As you will have seen, Barclays released its fourth quarter and full year results last week. After the Q3 results we told you to expect a full year 9% RoTE at the group level, above consensus, because the company had declared this target to be “sacrosanct” and there were enough fortunate one-time items available to make it feasible. In Q4 the consumer businesses returned 18.0% on tangible equity and the CIB 3.9%. As results are released for future quarters we will provide more in-depth analysis.

To provide some context, Barclays’ current strategy, which commenced in 2016, has now had four years to show results, and the new chairman has been on the board for almost a full year.

After four years of the current strategy and capital allocation policy, the outcome so far has not been encouraging:

(RoTE)	**FY 2015**	**FY 2019**
Group	11.2%	9.0%
Consumer	20.6%	17.0%
CIB	8.2%	8.0%

Unfortunately, the c.60% of shareholders’ funds devoted to the CIB continues to produce such low returns that the consumer businesses are unable to bring the group’s returns anywhere near to its cost of equity as the share price discount to tangible book value clearly demonstrates. The company has announced a 10% return aspiration for 2020, which will require an heroic effort, and even if it were to be met, the result would still be below the 2015 level and far below the firm’s cost of equity. It is puzzling that the board would continue to devote so much attention and capital for such a low potential reward. After four years of experimentation, a reappraisal seems in order.

It is widely understood that the obstacle to acceptable group returns is the strategic weakness in parts of the CIB, which has left price cutting and increasing leverage as the only obvious competitive tactics. As shown below, the CIB’s peers have actually increased revenue yields, reduced leverage, and improved returns, while Barclays has pursued a directly opposite strategy.

	FY 2015		**FY 2019**	
(CIB)	**Peers**	**Barclays**	**Peers**	**Barclays**
Revenue Yield	1.7%	1.8%	2.2%	1.1%
Leverage	27x	26x	20x	35x
RoTE	11.5%	8.2%	12.8%	8.0%

Perhaps the major hope underpinning Barclays’ strategy has been that as competitors reduce capacity in Markets, Barclays will be the beneficiary and its market share and returns will improve. A number of competitors have, in fact, recently announced withdrawal from or reductions in several Markets products. However, in Q4 these hopes were not fulfilled and even Deutsche Bank, for example, outperformed Barclays.

Bank	Q4 Markets Y-o-Y Revenue Growth
BNP	106%
JPM	55%
CS	44%
GS	33%
DB	31%
MS	28%
C	28%
BARC	**20%**
SG	13%
BAC	7%
UBS	6%

It has been roughly a year since we had a meeting with the chairman, Nigel Higgins. We have requested another meeting with him, as he has now had several quarters of results from which to devise remedies for the strategic weaknesses discussed above.

As you know, we have been concerned for some time that the board does not have a full appreciation of the CIB's real potential, which has led to wishful thinking about the business and the returns it can achieve. Although Barclays is often measured against European investment banks, in fact 74% of its investment banking revenue is generated in the United States, so geography does not explain the gap in financial performance compared to its US peers.

Several months ago we raised our concerns with you about the regulatory issues and the consequences for Barclays of the Epstein imbroglio in the US and, as it now turns out, in the UK as well. This is another example of governance weakness that has led, inevitably, to the recurrent public disappointments and embarrassments which have plagued Barclays for so long. We are hopeful that the board will treat these matters seriously and that Mr. Higgins will be able to indicate what long-term governance changes the board will make to end this cycle of disruption.

We continue to believe that when the board adopts a more realistic business strategy and robust governance approach, shareholder value and the long-term prospects of Barclays will improve dramatically. As you know, we take a very long-term approach to our investments and are highly persistent when necessary. Funds that we manage, of which SIGC is one, are now the 2nd largest shareholder of Barclays and we have the necessary resources to engage constructively with the company for as long as necessary and in any way that is appropriate to achieve a positive outcome for all shareholders.

Stephen and I will be over to see you when there are developments to report but if you have any questions in the interim, as always, please feel free to contact us.

Kind regards,
Ed

Note: 2015 Group data exclude Non-Core segment

Note: All RoTE figures exclude litigation and conduct

Note: Peers include Bank of America, Citigroup, Goldman Sachs, JP Morgan, and Morgan Stanley

Note: Revenue yield represents CIB revenue divided by average CIB assets; assets are adjusted to exclude netting credits related to derivatives assets where applicable for comparability

Note: Q4 Markets Y-o-Y revenue growth represents FICC, Equities, and Securities Services revenues in local currencies

Note: Barclays' investment banking geographic revenue source: Dealogic