# NOAH HOLDINGS 4Q AND FULL YEAR 2015 EARNINGS CALL EDITED TRANSCRIPT

16 March 2016

**OPERATOR**

Good day, ladies and gentlemen. Welcome to Noah Holdings Limited fourth quarter and full year 2015 financial results Conference Call. At this time all participants are in listen-only mode. Following management's prepared remarks, there will be a Q&A session. During the Q&A session we ask that you please limit yourselves to two questions and one follow-up. If you would like to ask additional questions, you may re-enter the queue to do so. As a reminder, this conference is being recorded. After the close of the US market on Monday, Noah issued a press release announcing its fourth quarter and full year 2015 financial results which is available on the company's IR website at http://ir.noahwm.com. This call is also being webcast live and will be available for replay purposes on the company's website.

I would like to call your attention to the Safe Harbor statements in connection with today's call. The company will make forward-looking statements including those with respect to expected future operating results and expansion of its business. Please refer to the risk factors inherent in the company's business and that have been filed with the SEC. Actual results may be materially different from any forward-looking statements the company makes today. Noah Holdings Limited does not undertake any obligation to update any forward-looking statement as a result of new information, future events or otherwise except as required under the applicable law. The results announced today are unaudited and subject to adjustments in connection with the completion of the company's audit. Additionally, certain non-GAAP measures will be used in our financial discussion. A reconciliation of GAAP and non-GAAP financial results can be found in the earnings press release posted on the company's website.

I would now like to hand the call over to Kenny Lam, Noah’s Group President.

**Kenny Lam – Noah Holdings Limited Group President**

Thank you, operator. Hello everyone. Joining me today are Ms. Jingbo Wang, Chairman and CEO, and Ms. Ching Tao, Noah’s CFO. I will start by providing a brief overview of our financial highlights for the fourth quarter and full year 2015 and walking through the performance of our core wealth and asset management businesses. After that, Chairman Wang will provide an update on our strategic initiatives to establish an integrated financial services platform to support the sustainable growth of the company. Lastly, Ching will provide further insights into our financials and provide our 2016 guidance. We will be happy to take any questions at the end of our prepared remarks.

Noah has always been focused on improving our core competitiveness in the wealth management industry. We are committed to maintaining our stringent risk control standards, selecting the best quality products in the global market, enhancing the professional service skills of our relationship managers, continuously strengthening our asset management team, and actively driving the development of our internet finance business. These efforts have been recognized by our clients and investors, particularly given that we have been operating in the context of structural transition in China's broader economy and volatility in the global capital markets.

I'm pleased to report that both the top and bottom lines were in line with our expectations in the fourth quarter of 2015. We also achieved a non-GAAP net income of RMB603 million for the full year 2015. This is in line with our guidance that we gave at the beginning of the year.

First, I'll run through some of the highlights for the quarter and the year. Net revenues were RMB574 million in the fourth quarter, a 47.5% increase from the fourth quarter in 2014. And non-GAAP net income was RMB106 million, up 11.4% year-over-year. Net revenues for the full year 2015 reached RMB2.12 billion, a 38.7% increase from 2014 and Non-GAAP net income was RMB603 million, a 25.9% increase from 2014.

We distributed RMB20.0 billion of wealth management products during the fourth quarter, up 69.4% year-over-year. And we distributed RMB99.0 billion for the year, a 56.2% increase from 2014. Total assets under management as of December 31, 2015 were RMB86.7 billion, a 74.3% increase from the end of 2014. These results demonstrate the progress we have made in consolidating our leading position in China's wealth management and asset management industry.

Now let's take a look at our wealth management business, which provides global wealth investment and asset allocation services to high net worth individuals and enterprise clients in China. We continued to see a strong growth in registered and active clients. Registered clients increased by 40.3% to 99,019 at the end of the year. And we had 12,573 active clients during 2015, an increase of 39.5% from 2014.

We are also pleased to see that our efforts to continually educate investors and adjust our product mix have translated into stronger client trust in Noah. This is reflected in the increase in the average transaction value per client, which grew by 29.8% to RMB4.35 million in the fourth quarter of 2015. Average transaction value per client for the full year increased 11.9% to RMB7.87 million.

In terms of our offline network, we expanded and optimized our network of offices to cover more cities, and improved the ability of relationship managers. The offline network is continuing to transition from breadth of coverage to depth of coverage. By the end of the fourth quarter, we had 135 offices coving 67 cities. We have basically covered the first-tier and second-tier cities in the main regional economies as well as second-tier and third-tier cities in developed regions.

We also continued to build a team of relationship managers who are both committed to continuous learning and aligned with our company values. Our team of relationship managers expanded from 779 at the end of 2014 to 1,098 at the end of 2015, an increase of 41%. Our focus on talent retention also helped us to maintain a 2% turnover rate for elite relationship managers, which is extremely low.

Chairman Wang will share more information about our product mix shortly, but first, I would like to highlight that we successfully adjusted our product mix, which will both protect our clients' long term interests and generate a higher percentage of recurring service fees. In 2015, we distributed RMB31.9 billion of private equity products, which is a 166.6% increase compared to 2014 and 32.2% of all wealth management products that we distributed during the year. In addition, the weighted average duration of private equity products with chargeable recurring services fees increased to 7.4 years in 2015 from 5.3 years in 2014. This transition further optimized our product mix and increased our sustainable income.

Turning to our Hong Kong business – we understood clients' growing need for global asset allocation relatively early on, and we established Noah Hong Kong in 2011 to service these needs. Since then, we have built a comprehensive product platform and steadily secured a range of financial services licenses including securities trading (category 1), securities trading consulting (category 4), asset management (category 9), insurance brokerage and family trust licenses. In 2015, we distributed RMB11.7 billion of global products, which represents an increase of 283.6% compared to 2014.

Our family office and discretionary portfolio management services business is more focused on providing services for ultra-high net worth individuals and family office clients. In 2015, we made excellent progress – building deeper, long term client relationships and providing services for more than 60 family offices in total. China's family office and discretionary portfolio management services businesses are still in a very early stage and has huge growth potential. Family office services is an extremely important part of Noah's long-term strategy, and we will continue to invest in the development of this business.

Now, I'd like to provide an update on Gopher Asset Management.

In the past five years, Gopher Asset Management's business has grown rapidly. It has established mature product lines for PE portfolio funds, real estate funds, real estate funds-of-funds, secondary market hedge funds-of-funds and quantitative funds-of-funds, and alternative credit products. As of December 31, 2015, Gopher Asset had RMB86.7 billion assets under management, a 74.3% increase from the end of in 2014, and a 12.6% increase from the end of the third quarter. Private equity funds-of-funds accounted for 43.7%, real estate funds and real estate portfolio funds accounted for 36.7%, and secondary market equity funds-of-funds accounted for 12.4%. Gopher has already become one of the most outstanding private equity funds-of-funds operators in China.

The Company's asset management business also became a new engine for the company. Net revenues from recurring service fees were RMB360.0 million for 2015, a 28.6% increase from 2014. Net revenues from performance-based income for 2015 were RMB100.0 million, a 17.3% increase from 2014.

Gopher Asset has always been focused on improving our investment capabilities. We have been systematically reviewing the more than 1,000 projects that we have invested in to develop top down insights into different industry segments, to improve our co-investment and direct-investment capabilities. We also maintain stringent risk control and form long-term relationships with the world's best managers. Going forward, Gopher Asset will continue to expand assets under management, consolidate its leadership position in the industry, and select the best fund managers to help investors share in the growth of enterprises in the new economy of the future.

We look at 2015 as the beginning of Noah's next decade, and we have been focused on building the platforms to support our mid to long-term growth. We have talked about our mid and back-office initiatives and talent cultivation programs in previous earning releases. After a year of hard work, we are pleased to see substantial progress. In terms of information systems, Noah's new core business system, finance system, and HR system are all up and running on schedule. This has significantly optimized user experience, improved processing efficiency, and enhanced data analysis. In terms of talent, our core management team has been very stable this year, and has demonstrated the ability to collaborate closely. The Key-Man training program for future business leaders that we launched in the first half of the year has been conducted three times and provided over one hundred mid-level employees from every business unit a platform to grow and lead.

Looking forward, we expect that the external environment will remain volatile in the short term and we will respect market risks, support industry regulations, and maintain a steady hand as we steer through this period. Our historical performance shows that we are not a company that is heavily impacted by cyclical fluctuations in the capital markets.

At the extraordinary general meeting of shareholders in January, 2016, a very high percentage of the Company's shareholders voted in favor of the proposal to adopt a dual-class share structure. Chairman Wang, CEO of Gopher Asset, Mr. Yin Zhe and our management team showed remarkable leadership and judgment during the past ten years of the Company's growth. As an important part of our long-term strategy, we want the company to continue to focus on building long-term competitiveness, avoiding short-term fluctuations and maintaining our corporate values. Long term, our aspirations and objectives remain intact and we are on track to steadily build on our leading position of the wealth and asset management services market in China.

Now, I will turn the call over to Ms. Jingbo Wang, Chairman and CEO of Noah. She will speak in Chinese and her remarks will be translated into English.

**Jingbo Wang – Noah Holdings Co-founder, Chairman & CEO**

Thank you Kenny.

Looking back at 2015 as an industry professional with over 15 years' experience, we have once again learned the importance of respecting the market. Looking at the market today, on the one hand it is concerning that we will face a slowing economy in China and globally, with an increasing risk of deflation and a decreasing number of good quality assets. On the other hand, China's wealth and asset management industry is massive in scale and has huge potential for further growth. And Noah is one of the key players in the industry.

Over the past ten years, Noah has maintained its focus on a well-defined strategy. With our extensive market experience and deep industry insight, we are positioned as a wealth management and asset management expert that serves Chinese people all over the world. We have maintained our focus on building our core competitive advantages in wealth and asset management. We have continuously improved our capabilities in research, product selection, risk control, and asset management capabilities. We have also enhanced the professional service of our relationship managers and continuously strived to understand our customers' real and long term needs, and build long-term trust with our customers.

In 2015, in the context of ongoing internal transformation and an abnormal competitive environment, we have made significant progress. Transformation is difficult, and we are very pleased that we have successfully resisted the temptations of the market and customer requests, and focused on customer communication and investor education. Although we are yet to see the results of these efforts, internally we are fully aligned in our commitment to being the best version of ourselves and living our corporate values, rather than praying for the best market. We are confident about the future thanks to our culture and our values. We believe that we will continuously increase our market share over the long run.

First, I think it is important to clearly define how you see the current market. We believe that the real economy is still facing challenges amid an environment of loose liquidity, and we expect that it will continue to be a barren market for quality assets. In this context, we would like to reiterate that the key for wealth management is to control risk, rather than make profit.

1) In the public market, our secondary market funds of funds exceeded RMB10 billion. We believe our hedge funds of funds and quant funds of funds can help our clients manage risk. By the end of 2015, Gopher's hedge funds of funds and quant funds of funds reached RMB7 billion in total, and all of our products generated a profit. The absolute yields of the top 30 products and most of exclusive and quant funds of funds products are over 20%. Our quant funds achieved absolute yields of more than 13% for the year.

2) In terms of the primary market, we have clear strengths, and have selected the best fund managers in the market. And we believe that RMB-denominated private equity funds have a historic opportunity for a number of reasons. A-share investments will gradually be Americanized; the number of entrepreneurs will continue to grow; Chinese companies listed overseas are returning to the A-share market, and we expect more regulatory support. With Gopher's investment capabilities and Noah's investment and fund-raising capacity, as well as our qualified relationship managers and LPs who have experienced all of the economic cycles over the last ten years, we are confident that we will continue to increase our competitive advantage and market share in the core area of private equity.

Looking at our numbers, we distributed RMB31.9 billion of PE funds in 2015, a 167% increase year-on-year. These products accounted for 32% of wealth management products distributed in 2015, up from 19% in 2014. We have been closely following hot investment trends such as the aging population, urbanization, supply-side upgrading, global rebalancing. We have also established cooperation with the best fund managers in high growth industries, such as internet, health care, culture, education, and intelligent hardware.

3) In terms of fixed income products, we have strategically reduced our investment in real estate financing products that are dependent on development and construction and shifted our focus to high quality supply chain finance. We have established long-term relationships with premium partners such as Haier, China Mobile and Far Eastern Leasing. At the same time, we have made progress in industrial M&A funds, public company mezzanine financing, and holding and managing real estate asset at core areas. In 2015, we distributed RMB 36.6 billion of fixed income products, which accounted for 37% of all wealth management products distributed. And asset quality improved substantially.

4) The development of our global, open architecture product platform is also progressing well. Since we established Noah Hong Kong, we have been focused on optimizing our portfolio of international products which currently covers real estate funds, international M&A funds, hedge funds, foreign fixed income bonds and insurance. Noah has built long term partnerships with prestigious overseas financial institutes such as State Street, Black Rock, the Carlyle Group, TPG, Oaktree Capital management, and KKR. In 2015, we also started strategic relationships with McKinley Capital Management, Union Bancaire Privée, UBP SA ("UBP") and the UK Trade & Investment (UKTI).

Noah Hong Kong distributed RMB2.1 billion of products in the fourth quarter of 2015 and RMB11.7 billion in the full year, an increase of 149% and 284%, respectively, from the corresponding periods in 2014. By the end of the year, international AUM reached RMB12.8 billion, a 245% increase from the end of 2014. The demand for international asset allocation has been increasing in line with globalization. In addition, high net worth clients' motivation to invest internationally has shifted from "risk diversification" to "proactively seeking returns from international investment". In light of this trend, we will continue to build our global, open architecture product platform and take advantage of the opportunities related to the long term liberalization of China's capital markets.

5) Noah has always focused on product diversification and continuous innovation based on industry insights. The capital market in 2015 clearly changed high net worth clients' wealth management needs from seeking higher return to risk control. One reflection of this risk aversion has been the dramatic increase in demand for insurance products. And Noah has long been prepared for this. Noah holds independent insurance brokerage licenses in both mainland China and Hong Kong. We have experienced teams of actuaries and insurance products to help clients design and customize product selection. In 2015, the number of clients of our insurance brokerage business increased by 179% year-on-year and revenues increased by 59%.

6) In 2015, we have also made good progress in family office and discretionary portfolio management services. High net worth clients' needs have transformed from product driven to asset allocation driven. And customers have recognized Noah's ability to allocate assets both globally and across asset classes. Currently, our family office business unit manages 60 client accounts.

7) As a subsidiary of Noah, Enoch Education has been well received by our clients over the past year. We have always been committed to the principle of "wisdom and fortune come in pairs", and finding ways to help our relationship managers and clients grow together is one of our most important responsibilities. In 2015, we launched a series of trainings for over 4,000 clients. The "Enoch wealth management class" – which educates investors on market cycles, economic trends and portfolio investment philosophy - has been well received by our customers.

Finally, I would like to say that while it has been a challenging year for both Noah and the entire wealth management industry, I'm very pleased and proud of all the achievements and progress we have made.

As we look into 2016, the most important themes will continue to be respecting the market, persisting with risk control and bottom-line thinking. And our team has been fully prepared. Over the past ten years, Noah has proven to be a company that is impacted the least during cyclical volatility. Market volatility presents us with more opportunities than challenges, and we believe that exceptional wealth and asset management firms always lose market share during bull markets and gain market share during bear markets.

The recently issued working report from the Two Sessions emphasizes the need to prevent regional financial risk, which indicates that there will be more powerful supervision in the future. This is also the best time for Noah to build our brand and strengthen our core competitiveness. As they say – "Never waste a good crisis". Since Noah was founded 10 years ago, we have now been operating in the capital markets for five years. We have experienced several rounds of market volatility, which has made us more mature. 2016 marks the start of the next decade for Noah. We will leverage our experience and industry insight from the past decade to define our path for the next decade.

Now I will turn the call over to our CFO, Ching Tao, to review our financials. Thank you.

**Ching Tao – CFO of Noah**

Thank you, Chairman Wang and hello everyone. Today, I'll give an overview of our Q4 and full year results and then open the call up for questions.

As Kenny and Chairman Wang noted, we are really pleased to have delivered solid results for the fourth quarter and full year 2015. Q4 net revenues increased 47.5% to RMB573.7 million (US$88.6 million) and full year net revenues increased 38.7% to RMB2.1 billion (US$327.3 million).

On the bottom line, non-GAAP net income grew 11.4% year-over-year to RMB106.2 million (US$16.4 million) in the fourth quarter. And for full year 2015, non-GAAP net income grew 25.9% to RMB603.5 million (US$93.2 million), which was in line with our guidance of US$90.0 - $95.0 million.

Looking more closely at our fourth quarter performance, we distributed approximately RMB20.0 billion (US$3.1 billion) of wealth management products in the fourth quarter, a 69.4% increase from the same period a year ago. You can find a break-down of operating metrics in our wealth management business at the back of the earnings release.

The weighted average one-time commission rate for the fourth quarter was 0.86% compared to 1.03% in the same period last year and 0.85% in the third quarter of 2015. The fluctuations in the commission rate are primarily due to shifts in our product mix.

Recurring revenues were RMB287.0 million (US$44.3 million), accounting for 47.6% of total revenues in the fourth quarter of 2015 compared to RMB217.5 million in Q4 of 2014 or 52.7% of total revenues. The decline in recurring revenues as a percentage of net revenues was primarily due to a change in product mix in our wealth management business, and a change in the composition of asset types in our asset management business. Going forward, we expect recurring revenues to account for around 50% of net revenues in the long term.

We continued to see strong revenue growth in our internet finance business and achieved RMB15.2 million (US$2.4 million) of net revenues in the fourth quarter, representing growth of 102.0% year-over-year. We're pleased with the way this segment is growing and we'll continue to invest in what we believe will be an important part of the Noah offering in the long term.

We received RMB57.1 million (US$8.8 million) in net revenues from performance based income during the fourth quarter related to the positive performance of secondary market products, compared to RMB10.2 million in the year ago period. Note that we recognize performance based income when cash inflow can be reasonably assured.

Looking at our profitability… Operating margin was 8.2% in Q4, compared to 28.2% in the year ago period. The decrease was primarily due to the growth in relationship manager compensation exceeding the growth in net revenues, and a RMB31.9 million decrease in government subsidies received in the fourth quarter of 2015 compared with the fourth quarter of 2014.

The increase in relationship manager compensation was mainly due to an adjustment in our product mix as we distributed a greater volume of private equity products. Private equity products accounted for 32.0% of total financial products distributed during the fourth quarter of 2015, compared with 19.2% for the fourth quarter of 2014. As we offer higher incentives to relationship managers for the distribution of PE products, the increase in PE products distributed led to a significant increase in relationship manager commission expenses during the quarter.

It is important to note that 99% of private equity products distributed in the fourth quarter have recurring service fees with an average duration of 7.9 years, as compared to an average duration of 1.1 years for fixed income products. So while there is a higher up front cost of distributing PE products, we will continue to see benefits for many years to come.

Non-GAAP net margin for the Q4 was 17.0% compared to 24.8% a year ago.

Our balance sheet remains very healthy. As of December 31, 2015 the Company had approximately RMB 2,132.9 million (US$329.3 million) in cash and cash equivalents, an increase of about RMB344.5 million from the previous quarter.

We posted positive operating cash flow in the fourth quarter of RMB247.2 million (US$38.2 million), which was primarily due to the improvement in account receivable turnover and the temporary impact of deferring payments for certain compensation and benefits, and other expenses.

Accounts receivable turnover was 60 days, compared with 71 days last quarter.

Looking forward, we expect our operating margin to significantly improve in the first quarter of 2016 as relationship manager compensation is expected to return to average levels from the peak in the fourth quarter of 2015.

Finally, I would like to provide our net profit guidance for 2016. We expect non-GAAP net income for the full year 2016 to be between RMB690 million and RMB720 million, an increase of 14.4% to 19.4% compared to the full year 2015. This growth rate reflects the strong fundamentals and steady profitability in our core businesses.

With that, Chairman Wang, Kenny and I would be happy to take any questions. Operator?

**Q&A**

**[Sam Dubinsky- Carlson Capital]**

Thanks for taking my questions, just a few here. If I look at your operating income, it declined 57% year over year in Q4. So how do we think about that versus the net income guidance for 14% to 19% growth? Like, how does the operating income line trend going forward?

**[Kenny Lam – Group President of Noah]**

Thanks for asking that question first. Actually, we want to address that head-on. First of all, I think Ching mentioned a lot in her speech around the change in product mix, which is quite conscious. We basically wanted to move towards longer-duration product, which actually brings us recurring revenue for many years to come.

So, in essence, what you see is we have costs that are more up front, but a lot more recurring revenue in the future years. And so, the margin is the margin for that particular quarter, but the revenue actually doesn't get reflected until years later. So that's one point.

Secondly is actually you see that in our operating income we actually have an item called government subsidy, which actually tends to fluctuate between quarters but quite stable over the year. So what happened was that we actually received a larger portion in previous quarters and we received a much smaller portion in the fourth quarter. But over the whole year we actually received probably around 20%, 30% more government subsidies in 2015.

So that's why I think we did a very thorough budget for next year. We are quite confident we'll actually reach the guidance that we just announced.

**[Sam Dubinsky- Carlson Capital]**

And what's embedded in terms of, if you can disclose, like, government subsidies and things like performance payments, just so we can benchmark?

**[Kenny Lam – Group President of Noah]**

We can't do all the line-by-line items, but essentially the name is not exactly a subsidy. What it is we conduct businesses in certain cities where the government provides incentives for us to be conducting businesses in those cities. And so those basically are -- the more business we do, the more incentives we get. And that's it. So they're not really subsidizing us, but much more -- if we do, in certain cities that we do businesses in, they will basically help us with a refund or -- really it depends on the volume of business that we do. So it's highly related to how much we do in a particular city.

**[Sam Dubinsky- Carlson Capital]**

Okay, great. And how do we think about the OpEx line going forward, given the change in product mix?

**[Kenny Lam – Group President of Noah]**

I think it will become more stable. I think in the fourth quarter there is a conscious choice to make sure we get a lot more market share. So you see that we have substantial increase in client numbers, we have substantial increase in terms of volume, as a way to prepare for 2016.

So that's why I think in terms of the margin will be in line with average what we see of 2015. The fourth quarter is a bit of an abnormal quarter because of the fluctuations in the subsidy as well as the incentives we give to the relationship managers for the long-term products.

**[Ching Tao – CFO of Noah]**

Yes, I would just add to that in the fourth quarter in particular there was a bit more of a hit from relationship manager compensation, certain selling and marketing expenses, and also relatively less government subsidies that were received. We expect the operating margin to normalize and see improvements in the first quarter of 2016 and going forward.

**[Sam Dubinsky- Carlson Capital]**

Okay. And just tax rate, things like that, I thought the tax rate looked a little bit low this quarter. How do we think about that?

**[Ching Tao – CFO of Noah]**

Yes, we have been trying to optimize our tax rate and work with the government authorities. So we do operate businesses in certain areas where we have a preferential tax rate. And so overall that has helped our effective tax rate come down a little bit.

**[Kenny Lam – Group President of Noah]**

So thanks to Tao Ching and the team, in the last 18 months we have a very strong finance team that basically helped us on three things. One is the government "subsidy". The second is the tax rate. Third is you're seeing that now cash and investment income has also improved. We think that in terms of treasury and the finance functions, the Noah team has really delivered this year and will continue to improve on that next year.

**[Sam Dubinsky- Carlson Capital]**

Okay, great. And my last one is just what exactly the investment income was good this quarter, in Q4 looked a little bit higher. What exactly is in investment income? And also is that just straight line going forward, or how do we think about that?

**[Ching Tao – CFO of Noah]**

I would look at the full-year amount. Investment income typically represents returns earned from cash and cash equivalent short-term money market funds and certain short-term wealth management products. So, still very, very safe investments.

**[Sam Dubinsky- Carlson Capital]**

Okay. But so it's the number for the year, not the quarter?

**[Ching Tao – CFO of Noah]**

In the particular quarter there may be a little bit of volatility. I would also note that we have our cash and cash equivalents invested in both US dollars and RMB. And so, depending on the fluctuation in the exchange rate etc. There may be a little bit difference in how we book it, which is also why we now going forward changed our reporting currency to RMB, with one column for US dollar reconciliation.

But the cash and cash equivalents in short-term investments mainly are money markets and other very safe, fairly highly liquid short-term wealth management products.

**[Sam Dubinsky- Carlson Capital]**

Okay. Thank you very much.

**[Lijuan Du- CICC]**

Thanks for taking my questions. I have three questions. The first two for Ms Wang and Kenny and the other one for Ching.

So the first two questions, we see a fee rate decline trend of the way the upgrade in product mix. And we also see the Company is getting more cautious attitude in product screening. So my question is that can you share with us how is Noah going to maintain the double-digit growth in 2016?

And for Ms Wang, if you have to list your key focus this year for Noah, could you give us three priorities this year?

And the last question for Ching, could you shed more colour on the incentive policy for RMs when they sell these PE products with longer duration? Could you give us some quantitative indicators why they need to be paid more? And how do you pay them within different years or something? Thanks.

**[Kenny Lam – Group President of Noah]**

So I'll first answer the first question. I'll let Chairman Wang answer the second and I'll have Ching answer the third one.

So in terms of maintaining double-digit growth and our guidance of 15% to 20% increase in profit, I think you will see that this quarter is a strategic quarter. What we see in the market is that there is a lot of room for us to gain substantial market share.

So we actually changed a few things. One is we shifted towards very long-term products which allow us to be very sticky with our clients. So average duration is seven-plus years. And so these are clients that will stay with us for a long time. And not only do we have active increase in number of clients, but also active increase in the duration of the products they buy, and active increase in the amount that they purchase on a per-transaction basis.

The second thing that we've done is you see we've shifted the product mix not only to long-term PE, but also to insurance. Now, insurance will never be a majority of what we do, but it's actually an important part of having a broader conversation with the clients on asset management and asset allocation.

And so our insurance brokerage license in both Hong Kong and China have actually helped us substantially, you see, in this quarter. So our client insurance increased by 170%-plus. So that would immediately help us set a good base for 2016.

The third thing we've done actually, you see that in our relationship manager base we've increased substantially from 700-plus to about 1,000-plus now. That increase was not just focused on this year. We actually spend a year training them so that they are actually even more productive next year. We actually sent this year, for example, 130 relationship managers to Zurich to get them trained on family office asset allocation. So this whole year is basically a year of preparation of consolidation of the market share for next year.

So that's why we're quite comfortable we'll get to the guidance we just announced.

**[Jingbo Wang – Chairman and CEO of Noah *(Interpreted by translator)*]**

Thanks for your question.

In terms of the three priorities, what we are focusing on in 2016, I think the first one we are still want to optimize our product structure, and also educate investors. And we would like to also establish an investment philosophy which is consistent with the institutional investment.

The second one is we would like to enhance our investment capacity of our Gopher Asset Management in all fronts. I think in 2016 it's a very good opportunity for the Gopher Asset to leap forward.

Number three is actually we're going to focus on internet finance, i.e. internet wealth management platform. We think it's a very good opportunity in this year for us to enhance that capability as well.

**[Lijuan Du- CICC *(Interpreted by* Kenny Lam*)*]**

When do we see the internet finance business turning into from a volume gain to one that's focused on profitability?

**[Jingbo Wang – Chairman and CEO of Noah *(Interpreted by translator)*]**

I think we have to focus on long term. I think to establish a strong internet finance platform is an irreversible trend. But now we are not particularly focusing on profitability but we want to gain more market share.

Number two, we still think the landscape, the competitive landscape in the internet finance industry is still very challenging. However, the recent clean-up actually opens up more opportunity for us to grow in the future.

I just want to add to my comment. Actually, there has been a lot of debate over it is internet finance or finance the internet. Actually, our conclusion is that the core is still finance. So I think Noah has a very strong platform and is very competitive in terms of fundraising as a finance company. So I think Noah has a really good long-term potential to further grow our internet finance platform.

**[Kenny Lam – Group President of Noah]**

Just to add a point around internet finance and how much we're investing, basically we're looking at this very closely. The two main businesses, the wealth and asset management businesses, are the main profit driver of the entire group. The internet finance business is an area that we want to invest in. But we're also ensuring that how much we invest is actually a small percentage of the entire group's profit every year.

And now that we've grown substantially in 2015, we'll continue to invest in this particular platform. But at the same time we're actually looking at the numbers very closely to ensure that we don't exceed the amount that we want to invest in this particular new business.

**[Lijuan Du- CICC]**

Okay. Ching, could you share your view on the incentive policy?

**[Ching Tao – CFO of Noah]**

Yes. So basically we have a fairly complicated commission structure by which we pay our relationship managers. The commission rates differ a little bit by asset class. So typically the private equity asset class has higher, a slightly higher commission rate. So since we did this to be more in terms of transaction value in the fourth quarter, the relationship manager compensation correspondingly was a little bit higher.

Now, I would characterize that as akin to a timing mismatch between when we book the cost and also when we receive the revenue. Because the private equity funds generate management fees and the duration, the average duration, has increased to over seven years. So we expect a very healthy stream of recurring service fees to come from the private equity products that we've distributed.

We're also seeing near term that there's going to be increased revenue from these management fees in early 2016. So I cannot give you the specific amounts, but we expect overall that the operating margin will recover and will be more close to the average levels we've been running at for the past few years. So I would not be terribly concerned about the quarter-over-quarter volatility.

**[Joy Wu- J. P. Morgan]**

Hi, Management. Thank you for taking my question. I have two questions. One is do you see any capital needs going forward for business expansion?

And the second one is that we hear some rumours that Noah is going private. I'm wondering if that is one option going forward for Noah? Thank you.

**[Kenny Lam – Group President of Noah]**

Okay, so thanks for the questions. And I like that we're asking very direct questions.

One is, there's no plans to privatize. And I want to just dispel all rumours that we're going to take this company private. So we will retain our US listing and we will not go private. Right?

So, the entire discussion around AB structure is actually as we said. We've been very transparent. We want to focus on the long term. We want to create a structure which will allow the founders to have more execution and ability and agility, and that's it. There's no plans at all to privatize or delist from the US. We want to maintain our US listing. Hope that's clear.

The first question really around capital, we do have a large amount of cash. We are cautious in what we look into, but we're quite active into thinking through the potential acquisition expansion plans.

The normal capital plans are the normal course of business, which includes IT investments, which includes expansion of our different businesses. And that should not be a substantial growth in 2016.

The inorganic growth is an area that we want to look into that may actually use some of the cash that we have. That includes asset management potential acquisitions. But we're still very cautious in looking to see what we can do.

**[Ryan Roberts- MCM Partners]**

Good morning and thank you for taking my questions. My first question was just a follow-up on an earlier one actually, just for clarity purposes. I think you just said that the commission structure for different products, that's all the same, however, the different product categories the commission varies. Is that correct, for RMs?

**[Ching Tao – CFO of Noah]**

Hi. Let me explain it this way. So, we earn one-time commissions for distribution of wealth management products, and booked as net revenues as one-time commission. So the commissions earned to Noah Holdings, the one-time commission varies by asset class.

And we disclosed the -- it's a little bit below -- so 0.85, 0.86 is the number. Now, separately, relationship managers are paid with a low base salary and the rest is basically commission bonus. So the commission we pay to relationship managers, the commission rates vary by asset class a little bit as well. So I was saying that when they sell private equity products, they typically command a slightly higher commission rate to the relationship managers paid in the form of bonuses.

**[Kenny Lam – Group President of Noah]**

Just to give you a sense then, the rate itself is slightly higher by asset class for private equity. But if you look at the numbers that we disclosed, we have a substantially higher absolute amount in private equity products.

So for example, last year we did RMB99 billion, of which 32% is private equity. And the year before we did RMB63.4 billion of which 18.9% is private equity. So if you multiply that to the amount that we distributed, that is one of the main reasons why compensation to RMs for this quarter is particularly high. But as we said, this represents multiple years of recurring revenue for us, which is substantially different from what we had before.

**[Ryan Roberts- MCM Partners]**

Got you. Okay. Thank you very much for that.

My next question is on the branch network. There's been some pretty serious growth year over year. I'm kind of curious where we are in that overall process. Should we expect to see more production from branch offices? Or how should we look at the geographic footprint kind of going forward?

**[Kenny Lam – Group President of Noah]**

In terms of growth both in RMs as well as in city coverage, I think we're largely done. We may find a few areas that we still want to grow in terms of city and city coverage. So this year is all about consolidating what we have already built in 2015. So we don't expect to grow another 30 cities, or 15 cities even, or even grow substantially in the branch offices. If you look at China, basically we are already fully covering every city that we want to cover in terms of high net worth individuals.

**[Ching Tao – CFO of Noah]**

Related to that, I would further note that the growth in relationship manager headcount exceeds the growth in the fixed branch or fixed asset network. So we're focused much more on relationship manager productivity, because they're our key sales force.

Now, part of why it's important to have our branch network is this is a trust business and a local business. So the relationship managers have to have local offices where they can meet the clients and conduct business. But the focus is much more on relationship manager productivity as a driver of growth.

**[Ryan Roberts- MCM Partners]**

Okay. So that's a better metric to focus on. And if I could just sneak one more in, on the internet finance business. You mentioned before, Kenny, about your growing market share and the business is growing well. Can you share with us some metrics that you're looking at that we can kind of gauge to understand how that business is growing and when profitability could become more of a possibility for that?

**[Kenny Lam – Group President of Noah]**

Just one thing on the internet finance business -- and we actually could make this a profitable business right away. What we were looking for -- if you look at couple of metrics there are basically three things.

One is we want to make sure we have not only richest clients but also paying clients, so clients that are actually transacting on our platform. So that one has grown substantially. I think the numbers we've disclosed already.

And second is that we want to make sure that we grow also on per transaction in terms of clients. And that number has also grown substantially. I think the latest number is something around US$20,000 or US$30,000 on a per-transaction basis, which I think is one of the highest, if not the highest, for any wealth management platform in China. So that's the second thing that we look at.

The third thing we look at is the -- it's a qualitative metric. We want to make sure that they don't just focus on one or two products, but a broader suite of products. So we're moving away from just simple fixed-income products, to insurance, to other types of products that we think would be suitable for mass affluent clients online.

So those are three things that we care a lot about, at least in the next 6 to 12 months, to ensure that this business gets on a solid footing.

**[Ryan Roberts- MCM Partners]**

Can you give us a sense of what that last metric. It sounds like you had not quite a repeat customer ratio, but kind of more of a cross-selling.

**[Kenny Lam – Group President of Noah]**

Yes. So basically, if you look at our repeat clients, I can't give you a specific number, but it's absolutely over 50%. By any platform in the market it's likely going to be the highest, if not one of the highest.

**[Ryan Roberts- MCM Partners]**

Okay. Thank you. That's very, very helpful. I appreciate all the clarity. Thanks.

**[Anson Huang- Credit Suisse]**

Thank you, Management. Two questions from our side. First, we noticed PE products participation contributed a lot to the growth last year. But looking ahead, it seems to be that because secondary market products and trust products may be difficult this year. So what will be the key driver for the growth you see in terms of product distribution?

And the second question is, we noticed that Julius invested in Jupai, one of our competitors. So what's some comment from the management of Noah? Will we follow? Thanks.

**[Jingbo Wang – Chairman and CEO of Noah *(Interpreted by translator)*]**

The products are our core competitiveness and we still believe so in 2016 and beyond. I think the key drivers for 2016 is mainly focused on private equity, including private equities cooperation with good partners as well as actually our focus on the private equity fund-of-funds basis as well.

And then the second thing we are focused on is actually M&A related products. I think M&A activity is very supported by the regulations and we are still seeing an increasing demand from the listing company as well as the non-listing companies here in China. So we are going to do more M&A-related products in 2016.

In terms of the fixed-income products, our main focus in 2016 are supply chain, financing, consumer financing, so on and so forth.

**[Kenny Lam – Group President of Noah]**

And then to the second question around the transaction that was done on one of the players in the industry, we don't want to comment on a particular deal. But I'll leave you with three thoughts.

At Noah we don't believe in executing transactions that may look good on the surface but doesn't really add value to the Company. That's one.

Second is we don't believe that in this market we need to have a player investing in us that is also focused on distribution. I think what we need to do in this market is to add asset management capabilities, not distribution capabilities. Because I think we have the market pretty well covered in terms of clients. What we do need is global asset management capabilities, not distribution capabilities. So for the particular transaction that you mentioned, I don't think it falls under that category.

The third thing is for any strategic shareholder to come in, it needs to be substantial. So at a small percentage it doesn't really add much value to any particular company. But as I said, I don't want to comment on any particular transaction. But from outside those are the three thoughts that we would leave you with.

**[Henry Lau- Goldman Sachs]**

Thanks for taking my questions. So my first question is regarding the dividend policy or potential share buyback. Can you share more about that, in the future?

**[Kenny Lam – Group President of Noah]**

One is this year we maintained a policy of no dividend. I think the Company is actually growing at a potential rate we want to maintain our cash balance to ensure that we can take opportunities where they come. And so we'll maintain a no-dividend policy for this particular year.

In terms of share buyback, you would see that we announced a share buyback program in July last year. We will continue that program for a year, from July last year. And if we see our share price going down to a certain level that we think it's highly undervalued then we will continue to execute on that share buyback.

We've actually executed on that share buyback program at some points during last year when we see the share price dropping to a level that we think it's actually not reflecting the full value of the Company.

**[Ching Tao – CFO of Noah]**

So just quickly to add to that, you'll see in our third-quarter 6-K earnings release we bought back about US$7 million worth of shares. This was back around late August, early September. In the fourth quarter there were no buybacks.

**[Henry Lau- Goldman Sachs]**

Okay, thanks. My next question is regarding what has mentioned by Chairman Wang about abnormal competition we experienced in 2015. Can you elaborate more on that? And do you see any pressure on the fees we charge for the fund managers, do we have pressure on that side from competitors?

**[Kenny Lam – Group President of Noah]**

So I'll take that question for Chairman Wang. The “abnormal competition” is -- if you see the last six months in the China wealth management market, there are a lot of players coming in that are not really well disciplined in terms of risk management, in terms of the way they look at financial products. And you also see these players coming in attracting clients.

And so, that competition has, frankly, died down substantially in the last few months, given the regulatory controls. But in the last quarter of 2015 we do see a lot of players just coming in without much proper training and preparation and starting to offer "wealth management products" to clients.

We see us consolidating the market in a few areas. So in terms of asset management, as Chairman Wang said, we're now heavily focused on ensuring that in the few asset classes we are the number one or number two player in the market, so for example, private equity fund of funds. Private equity is an area that we dominate.

And so the approach is to ensure that after we dominate we are able to understand the industry in such a way that we can carry that advantage for many years to come. So we mentioned that in private equity we now have looked at about 1,000 projects. So we actually have a sense of where the market is going much faster than the rest of the market.

So in terms of asset and wealth management industry, I think we've put ourselves in a pretty good position. Now, of course there is a lot of competition, but we think that we're pretty well positioned for at least for a few years to come.

**[Henry Lau- Goldman Sachs]**

Thank you. That's all my questions.

**[Kenny Lam – Group President of Noah]**

Okay. So if there are no questions I want to thank everyone for taking the time. I think this quarter has been a great quarter for us in terms of strategic positioning for the next decade.

And thank you. We look forward to hearing from you. If you have more questions, please write to our IR team. We can take more questions offline.