

**COVER PAGE**

***MARKEL-GAYNER ASSET MANAGEMENT CORPORATION***

(“Markel-Gayner”)

Form ADV, Part 2A

(the “Brochure”)

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This Brochure provides information about the qualifications and business practices of Markel-Gayner Asset Management Corporation. If you have any questions about the contents of this brochure, please contact us at (804) 527-3806. The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission (“SEC”) or by any state securities authority.

Additional information about Markel-Gayner also is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

Markel-Gayner may refer to itself as a “registered investment adviser” or “RIA”. You should be aware that registration with the SEC or a state securities authority does not imply a certain level of skill or training.

## **ITEM 2: MATERIAL CHANGES**

Effective January 1, 2013, Markel-Gayner will only serve as investment adviser to the insurance company subsidiaries of Markel Corporation (“affiliated clients” or “clients”). Markel-Gayner no longer serves as an investment adviser to any other clients.

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#### **ITEM 4: ADVISORY BUSINESS**

Markel-Gayner was formed in 1990, and is a wholly-owned subsidiary of Markel Corporation, a diverse publicly traded financial holding company serving a variety of niche markets. Markel-Gayner serves as investment adviser to the insurance company subsidiaries of Markel Corporation. Prior to January 1, 2013, Markel-Gayner also acted as investment adviser to certain clients serviced by the president of Markel-Gayner during his previous career as an analyst and stockbroker with Davenport & Co.. Markel-Gayner is not accepting any new clients other than affiliated clients at this time.

Markel-Gayner provides investment supervisory services and investment advice for affiliated clients. Accounts are managed in a manner consistent with the client's investment needs and objectives. We manage portfolios of publicly traded securities, which consist primarily of common stocks, but may also include other securities, such as exchange traded funds ("ETFs"), money funds and other cash accounts, preferred stocks, bonds, debentures, warrants and options. Accounts are primarily concentrated into a limited number of significant investments. Our primary strategy is to use fundamental research to identify securities issued by attractive businesses, whose affairs are managed by honest and talented management, that exhibit reinvestment opportunities and capital discipline, and where those securities are selling at reasonable prices. Our investment horizon is long-term and we expect relatively low portfolio turnover.

Our assets under management as of December 31, 2013, all of which are discretionary, were \$3,163,766.

#### **ITEM 5: FEES AND COMPENSATION**

Generally our fee schedule is not negotiable, but we reserve the right to negotiate a fee in our sole discretion for any reason we deem appropriate. The fees we charge to our affiliated clients may be subject to prior approval of the applicable insurance regulatory authorities.

Our fees are generally payable by clients quarterly in arrears based on the fair market value of assets under management at the end of each calendar quarter.

If a client so elects, and after executing the appropriate forms, the ongoing fee will be automatically deducted from the client's account by the broker/custodian, and remitted to us.

We do not receive commissions or sales fees and only charge fees for investment advice pursuant to an investment advisory relationship.

In addition to our fees, which cover only advisory services, clients bear other costs that are necessary or incidental to the advisory service ("incidental expenses"). The particular incidental expenses may vary from client to client, although all clients will be

subject to certain types of incidental expenses, including, but not necessarily limited to: custody fees and other custodial charges; brokerage fees, commissions, commission equivalents and other trade-related costs and expenses; governmental charges, taxes and duties; transfer fees, registration fees and other expenses associated with buying, selling or holding investments; withholding taxes payable and required to be withheld by issuers or their agents; and fees associated with cash sweep or cash management vehicles such as money market funds selected by us or by the client's custodian; and fees and expenses arising from investments in other pooled investment vehicles such as mutual funds or ETFs. See Item 12 below.

Our fees and any incidental expenses will reduce the assets held in, and the return on, client accounts.

#### **ITEM 6: PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT**

Markel-Gayner does not enter into performance-based fee arrangements with any of our clients.

#### **ITEM 7: TYPES OF CLIENTS**

We provide investment advice to the insurance company subsidiaries of Markel Corporation.

#### **ITEM 8: METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS**

The general investment strategy and methods of analysis that we employ in managing client accounts, as well as the primary associated risks, are described below. Clients should note that it is not possible to identify all of the risks associated with investing and that the particular risks applicable to a client account will depend on the nature of the account, its investment strategy or strategies and the types of securities held.

Client accounts generally invest principally in equity and/or fixed income securities, each in accordance with the general investment strategies described below, subject to account-specific investment objectives, guidelines and restrictions (*i.e.*, the account's mandate) and we seek to manage each account so that risks are appropriate to the mandate. However, it is often not possible or desirable to fully mitigate risks. Any investment includes the risk of loss and there can be no guarantee that a particular level of return will be achieved. Clients should understand that they could lose some or all of their investment and be prepared to bear the risk of such potential losses.

While we do not limit our advice to, or specialize in, particular types of investments, a client's mandate may be limited (*e.g.*, based on security type or capitalization levels or other requirements of insurance regulators).

Our primary method of analysis is fundamental research during which we attempt to understand the long-run dynamics of underlying businesses under investigation. Typically this research involves analyzing press releases, financial statements, documents filed with the SEC or other regulatory entities, corporate rating services, newspaper, internet and magazine articles, transcripts of conference calls, presentations, and additional sources. While we expect that such information will be reliable, we cannot guarantee its accuracy. Reliance on inaccurate information could adversely affect performance.

During the course of our research we are looking for equity investments that meet certain criteria. First, a company must have a track record of profitability with good returns on invested capital. Second, the management team of a prospective investment should have both talent and integrity. We believe that one without the other is useless. These are tough to measure but we believe that a management's track record is a valuable gauge. Third, an investment should have favorable reinvestment dynamics. We believe that an ideal business is one with a high return on invested capital that can reinvest its earnings back into the business over an extended period of time at a similar rate of return. This compounding builds wealth over time. We believe that the next best business is one that generates a high return on invested capital but does not have a good opportunity to reinvest its earnings back into the business at a high rate of return. The best thing that this business can do is return capital to shareholders via dividends or repurchasing shares. The worst thing that such a business can do is to squander its capital on investments that promise a poor rate of return or even destroy value. We believe that the kind of business to avoid is one that has poor returns on capital and needs more of it all of the time. The final criterion for an investment is price. If we pay too much for an investment, we will not be rewarded no matter how well the underlying business performs.

Our strategy is to invest in companies meeting our criteria and build a position over time. It is intended to have a relatively low portfolio turnover. We may pursue other strategies that involve a higher portfolio turnover, including: risk arbitrage, spin-offs, companies in bankruptcy, and hedging. Higher turnover can increase total transaction costs and taxes which will decrease returns.

Investing in securities involves risk of loss that clients should be prepared to accept. Our strategies will expose our clients to various risks, including: market risk, concentration risk, and interest rate risk. We cannot predict the daily fluctuations in the stock market and do not attempt to do so. Over the short-term, market volatility can cause the price of an investment to deviate above and below its long-term intrinsic value. We seek to capitalize on these fluctuations by avoiding or selling investments we believe are overvalued and purchasing investments we believe are undervalued; however, we cannot be sure of the accuracy of our view as to a company's value and note that market prices also do not reflect the intrinsic value of a company. Our portfolios will generally be more concentrated than the overall market. The performance of a single security can have a large impact on the overall performance of the portfolio. Most investments represent claims on the future cash flows from those investments. If interest rates were to rise significantly the value of our investments could decline significantly.

### **ITEM 9: DISCIPLINARY INFORMATION**

Not applicable.

### **ITEM 10: OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS**

We are a wholly-owned subsidiary of Markel Corporation, which markets and underwrites through certain of its subsidiaries specialty insurance products and programs to a variety of niche markets. As noted above, we manage money for, and receive fees from, our affiliated clients which are related persons of us by virtue of common control by Markel Corporation. Assets managed on behalf of affiliated clients constitute the totality of our assets under management and fees paid by such clients constitute the totality of our revenue.

We have no material relationships or arrangements with any broker/dealer, investment adviser, futures commissions merchant or commodities trading advisor or pool operator, bank or thrift institution, accounting firm, law firm, pension consultant, real estate broker or partnership syndicator.

### **ITEM 11: CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING**

We act as investment adviser to numerous client accounts and may give advice and take action with respect to any accounts we manage, or for the accounts of our personnel, that may differ from actions we take on behalf of other accounts. Our buy or sell programs may extend over a period of months and securities are often held for several years. From time to time, our personnel may have interests in securities owned by or recommended to our clients.

As these situations may represent a potential conflict of interest, we have adopted a Code of Ethics. Among other provisions, the Code of Ethics sets forth certain standards of business conduct expected of advisory personnel, requires access persons to submit periodic securities holdings and transaction reports, and requires prompt reporting of violations of the Code of Ethics. We have implemented procedures relating to personal securities transactions and insider trading that are designed to identify potential conflicts of interest and prevent or mitigate actual conflicts of interest. These policies and procedures, including our Code of Ethics, are intended to avoid conflicts of interest with clients, and resolve such conflicts appropriately if they do occur. Any supervised person who fails to observe our Code of Ethics and related policies risks potential sanctions.

Clients or prospective affiliated clients may obtain a copy of our Code of Ethics upon request. Our contact information appears on the cover page of this Brochure.

We do not recommend to clients, or buy or sell for clients, securities in which we or a related person have a material financial interest. As a result, we do not purchase or sell for client account shares in Markel Corporation. We do invest in the (or related) securities that are recommended to clients, and at times may buy or sell securities for client accounts, at or about the same time as those securities are bought or sold for personal or proprietary accounts. On a daily basis, a purchase or sale of securities for personal or proprietary accounts will not be executed at a better price than a purchase or sale made on behalf of a client.

## **ITEM 12: BROKERAGE PRACTICES**

We have discretion to select broker-dealers or other trading venues through which to execute account transactions. In placing brokerage for accounts, we seek to (i) determine each client's trading requirements, (ii) select appropriate trading methods, venues and agents to execute the trades under current circumstances, (iii) evaluate market liquidity of each security and, to the extent practicable, mitigate excessive market impact, (iv) maintain client confidentiality and proprietary information inherent in the decision to trade, and (v) review the results of executions on a periodic basis.

The following summarizes our brokerage practices.

### **Selection Criteria for Brokers and Dealers**

We place orders for the purchase or sale of securities with the primary objective of obtaining timely execution of orders at the most favorable price and execution readily obtainable from responsible broker-dealers at competitive rates. We seek to deal with brokers that meet a high standard of quality regarding execution services.

Our objective in selecting brokers and dealers for portfolio transactions is to obtain the best execution available. The best net price, giving effect to all costs, is normally an important factor in this decision, but a number of other judgmental factors are considered as they are deemed relevant. In applying these factors, we recognize that different broker-dealers may have different execution capabilities with respect to different types of securities and transactions.

The factors we consider may include, but are not limited to:

- our knowledge of available commission rates and spreads;
- the nature of the security being traded;
- the size and type of the transaction;
- the desired timing of the trade and speed of execution;
- confidentiality;
- the execution, clearance and settlement capabilities as well as the reputation and perceived soundness of the broker-dealer;



- the broker-dealer's reliability in executing trades, keeping records and accounting for and correcting trade errors;
- the quality of research and execution services provided by the broker-dealer; and
- the reasonableness of spreads or commissions.

### **Commission Rates or Equivalents Policy**

We endeavor to be aware of current charges of eligible broker-dealers and to minimize the expense incurred for effecting portfolio transactions to the extent consistent with the interests and policies of the accounts we manage. Any broker-dealer that has provided (or may be reasonably expected to provide) acceptable performance and whose financial condition and commission rates are acceptable to us may be selected to execute transactions for client accounts.

We use a number of different broker-dealers and may pay higher commission rates to those whose execution abilities, brokerage or research services or other legitimate and appropriate services are particularly helpful in seeking good investment results for client accounts. The reasonableness of commissions is based on the broker's ability to provide professional services, competitive commission rates, research and other services which will help us in providing investment management services to clients. Recognizing the value of these factors, we may pay a brokerage commission in excess of what another broker, who offers no research services and minimal securities transaction assistance, might have charged for the same transaction.

### **"Soft Dollar" or Research/Execution Policy**

As noted above, we may consider research and other services in making brokerage decisions for affiliated clients and, as we deem appropriate, may use a portion of the commissions generated when executing client transactions (commonly referred to as "soft dollars") to acquire useful research and brokerage services ("soft dollar items") in a manner consistent with the "safe harbor" provided by Section 28(e) of the Exchange Act. Soft dollars benefit us in that we do not then need to produce or pay for the soft dollar items from our own resources. This creates a potential conflict of interest in that we may have an incentive to select broker-dealers based on our interest in receiving soft dollar items rather than on the client's interest in receiving the most favorable execution.

Research services provided by a broker-dealer can be either proprietary (created and provided by the broker-dealer, including tangible research products as well as access to analysts and traders) or third-party (created by a third party but provided by broker-dealer). We may use soft dollars to acquire either type of research, or any permissible brokerage services. The receipt of these soft dollar items in exchange for soft dollars benefits allows us, at no cost to us, to (i) supplement and enhance our own research and analysis activities, (ii) receive the views and information of individuals and research staffs of other securities firms, and (iii) gain access to persons having special expertise on certain companies, industries, areas of the economy and market factors. We take into account the value of permissible soft dollar items provided by a broker-dealer when

making trading decisions, as long as such consideration is not inconsistent with the objective of seeking best price and execution for client transactions, and we may pay a higher commission to a broker-dealer in recognition of such soft dollar items.

Thus, when appropriate under our discretionary authority and consistent with the duty to seek best execution, we may execute brokerage transactions for client accounts through broker-dealers who provide us with soft dollar items and may pay to those broker-dealers an amount or rate of commission that is higher than might have been paid absent the receipt of soft dollar items. Accordingly, broker-dealers we select may be paid commissions for effecting portfolio transactions for client accounts in excess of amounts other broker-dealers would have charged for effecting similar transactions if we determine in good faith that such amounts are reasonable in relation to the value of the soft dollar items provided by those broker-dealers, viewed either in terms of a particular transaction or our overall duty to discretionary accounts.

Research obtained with soft dollars will not always be utilized by us for the specific account that generated the soft dollars. Because the value of many soft dollar items cannot be measured precisely, commissions paid for such services cannot be allocated to clients in direct proportion to the value of services each client receives. Thus commissions paid by one account may, in effect, subsidize services that benefited another account, but any distortions should balance out over time as our various sources of research and brokerage services enable us to make better investment decisions and execute more effective trades. Accordingly, we do not usually attempt to allocate the relative costs or benefits of research or brokerage services among client accounts. We believe that, in the aggregate, the services we receive benefit clients and assist us in fulfilling our overall duty to clients.

Through these arrangements, and other uses of soft dollars during the previous year, we have acquired soft dollar items such as macroeconomic and company-specific research, economic surveys and analyses, and recommendations on specific securities.

#### **Client-Directed Brokerage**

Not applicable.

### **ITEM 13: REVIEW OF ACCOUNTS**

Client accounts may be reviewed at any time, and are reviewed at least quarterly by our president. Affiliated client accounts are subject to review in accordance with Markel Corporation group investment policies and guidelines.

Clients shall have access to trade confirmations and regular statements from their broker/custodian, and we will provide quarterly reporting in writing with respect to client accounts, including a performance report and other information.

#### **ITEM 14: CLIENT REFERRALS AND OTHER COMPENSATION**

Not applicable.

#### **ITEM 15: CUSTODY**

Due to certain fee arrangements, as noted in Item 5 above, we may be deemed to have “custody” of client accounts solely because of the ability to deduct advisory fees directly from the clients’ accounts maintained at a qualified custodian. If we are deemed to have custody, the custodian will send the client periodic account statements (generally on a quarterly basis) indicating the amounts of any funds or securities in a client’s account as of the end of the statement period and any transactions in the account during the statement period. Clients should review these statements carefully.

As noted in Item 13 above, we may separately provide clients with reports or account statements providing information about the account. Each client should compare these carefully to the account statements it receives from the custodian. If there is any discrepancy between the account statements or the client does not receive account statements from its custodian on at least a quarterly basis, please contact us immediately.

#### **ITEM 16: INVESTMENT DISCRETION**

We enter into investment advisory agreements with clients that explicitly grant us the ability to select the identity and amount of securities to be bought or sold. In all cases, we exercise our investment discretion in a manner consistent with the client’s investment needs and objectives, and we will observe the regulatory restrictions and limitations that exist with respect to each of our clients. See Items 4 and 8 above. In addition, because we are a subsidiary of Markel Corporation, we will not purchase or sell securities of Markel Corporation for our clients’ accounts.

#### **ITEM 17: VOTING CLIENT SECURITIES**

We may vote proxies on behalf of our affiliated clients. Affiliated clients receiving proxy solicitations directly from a custodian or transfer agent may deliver such proxies to us for such purpose. We may provide advice to affiliated clients regarding the voting of proxies and may forward client instructions to the appropriate broker/custodian.

#### **ITEM 18: FINANCIAL INFORMATION**

Not applicable.