NOAH HOLDINGS 4Q & FY 2017 EARNINGS CALL EDITED TRANSCRIPT

March 6, 2018, 8:00 PM (US EST)

OPERATOR

Good day, ladies and gentlemen. Welcome to Noah Holdings Limited fourth quarter and full year 2017 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 2017 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. I want to welcome all our investor and analyst friends to our earnings conference call today. In addition to myself, Ms. Wang Jingbo, Chairlady and CEO of Noah, our CFO Shang, will also be participating in our call today.

For today's agenda, we'll first review Noah's overall 2017 performance as well as the development of our core wealth and asset management business. Then I will talk about the progress in our overseas business and our mid and back-office operations. Chairlady Wang will then speak to the state of each product segment as well as provide her overall views on the current industry and regulatory environment. Our CFO Shang will then follow up with a more detailed discussion of Noah's fourth quarter and full year financial performance as well as our guidance for 2018. We will conclude the call with a Q&A session.

In 2017, while the growth of Chinese economy slowed, economic restructuring is starting to bear fruit. Stricter supervision has become a top priority in the financial sector. The introduction of a series of new regulations aiming to govern the asset management industry and cash loan industries will undoubtedly speed up the reshaping and upgrading of Chinese financial ecosystem. Chinese wealth management and asset management industries will usher in more standardized and orderly development while maintaining rapid growth.

As a fully licensed, well-regulated and integrated financial service institution, Noah is a beneficiary of these new regulations and therefore will embrace a new round of long-term development opportunities. Our continued objective is to meet the increasing and evolving demand of Chinese high-net-worth individuals. As we pursue this goal, we will continue to adhere to stringent risk control standards and actively seek financial product and integrated financial service innovation while at the same time, further expanding cross-asset, cross-regional diversification.

In 2017, Noah has achieved outstanding results in risk management, business and financial performance. Our transaction value for financial products reached RMB 117.4 billion, up 15.8% from previous year. Our asset management business reached AUM of RMB 148.3 billion, up 22.6% from the end of 2016. Both figures are at all-time high. The group's net revenues for the full year 2017 reached RMB 2.83 billion, representing an increase of 12.5% over the last year. Our non-GAAP net profit attributable to common shareholders increased 19.5% year-over-year to RMB 864 million, surpassing the high end of our full year guidance. We are very satisfied with this achievement.

Our traditional wealth management business had 186,918 registered clients as of December 31, 2017, a 38% increase from the same period in 2016. The number of active clients who purchased financial products through Noah in 2017 was 12,720, and average transaction value per client reached RMB 9.23 million, up 5.8% and 9.5% respectively over the same period of 2016.

We continue to make steady progress and push forward on our overall physical network in 2017. The number of covered cities increased from 71 to 79. The number of branches increased from 185 to 237. The number of our relationship managers also increased 14% year-over-year to 1,335. It is worth mentioning that our team of relationship managers continues to maintain a high level of stability. We saw only 3.6% turnover rate among elite relationship management team. In terms of training, we further developed the three career paths for Noah's relationship managers, professional, managerial and private bankers and established correspondent training and incentive systems based on different development paths. We have also formulated more balanced incentive measurement, guiding our relationship managers to shift the emphasis of their services from the front-end product sales to asset allocation advisory and integrated financial services, bringing a better customer service experience.

For our overall asset management business, as of fourth quarter of 2017, Gopher's AUM reached RMB 148.3 billion, representing an increase of 23% year-over-year. The AUM of the largest asset class, private equity investment funds, increased by a notable 50% from a year ago, reaching RMB 86.9 billion. Its percentage of total assets under management also increased to 59% at the end of 2017 versus 48% at the end of 2016.

The number of co-investment and direct investment projects continued to increase within Gopher's overall managed assets. In the fourth quarter of 2017, Gopher launched a number of direct, or mostly-direct investment funds, including Gopher Financial Industry Fund and Gopher US Venture Fund, which further upgraded our overall asset quality. As a leading diversified asset management company in China, Gopher also invests in credit, real estate, and secondary markets, with AUM accounting for 27%, 8% and 4% respectively, of our total assets under management at year-end.

For our overseas business, 2017 is a year of exciting new developments. Our U.S. subsidiary has not only obtained the Registered Investment Advisor license and an insurance brokerage license, but we also opened a New York office in addition to our Silicon Valley operations. Our New York office will focus on investment opportunities in the real estate sector in the U.S. Noah Canada and Noah Australia branch offices also successfully started in late 2017 and early 2018.

As of the end of 2017, the AUM of our overseas business reached RMB 21.7 billion, increasing 28% year-over-year. While continuing to allocate overseas assets for domestic high-net-worth clients, Noah aims to expand our vision globally and provide high-quality financial services to high-net-worth Chinese all over the world.

Our efforts have garnered high recognition within the industry. Based on incomplete statistics, Noah and Gopher won a total of 38 important domestic and international awards in 2017, including prestigious awards from Asian Private Banker, Private Banker International, AsiaMoney and Fortune Magazine. We also became the first independent wealth management company in China to receive an investment-grade credit rating from S&P. These recognitions not only affirm our hard work over the last 12 years, but also encourage us to remain vigilant and continue to push hard on our development.

Lastly, I'd like to provide a brief summary of our mid and back-office developments. In 2017, we worked diligently on our technology upgrade and data capability within our group. We updated our Noah online app to establish a one-stop client service platform, providing more secure, compliant and convenient online trading and account management experience.

We are also building our data platform for the entire group, striving to achieve a 360-degree customer profile with more than 150 labels in five key dimensions, including historical investment, behavioral focus, community participation, contribution and identity characteristics. From these profiles, we hope to form a deeper understanding of our clients.

Our big data platform will be formally put into service in 2018 to help our relationship managers understand their individual clients in a better way. We hope that with active technology buildup, we will be able to better understand our clients' needs, improve our service efficiency and optimize our service quality.

We've also comprehensively strengthened our investment research capabilities, reconstructing our research team and fully integrating our research into our product and marketing process.

We are building Noah's own research database, systematically support our product risk management and sales, and empower our front-line teams through in-depth analysis to better serve clients. Product screening and professional services have always been Noah's core competency, and we will further strengthen this area by enhancing our investment research capability.

With that, I will now turn the call to Noah's Chairlady and CEO, Wang Jingbo. She will speak in Chinese, and her remarks will be followed by English interpretation.

Jingbo Wang – Noah Holdings Co-founder, Chairlady & CEO

Thank you, Kenny. 2017 marks the 12th year since Noah's founding. During the last 12 years, Noah has done many things well, but has also made many mistakes along the way. We have experienced fraud, credit defaults, worse-than-expected fund performance, as well as misreading industry trends at times.

While publicly discussing these issues is difficult, we believe it will encourage us to reflect on, and learn from our previous mistakes and ensure that these same mistakes will not occur going forward.

Standing at the starting point of a new 12-year cycle, we ask ourselves, if we were to relive the last 12 years, what would be the top 3 things on our priority list? Following that train of thought, we ask, “If we only focus on 3 things in the next 12 years, what would they be? And how can we do them better?”

Human beings and organizations are never perfect, but they all have the ability to change and evolve. Whether perfection exists or not, it is the ultimate goal that encourages constant and perpetual evolution. We're confident that we will continually improve our fundamentals and take on new challenges and opportunities.

We also see that in the wealth management and asset management industries, the regulators, industry practitioners, as well as the investors, are all becoming more sophisticated and rational.

Judging from the current state of China's financial markets, we continue to see an imbalance between supply and demand. On the demand side, according to Bain's forecast, by the end of 2017, the total size of China's individual investable assets have reached RMB 185 trillion.

On the product supply side, according to “2017 China Financial Stability Report” issued by PBOC, excluding cross-holding, the total size of the asset management business of various financial institutions in China is only a little over RMB 60 trillion.

The demand and willingness of high-net-worth individuals to rely on professional asset management institutions to screen and invest in quality assets are growing. At the same time, we also see that investment yield is no longer the only factor that customers pay attention to when choosing investment institutions and products. Their vision is broader; their investment mentality is more sophisticated and their investment planning is more long-term-oriented.

This leads to a higher requirement for wealth management institutions like Noah. Whether we are able to meet the continuously escalating needs of our customers, or even lead them to explore new lifestyles, has been our constant consideration and pursuit, and will determine the future magnitude of our corporate success.

Now let me share with you the current state of major product categories at Noah and Gopher.

In the area of VC/PE, as the top-pick partner of top domestic PE managers and core entrepreneurs, Noah and Gopher have not only established a deep connection with mature and outstanding funds, but also been good at allocating those “dark horses”. And we're pleased to see that our hard work over the last 10 years is gradually starting to bear fruit.

In 2017, among the funds distributed by Noah and invested by Gopher, 40 portfolio companies successfully completed IPOs in the A-share market, accounting for nearly 10% of the total number in the year, and 3 companies were successfully listed in the United States.

In the full year 2017, the total size of private equity funds distributed by Noah reached RMB 34.3 billion, increasing 24% from the full year 2016. Total AUM of Gopher's private equity investment reached RMB 86.9 billion, up an impressive 50% year-over-year.

In addition to being a distribution channel and investing through fund-of-funds, we bring more value to our clients by way of co-investment and direct investment. As of the end of 2017, funds managed by Gopher completed 54 direct or co-investments of which 5 have been exited, or are in the exiting process; 22 have become unicorn enterprises valued at more than US$1 billion; 5 have completed IPOs; 3 have filed for IPO. Not including exited or already listed projects, 18 companies have had follow-on rounds of financing.

Our in-depth cooperation with lead GPs is also reflected in the private equity secondary market fund (S Fund) products. Gopher started to issue its first S fund in 2013 with 4 series of funds in operation by 2017. We're the most experienced fund manager in the Chinese market in distributing and managing independent S strategy funds.

With the long-duration PE/VC funds, the emergence of S strategy meets the demand of GPs and LPs to enhance liquidity. For new LP, it effectively optimizes the J-curve of the portfolio and speeds up cash return. At the same time, it brings a higher requirement for fund of funds managers' valuation capability.

Gopher has the experience of investing in 163 individual funds and more than 3,500 investment projects. The valuation experience accumulated from these investments is put to great use. As a result, a complete investment strategy map of Gopher's private equity investment, “P+S+D”, or “primary + secondary + direct investment”, has been formed.

On the secondary market investment front, the value investment managers selected by Noah and Gopher over the past few years have delivered better-than-expected performance in 2017, which brought dramatically elevated client satisfaction.

For the full year 2017, secondary market products distributed by Noah increased 37% year-over-year to RMB 10.8 billion. More exceptionally, secondary market transaction value in the second half of the year comprised 80% of the full year amount.

Since the beginning of 2018, the A-share market, Hong Kong market and U.S. market all exhibited increased volatility, highlighting the value of professional managers. Despite the fickleness in the market during the past few years, whether it is Noah-selected secondary market products or Gopher FOF/MOM invested funds, we strictly adhere to the ideology of value investment by high-quality managers to help our customers achieve outperforming long-term results.

In 2017, Noah and Gopher selected secondary market funds had an outstanding overall performance. 80% of the total fund assets under our advisory achieved an annual return of over 12% with top 20 funds averaging an absolute return of 39%. Gopher's flagship MOM fund also realized investment returns of over 20%, beating both benchmark returns and the market average, reflecting long-term performance values.

In 2017, Noah's transaction value for fixed income products increased 11.3% year-over-year. We launched the first NAV-based credit portfolio product in Chinese market, which has been recognized and approved by the regulatory authority.

With release of “Private Equity Investment Fund Record Notes” by AMAC in January 2018, entrusted loans through private funds have come to a complete stop.

We believe fixed income products are still robust demands of individual clients, while the proactive managed products with NAV and portfolio characteristics will fully comply with the regulatory requirement and align with our industry's future trend. We managed to forecast the trend and have been well prepared of this trend.

In real estate investments, after 6 years of direct project investment experience over 2 real estate cycles, covering and cooperating with over 40 real estate developers and more than 70 operators of all types, Noah and Gopher's real estate investments have evolved from a single-fund strategy investing exclusively in the residential real estate area, to a multi-format portfolio with “funding + operation” model and formed 3 major investment themes: core commercial asset acquisition, value-added property renovation and special opportunity investments.

In 2017, Shanghai Gopher Center, the 5A-class office building acquired by our fund earlier, successfully opened for business with rental occupancy well over 90%. Through this project, our value in both project operation and property value enhancement has been well recognized by institutional investors.

In early 2018, Gopher's core asset acquisition strategy reached a new milestone by completing the acquisition of another two commercial properties in the core area of Shanghai. The project construction is expected to be completed before the end of 2019.

With the industry upgrade and favorable policy in place, we're seeing an increasingly constructive environment for the formation of true real estate funds in China. Direct financing methods such as REITs and preferred stocks are gradually entering investors' horizon.

As a manager with active management and value-added operating capabilities covering the full cycle of raising, investing, managing and exiting, Gopher will undoubtedly be facing a whole new round of opportunities. In the year 2018, funding sources for real estate market is expected to be relatively tight, and we're optimistic about the opportunities in asset acquisition, value-added renovation as well as preferred stock.

Gopher's discretionary investment business has also achieved solid development in 2017. Gopher Heritage Fund now has 3 series to meet different asset allocation strategies and satisfy different investors' risk appetite.

For Noah's ultra-high-net-worth clients, Gopher can further provide separately-managed single-family office or multi-family office services, helping our core clients to construct family-owned investment teams. As of the end of 2017, we have provided wealth management services for nearly 600 Black Card families in China.

It is our opinion that as the investment mentality of China's high-net-worth individuals continue to mature, entrusting financial investment decisions to professional asset managers, or even starting their own family offices, will become a future trend for Chinese wealthy families.

Noah and Gopher's DNA and experience have shaped us to become the asset management company that most understands the demands of high-net-worth family clients in China.

Besides the achievement of our wealth management and asset management businesses, in 2017, the Group's Internet financial services and innovation subsidiaries also achieved remarkable results. Our online wealth management platform, “Caifupai”, has accumulated its transaction value to almost RMB 55 billion.

Based on our self-built standardized mutual fund trading system, we further enhanced our capabilities in artificial intelligence, big data, quant fund and portfolio data processing and formed the scenario-driven Internet financial service platform that focuses on the allocation of mutual funds.

Apart from that, we have also launched 2 new APPs in 2017 for mutual fund automatic investment plans and investment advisory services. And we will continue to focus on the asset allocation of mutual funds for mass affluent clients in the 2018.

Noah Rong Yi Tong, our micro-lending subsidiary focusing on clients with high-credit profile, generated over RMB 5 billion new business volumes in the full year 2017, while establishing an online SaaS platform and a completely independent risk management system.

Noah Jintong, our online payment processing subsidiary, continued to provide data and information infrastructure while constructing our fundamental payment system.

Revolving around the demand of high-net-worth individuals, we continue to extend our offerings horizon from wealth management to asset management, from RMB investment to global asset allocation, from financial product investments to integrated financial services.

At present, our family wealth management center, together with Ark Trust, Enoch Education, Noah Charity Foundation among others, have almost been able to meet comprehensive customer needs for comprehensive financial services.

Investor education is also an important channel for us to establish in-depth links with high-net-worth clients. In 2017, we conducted 13 leadership summits, 2 talent seminars, 7 sessions of Noah University, 17 Noah open courses, as well as a variety of regional activities across the country, covering almost 200,000 customers.

At year-end, we hosted 13 days of annual Diamond Gala in Xiamen, accommodating almost 6,000 clients from 70 regions around the country. During the year, Enoch Education hosted 96 classes, both domestically and internationally, attended by 7,500 participants. Both the quality of the courses and customer satisfaction have increased significantly.

Last but not least, I would like to share a little bit of our view on the regulation environment. 2017 was "the Most Strict Year for Financial Regulation in History". From the internal review draft of "Guidelines on Regulating the Asset Management Business" and CBRC's inspection waves at the beginning of the year, to "New Rules on Stock-selling by Major Shareholders" and "Measures on Investor Suitability" in mid-year, and then to the draft for comment of "Guidelines on Regulating the Asset Management Business" and the formal promulgation of "Notice on the Rectification of Cash Credit Business" towards year end, government supervision orders were issued in an intensive manner.

With the convening of the 19th Party Congress and the establishment of the Financial Stability Development Committee under the State Council, "finance returning to its root of serving the real economy" and "preventing systematic financial risks" have become clear themes of financial regulation.

With the strengthening of coordination among regulatory bodies and higher compliance costs, wealth management and asset management industries will both enter a new era where only the fittest will survive. Some longstanding industry defects such as implicit guarantee, duration mismatch and regulation arbitrage are gradually being broken down by joint efforts of all parties.

In this type of regulatory environment, fully licensed and compliant financial institutions, such as Noah, will hopefully have the opportunity to expand their market share. In the meantime, we're also being cautious and would always stick to our compliance and risk management standards as the bottom line and lifeline of our operations.

Through our whole operating process, from screening qualified investors at the front-end sales and product risk assessment, to potential risk warning and special asset management of existing products, we adhere to the most rigorous standards and utilize the most market-oriented approaches to achieve satisfactory results.

We have also set up a separate department within our company specialized in distressed assets and aimed to launch a special asset fund in the future. In fact, distressed assets represent a very large asset class in global asset management industry, and could provide many investment opportunities. International investment firms, such as Blackstone and Oaktree, are all participating in China's distressed asset management. We believe a healthy industry chain is already taking shape in China.

Lastly, I would like to say that after the first 12 years of development, Noah should consider 2018 as a new starting point, and face the challenges of the times through constant learning and evolving process.

The biggest challenge for us today is not to dwell on the past, but rather to look into the future. We need to develop an instinct of continuously improving, converting the pain brought by problems to the driving force that encourages innovation. What makes a company differentiated is creativity, mentality and wisdom.

We will always encounter problems, but we should not waste our time on complaining or hoping that problems won't occur anyway. Instead, we should believe in what Churchill said, "Success consists of going from failure to failure without losing enthusiasm."

Noah is well positioned to grow into a technology-led and globally integrated financial service platform, serving Chinese people all around the world.

Together with my team, I'm fully prepared and looking forward to Noah's breakthroughs in 2018 followed by another 12 years of remarkable success.

Thank you all. Now I will turn the call over to our CFO Shang, who will review our financial results.

Shang Chuang – CFO of Noah

Thank you, Chairlady Wang, and hello, everyone. As Kenny and Chairlady Wang noted, we are pleased with our results for the fourth quarter and full year 2017.

Net revenues in the fourth quarter increased 11.7% year-over-year to RMB 722.1 million, and full year net revenues increased 12.5% year-over-year to RMB 2.8 billion, reflecting our strong performance in 2017.

On the bottom line, non-GAAP attributable net income in the fourth quarter grew 40.5% year-over-year to RMB 184.7 million, and full year non-GAAP net income grew 19.5% to RMB 863.8 million, exceeding our profit guidance.

I'll now discuss in more detail about our fourth quarter financial results. We distributed RMB 28.2 billion worth of financial product in the fourth quarter and generated RMB 244 million revenue from one-time commissions. Recurring service fees in the fourth quarter of 2017 totaled RMB 396.4 million and performance-based income were RMB 29.8 million.

Operating income increased 62.7% year-over-year to RMB 135.7 million in the fourth quarter, and operating margin was 18.8% compared with 12.9% for the corresponding period in 2016. Non-GAAP net income attributable to Noah's shareholders were RMB 184.7 million for the fourth quarter, increasing 40.5% from a year ago.

Now turning to full year 2017 results. Amidst growing competition and risk in both wealth management and asset management industries in China, we managed to achieve a record high in transaction value, distributing a total of RMB 117.4 billion of financial products, up 15.8%. Revenues from one-time commissions remained relatively flat from a year ago at RMB 1.1 billion, as lower insurance volume decreased overall blended effective commission rates.

As total assets under advisory and under management continued to rise, revenues from recurring service fees were RMB1,407.9 million in 2017, representing a healthy 12.6% increase. Recurring revenue continues to contribute about half of our total revenues and provides strong revenue streams going forward.

We are especially pleased that performance-based income reached RMB 141.0 million in 2017, up 138% year-over-year, demonstrating our effort to build a leading, multi-strategy product and investment platform, which levers performance for our clients. With accumulation of assets under advisory and under management, we believe performance-based income will continue to contribute to our total revenue.

Segment-wise, wealth management revenues reached RMB 2.1 billion in the full year of 2017, up 10.1% year-over-year, while asset management revenue reached RMB 588.0 million, up 10.6% year-over-year. Net revenues from Internet financial services business grew 124.7% year-over-year to RMB 112.6 million. We are pleased with the robust progress of our new businesses.

Total operating expenses were RMB 2 billion for the full year of 2017, up 11%, lower than the growth rate of net revenues, reflecting our focus on cost optimization and improved efficiency.

Specifically, total compensation costs were RMB 1.4 billion, up 8.2% year-over-year, in line with the increased number of relationship managers. Total SG&A were RMB 569.3 million, and other operating expenses were RMB 147.3 million, relatively flat compared with last year.

Although government subsidy we received in 2017 decreased to RMB 74.2 million, due to VAT tax reform in China, operating income for the full year 2017 still increased 16.4% year-over-year to RMB 777.0 million. Operating margin increased from 26.5% to 27.5% in 2017, mainly thanks to cost optimization measurements and increased operating efficiency.

Income from equity and affiliates grew threefold to RMB 93.2 million, compared with RMB 22.3 million in 2016, primarily contributed by the growth in valuation of the funds we manage and invest in as general partners, as well as the increase in net asset value of our affiliates.

On the bottom line, we achieved non-GAAP net income attributable to Noah shareholders of RMB 863.8 million in 2017, increasing 19.5% from a year ago. Attributable non-GAAP net margin was 30.6% in 2017 compared with 28.8% in 2016.

Our balance sheet remained healthy. As of December 31, 2017, the Company had RMB 1.9 billion in cash and cash equivalents, down from RMB 2 billion in the previous quarter and RMB 3 billion at the end of 2016. This mainly reflects our effort in cash management, strategic investment and repurchase of Gopher's shares from Sequoia last year.

Let me close with our net profit guidance for 2018. We expect non-GAAP attributable net income for the full year 2018 to be between RMB 1 billion to RMB 1.05 billion, representing an increase of 15.8% to 21.6% compared to 2017. This guidance reflects our strategy to accelerate our revenue growth as we target to grow faster than the industry and gain market share.

At the same time, 2018 will be the first time we will be launching our comprehensive marketing and advertisement program to further strengthen our brand awareness amongst the fast growing high-net-worth individual population within China.

In conclusion, 2017 was another great year, and we are very excited about the opportunities ahead.

With that, let's open up the call for questions. Operator?

Q&A

[Operator]

(Operator Instructions) Junheng Li with JL Warren Capital.

[Junheng Li – JL Warren Capital]

First, congratulations on a great quarter and a great 2017. We're encouraged to see the ramp of AUM in asset management and value of total products sold. And one thing that we believe that differentiates Noah from the peers is your product innovation and diversification, driven by your insights of the capital market and the ability to move quickly and accordingly.

So can you please give us some insights as to the trends of your portfolio allocation across fixed income, real estate, stocks and private equity in the next 2 years, given the current environment? Thank you.

[Jingbo Wang – Chairlady and CEO of Noah]

Jingbo Wang: (Speaking Chinese).

(Translated). Thank you. So in terms of our asset allocation, I think we will continue to expand in terms of private equity and venture capital. We will leverage our industry knowledge to further push our value creation on behalf of our clients, as well as innovating new products.

For 2018, our view is that money will become more expensive, which means that asset prices will become cheaper. As such, we think there will be a lot of opportunities in real estate. And then specifically in terms of core real estate projects, I think we'll plan to exit some of our projects this year, and also looking at some new purchases as well.

In terms of the A-share public markets, over the last 2 years, we've primarily focused on those funds that focus on value investing, but given the overall deleveraging trend globally, I think we will be also looking at fund managers that look at growth opportunities.

In terms of fixed income, I think we are committed to be upgrading our strategy in terms of having an NAV-based approach as well as a portfolio approach. At the same time in terms of the overall industry trend, we're seeing an upgrade in consumers. And so we're focusing on credit that's related to mortgage-backed securities as well as auto-backed securities.

[Junheng Li – JL Warren Capital]

Thank you. That's all my questions.

[Operator]

(Operator Instructions) Katherine Lei with J.P. Morgan.

[Katherine Lei – JP Morgan]

So I have two questions. The first one I want to ask is that I see fixed income product sales increased; actually, there is a rebound in 4Q. So I wonder is that driven by a change of strategy, or what is the key driver for that? This is the first one.

The second question is mainly on the return on AUM for Gopher. I understand that for the secondary market business, AUM expansion has been rapid in recent periods. But on the other side, will this lead to a decline in the return on AUM, given that usually on secondary market, the management fee will be slightly lower than other products; or will this be offset by product returns from PE products?

So this is my two key questions. If I can have a third one, it will be mainly on the turnover rate of the elite RMs. Shang, you've commented on the trend and I wonder if the competition is intensifying? A bit more color will be helpful. Thank you.

[Shang Chuang – CFO of Noah]

So I just want to clarify that there are three questions. First is the reason for the rebound of fixed income transaction value fourth quarter compared to third quarter. Second is to comment on the return quality of the growing AUM, particularly given the decreased –

[Katherine Lei – JP Morgan]

First, on the return on AUM of Gopher going forward, because in previous years or previous quarters, we see that the return on AUM, according to our calculation, is actually declining. I understand that because AUM growth is very fast. But going forward, is there a change of that trend due to some profits released from your key products or other kind of product mix change?

[Shang Chuang – CFO of Noah]

And the third question is on the turnover rate of elite relationship managers, the trend, the competition, right?

[Katherine Lei – JP Morgan]

Correct. Thank you.

[Shang Chuang – CFO of Noah]

Okay, great. So yes, I think -- one second. Our answer on the second question in terms of the AUM, so as you noted, as we have been growing our AUM consistently over the last 5, 6 years, the effective net management fee rate has fluctuated. During the most recent years, we have seen the effective net management fee come down over the last few quarters.

This is partially the result of decrease in Gopher's AUM around real estate sector, which typically takes the direct investment strategy. But in the most recent one or two quarters, we're seeing a steady improvement of the net management fee rate. This reflects our ongoing strategy to expand our co-investment and direct investment for across all our asset classes.

And this will continue to be our strategy going forward in terms of product development. We want to increase the overall net management fee rate that we'll be able to charge by adding more investment value to our clients, and this will happen in our private equity and venture capital products; this will also happen in our real estate products. And we think that not only will it help increase our recurring service fee, but will also help with realizing performance-based fee income.

In terms of the turnover –

[Kenny Lam – Group President of Noah]

I'll take the third question. I think, Katherine, on the third question about the turnover rate, we look at that number quite diligently. Basically, if you look at the overall industry nature on China, the turnover rate overall usually is hovering around 20%, 25%. So for the overall RM team, we're way below that average and for the elite teams, it has always been below 5%, but it fluctuates between quarters.

We don't see substantially different competition for RMs this particular quarter. It fluctuates between quarters, but it has always been below 5%. So this quarter, I think it's somewhere around 3.5%, 3.6%, so we're not seeing increased competition on RM base. We are increasing our training and career planning so that there's more stickiness to the team.

[Shang Chuang – CFO of Noah]

Okay. And Madame Wang will answer your first question regarding fixed income.

[Jingbo Wang – Chairlady and CEO of Noah]

Jingbo Wang: (Speaking Chinese).

(Translated). So Madame Wang had three points to add, specifically on the question regarding the rebound in the fixed income transaction value from third quarter to fourth quarter. I think this reflects our cautious and continued stringent product selection, specifically on fixed income products given the credit nature and the increasing credit risk in China.

And so we feel that as we continue to expand and focus on mortgage-backed security and auto-backed security, which we believe are two long-term trends in China, we will be able to have sufficient supply to meet the strong demand for credit products from our high-net-worth individual clients. At the same time, we'll continue to expand our offering on our own NAV-based, portfolio-based credit products.

The second point she would like to add is regarding our mutual fund, which she thinks will be a growing path for individual investors in China. We haven't done as many mutual funds in the past, but going forward, I think we have a lot of opportunities to do more in this area. Specifically, our Internet wealth management platform has been, in the last 1 or 2 years, building a good foundation to offer mutual fund investment to our clients in terms of building its own trading system and settlement system; at the same time, doing AI in quant interfaces for clients.

So for 2018 and going forward, we think that though the mutual fund is a very difficult industry and segment to compete in, we'll be able to add value to our clients and expand our client segmentation to the mass affluent clients.

And the third point she would like to add is, in 2016 and 2017, we spent a lot of our time and resources on upgrading our private equity and venture capital capability from just simply investing in fund-of-funds to now being able to do co-investment, direct investment on behalf of our clients.

Likewise for the public market investment, we have been upgrading our capability going from fund-of-funds to manager-of-manager. And now in 2018, we're starting to build capability to invest directly in stocks for our clients.

So I think we're -- you're seeing us upgrading our investment capability across our asset classes. This will help us to deliver more value and better performance to our clients. At the same time, this will mean that we'll be able to receive more management fee and potentially receive more performance-based fee income.

[Shang Chuang – CFO of Noah]

Operator?

[Operator]

(Operator Instructions) Haifeng Cao with Nomura. It looks like he disconnected. Our next question is from Yuan Xue with CICC.

[Yuan Xue – CICC]

Yuan Xue: (Speaking Chinese).

[Shang Chuang – CFO of Noah]

I'll translate the question first from CICC. So the question is regarding real estate. We note that the AUM for Gopher real estate has been declining over the last 1 or 2 years. We'd like to understand management's view on the real estate strategy going forward.

In response, Madam Wang wants to comment that, at the height of our real estate asset under management, it was over RMB 30 billion. So we obviously had managed a lot of money invested in real estate in China. Over the last few years, we felt that the risk, particularly in residential credit and equity, has gone up. And so the risk and return metric, we felt that it was not as attractive as it was, let's say, 5 to 10 years ago. So we have strategically lowered that exposure.

Over the last 1 or 2 years, we have been changing or upgrading our real estate strategy to focus more on core projects, specifically in first and second-tier cities, as well as value-added projects in real estate-related private equity and venture capital opportunities, and those opportunities where we'll be able to add value as an operator. So with a focus on these three real estate strategies, we are confident that we'll be able to expand our real estate AUM in 2018 and going forward.

I would like to highlight that we have a very long track record of managing real estate investment on behalf of our clients for more than 6 years.

In terms of our equity investment track record in real estate, we have achieved and generated an average IRR of 12% to 15%, and none of the equity investment that we have managed lost money on behalf of our clients. So we feel very confident in terms of expanding the AUM for real estate. Particularly this year, we feel that money will be scarce, and that means there will be opportunity to buy cheap assets.

[Operator]

(Operator Instructions) Haifeng Cao with Nomura.

[Haifeng Cao – Nomura]

Sorry, my line was disconnected for some reason just now. And congratulations on the great results. I'm Haifeng from Nomura. I have two questions. Firstly, regarding the RMs, it seems that the number of registered RMs in the fourth quarter is 2% above our expectations. Can management give us some color on the RM's recruitment plan for 2018? This is the first question.

The second is on financials. We noticed that the other expenses decreased by around 38% in the fourth quarter. Can management give us some color on the decrease? And as Shang just mentioned, one-time commission rate decreased in the fourth quarter. I wonder what's the reason for the decrease in commission rate. Those are my two questions. Thanks.

[Kenny Lam – Group President of Noah]

So maybe, Shang, I'll take the first question on RM recruitment, and then you can take the second one.

[Shang Chuang – CFO of Noah]

Sure.

[Kenny Lam – Group President of Noah]

On the RM recruitment, you noted that the peak of our growth in RM was about 1 or 2 years ago when we were really pushing on the volume of the transaction value. I think reasonably, we've wanted to improve the quality of the RMs, so we've been even more selective in who we take on. I think what you see in 2018 would be a gradually faster increase in terms of RMs. We've got an improved training system and improved career plan for the RMs.

But overall, I do want to point out two things. One, it's always about quality recruitment. So given this market, it will be a gradual increase; it would never be a spike in terms of our RM increase. But we see 2018 to be at a higher growth rate than 2017.

[Shang Chuang – CFO of Noah]

Okay. Thank you, Kenny, for this. I'll take the second and third questions. The second question is regarding the decline in other operating expenses.

So the other operating expenses are primarily two main costs. One is a sub-advisory fee that Gopher pays to other manager for manager-of-manager products or other types of public market products, where we are having sub-advisers.

And the second type of other operating expenses are expenses related to our education subsidiary. For the fourth quarter 2017, both were moderately lower than the fourth quarter of 2016. On the Gopher side, it reflects, as Madame Wang mentioned, we are in-housing a lot of our own direct investment capability for public equity. So I think this reflects the buildup of our own capability.

The third question is on one-time commission rate. I'll throw out some numbers first. For the fourth quarter 2016, the effective one-time commission rate is 1.05%; for third quarter of 2017, it's 0.9%; and for the fourth quarter of 2017, it's around 0.87%.

The decline in effective commission rate for 2017 is primarily related to the lower insurance volume that we have seen for 2017 as compared to 2016. Insurance products, unlike other financial products, provides mostly upfront revenue with very little recurring revenue. So the decline in the effective commission rate is primarily due to a change in the product mix this year as compared to 2016. But overall, we feel that the effective commission rate is still in a very healthy range of 80 to 120 basis points, which is the long-term range that we have maintained over the last 6, 7 years.

[Haifeng Cao – Nomura]

Thank you. Thanks very much.

[Operator]

This will conclude our question-and-answer session. I would now turn the conference back over to Kenny Lam for any closing remarks.

[Kenny Lam – Group President of Noah]

Why don't we wait for another minute or two and see if there's maybe one or two more questions? If not, we can close the call.

[Operator]

Okay. (Operator Instructions)

[Kenny Lam – Group President of Noah]

Okay. If there are no more questions, we'll close the call. Thank you, Operator.

[Shang Chuang – CFO of Noah]

Thank you, everyone.

[Operator]

The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.