the Style. Again, Alan intuitively understood the importance of sustainability inherent in win-win-win architecture necessary to build a great company. He knew that unless customers felt that they had won, and were better off because they had done business with Markel, they would not want to do business with us again. He knew that if we did things for our customers rather than to them, that they would be back. They would refer others to us and help to create recurring and growing revenues for Markel over time.

Alan knew that unless our employees felt that they won, they would always think about contributing their skills, creativity, and efforts somewhere else. He knew that our employees had to be able to provide for their families, and always be in an environment where they were learning and growing and building new skills and capabilities to cope with a changing world. The Markel Style explicitly instructs us to provide, "an atmosphere in which people can reach their personal potential." We believe in continuous learning. It describes the mindset of the people of Markel.

Alan also knew that unless our shareholders won and earned appropriate financial returns that we would not be allowed to carry on as managers and build Markel following these goals. For a business to continue to exist and to serve its customers and employees, it must be profitable. Otherwise it goes away. The Markel Style explicitly states that "Our pledge to our shareholders is that we will build the financial value of our company." He was right then, and his instruction remains correct for us today. Unless we produce financial results for our shareholders we will not continue to have the right to build Markel.

Alan's contribution to the Markel Corporation goes beyond the capabilities of one person. His contribution is that of a "system" that serves as the formula by which all of us at Markel operate this company.

Outside of Markel in community service roles, Alan served as the founder of Partnership for the Future and the Faison Center. Both of those institutions serve young people in Richmond and beyond. Partnership for the Future helps high school students from challenged backgrounds prepare and succeed at college and at life. The organization teaches study habits, financial discipline, life skills, employment skills, and countless other necessary elements to those whose exposure to those factors may otherwise be limited.

The Faison Center aids both children and adults with autism. While it started and operates in Richmond, the skills, techniques and learnings that have been developed at the Faison Center are now applied far and wide. Faison stands as a leader in how to help those with autism and their families. None of the systemic achievements of Faison would have happened without the vision, and non-stop financial and personal, commitment of Alan Kirshner.

Please check out the websites for Partnership for the Future and the Faison Center to learn more about the remarkable work and accomplishments of these institutions and know as you are reading them that they would not exist were it not for Alan Kirshner.

Alan- We, and so many others, love you and thank you. We could not have done it without you. As you instructed us in the Style, we pledge hard work and a zealous pursuit of excellence. We'll follow the letter and the spirit of what you taught us to keep Markel moving forward, and we thank you for your decades of selfless example and teaching.

Onward

Respectfully submitted,

Thomas S. Gayner, *Co-Chief Executive Officer*

Richard R. Whitt, III, *Co-Chief Executive Officer*