October 20, 2017

Separate Account Client Letter
Third Quarter 2017

For the quarter, the Focus Equity Composite returned 5.0% net of fees[1] compared to 4.6% for the Russell 3000 Index. Year to date, the Composite returned 13.5% net of fees compared to 13.9% for the Russell 3000 Index. The results for your account will differ somewhat from the Composite due to variations in account holdings and other client-specific circumstances. We remind you that we manage your account for long-term results, so we encourage you to evaluate its performance over a multi-year time frame. Long-term Composite performance is presented at the end of this letter.

During the quarter, we sold our World Fuel Services (INT) position in separate accounts, where it was about 2.1% of assets, after concluding that it was unlikely to compound value for us at a sufficient rate. We discuss this sale below. Also, we use this letter to discuss our roughly 9.2% position in Markel (MKL), a large holding that we have a long history with, but have not previously written about at length.

World Fuel Services

We first purchased World Fuel Services for the Focus Equity Strategy in the third quarter of 2011. At that time, we were attracted to the company by its leadership in marine and aviation fuel distribution, its high ROIC business model, and its long-tenured and successful management team. World Fuel was also benefiting from fuel producers outsourcing fuel marketing to third-party distributors/brokers, so we believed that it was well positioned for profitable growth through continuation of this trend.

World Fuel is the largest, and among the most credit worthy of the independent fuel distributors. During the Great Recession, and for several years afterward, its superior access to credit enabled World Fuel to finance favorable payment terms for customers (at a very healthy margin) when competitors could not. As credit has become more widely available, and oil prices have declined (from about $100 per barrel in 2011 to about $50 today), World Fuel's advantage diminished, and margin compression followed. In addition, at lower oil prices, the company's very profitable add-on services, such as fuel price hedging, are less utilized by clients, further pressuring margin.

World Fuel has responded by undertaking a major acquisition push in the aviation and land fuel distribution markets. These acquisitions have offset the margin compression on its legacy business enabling the company to hold overall profits relatively flat. However, acquisitions are not a historical competency of the company, and the results from this recent effort are not good; more than $1.3 billion has been deployed in these deals at what we estimate is a mid-single digit ROIC.

We have, time and again, been negatively surprised by the profitability of the legacy business at World Fuel, and the evidence suggests the company is not creating value through its acquisition program. We exited the position at a low-teens multiple of estimated 2018 cash earnings, a fair price in our opinion, for a business that does not have a recent record of financial success, nor a credible plan to create economic value going forward.

[1] Net of highest applicable fee of 1.0% per annum as described in our Form ADV, Part 2A.

Markel

We have followed Markel closely since the late 1990s, and owned it as a large position in the Focus Equity Strategy since inception in 2009. Markel is a property and casualty insurance company managed with a very purposeful strategy to compound long-term value per share on an after-tax basis. In recent years, some in the financial press have begun referring to Markel as a "baby-Berkshire Hathaway" – a complimentary and reasonably appropriate comparison in our view – because of the companies' similar management philosophies and business mix.

Insurance companies can be thought of as having two lines of business: insurance underwriting, and investing. Insurance underwriting, the core function of an insurer, involves making contractual commitments to customers to pay insurance claims of uncertain magnitude in the future, in exchange for fixed premium payments today. Since there is a lag between when premium payments are collected, and when loss payments are made, capital or "float" accumulates and is available for the insurance company to invest for its own benefit.

In general, insurance is a lousy business; regulated and capital intensive with low customer switching costs and few barriers to entry. As a result, over the last 30 years the industry as a whole has produced a ROE of only about 8%. The allure of investable float, combined with the estimation required to set insurance pricing is a tough mixture that leads to aggressive competition and dismal economic returns. However, Markel, like our other businesses that operate in competitive, capital intensive industries (e.g. NVR and Ashtead), takes a very different approach from most in its industry which has enabled it to generate attractive growth and returns.

Insurance Underwriting

In insurance underwriting, Markel mostly focuses on niche and specialty segments of the insurance market, rather than the much larger but more commoditized standard commercial and personal lines categories. Markel provides coverage for more than 100 unique risk categories including: equine, antique cars, bars and taverns, and summer camps, among others. It requires specialized knowledge to price these policies accurately, and often unique distribution to reach the customer resulting in reduced competition and more opportunity for profitable business.

In addition, Markel has worked diligently to establish and maintain a culture of underwriting discipline. Insurance markets are cyclical, so employees on the front lines making decisions need to write business when pricing is sufficient, and curtail writing business when it is not. Much like the stock market, most of the time it is not obvious if pricing is good or bad, it takes experience and judgment to make the right decisions. To incent the right behavior, Markel compensates its underwriters based upon the actual performance of their book of business over time (usually 3 to 6 years depending upon the line of insurance), rather than on short-term production volumes like many other insurers do. This compensation system, along with other cultural values, helps attract team-oriented people, repel short-term thinkers, and perpetuate the solid underwriting culture.

The combination of Markel's selective market focus and disciplined underwriting culture have made the company a top-tier insurance underwriter. The "combined ratio" is a financial metric measuring success in underwriting insurance. A combined ratio below 100 is a profitable insurance operation, while a ratio above 100 is an unprofitable operation. The table on the next page illustrates just how successful Markel has been at underwriting insurance over the last three decades, on an absolute basis, and relative to the overall industry.

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	1986-1995	1996-2005	2006-2015
Markel Combined Ratio	90.2	99.7^	94.6
P&C Industry Combined Ratio	108.4	105.5	100.2

^Broad Run estimate of combined ratio adjusted for reserve strengthening in 2000 and 2001 related to Terra Nova acquisition.

Investing

In investing, relative to other insurers, Markel makes a substantially higher allocation to equities, and lower allocation to fixed income. Markel's target equity allocation (as a percentage of shareholders' equity) is 50-80%, many times higher than its peers. Markel is willing to accept higher volatility in equities, in exchange for higher expected long-term returns. This approach has been quite successful, with equities outperforming fixed income over time, and Markel's public equity portfolio outperforming the overall equity market by about 2.5% annualized over the last 27 years (11.8% vs. 9.3% for the S&P 500).

Since 2005, the company has broadened its equities activity to include buying private businesses. There are advantages to Markel in owning private businesses rather than public equities, including elimination of double taxation of dividends, and control/oversight of the investee's capital allocation. For business sellers, Markel has a unique value proposition compared to traditional strategic or financial buyers (preserve operational autonomy, job security for employees, and a long-term stable home). Markel's private equity investment results have been good, and as an asset class now compose about 1/5th of its overall equity portfolio. We like that buying private businesses provides an additional capital allocation option to management, and suspect that its importance will continue to grow over time.

Growth & Valuation

Given the nature of Markel's business, we believe that the annual change in book value per share is a good proxy for its annual change in intrinsic value. Over the last 20 years, Markel's book value per share compounded at 13% annualized.

We believe that the same forces that drove Markel's growth in the past are present today. If Markel can continue to generate superior underwriting results, produce solid investment returns, and make opportunistic acquisitions, we believe book value per share can compound at a low-teens rate over the next decade. If it achieves these results, we believe that it can at least hold today's valuation (1.6x book value), and appreciate in line with its growth in book value per share. Viewed another way, if Markel can increase book value per share 13% per year on average, at its current 1.6x book value multiple, it is the equivalent to trading at a 12-13x multiple of owner earnings. For these reasons, we believe Markel remains an underappreciated compounder.

In closing

We thank you for entrusting your capital to us. Please let us know if there has been any change to your contact information, any change to your financial circumstances or investment objectives that might impact how we manage your account, or if you would like to add or modify any reasonable restrictions to our investment advisory services.

Sincerely,

Broad Run Investment Management, LLC

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Broad Run Investment Management, LLC
Focus Equity Composite Disclosure Presentation

Composite Name	Focus Equity Composite
Reference Index	Russell 3000 Index
Reporting Date	September 30, 2017
Composite Inception	September 1, 2009

GIPS Compliance and Verification Status. Broad Run Investment Management, LLC (Broad Run) claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. Broad Run has been independently verified for the periods October 27, 2012 through December 31, 2016. The verification report is available upon request. Verification assesses whether (1) the firm has complied with all the composite construction requirements of the GIPS standards on a firm-wide basis and (2) the firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS standards. Verification does not ensure the accuracy of any specific composite presentation.

Policies for valuing portfolios, calculating performance and preparing compliant presentations are available upon request. A list of composite descriptions is available upon request.

Firm Information. Broad Run is an investment advisor registered with the U.S. Securities and Exchange Commission under the Investment Advisers Act of 1940, as amended. Broad Run is defined as an independent investment advisor that is not affiliated with any parent organization.

Composite Description. The Focus Equity Composite contains all fee-paying, discretionary accounts that are managed according to Broad Run's Focus Equity Strategy. The Focus Equity Strategy invests primarily in U.S equity securities—regardless of capitalization—and seeks long-term capital appreciation while incurring a low risk of permanent capital loss. The Strategy uses a concentrated and low turnover investment approach, and generally seeks to invest in what the firm believes are high-quality growth-oriented companies trading at discounts to Broad Run's assessment of their intrinsic value. Broad Run has determined that no appropriate benchmark for the composite exists because the Focus Equity Strategy has minimal exposure to a number of sectors and invests across the market capitalization spectrum. The Focus Equity Composite was created in October 2012; its inception date is September 1, 2009. From September 1, 2009 to October 26, 2012, the composite is composed solely of an equity mutual fund. Broad Run's managing members served as portfolio managers for this equity mutual fund while employed at the fund's advisor. From October 27, 2012 to February 28, 2013, the composite is composed solely of the successor equity mutual fund to the aforementioned equity mutual fund. Broad Run is engaged as the sole sub-advisor of the successor equity mutual fund (managing 100% of its assets) by its new advisor, and the firm's managing members serve as portfolio managers for the successor equity mutual fund. Broad Run has met the GIPS portability requirements to link the returns of the equity mutual fund and the successor equity mutual fund. For the time period after February 28, 2013, the composite is composed of the successor equity mutual fund and separate accounts. Currently, the assets in the mutual fund comprise a significant majority of the composite's assets.

Fee Schedule. Broad Run's standard annual asset-based management fee schedule is 1% of the account's total assets on the first $5 million and 0.85% thereafter. Gross performance results do not reflect the deduction of Broad Run's investment advisory fee, which will affect a client's total return.

Gross of fees returns are calculated gross of management and custodial fees and net of transaction costs. Net of fees returns are calculated by deducting the monthly-equivalent amount of Broad Run's highest applicable annual management fee of 1.00% ("Model Net Fee"), as described in the firm's Form ADV, Part 2A (without the benefit of breakpoints) from the monthly composite gross return.

Reference Index Disclosure. The Russell 3000 Index measures the performance of the largest 3000 U.S. companies representing approximately 98% of the investable U.S. equity market. The index is market-value weighted. Index figures reflect the reinvestment of dividends and capital gains. Index figures do not reflect deductions for any fees, expenses, or taxes. Investors cannot invest directly in an index. The index's performance returns are included to illustrate the general trend of the U.S. equity market and are not intended as a benchmark for the composite.

Other. All returns presented in the table below (including the reference index) include the reinvestment of dividends, interest income, and capital gains. Valuations are computed and performance is reported in U.S. dollars.

	Calendar									Annualized (*9/30/17*)				
	2017 (thru 9/30)	**2016**	**2015**	**2014**	**2013**	**2012**	**2011**	**2010**	**Sep-Dec 2009 [1]**	**1 YR**	**3 YR**	**5 YR**	**7 YR**	**Since Inception**
Focus Equity Composite Gross Return (%)	14.29	8.83	4.40	11.76	37.18	18.27	5.13	26.40	8.64	17.76	12.75	16.27	15.77	16.33
Focus Equity Composite Net Return (%)	13.45	7.76	3.37	10.66	35.85	17.11	4.08	25.16	8.29	16.60	11.64	15.13	14.63	15.19
Russell 3000 Return (%)	13.91	12.74	0.48	12.56	33.55	16.24	1.03	16.93	10.34	18.71	10.74	14.23	14.28	14.28
Composite Standard Deviation [2]	10.60	12.06	11.30	9.44	12.52	16.80	- [3]	- [3]	- [3]	n.m. [4]	10.60	10.34	11.69	13.28
Russell 3000 Standard Deviation [2]	10.09	10.88	10.58	9.30	12.54	15.74	- [3]	- [3]	- [3]	n.m. [4]	10.09	9.72	11.25	12.45
Number of Portfolios	130	101	52	41	30	1	1	1	1					
Internal Dispersion [5]	n.m.	0.31	0.13	0.10	n.m.	n.m.	n.m.	n.m.	n.m.					
Composite Assets (USD millions)	3,183.5	2,671.8	2,266.5	1,618.5	1,454.0	781.2	672.2	772.8	812.5					
Firm Assets (USD millions)	3,185.0	2,794.1	2,268.6	1,619.5	1,459.8	781.2	N/A	N/A	N/A					

Past performance is not indicative of future results.

1: Annual Performance Results reflect partial period performance. The returns are calculated from September 1, 2009 to December 31, 2009 for the Focus Equity Composite. **2:** Standard deviation measures the variability of the gross returns of the composite and the reference index. All standard deviation figures are calculated using monthly gross performance numbers. Figures presented for calendar year and YTD periods are three-year annualized standard deviations. **3:** The three-year annualized standard deviation is not shown due to having less than 36 months of composite returns. **4:** n.m. - Not statistically meaningful for periods less than 3 years. **5:** The annual composite dispersion presented is a dollar-weighted standard deviation of the gross returns for all accounts in the composite for the entire year, using beginning of period values; not statistically meaningful (n.m.) for periods less than one year, or when there are five or fewer accounts in the composite for the entire year.

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Other Disclosures

Additional Composite Details. The Focus Equity Composite includes a mutual fund for which we charge a sub-advisory fee that is lower than the model net fee. However, the mutual fund's total operating expenses, which are not applicable to you, are in excess of the model net fee. Therefore, the actual performance of the mutual fund in the composite on a net-fee basis will be different, and will normally be lower, than the model net fee performance. However, the model net fee performance is intended to provide the most appropriate example of the impact management fees would have by applying management fees relevant to you to the gross performance of the composite. Actual fees and expenses in client accounts may differ from those reflected in this composite presentation and would cause actual performance to differ. The performance figures do not reflect the deduction of any taxes an investor might pay on distributions or redemptions.

Investing Involves Risk. Investing involves risk, including the possible loss of principal. Past performance is no guarantee of future results and client accounts may not achieve the Focus Equity Strategy's investment objective. There may be market, economic, or other conditions that affect client account performance, or the performance of the referenced market index. Therefore, it should not be assumed that the future performance of any specific investment or investment strategy (including the investments and/or investment strategies recommended and/or undertaken by Broad Run Investment Management, LLC) made reference to directly or indirectly in this commentary will be profitable, equal any corresponding indicated historical performance level(s), be suitable for your portfolio or individual situation, or prove successful. The Strategy invests in small- and medium-size companies. Investments in these companies, especially smaller companies, carry greater risk than is customarily associated with larger companies for various reasons such as increased volatility of earnings and business prospects, narrower markets, limited financial resources and less liquid stock. A client account invested in the Focus Equity Strategy will hold fewer securities and have less diversification across industries and sectors than a diversified portfolio, such as a portfolio based on an index. Consequently a client account and/or the composite performance may diverge significantly from the referenced market index, positively or negatively.

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