

Notes from the 2013 Markel Breakfast in Omaha

Tom Gayner (TG):

- This is the 23rd year they have come out to Omaha
- Steve Markel was the architect of a firm that tried to make money from underwriting and make excellent investments as well
 - When Tom was talking to Steve about the idea, Tom realized there was a company that had done pretty well with that exact model—Berkshire Hathaway (BRK)
 - They knew that the people who were most likely to understand what they were trying to do were people who already owned BRK's shares
 - Decided to come to Omaha to try to meet like-minded investors
 - The first time they came here there were 6 people at the meeting
 - The stock price and the number of people at the meeting seem to be correlated
 - When there were 6 people at the meeting, the stock was \$7-\$8
 - Now that there are 400-500 people here, the stock is over \$500

Richard Whitt (RW):

- Richard is the Co-President of Markel on the insurance side
 - He and Mike Crowley are co-presidents of insurance
 - Richard is an accountant by trade
 - He started at KPMG and his first client was Markel
 - He has been at Markel for 22 years
 - His job is to produce underwriting profits and premium volume to hand over to Tom and Steve to put to work in the investment portfolio
 - They want to get 3-5 pts. of underwriting profit so that Tom can do the sexy stuff

Steve Markel (SM):

- Steve Markel is the Vice Chairman of Markel
 - He likes being the Vice Chairman because nobody knows what you are supposed to do so you can do whatever you want
- Markel is at an exciting part of its history
 - Insurance pricing is starting to improve
 - They just completed a very major transaction
 - They are a small company but they have done some great things since they went public in 1986

- We all come back to Omaha so that we can be reminded of something that we had begun to forget
 - One comment that was made by Buffett that was a spark for him had to do with the fact that one of the great strengths of BRK is the shareholder base that understands the mission of BRK
 - Buffett was talking about this in the context of his succession plan
 - His point was that the Board is important but so is the shareholder base that would likely speak out loudly if people saw something happening that was off base
 - Markel has a great shareholder base that does not care about quarterly earnings
 - Allows them to make decisions that will pay off over the long term—not in 60-90 days
 - The Alterra transaction would not have been possible without a shareholder base that understood the reason for the deal and had patience
 - Markel is not for everyone and that is OK—they are not trying to appeal to everyone

Q&A Session

- David Winters: A cornerstone of the success has been the MKL style. How are you going to take that and get buy-in from the new acquisition?
 - TG:
 - The Markel style is a critical feature of the company
 - In the Jewish tradition, there is a concept of “it is written”
 - When the company went public, the founders knew that there would be a time when they would not have their hands on 100% of the business
 - There was an attempt made to make sure there would be something there after the founders were gone
 - The MKL value system has been codified so that it can last
 - As MKL Ventures and the non-insurance operations have grown, nothing about insurance specifically is included in the mission statement
 - The founders understood that things would change over time even if insurance was always the dominant part of the business
 - The 2nd word that was included in the values was “winning”
 - How do they teach that concept to others?
 - He would suggest that it is more fun to be on a winning team than a losing team
 - They have a ton of momentum and people want to be part of that
 - People understand what that entails

- Because all of the MKL people have bought into it, they have a good gut feeling for people who are not wired that way
 - The organization rejects those people
 - Inevitably if someone is not working out, he/she will not last at MKL
- RW:
 - The first thing they talked about when they looked at Alterra was the cultural compatibilities
 - They have looked at a lot of acquisitions and many of them have gone into the “too hard” file because MKL didn’t think their cultures would work with the people at MKL
- SM:
 - Why is the strong value system so important?
 - They are not the smartest guys in the world and they try to copy the smart people
 - There have been studies that show that team players who share goals and objectives and are bonded do a lot better than a group of dysfunctional individuals
 - Shared values are a key element of MKL’s success
 - If you look at companies that are built to last, those that have a value system that people buy into inevitably do better
 - When they created the original mission statement, the shared value system was very important
 - They were going from a being a family-owned business to being a public company
 - The family business had a different set of values—those that correlated to a typical family business
 - Not all of those were appropriate for a public company
 - You need to separate the rights and benefits of shareholders from the rights and benefits of employees
 - They knew they had to focus more on shareholders
 - At the same time they wanted to create a system where employees would want to stay with the company for years
 - Allowed employees to become owners
 - They have been through a number of transactions where they have brought in a team to try to inoculate the new employees into the MKL style
 - It is always true that 10-15% of people won’t want to be a part of the MKL system
 - They are more interested in being a star than being part of a successful team

- They want to find these people ASAP so they can encourage those people to work somewhere else
 - Then there are 20-30% of people who buy in immediately and they are able to influence the 50% who are on the fence
 - They send MKL people to the offices of the companies to explain the style
 - Market compensation and incentive systems are implemented as well
- You have had great success investing in public markets. As you build the private market side of the portfolio, how do they source those ideas?
 - TG:
 - There are three buckets of buyers
 - Private Equity
 - These buyers can pay more than what MKL can
 - If you are only interested in the top bid, MKL is not the buyer
 - Private equity buyers will use more leverage and will sell the business in 3-5 years
 - Could lead to a lot of trauma and turmoil
 - Strategic buyers
 - These are people who are in the same business
 - These companies love revenues
 - They don't like expenses though—mostly people
 - You will not have two CFOs so many people will not be around
 - If those people are important to the success of the company, things will change—potentially for the worse
 - Investors with permanent capital
 - This is where MKL sits
 - MKL will not lever the company up
 - They will not sell it
 - They will buy assets that produce cash to buy more assets that produce even more cash
 - MKL's deal history
 - The first deal happened as a result of a local geographic accident
 - The seller was looking for Richmond-based buyer
 - The second deal actually came about because the attorney who represented the first seller called Tom and told him he had another client who was looking to sell
 - Made the deal at lunch and had a handshake by the end

- As they get bigger and bigger, they are going to have to compete with more strategic and private equity buyers
 - They are willing to pay a full price for a great business
 - MKL sees a lot of deal flow because they know people
 - They also have relationships with middle market investment bankers
- Of the 12 companies they have bought, their turnover has been 0% when it comes to the CEOs
 - That is unheard of
 - The sellers signed up a capital partner who was going to help the company grow the business
 - They have not had to fire people and sometimes the sellers become more invigorated once they do the deal
 - There aren't that many sources of permanent capital out there so they believe they have an advantage in some circumstances
- Buffett spoke about the importance of creating opportunities for women at the top of companies. What about the gender makeup of the board and the management team?
 - TG:
 - Tom feels good about where they are
 - There is one woman on the Board
 - The treasurer and CFO are both women
 - They are gender blind and gender neutral—they just want the best people
- Re-insurance is a tough business. Can you tell us how they got comfortable with Alterra's book of business?
 - SM:
 - Re-insurance is very challenging area
 - Getting exposure to it was a major part of the rationale for the acquisition of Alterra
 - If this business doesn't make underwriting profits, they will downsize it until it does
 - Reinsurance was a big part of the whole at Alterra
 - One of the areas that has become more channeling is where alternative sources of capital can enter—specifically hedge funds with side cars and/or catastrophe bonds
 - These forms of insurance are entering as investors look for uncorrelated risks
 - In the meantime, more traditional P&C lines remain very competitive
 - Over time these have been reasonably profitable though
 - They are interested in getting in growing this part of Alterra's business
 - RW:

- He likes the reinsurance business they have now
 - Believe it will be better under MKL than it was under Alterra
 - Reinsurance made up 60% of Alterra's book but it will only be 20% of the new MKL
 - This is a scalable business and you can take a few people and write a lot on insurance
 - They are going to wait for their spots and are not keep tons of people around
- TG:
 - There is an analogy from the investment world that fits here
 - Take 2 names from the portfolio
 - Caterpillar (CAT)
 - Despite being a relatively buy and hold type of company, there are times when they buy this stock and times when they don't
 - This is driven by the price, given that CAT has a somewhat volatile business
 - There are times when people panic and others when people think the business will be growing forever
 - They can take profits when they want
 - They don't have to buy CAT—no one puts a gun to Tom's head
 - CarMax (KMX)
 - This is a growth company
 - Year in and year out you expect them to grow
 - This is a stock you want to own and be in
 - All business is hard and successful businesses fight the good fight
 - The point is that like with CAT, when it comes to reinsurance they will pick their spots and only invest when they believe the pricing/timing is right
- BRK hired 4 key execs out of AIG. Is MKL small enough to stay away from pricing competition with these new players?
 - RW:
 - Those guys were going to be competing with MKL whether they were at BRK or AIG
 - But they are hunting elephants and he thinks that they will not be competing in the wholesale business with MKL
 - They will be competing with Ace, Chubb and Travelers

- MKL would obviously rather have fewer competitors but no matter what the competitive landscape looks like they will remain disciplined in how they approach the business
- SM:
 - Steve expects these people to be intelligent competitors now that they are at BRK
 - Maybe they will now be even more conscious when they underwrite
 - There are some questions surrounding AIG though
 - What will AIG choose to do to defend its turf?
 - Will they cut their price to maintain share?
 - His feeling is that MKL does not dominate this space and the fact that they are very small with insulate them
- TG:
 - If everyone works for Ajit Jain and underwrites like him, MKL is likely to be fine
- Can you talk about how you go about trying to generate an underwriting profit?
 - RW:
 - You need the entire organization to share the goal of generating underwriting profits
 - They set their comp systems up so that people are compensated for underwriting profit, not growth
 - This tends to focus the mind
 - What that has meant is that they did not grow for a number of years as the market got softer and softer
 - The model they have created here does not work unless they make an underwriting profit
 - Have an intense focus on making sure underwriting profits get made on a consistent basis
 - They have some really good underwriters at MKL
 - They are attracted to MKL because they are allowed to do their business
 - SM:
 - Underwriting profitably is always a challenge
 - They want to generate 3-4 pts. of underwriting profits
 - With rates so low, solid underwriting is really important
 - Buffett talked about the importance of risk selection and suggested that the pricing of risks is paramount
 - You should make a profit if you charge the right price
 - This comes from having smart people who become experts in the lines they are writing

- You need an information system that allow you to see differences between lines of insurance
 - Retention allows you to understand risks better over time
 - In the children's summer camp business, for example, they have renewed certain policies for 8 to 14 straight years
 - When you have written that business for that many years, you are able to price it better
 - If you are giving great service, then camps are willing to pay a fair price
 - This is a small example but in all cases their underwriters only write when they can make money
 - TG:
 - When he came to work for Steve, they talked about how to make an underwriting profit
 - They have done so more often than not for 27 years
 - No insurance executive will ever say he/she doesn't want to underwrite profitably
 - But the market only gives you credit when you do it consistently
 - They have made acquisitions in which they had to change the culture
- What company is Tom Gayner's See's Candy?
 - TG:
 - Of the dozen they have bought there are 3 that apply here
 - AMF is one
 - AMF was a \$50M business when they bought it
 - Before that transaction, it had been operating as a levered business
 - It was a good business with a bad balance sheet
 - They reduced the leverage but there was more to it than just that
 - When a piece of equipment broke, you had unhappy customers and they were servicing a lot of debt
 - MKL focused on developing a reputation for making sure things were fixed and worked well
 - The reputation kicked in an it gave them increased pricing power and market share
 - Baking is not a fast growing business but that company is going to do 4-5x what it did when it was bought
 - Some of that was organic and some was through tuck-in acquisitions
 - They are earning good returns on capital in a non-growth business

- The next business is Parkland Ventures
 - Started out as just an idea and they have gone to 41 parks from just 4
 - Think there is a huge runway for growth as there are 41K parks in the US
- The last business is PartnerMD, the provider of concierge medical and executive health programs
 - They had 9 physicians when they bought this
 - According to BLS, there were 113K physicians in the US
 - Think there is a long runway here too
- Jeff Stacey: Can you talk about differences between the Terra Nova and Alterra acquisitions? Is there a situation where they would buy another fixer upper?
 - RW:
 - They are very different companies
 - Terra Nova had been built quickly to be sold
 - The pieces had not been integrated
 - MKL knew all this but did not understand the depth of the issues
 - This was a challenging situation
 - Alterra was built through acquisitions
 - It was clear that they would need a partner in order to grow
 - It was clear that this was a very different type of organization
 - They had great controls and a good underwriting culture
 - There will always be surprises
 - But MKL won't be surprised because of poor blocking and tackling in underwriting
 - There are a lot of good people at Alterra—they have kept all of the top people
 - He feels really good about the people and the business
 - SM:
 - The Alterra transaction is one where they paid a full price for a quality company
 - Terra Nova was a fixer upper they bought much cheaper
 - In the near term they have their hands full so they are not likely to make a big insurance acquisition
 - The idea of buying a fixer upper at the right price is not a bad thing though

- Can you spend some time talking about the big risks on the asset side of the balance sheet that exist in the insurance industry? Are there too many people stretching for yield?
 - TG:
 - He doesn't sleep well at night because he is worried about MKL's assets—he doesn't have time to worry about the whole industry
 - One of the worries that he has is that rates will go a lot higher
 - The regime of low rates does not make sense to him
 - The bond portfolio duration continues to shrink and becomes more like cash
 - This adds a lot of optionality—they are really liquid and can deploy cash
 - Normally they would be giving up yield but the opportunity cost of using that strategy is very small
 - The difference between 1bp and 8bps is irrelevant
 - It is important to have cash when others don't
 - He doesn't know when but we will be in a different environment at some point
 - The Alterra portfolio has a longer duration
 - The MKL portfolio's duration is at 2.5 now versus 4-5 in the past
 - It has never been this low
 - They usually try to match their insurance liabilities and assets but now those are not matched
- As you search for private companies, you say that you are buy and hold-focused. How do you determine that the products or services of these companies will not go obsolete?
 - TG:
 - BRK bought ACME Brick years ago because Buffett knew that 10 years from then a brick was still going to be a brick
 - Tom tells his people that they don't want to own a business that could be gone in one morning
 - Bakery equipment is not going away tomorrow
 - People are going to continue to eat bread
 - Manufactured houses that are low cost are very necessary
 - They bought a dorm room furniture company a number of years ago
 - They had a Board meeting after this deal and the Board members were wondering if Tom had any specific industries he was looking at
 - The answer is no
 - They simply buy large companies in small industries that throw off a lot of cash
 - They also want businesses that don't change much

- So, the next business they bought was Ellicott Dredge
 - You can't dredge over the internet
 - In general, they are able to immediately recognize whether a company fits or it doesn't
 - Can you talk about some of your long tail insurance businesses and the cyclicity inherent in them? How about medical malpractice specifically?
 - RW:
 - Each market has its own cycles
 - Medical malpractice is a business they have been in for a long time
 - Are seeing modest price increase in some lines but medical malpractice is very competitive
 - When St. Paul pulled out a few years ago the market got really hard and the market has performed really well since then
 - Now it is a slugfest and premium volume that was \$200M has come down to \$80M to maintain margins
 - Markets tend to move in the same general direction
 - In some of the other casualty areas where there have been losses, you are starting to see mid-single digit rate increases
 - SM:
 - They like longer tail businesses because they generate more float
 - But they still want high margins in the long tail businesses
 - A disadvantage of long tail business is the inflation risk
 - They need to think about whether costs of claims will go up or down over time
 - CarMax has standard pricing and uses a lot of data. Tom, what stops others from replicating their model?
 - TG:
 - There is no question that there are other major dealer groups that push through a lot of volume
 - But mindset is really important here
 - CarMax reminds him of a story about RH Macy of Macy's
 - Clearly Macy's has a name that still matters
 - RH Macy was a Quaker merchant who worked on whaling ships
 - Quakers were merchants who sold at fixed prices
 - RH Macy went to NY in the 1800s and because he was willing to sell at a fixed price as opposed to through a haggling system, he was able to put ads in the newspaper with firm prices
 - The rest is history as this is commonplace now
 - But it took a long time for competitors to do this

- The fixed price offer from CarMax is the key
 - No one has done it at the scale that CarMax has
 - It is not a secret what they are doing
 - It is just hard for the competitors to let go of the old model
- One of the advantages is that MKL invests in other insurance companies. What is the outlook for their other insurance companies?
 - TG:
 - They have a good allocation to financial and insurance companies
 - Hold BRK and Fairfax Financial (FFH)
 - There are a lot of other insurance companies that he respects
 - Underwriting discipline has gotten better across the industry
 - You can't make up for bad insurance operations with investment returns in this low rate environment
- Why buy Alterra now? How did it come about? Why did they pay with stock?
 - SM:
 - They had been following Alterra for a long time
 - Knew the shareholder base and the leadership team
 - Knew that it would come to market at some point so they were not surprised
 - The senior team consisted of a good group who had done a nice job
 - Paid \$3B to acquire Alterra
 - Would rather have used all cash but they didn't have \$3B in cash so they needed to issue stock
 - They think that the value they are getting is bigger than what they paid
 - The overall benefit suggests that the deal should be accretive to book value per share
 - The cost savings from moving the company from Bermuda to the US should help
 - The shares issued represent about 30% of the total outstanding
 - The two largest shareholders were Chubb_Corporation and a hedge fund
 - As it relates to the hedge fund, ultimately the private funds will be dispersed to the underlying investors
 - RW:
 - When they first looked at it they thought there was going to be a lot of overlap between businesses
 - What they saw was that they would pick up 2 businesses that they did not have before

- The business that they did have in excess and surplus was very complementary
 - It is a \$2B portfolio with some overlap but they believe they can renew a lot of that over time
 - The ability to add to the investment portfolio was important too
 - TG:
 - Their share count has been coming down as they have bought back shares
 - They will continue to do that
 - Buffett talked about Henry Singleton at Teledyne and how he used shares in a lot of transactions
 - They know this story well and understand the risks
 - But we have to remember that when he joined MKL, the investment portfolio for \$45M
 - Now it is in the billions
 - They would never have had the business they have now if they had not used equity capital
 - They would love to write \$3B checks—but they can't now
 - As they get bigger, their bias is to use cash
 - They will always be thoughtful about allocating capital
- Why wouldn't they put more of the investment portfolio into equities than bonds, given the low expected returns for bonds?
 - TG:
 - Regulatory issues are important here
 - They will have the liabilities over-collateralized by fixed income for the next 5 years
 - They want to have bonds coming due so when claims come in, they have cash
 - He has no idea what is coming around the corner
 - But he knows he wants to be around for the next round of the fight
 - He loves Richard and Steve because they have never--in 23 years--asked for money back after they gave it to him
 - MKL construct the operations in a way that they don't put liquidity demands on their equity capital
 - There were "bigger" and "smarter" companies that are no longer with us because they could not meet liquidity requirements
 - Want to be in the game tomorrow so they can take advantage of distress

- If the noninsurance business were running outside of MKL, would they have an ROIC of 20% or more?
 - TG:
 - Yes, but you have to understand the accounting
 - If you are looking at bottom up versus top down accounting, the company can look very different
 - You have to look at what the companies would earn intrinsically before considering the corporate tax rate
 - EBITDA is not the whole answer when it comes to measuring cash flows and returns because you need to think about the level of CAPEX
 - If you own a radio station, EBITDA is an useful measure
 - Not so much in steel companies
- What is your opinion of the recent Brookfield spinoff? What is his opinion of Watsa's hedging at FFH and the deflation trade?
 - TG:
 - In terms of BAM, he thinks it is a fascinating company
 - BAM is their largest holding
 - He has great respect for the management team
 - He does not know about each of the “daughter ships” but he trusts the management team at the BAM level
 - They have a multi-decade track record of creating value for shareholders
 - SM:
 - They have had a long term relationship with FFH
 - Over the last several years that has just entailed MKL being a shareholder
 - Prem Watsa is one of the smartest guys around
 - They are familiar with his equity hedge and his deflation hedge
 - They do not share his concerns to the extent that they would do the same thing at MKL
 - They have a lot of respect in his judgment but will not hedge their equity portfolio or worry too much about inflation
 - These positions are basically insurance policies for FFH
 - They are not big bets that bad things will happen
 - TG:
 - Tom wears the same tie to Omaha each year
 - He bought it a number of years ago and it has a picture of stamps on it—the domination is a nickel
 - Clearly there has been inflation in stamp prices
 - Tom understand why Prem is scared of deflation—look at what has happened in Japan

- But Tom thinks we live in a period of fiat currency and doesn't think deflation is likely to be a problem
 - The economic forces of deflation have a counterbalance to what central banks are doing for sure
 - He doesn't know who wins but he thinks over time that we will have inflation
- Pat Brennan: How should we think about the CAGR-related compensation metrics in the proxy statement?
 - SM:
 - The most important thing to think about is that over a long period of time, they have gone out of their way to try to make sure the shareholders get a fair shake
 - This will remain a part of their culture when it comes to compensation
 - They will not have extravagant comp for their leaders
 - All of the formulas are moving targets given that interest rates (and this rates of return) will move around
 - They will err to make sure the shareholders get a good return though
 - TG:
 - He would hope that if the roles were reversed, shareholders would be happy with the MKL compensation plan
 - They are not going to grant a lot of options when the stock price goes down
 - But they have re-set the threshold lower in terms of what they have to earn for the execs to get a bonus
 - It is still a pretty high return required and that will increase as rates go up
 - They made some adjustments so that Tom and Richard could receive a bonus
 - They are still compensated based on 5 year rolling averages
 - This is a season in which they are reading proxy statements
 - Exxon (XOM) is a great company to look at
 - Being the Chairman at Exxon is very hard job
 - The Chairman makes \$25M
 - Comparing that to what a lot of corporate execs make, he thinks Exxon shareholders are getting a good deal
 - Of that main compensation, the max amount you can get in cash is ½
 - The rest is in stock

- The vesting period is the longer of 10 years or until retirement
 - If you are 40 years old, the vesting period could be 25 years
 - If you want to be a senior at XOM, you have to be willing to stay decades
 - He thinks MKL's proxy statement gets an A grade
- What is the impact of long term bond rates on what they can now earn on their fixed income book?
 - SM:
 - Bond returns have been a large portion of their returns over the years
 - Low rates are a fact of life
 - If rates on bonds stay low they will have to figure out how to make returns elsewhere
 - If rates go up, there will be some pain but they have short duration bonds
 - As rates go up, they will also have the opportunity to earn high rates again
 - Their goal is to make high ROICs
 - They will have to make more returns from underwriting operations if rates stay low
 - The combined ratio goal will go from 90-95% to 85-90%
 - They will also give more money to equities and to MKL Ventures
 - They expect to figure out ways to earn high ROICs
 - TG:
 - If rates stay low, yields will be so low that they will earn less
 - But they have an 8 cylinder engine—not a 4 cylinder one
 - They have a lot of businesses that can do well at any given time
- Bob Robotti: What are they seeing in the manufactured housing market? Do they also finance these houses as well? Is there room for expansion?
 - TG:
 - They are able to create a homemade corporate bond portfolio
 - They provide debt capital to MKL Venture companies as well as equity capital
 - If they can get a 6% coupons on this debt, it is a lot more than they can get investing in other things
 - They want to find businesses that they have a lot of confidence in
 - They would rather lend to their own businesses at 6% than buy Apple bonds
 - The companies clearly need to maintain robust organizations that can handle the debt

- But, some of their businesses have capital intensity and it might make sense for MKL to create an in-house fixed income book
- Can you discuss the intrinsic value of MKL and how that compares to book value (BV)?
 - TG:
 - BV is easily calculable
 - On this metric, they have usually sold at a small premium to the industry
 - They have a good track record of returns
 - The premium has diminished over the years
 - As MKL goes forward, you need to think about more than just BV
 - Growth is BV is a good proxy for the growth in intrinsic value
 - But it is not a precise measurement of the intrinsic value of a company
 - He would look at MKL from an SOTP basis
 - Look at the holdings and add those up
 - MKL Ventures throws off cash flow that can add to how much MKL can compound over time
 - You have to pick a discount rate to see how closely intrinsic value resembles BV
 - For the businesses that generate cash, BV is not a very good valuation measure
 - See's Candy does not have a high BV but it throws off a lot of cash
 - Proctor & Gamble (PG) is a great company as well
 - It trade at a premium to book value and they use some of the capital the business generates to buy back stock
 - As a result, PG has a negative tangible book value
 - He would buy PG for a negative value for sure
- On the topic of MKL Ventures, can you elaborate on what you have learned from past acquisitions?
 - TG:
 - The size and scale of the deals has changed over years
 - Good judgment comes from experience, which comes from bad judgment
 - You make better decisions as time goes by
 - They are getting better as time goes by at making large capital allocation decisions
 - Gayner is a control freak

- They know they don't want to be a minority shareholder
 - SM:
 - They are still in the crawl phase when it comes to MKL Ventures
 - But they know they like to have a control position versus a minority position
 - What about innovation in the insurance industry? What systems does MKL have in place to encourage innovation?
 - RW:
 - Alan Kirshner (the Chairman of MKL) has challenged them to become a more information driven company
 - Many industries have become very information-focused
 - They are trying to get better at using the information they have to make underwriting and marketing decisions
 - They have a ways to go on this—so does the industry as a whole
 - They are a specialty insurance company
 - Will not go toe to toe with the larger, commodity players
 - One of the ways they can innovate is by acquiring
 - When they acquire, they get talent
 - Growth leads to innovation—bringing people in who can grow into other specialty areas
 - SM:
 - As society grows and evolves, it creates new needs for insurance
 - Cyber security is an example of that
 - The areas of data mining and looking at correlations are a large focus
 - TG:
 - The world changes and they know that they have to change with it
- Closing Remarks by Tom Gayner
 - There are 3 principles of capital
 - Having more is better
 - The best way to get more capital is to earn it—not to raise it
 - You need to have a relationship with the capital markets that leads to quality a shareholder base
 - Having just that allows MKL to run its business without short term pressures
 - These investors only care about MKL doing the right thing over the long term