HARRINGTON PARTNERS
Investment Management

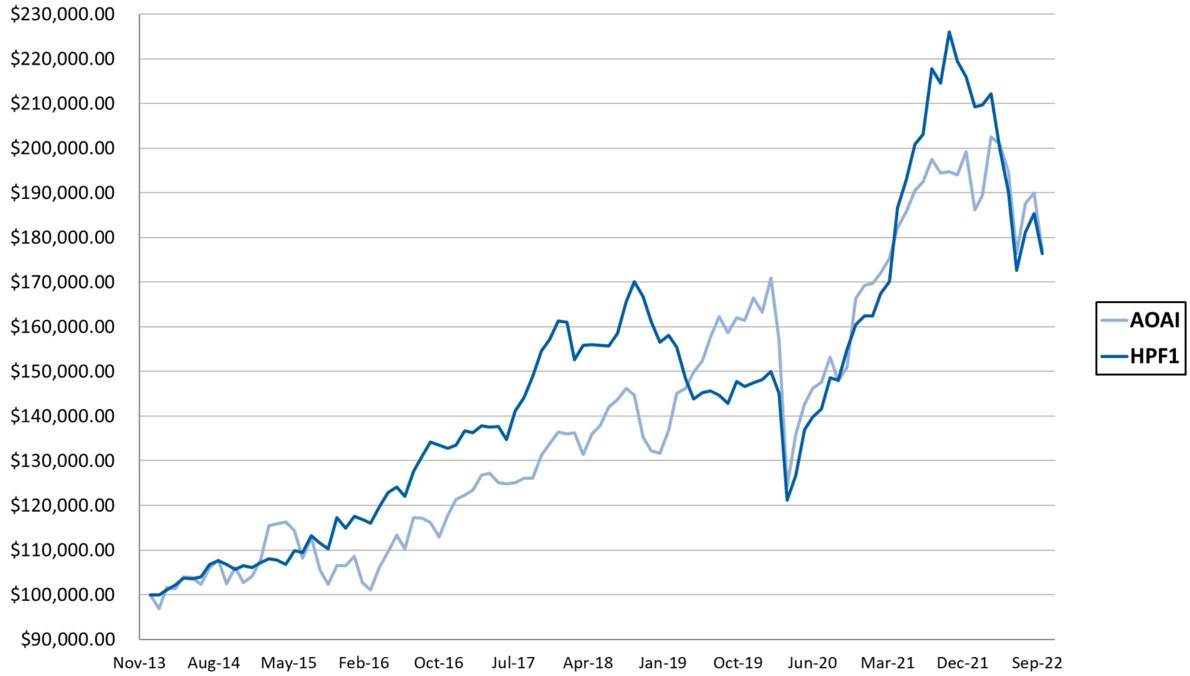
Harrington Partners Fund 1 (HPF1) – 30 September 2022

Harrington Partners goal is to compound capital over the long term through concentrated investments in undervalued high-quality companies. The Fund managers have the majority of their investable assets in the Fund, creating a very strong alignment of interests between the managers and investors.

	HPF1 Net Return*	AOAI Return	Relative Performance
6 Months to 30/06/2014	3.71%	2.36%	1.35%
30/06/2015	5.51%	5.67%	-0.16%
30/06/2016	11.50%	2.01%	9.49%
30/06/2017	10.48%	13.12%	-2.64%
30/06/2018	15.49%	13.73%	1.76%
30/06/2019	-6.45%	11.04%	-17.49%
30/06/2020	-4.06%	-7.20%	3.14%
30/06/2021	43.77%	30.24%	13.53%
29/06/2022	-13.91%	-7.44%	-6.47%
3 Months to 30/09/2022	2.26%	0.80%	1.46%
Annualised Performance	6.73%	6.79%	-0.06%
Cumulative Performance	76.84%	77.75%	-0.91%

*Net Return to investors which is less fees and charges but includes reinvested distributions.

Change in Value of $100,000 invested in HPF1
vs All Ordinaries Accumulation Index (AOAI) Since Inception



After a blistering start throughout July and August, market prices of our portfolio holdings moderated in September to finish the first three months of financial year 2023 with a return of **2.26%**. We made a small incremental investment into Markel Corporation (NYSE: MKL), the rationale for which is discussed in detail below, and sold the Funds entire investment in 360 Capital Group (ASX: TGP).

We have upmost respect for James Storey (CEO) and Tony Pitt (Founder/Chairman) at 360 Capital both of whom excel in terms of integrity, skill, and the drive to keep succeeding. The primary reason for our sale was that the company had recently sold the bulk of its assets and as a result was overwhelmingly invested in cash. Whilst we think James, Tony, and the remaining team are likely to make shrewd capital allocation decisions with this cash, the reality was we no longer adequately understood the longer-term economic potential of the business, and hence decided to sell. We want to thank the entire 360 Capital team for their diligent work during our partnership and wish them all the best for their adventures ahead.

The portfolio holdings as of September 30, 2022 were as follows:

Rank	Holding	Total Portfolio Weighting
1	Kelly Partners Group (ASX:KPG)	23.09%
2	Dicker Data (ASX:DDR)	10.95%
3	Ryman Healthcare (NZX:RYM)	9.61%
4	Servcorp Limited (ASX:SRV)	9.14%
5	Global Data Centre Group (ASX:GDC)	7.11%
6	Blackwall Limited (ASX:BWF)	6.79%
7	Field Solutions Group (ASX:FSG)	6.65%
8	Comms Group Limited (ASX:CCG)	6.45%
9	Markel Corporation (NYSE:MKL)	3.27%
10	Berkshire Hathaway Inc (NYSE:BRK-B)	2.68%
11	PPK Group (ASX:PPK)	1.90%
12	Costco Wholesale Corporation (NYSE:COST)	0.93%
	Cash	11.43%

Markel Corporation (NYSE: MKL)

Markel is a business we have followed and deeply respected for several years. We have attended their annual general meeting in Richmond, Virginia on multiple occasions and each time have come away with a profound intuitive sense that the board and leadership team are of extremely high calibre. Over this time, Markel has consistently achieved outstanding operating and financial performance. Within the report that follows, we hope to express why we believe Markel is a truly superb business and long-term investment opportunity.

The best way to set the scene for understanding Markel is to begin with what the company considers as their cultural "north star" – The Markel Style – included in full on the next page. The Markel Style is one of the crispest statements of a core ideology that we have encountered. The report then progresses to a brief company history and four heading sections broadly covering the main elements we focus on when analysing a potential investment, namely: 1. Economics, 2. Competitive Advantage, 3. Management, and whether the business, 4. Will be Thriving in 10 years' time?[1]

[1] Please note that all reference to currency are US dollars, and excerpts from Markel are in American English spelling.

The 'Markel Style'

Markel has a Commitment to Success.

We believe in hard work and a zealous pursuit of excellence while keeping a sense of humor. Our creed is honesty and fairness in all our dealings.

The Markel way is to seek to be a market leader in each of our pursuits. We seek to know our customers' needs and to provide our customers with quality products and service.

Our pledge to our shareholders is that we will build the financial value of our Company. We respect our relationship with our suppliers and have a commitment to our communities.

We are encouraged to look for a better way to do things...to challenge management. We have the ability to make decisions or alter a course quickly.

The Markel approach is one of spontaneity and flexibility. This requires a respect for authority but a disdain for bureaucracy.

At Markel we hold the individual's right to self-determination in the highest light, providing an atmosphere in which people can reach their personal potential. Being results oriented, we are willing to put aside individual concerns in the spirit of teamwork to achieve success.

Above all, we enjoy what we are doing. There is excitement at Markel, one that comes from innovating, creating, striving for a better way, sharing success with others...winning.

Markel's History

Markel traces its roots back to the mid 1920's when founder Sam Markel formed the Mutual Casualty Company as a mutual insurance company comprised of Jitney bus[2] owners. Immediately prior to the company's formation, Sam Markel was instrumental in the passing of a law which provided a government recognised licensing mechanism for the previously unlicensed and unregulated Jitney industry. The catch was that Jitney operators had to be adequately insured and at the time Markel was one of the only firms offering coverage. This specialised focused paid off, as by 1940 Markel had become the largest insurer of bus and truck fleets across the United States. As it happens, this was phenomenal time to be a market leader given the industry became a core enabler of the post-war economic boom, as described by the current Markel CEO, Tom Gaymer:

> *"… they caught a mega wave in the sense that the automobile trucks the highway system the interstate highway system for 30 or 40 years you really had this tailwind of epic growth in the underlying business that they would insure. We could go on and on with this conversation, but I think the hallmark still matters today is you look at problems you look at something that somebody needs you try to be creative You try to figure out a way to solve it and that's what Markel does…"*[3]

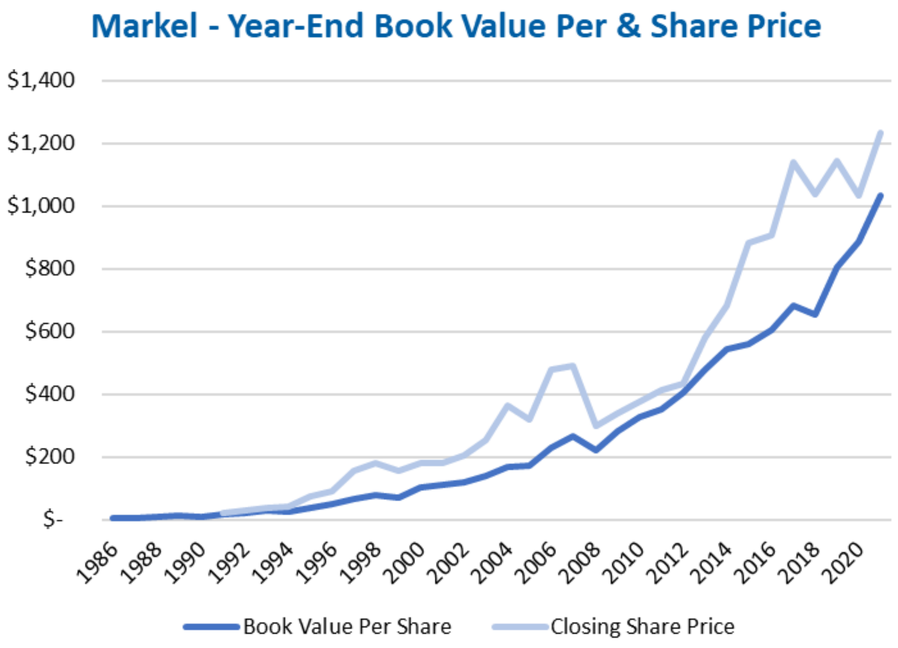
Fast forward nearly 100 years, today Markel is a Fortune 500 company, with operations across several continents, and approximately 20,300 employees. Insurance remains the core focus of the company, and specifically speciality underwriting, in addition to a dedicated investment function that allocates the capital generated from insurance, both of which are described in detail later in this letter. The third component of the company is Markel Ventures, which is a portfolio of wholly owned but independently operated businesses that span industries such as food making equipment, housing, transportation, building products, fire protection, indoor plant cultivation, and medical services, among many others. The company describes this model as their three economic 'engines'.

Markel publicly listed on the NASDAQ stock exchange in December 1986. At the time the company had a book value per share of $3.42, a listing price of $8.33 per share, and a market capitalisation of $15 million. Thirty-five years later Markel finished calendar 2021 with a book value per share of $1,034, a closing share price of $1,234, and a market capitalisation of around $16.8 billion. As such, the compound annual growth rate in book value per share and share price were 17.7% and 15.4% respectively - exceptional performance that is illustrated in the graph below.

---

[2] A jitney bus was one of the earliest forms of peer-to-peer rideshare that emerged in the 1910's as car ownership became more prevalent across North America, giving vehicle owners the ability to generate additional income. Jitneys were an unregulated and unlicensed transport service that tended to operate in communities that were underserviced by public transport and/or traditional taxi services. Not unlike today's ride share services, the jitney industry faced fierce pressure from formal transport operators and found it difficult to gain licensing approval which resulted in the inability to obtain insurance coverage for their unique risk profile.

[3] https://omny.fm/shows/masters-in-business/thomas-s-gayner-on-things-that-matter-in-markets-p



Markel stands as one of the few unique companies globally with a proven 35+ year record of phenomenal operating and financial success that, most importantly, has been built upon steadfastly abiding to a values-based and principles led culture despite the myriad of continual challenges throughout such a period. Without fail, every component of our research points to the conclusion that their relentless pursuit of excellence, as guided by their cultural north star, the Markel Style, has been the primary fuel behind their enduring success. We believe this cultural north star is alive and thriving and continues to provide a solid foundation for the coming generations of success.

1. Markel's Economics

Insurance Underwriting

Markel is a diversified provider of specialised underwriting[4] and claims administration for some of the world's most complex risks. Being diversified *and* specialised offers two distinct operating advantages. Diversification spreads their risk exposure and reduces the likelihood of concentrated/correlated losses in any one business line becoming catastrophic for the insurance operations. Meanwhile, focusing on specialised risk in niche markets reduces the competitive pressure that is prevalent in mass market consumer insurance products. Specialised risk requires a deeply experienced team of industry experts working collaboratively to accurately underwrite policies and to process claims. Buyers of these specialised policies tend to be far less focused on price and much more on the reputation of the insurer as a competent, trustworthy, and reliable counterparty, especially when it comes to prompt, fair, and equitable processing of claims. This type of underwriting is very different to the more price-driven mass market consumer offerings such as car, home and contents, and health insurance which can generally be written on the spot based on broadly generic policyholder characteristics.

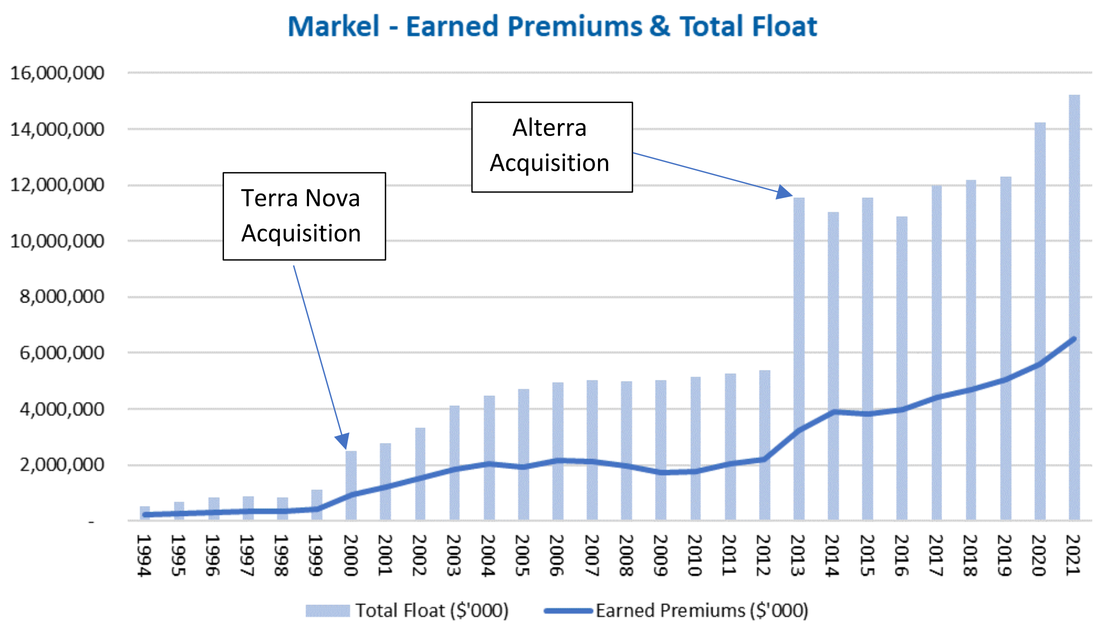
[4] Underwriting, in the realm of insurance, is the term used to describe the process whereby an insurer analyses the inherent risk in an insurance policy and hence the price they must receive to accept that risk.

When it comes to the archetype of a successful insurance operation there is no better than Berkshire Hathaway. In the 2001 letter to shareholders, the Chairman and CEO of Berkshire, Warren Buffett, wrote a fantastic explanation regarding what an investor should focus on when analysing an insurance company. What follows herein is an attempt to express that wisdom in our own words, and specifically as it relates to Markel, though we highly recommend you read the real deal here. Buffett contends that the three most important aspects when evaluating an insurance company for investment are; 1) the amount of float that the business generates; 2) it's cost, and 3) most critical of all, the long-term outlook for both factors.

Float is the name given to the money an insurer holds during the period from when a policy premium is received, and eventual losses must be paid. This period can often run to several years depending on the type of policy, and during this time the insurance company is able to invest policyholder's premiums (or float) for their own benefit. Float tends to be relatively stable year to year given that the constant inflow of new and renewed policies is offset by the continual outflow from claims.

1) The amount of float that Markel generates

In simple terms, the amount of float an insurer generates on an annualised basis is the product of net earned premiums (NEP) adjusted for the average holding period before claims are paid. The table below illustrates Markel's annual earned premiums and cumulative float generation over the previous 27 years, both of which have grown at a compound annual rate of around 13%. The step change seen in 2000 is the result of Markel's acquisition of Terra Nova Holdings, whilst the bump up in 2013 was the result of the acquisition of Alterra Holdings. Both acquisitions more than double the size of Markel at the time of their completion. These businesses took a lot more time and effort to integrate and align with Markel standards than management originally anticipated. Nonetheless they have worked out very well for the company and the board and management of Markel are still enthusiastic about further large acquisitions. The jump in premiums and float in the last two years is the result of a very favourable post-covid insurance market in combination with Markel's "10-5-1" goal we discuss below.



2) The cost of Markel's float

The cost of an insurer's float is determined by the total amount paid-out in claims plus total operating costs, relative to total premiums received. If the insurer pays out more in claims than the total premiums received, they generate what is known as an 'underwriting loss'. The higher the loss, the higher the cost of obtaining and holding the float. In contrast, paying out less in claims than premium's received results in an 'underwriting profit' in which case the insurer is being paid to hold the float, generating what is known as a 'negative' cost of float.

It is relatively straightforward to analyse an insurance company's long-term underwriting profitability, and therefore the cost of float, given that on an annual basis they must report what is known as their combined ratio. The combined ratio equation is a method of measuring underwriting profitability in percentage terms as illustrated below.

$$\text{Combined Ratio} = \frac{\text{Incurred Losses} + \text{Expenses}}{\text{Earned Premium}}$$

When the combined ratio is greater than 100%, the insurer has made an underwriting loss, whereas a ratio less than 100% means the company has made an underwriting profit[5].

The table below shows that Markel has an excellent long-term underwriting record, with profits generated in 27 of the previous 36 years, and an average combined ratio over the period of only 96%. In essence, this means they have been paid to hold the float and therefore have a negative cost of float. Markel's performance compares very favourably against the industry which has generated only 9 years of underwriting profitability, and an average combined ratio of 104%[6] over the same period. The other crucial aspect shown in the table is that Markel has increased gross written premiums at an exceptional compound rate of 18%. In insurance, consistently high growth and strong underwriting profitability is the ultimate goal, but they are generally at odds. Markel's ability to achieve both goals, over a period of three-and-a-half decades, in combination with their relatively small market share, provides a sound basis for having conviction that this dynamic can continue.

[5] A particularly important component of how underwriting profitability is calculated, and in which Markel excels, is known as loss reserving. We intend to discuss loss reserving at length in future letters.

[6] Source: AM Best US P&C Industry Reports.

Year	Markel Gross Written Premiums (GWP)	Markel Combined Ratio	US P&C Industry Combined Ratio
1986	$ 35	78%	108%
1987	$ 32	85%	105%
1988	$ 43	84%	105%
1989	$ 44	78%	109%
1990	$ 412	81%	110%
1991	$ 406	106%	109%
1992	$ 304	97%	116%
1993	$ 313	97%	108%
1994	$ 349	97%	107%
1995	$ 402	99%	108%
1996	$ 414	100%	106%
1997	$ 423	99%	102%
1998	$ 437	98%	106%
1999	$ 595	101%	108%
2000	$ 1,132	114%	110%
2001	$ 1,774	124%	116%
2002	$ 2,218	103%	107%
2003	$ 2,572	99%	100%
2004	$ 2,518	96%	98%
2005	$ 2,401	101%	101%
2006	$ 2,536	87%	92%
2007	$ 2,359	88%	96%
2008	$ 2,213	99%	105%
2009	$ 1,906	95%	101%
2010	$ 1,982	97%	102%
2011	$ 2,291	102%	107%
2012	$ 2,514	97%	102%
2013	$ 3,920	97%	96%
2014	$ 4,806	95%	97%
2015	$ 4,633	89%	98%
2016	$ 4,797	92%	101%
2017	$ 5,507	105%	104%
2018	$ 7,864	98%	100%
2019	$ 8,780	94%	99%
2020	$ 9,267	98%	99%
2021	$ 11,439	90%	100%
CAGR/Average	**18.0%**	**96%**	**104%**

3) Markel's long-term outlook regarding float generation and cost of float

The ability to generate float can be roughly determined by the total addressable volume and future growth potential of the markets in which an insurer has chosen to operate, multiplied by the insurers current market share and a realistic expectation of their ability to maintain or grow this share over time. Markel operates two distinct branches of underwriting – insurance and reinsurance[7].

[7] Reinsurance is the practice whereby the primary insurer purchases insurance coverage from another party (the reinsurer) as a means to reduce the likelihood that they would have to pay a large one-off insurance claim.

Insurance

Markel generates around 60% of total insurance premiums from the property and casualty (P&C) coverage within the United States (US), and more specifically the subset of the P&C industry known as excess and surplus lines (E&S). This market has traditionally been the engine room of premium growth and profitability for Markel. The table below illustrates the direct premiums written and combined ratios over the previous 5 years[8] for both the entire US E&S market and Markel, along with Markel's market share and industry ranking[9]. We can see that industry has grown at an exceptional compound annual growth rate (CAGR) of 16.5% over the period, whilst Markel has lagged with a still brilliant CAGR of 13%. As a result, Markel's market share and industry ranking have both declined.

US E&S - Direct Written Premiums	2017	2018	2019	2020	2021	CAGR/Ave
Total Market ($'000)	44,878,931	49,890,353	55,484,985	66,102,486	82,652,576	**16.5%**
Industry Combined Ratio	104%	100%	99%	99%	100%	**100%**
Markel ($'000)	2,167,568	2,496,504	2,747,110	2,790,649	3,530,213	**13.0%**
Combined Ratio	97%	94%	93%	96%	87%	**94%**
Market Share	4.8%	5.0%	5.0%	4.2%	4.3%	
Industry Rank	2	2	2	3	3	

The far more important factor in our view is the significant underwriting profitability that Markel have produced with an average combined ratio of only 94% versus the industry average of 100%. This provides a clear representation of Markel's underwriting discipline, and more specifically their willingness to walk away from writing business where premiums do not adequately compensate for the risk. The last thing we want to see is Markel chasing market share at the expense of underwriting profitability, and we are undeterred whether they are matching industry growth in the short-term.

Over the longer-term, we expect that these superior underwriting capabilities will provide the fuel for Markel to increase market share in a progressive and sustainable manner that aligns with managements "10-5-1" goal outlined below. In addition, given the combination of their history as a consolidator and their inherent financial strength, we think there is a reasonable and ever-present likelihood that Markel acquires one of their smaller competitors, resulting in a step-change in both premiums and float. At just under 5% share Markel has ample growth opportunity within their core US E&S market. This same opportunity applies as they continue to expand their specialised underwriting skill and unique culture to markets such as the globally focused $86+ billion London insurance market where they currently have only a 2% market share.

The "10-5-1" Goal

Since mid-to-late 2020, Markel has been building the people, products, and systems necessary to achieve what they are calling their "10-5-1" goal within the insurance operation (not including reinsurance). This goal involves **organically** growing gross written premium (GWP) to $10 billion and underwriting profits to $1 billion, in a 5-year time frame to the end of 2025. In general, whenever an insurance company announces that they intend to grow this aggressively in a relatively short period of time we would be very wary. Growth comes easy to insurer's who have sufficient capital and scant regard for eventual profitability, this is because they can immediately grow revenue simply by lowering premiums. However, the actual profitability of this revenue will not be evident for several

[8] The period chosen, despite being relatively short, is in our view the most reliable because 2017 represents the first year of premiums form the acquisition of State National, which was previously a direct competitor.
[9] Source: Insurance Information Institute (https://www.iii.org/publications/a-firm-foundation-how-insurance-supports-the-economy/driving-economic-progress/surplus-lines)

months and perhaps years. History has proven all too often that a unilateral obsession with, and an incentive structure that rewards, revenue growth is almost always monumentally destructive for financial institutions.

In the case of Markel, we believe their history of conservatism, the '10-5-1' dual mandate of growth *and* profitability combined with the fact that the associates within the insurance operation are **incentivised entirely on underwriting profitability**, alters what would be a serious red flag to what may be a meaningful opportunity. This reality was discussed by CEO Tom Gayner as follows:

> *"I fully recognise that when we announced [the '10-5-1'], people appropriately freaked out, because if you want to grow in the insurance industry, that's easy… We've looked at a bunch of insurance companies where you know, somebody would make all these promises about how much they were gonna grow and we'd both walk out of there thinking; we're not touching that… So if you only have a volume goal, a) you're likely to hit it, and b) you're likely to ruin the company. We know that. So that is why we have the 10% profitability goal for every dollar of premium volume [and this comes with] all of the disciplines at Markel for over 90 years of financial integrity and making sure your reserves are likely to be redundant than deficient. The track record we have year, after year, after year, of living up to that standard that we set for ourselves."*[10]

At the time this target was established, the insurance segment had just generated $6 billion of gross written premium (GWP) and $169 million of underwriting profits, so it was certainly a big aspiration. The company got off to a flying start in 2021 with GWP and underwriting profits growing to $7.2 billion and $696 million respectively. The first nine months of 2022 has also been kind to the goal, with GWP on an annualised basis on track to be around $8.5 billion, and underwriting profit to be comparable to that of 2021 (we expect the underwriting profit goal to be achieved in lumpy not linear manner). This is a very impressive start, and the goal is clearly well within reach over the coming three and a half years[11]. We have strong conviction in the judgment of Markel's board and management team and believe the ongoing investments they are making in "10-5-1", and most importantly the spirit in which they are being made (see commentary below), will almost certainly result in significant and sustainable shareholder value.

> *"While the name "10-5-1" describes a goal of writing $10 billion of premium volume in five years with $1 billion of underwriting profits that goal is only an end result. It is an outcome. What "10-5-1" really describes is a process used to organize and systematize what it would take to achieve that outcome. The beauty of the "10-5-1" program at Markel is that we used that process as a thinking tool to examine every aspect of our underwriting operations. Profitable growth doesn't just happen by itself. The discipline of "10-5-1" caused us to rethink and examine what we needed to do in every aspect of our insurance operations. We continue to reengineer our processes and we are pleased with the progress we're reporting to you in this year's results. The reviews of our process that took place to develop the "10-5-1" goals help us to orchestrate and manage what it means to operate our underwriting operations at global scale."*[12]

---

[10] https://vimeo.com/715673493/687cc02ce3

[11] $1 billion of underwriting profits equates to $73 per share, so the "10-5-1" is both realistic and very meaningful for shareholders.

[12] https://s201.q4cdn.com/916389373/files/doc_financials/ARs/2021/2021-Annual-Report_FINAL.pdf

Reinsurance

Reinsurance became a major business line for Markel following their 2013 acquisition of Alterra Capital Holdings and is the company's second largest contributor to premiums. Markel are the 40th largest reinsurer globally with $1.2 billion of GWP, or 0.35% of the total $353 billion market[13]. Unfortunately, reinsurance has been the chink in Markel's armour for several years, with the table below illustrating that this operation has only produced underwriting profits in three of the previous nine years, and an average combined ratio of 105%.

Markel - Reinsurance	2013	2014	2015	2016	2017	2018	2019	2020	2021
Net Written Premiums	480,822	956,584	824,324	898,728	978,160	882,285	964,947	960,123	1,126,167
Underwriting Profit/(Loss)	(60,982)	38,900	86,280	106,835	(300,018)	(118,287)	(39,999)	(34,009)	(55,238)
Combined Ratio	109%	96%	90%	94%	132%	113%	104%	104%	105%

According to management, the bulk of these underwriting losses have stemmed from claims incurred on policy's covering catastrophe-exposed property. As of January 2021, Markel ceased writing all types of property reinsurance coverage on a risk-bearing basis and management expects this will significantly improve the underwriting performance going forward. Whilst it is too early to tell whether these actions are having the intended effect, it is encouraging to see that in the first six months of 2022 reinsurance produced a combined ratio of 97% on steady premium volumes. We think the type of reinsurance written by Markel will remain extremely competitive and therefore we are not expecting meaningful underwriting profits or float growth in the near-term[14]. We would simply be happy to see the division return to consistent profitability on a lower premium base.

Investments

Investing is a naturally embedded component of the insurance business model because the money received upfront from policy premium's must, at a minimum, be invested at a rate sufficient to compensate for the inflation that will occur until such time as claims become payable. In simple terms, the primary goal of most insurers (and their regulators) is to invest in a portfolio of extremely low-risk assets that produce sufficient income to conservatively match expected claims liabilities. The attractiveness of this business model lies in the operating leverage that insurers achieve through their ability to write premium volumes that are often around 2-2.5 times total shareholders' equity. As a result of this leverage, even moderate returns achieved through investing premiums into very low-risk assets can still produce very attractive results for equity owners.

Markel is no different in the sense that they invest all insurance policyholders' funds into very low-risk government and corporate bonds (known collectively as 'fixed income'). Where the company does differ is in their willingness to invest a majority proportion[15] of shareholders' funds into publicly listed equities and more recently private equity through Markel Ventures, both of which are types of investments that most insurers consider to be too volatile[16]. The table below shows Markel's 30-year history of investment returns across publicly listed equities, fixed income, and the combination of both as their total portfolio. We can see that the equity returns over this period have contributed an additional 1.7% of compound annual growth compared to if Markel had only invested in fixed income.

[13] Source: https://www.insurancebusinessmag.com/us/news/breaking-news/revealed--the-worlds-50-largest-reinsurance-companies-418331.aspx

[14] The type and scale of reinsurance written by Markel generally requires minimal long-term operational commitment and the market is therefore exposed to constant attack from short-term orientated competitors.

[15] As at the end of calendar 2021 Markel had 61% of shareholder's equity invested in equity securities.

[16] Other insurance companies who have also had a lot of success with this model include Berkshire Hathaway, Fairfax Financial, Alleghany Corporation, Teledyne, and more recently Exor.

This has provided a substantial benefit for shareholders. For example, had Markel invested only in fixed income over this period then they would have grown their initial capital by around 7 times, but with the equity return contribution they have grown their initial capital by 12.2 times! The table also illustrates another very important fact - that Markel's equity returns have comfortably outperformed the S&P 500 total return index by a margin of 2.1%. Once again, this has added substantial additional value for shareholders over and above what Markel could have delivered had they instead chosen to invest in equities through an index fund.

Year	MARKEL Investment Returns			S&P 500 Total Return
	Equities	Fixed Income	Total Portfolio	
1991	26.9%	15.1%	17.0%	30.5%
1992	13.1%	7.8%	8.2%	7.6%
1993	28.7%	9.1%	11.8%	10.1%
1994	-3.3%	-0.2%	-1.1%	1.3%
1995	29.7%	14.4%	15.7%	37.6%
1996	26.9%	4.8%	7.5%	23.0%
1997	31.4%	9.2%	12.8%	33.3%
1998	13.3%	7.6%	8.9%	28.6%
1999	-10.0%	0.9%	-1.3%	21.0%
2000	26.4%	10.5%	11.6%	-9.1%
2001	16.9%	7.7%	8.4%	-11.9%
2002	-8.8%	9.8%	8.3%	-22.1%
2003	31.0%	4.5%	10.5%	28.7%
2004	15.2%	4.8%	7.9%	10.9%
2005	-0.3%	3.9%	1.5%	4.9%
2006	25.9%	5.2%	11.2%	15.8%
2007	-0.4%	5.6%	4.8%	5.5%
2008	-34.0%	0.2%	-9.6%	-37.0%
2009	25.7%	9.8%	13.2%	26.5%
2010	20.8%	5.4%	7.9%	15.1%
2011	3.8%	7.6%	6.5%	2.1%
2012	19.6%	5.1%	9.0%	16.0%
2013	33.3%	0.0%	6.8%	32.4%
2014	18.6%	6.5%	7.4%	13.7%
2015	-2.5%	1.6%	-0.7%	1.4%
2016	13.5%	2.4%	4.4%	12.0%
2017	25.5%	3.4%	10.2%	21.8%
2018	-3.5%	1.3%	-1.0%	-4.4%
2019	30.0%	6.5%	14.6%	31.5%
2020	15.2%	5.7%	9.4%	18.4%
2021	29.6%	-0.7%	8.8%	28.7%
Average	**14.8%**	**5.7%**	**7.4%**	**12.7%**

Further still, the table is indicative of perhaps the most important fact – it represents the investment track record of Markel CEO, Tom Gayner, who became co-manager of the portfolio in 1990 and quickly progressed to taking full responsibility. Tom is only 60 and by all impressions, has more drive than ever to keep delivering exceptional investment returns through Markel's 'four-part' investment process described as follows:

> *"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."

Markel Ventures

Markel Ventures (Ventures) is a wholly owned subsidiary of Markel that owns a diverse portfolio of product and service focused businesses that operate outside the speciality insurance industry. Ventures was created as an additional outlet to deploy excess capital generated from the insurance operations, whilst also delivering an unrestricted source of free cash flow independent from the regulated insurance subsidiaries and dividend income from the ownership of publicly traded equity securities. This provides Markel the unique and very valuable ability to repurchase their own shares during challenging insurance markets without compromising their financially conservative reputation and broader regulatory obligations of their insurance subsidiaries. In addition, Markel can control the allocation of surplus free cash flow as the majority equity owner, which is not the case with their minority equity investments.

Ventures owns specialised products focused businesses in areas such as cultivation of house and garden plants, food making equipment, dredges, truck trailers for transporting cars, homebuilding, wood flooring for truck trailers, pre-cast concrete structures, industrial gas tanks, commercial and residential property development, luxury leather handbags, and interior wall panels. Service based businesses include a distributor of building products, crane hire, technology consulting, fire and security system design, installation, and management, retail data analysis, investment management, and concierge medicine. Markel CEO, Tom Gayner, describes Ventures as a "diverse and eclectic" portfolio in which:

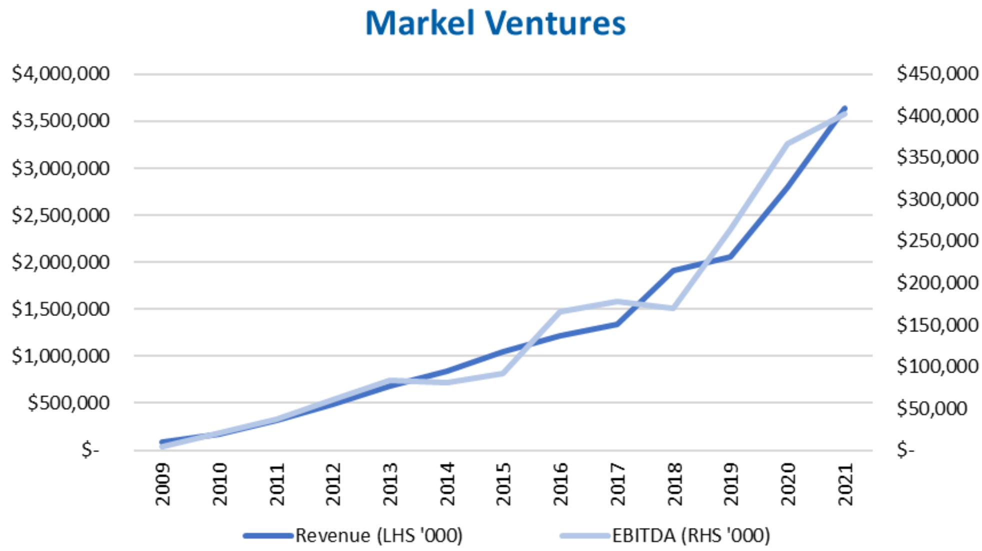
"Each of these companies are really a market leader in what they do. They are established businesses with long histories of taking care of their customers and serving them well. That is a fundamentally attractive idea to me, that you have a business that customers know and love and trust, generally speaking that's the basis for a good business."[17]

Ventures differentiates itself from a typical private equity buyout firm by the fact that they provide business owners a permanent capital base and a very long-term ownership commitment, whilst also giving them continuing autonomy and responsibility for *"developing strategic initiatives, managing day-to-day operations, and making investment and capital allocation decisions for their respective companies"*[18]. The senior management team of Markel have responsibility for decisions regarding allocation of capital for acquisitions and new investments. The investment strategy of Ventures mirrors Markel's public market investment philosophy as follows:

"We seek to invest in profitable companies, with honest and talented management, that exhibit reinvestment opportunities and capital discipline, at reasonable prices. We intend to own the businesses acquired for a long period of time."[19]

[17] https://richmond.com/markel-s-tom-gayner-explains-the-company-s-acquisition-philosophy/video_650bca73-37d6-524b-94d4-b251f34609c2.html
[18] https://s201.q4cdn.com/916389373/files/doc_financials/ARs/2021/2021-Annual-Report_FINAL.pdf
[19] ibid

Ventures was founded in 2005 with an initial investment of $14 million[20], and in the same year reported $11 million of revenue and $2 million of earnings before interest, tax, depreciation, and amortisation (EBITDA). Progress was slow in the years following the first acquisition given that management was unable to find attractive deals in the pre-GFC environment. However, since 2009 the subsidiary has been growing strongly as shown in the graph below. As at the end of 2021, Ventures has cumulatively invested $3.4 billion to buy and fund the portfolio, with revenues and EBITDA now clocking in at $3.6 billion and $403 million respectively. Whilst some of the Venture's acquisitions have not worked entirely as planned, the underperformance has been inconsequential in terms of the overall portfolio. Over the sixteen years since inception the Venture's businesses have built-up cash balances and returned $1.5 billion to Markel and collectively now represent 28% of group revenue.



"Our secret sauce behind continuing to scale Markel is a commitment to our values. We can continue to grow by keeping our businesses as autonomous and independent as possible. Values are scalable, complexity that develops from trying to micro-manage from the top down is not. First-rate people want the freedom and trust to feel a sense of ownership and pride in what they do. Our people are craftsmen who take pride in their companies. Our system and approach provide the necessary capital it takes to run a business with a stable long-term focus. Our leaders can make decisions with a consistent north star of doing what is right over the long-term. We're willing to incur short-term costs and bend over backwards to take care of our customers and our people. We think that this constant, enduring, and consistent focus on empowering our people, and remaining focused on the long-term, produces wonderful and durable economic results over time."[21]

The competitive strength of each Markel Venture's company comes from the fact that, in most cases, they are multi-decade market leaders with significant scale and reputational advantages over their nearest competitors within their respective niche markets. In addition, almost all the Venture's businesses operate in what are generally considered to be relatively 'boring' and 'old economy' style industries when compared to the fast paced and hyped-up world of high technology that captures

[20] Markel Ventures acquired AMF Baking Systems which is now part of Markel Food group.
[21] https://s201.q4cdn.com/916389373/files/doc_financials/ARs/2021/2021-Annual-Report_FINAL.pdf

most of the investment community's attention. The probability of achieving an extremely rapid path to riches through becoming a grower of house and garden plants, or a manufacture of dredges, or a distributor of building products, is at best a very low probability, at worst near impossible. In most cases, it has taken multiple decades to build the foundations of operational success upon which the Ventures businesses stand today, and any new competitor faces a comparable if not more challenging path. We believe that these underlying characteristics, combined with the commitment of Markel as a long-term capital partner, will provide each of the Venture's businesses their competitive strength over time.

2. Markel's Competitive Advantage

Within insurance, Markel primarily achieves competitive differentiation through focused underwriting of specialised risk across well-defined geographies and within niche markets where there are far fewer competitors. Their continuous pursuit of this strategy over several decades means they are now one of the largest, most experienced, and longest running participants in many of these respective niche markets. This has resulted in the development of valuable scale and reputational advantages, although Markel's insurance and investment operations do not provide any *structurally enduring* advantages per se. Insurance is generally a highly competitive industry selling a commodity product, whilst the superior investing skill that is crucial to Markel's "three engine' architecture, is entirely reliant on the sustained good judgment of a core group of capital allocators who have finite careers.

Fortunately, Markel stands as testament to the fact that competitive advantages can endure over several decades within these industries as illustrated by their long-term track records in both underwriting profitability and investment returns as discussed earlier. We believe that the differentiating factor that has enabled Markel to flourish has been and remains their superior execution. Markel's superior execution is the product of patiently building the business with a long-term focused owner-operator mentality, growing only when great people can be found, and always staying true to their cultural north star – the Markel Style[22].

Superior execution is of upmost importance to long-term investors as we are buying the future, not the past. We seek businesses who are religiously focused on improving their competitiveness as opposed to those who are content on protecting their current position. Time and again we have seen businesses within highly competitive industries massively outperform their competitors primarily because of their relentless pursuit of excellence within every facet of their operations[23].

This requires a culture of adaptability where continuous learning and evolution are strategic priorities, a culture that thrives on making small incremental daily improvements and that abhors complacency. This is not easy to do, because it necessitates constant sacrificing of short-term gain for long-term success, and there are very few people or organisations that are willing to take such a path. Somewhat ironically, at a certain point, this obsessiveness has a high likelihood of creating multiple, and difficult to replicate, components of structural competitive differentiation such as economies of scale, network effects, and brand/reputation. **These advantages *are the result* of an unrelenting commitment to excellence and success, *not the cause*.**

In the decades ahead, we believe that it will be crucially important for businesses to prioritise constant incremental improvement as the most enduring source of competitive strength, instead of primarily

[22] We do believe that Markel's reputation within the insurance/investment industry is of immense competitive importance as it would likely take a new entrant well over a decade to build a comparable position. However, reputation is a constantly evolving subjective judgement, and as such cannot per se be relied upon to provide enduring investment value.
[23] Other HPF1 portfolio examples include Kelly Partners, Dicker Data, Costco, and Ryman Healthcare.

leveraging or seeking to entrench an incumbent competitive advantage. Such a priority will provide businesses with the most robust protection available against the constant barrage of technological and business model innovation.

The most effective way to establish a business with a continual improvement ethos is to hire people who already embrace this mentality, and therefore thrive on being a part of a team that encourages challenge and growth. When a group of people with common values and a shared pursuit of excellence are in sync as a team, a collective ethos's emerges as a separate and distinct element – culture. We have come to realise that it is Markel's unique culture which is the true 'engine' of their success.

> *"Our culture is our greatest asset and is defined by the Markel Style. Written in 1986, in preparation for our initial public offering, the Markel Style memorialized how we seek to operate our businesses and treat one another. It continues to provide our guiding principles across our diverse group of businesses. Key within the Markel Style is the encouragement to look for a better way to do things, to challenge management. We also seek spontaneity and flexibility and a respect for authority, but disdain for bureaucracy. Our diverse financial holding company is managed in a way to accomplish these principles. Each of our businesses operates with a high degree of autonomy so long as they operate within the principles of the Markel Style. This allows our managers to make decisions that are best for their employees and customers, as well as our shareholders. We believe this high degree of empowerment leads to the satisfaction that comes from being trusted in the responsibilities one has been given.*
>
> *Further outlined in the Markel Style is our creed of honesty and fairness in all our dealings; holding the individual's right to self-determination in the highest light; putting aside individual concerns in the spirit of teamwork; and providing an atmosphere in which people can reach their full potential. We greatly value our employees, encourage their career development and reward their pursuit of excellence, while also celebrating a diverse workforce."[24] – 2021 Markel Annual Report*

Over time, we think the fact that Markel prioritises nurturing and constantly improving their cultural advantage will be a core enabler of the company's ability to adapt and thrive for several decades to come. We view management's ability to be effective custodians and/or developers of a thriving culture to be second only to their capital allocation ability. The current crop of leaders at Markel excels in both these areas.

3. Markel's Management

The first and foremost characteristics we seek in management are very high standards of integrity and skill, shareholder alignment, and tangible evidence that they are leading by example when it comes to behaving congruent with the guiding values and principles of the business's culture. However, this is just the minimum requirement for us to keep researching any opportunity. What we are truly seeking to do, is partner with a team of leaders who view the business they are running as a defining component of their life's work. More specifically, we look for managers who gain a significant amount of meaning from the commitment they have made to building a business that typifies excellence and makes a significant positive contribution to society. In this way the commitment becomes their identity, and your identity is one of the most important determinants of how you behave. When guided by such a commitment, people and organisations alike have a much higher likelihood of

[24] https://s201.q4cdn.com/916389373/files/doc_financials/ARs/2021/2021-Annual-Report_FINAL.pdf

persisting and staying true to their values and principles in the face of the inevitable and recurring challenges that life and business throws at them.

It is for this reason that our first preference is to invest with founders or leaders who have been with the business for a very long period and have therefore invested a significant amount of their time, capital, and emotional energy into its future. This circumstance provides us the ability to study a tangible track record of their behaviour and outcomes within the business and given that human nature tends to change quite slowly, we can therefore more confidently assume future behaviour and hence the likelihood that they can maintain past success.

Markel excels on almost every measure of what we seek in a leadership team. This starts with the board, which has been constructed on merit and collectively owns just under $300 million worth of Markel shares. The board still has two prominent Markel family members in Tony Markel, who is 80 and has worked at Markel since 1964 (58 years), and his cousin Steve Markel, who is 73 and has been with Markel since 1975 (45 years). The former CEO Alan Kirschner retired in 2020 at the age of 83 after being with Markel since 1960 (60 years). Tony, Steve, and Alan (who was a Markel family member by marriage) were the primary architects of taking Markel from total assets of $60 million at the time of the 1986 public listing, to around $25 billion at the time of Alan's retirement. The leadership baton has been prudently handed to current co-CEO's Tom Gayner and Richie Whitt, who have been with Markel for 32 and 31 years respectively.

Earlier this year Richie announced he intends to retire in March 2023 at which point Tom will become the first sole CEO of the company that is not part of the Markel family. Fortunately, Tom is one of the clearest thinkers we have come across when it comes to business, investing, and life, as so much of what he has to say just drips with common sense. Tom was raised as a Quaker and lives by an extremely high standard of integrity, loyalty, empathy, and commitment to excellence. In our view, Tom has made the type of career commitment to Markel that we seek in non-founder managers, as he outlined in a recent interview:

> *"Fortunately, both of us have been here more than 30 years. We're not in and out guys. We have invested our careers, our lifestyles, our identities in the ongoing success and financial integrity of the Markel Corporation. And we will do our very best to make sure people follow us in these rules and have the same underlying thinking and values that we do."*[25]

He brings immensely valuable talent, having shepherded Markel's equity portfolio to a 2.1% annual advantage against the S&P 500 over a thirty-year period, whilst his ownership of Markel shares represents most of his personal wealth (see table below).

One aspect of his personality which we are particularly thankful for is his unique ability to communicate and teach the values, principles, and purpose of Markel through his folksy style of anecdote and storytelling. Being a good storyteller is not something that is traditionally seen as crucial for success in business, especially an insurance and investment business. However, with Markel now at over 20,000 associates, we view Tom's ability to effectively communicate the story and the dream of Markel - where they have come from, what they stand for, and where they are going - as mission critical to the continuation of their thriving culture and underwriting discipline. One of the primary outlets through which he achieves this is the annual letter to shareholder's which he has authored since 2011. These letters are a treasure trove of timeless wisdom and the ideal way to understand

[25] https://vimeo.com/715673493/687cc02ce3

how Tom thinks about insurance, investing, accounting, life, and music! We have included one of our favourite excerpts from the most recent 2021 letter below.

> *"We are not perfect, and we never will be. Principles are qualitative. They are the intangible but powerful ideas and beliefs that drive actions and behaviors. They can never be precisely measured or metricized. Things like love, kindness, concern, and empathy for fellow human beings, are the most important things in the world but we don't believe there is a score for them. You either have these principles at the core of your existence or you do not. We live and act them out every day. Exactly how they are lived and what specific actions take place may change over time as our knowledge and understanding increases. The principles though are unchanging and simply cannot be measured with precision. As always, we will continue to do our best to act in accord with our principles.*
>
> *While numbers show quantifiable financial data, we also hope to share a sense of the qualitative side and the humanity of Markel. The story contains the secret as to how those lovely numbers came to be. We hope to give you insight into how we think and act. More importantly, we hope that by the time you finish reading this report you'll share our optimism about the future. Our narrative describes a durable and sustainable approach. We are incredibly optimistic about our ability to continue on this path of building one of the world's great companies. Thank you for being a part of this great adventure.*
>
> *"Building one of the world's great companies" captures the essence of our dream. This is not a dream that takes place in the middle of the night only to be forgotten by sunrise. We live it each and every day.*
>
> *We thank you as fellow customers, employees, and shareholders for being part of it. A dream like this is fun. It is worthy, it is hard work, and it is joyful. It is not a common way that businesses describe themselves, it only happens over long periods of time, and it only matters if it helps other people. Markel is more than the sum of the individual businesses that make up the holding company. Markel is an idea. Markel is a dream. We're glad you're along for the ride. Let's keep going…"*

We have learned a remarkable amount from Tom and believe he has the personal humility and determination to keep evolving as an exceptional leader over the coming decades. Tom is partnered with a first-class executive team who, like him, live and breathe the Markel Style, and are committed to the Markel Dream of "*building one of the world's great companies*". The table below illustrates that the Markel management team possess two of the most important tangible characteristics we seek – long tenures and meaningful ownership in the company.

Markel Executive Team	Role	Tenure (yrs)	Age	Salary	Shares	Market Value (MV)	MV/Salary
Tom S. Gayner	Chief executive officer	32	60	1,043,269	47,152	56,582,400	54.2
Jeremy A. Noble	Chief financial officer	20	46	593,269	2,224	2,668,800	4.5
Bradley J. Kiskarden	Chief actuarial officer	38	62	750,000	8,676	10,411,200	13.9
Michael R. Heaton	Executive vice president	10	45	520,673	2,303	2,763,600	5.3
Andrew G. Crowley	President, Markel Ventures	10	39	420,500	NA	NA	NA

We believe this team has all the ingredients required to lead Markel into a new era of prosperity, and we are excited to have the opportunity to partner with them.

4. Will Markel be thriving in 10 years?

Markel is in an extremely strong financial position with a diverse portfolio of high-quality assets, low debt, and resilient free cash flows. When combined with the financially conservative nature of the board and executive leadership, Markel presents with very low financial catastrophe risk and a robust financial foundation from which it can actively pursue both incremental and opportunistic growth. Operationally, we believe insurance, and particularly speciality insurance, will remain mission critical to a well-functioning economy and may in fact become more crucial as customers risks continually evolve and become increasingly complex. Despite being intensely competitive, the insurance industry does have some great advantages – it requires minimal fixed capital, the product never goes out of style, cyclicality tends to be mild, and it doesn't pollute.

We have spoken at length about the competitive strength of Markel's core insurance and investment operations in the sense that they combine superior underwriting and investment skill. In addition, we covered the unique competitive potential of the Markel Ventures portfolio on an individual and collective basis. Therefore, in the context of appraising financial wherewithal, industry opportunity, and competitive strength, Markel is clearly in a brilliant position to continue thriving in the decade ahead, and beyond.

Most importantly, we have learned that the highest probability of long-term investment success will almost always be found within businesses that focus on continuous improvement and apply equal discipline toward achieving an authentic purpose of improving the lives of customers, employees, and communities, and simultaneously generating great financial returns. In our view, purpose, profitability, and excellence are intimately connected and can sustainably thrive side-by-side. Markel embodies this ethos with their win-win-win philosophy:

> *"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… 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."*[26]

*****

We are privileged that you have chosen to partner with us on this journey. As always, we welcome any feedback and if you have any questions, comments or investment ideas please do not hesitate to contact us.

Yours Sincerely,

Cameron Harrington
Executive Director
Harrington Partners Pty Ltd
Email: cameron@harringtonpartners.net.au

Brendan Harrington
Executive Director
Harrington Partners Pty Ltd
Email: brendan@harringtonpartners.net.au

[26] https://s201.q4cdn.com/916389373/files/doc_financials/ARs/2019/Markel_Annual_Report_2019.pdf

DISCLOSURES: