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NOAH HOLDINGS 1Q 2019 EARNINGS CALL EDITED TRANSCRIPT

May 16, 2019, 8:00 PM (US EST)

OPERATOR

Good day, ladies and gentlemen. Welcome to Noah Holdings Limited First Quarter 2019 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 US market closed on Thursday, Noah issued a press release announcing its First Quarter 2019 Financial Results which is available on the company's IR website at http://ir.noahgroup.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.

With that, I would like to hand the call over to Shang Chuang, Noah’s Chief Financial Officer.

[Shang Chuang – CFO of Noah]

Thank you, Operator. I want to welcome all our investor and analyst friends to our earnings conference call today. For today's agenda, Mr. Yi Zhao, Group President of Noah, will first briefly summarize Noah's overall performance for the first quarter of 2019 and then discuss our strategy in improving operating efficiency. Ms. Jingbo Wang, Chairlady and CEO of Noah will then speak about each of our product segments as well as provide our overall views on the current industry and regulatory environment. I will follow up with a detailed discussion of Noah’s first quarter 2019 financial performance. We will conclude the call with questions and answer session.

Now I would like to turn to Mr. Yi Zhao for his prepared remarks.

[Yi Zhao – Noah Holdings Limited Group President]

This is my first earnings conference since assuming Group President. As a long-term employee who has been with Noah for 8 years, the transition during these past few months was very smooth. After a comprehensive and systematic review of the Group's business and operation, we formulated short-term and medium-term goals and strategies in a short time. And after a quarter of execution, we have already achieved initial results. Today, I am very pleased to share with you the operating and financial results we achieved in the first quarter.

In the first quarter of 2019, Noah Group achieved net revenues of RMB 890 million, up 7.1% year-over-year and 8.2% quarter-over-quarter. Non-GAAP net income attributable to shareholders reached RMB 300 million, up 19.9% year-over-year and 36.5% quarter-over-quarter. It is particularly noteworthy that non-GAAP net margin reached 34.2%, the highest quarterly margin for the past three years. Although there was only small amount of performance-based income recognized for the quarter, we maintained revenue and profit growth through the combination of different product and revenue mix as well as effective operating strategies.

In terms of business performance, in the first quarter of 2019, we distributed RMB 28.0 billion worth of wealth management products, flat compared with last year, and up 11.4% from last quarter, indicating a recovery of investor confidence. The effective one-time commission rate reached 1.16%, in line with our overall product strategy. The number of registered wealth management clients reached 275 thousand, up 39.6% year-over-year and 5.6% quarter-over-quarter. As we expanded product lines and in particular increased the sales of public offering funds, the number of active clients increased to 8,117, up 49.0% year-over-year and 72.1% quarter-over-quarter. As of the end of the first quarter, the AUM of asset management segment increased by 9.0% year-over-year, reaching RMB 171.1 billion, of which the AUM of private equity investment funds reached RMB 101.1 billion.

From 2019, we officially renamed the segment of "Other Financial Services" to "Lending and Other Businesses". In the first quarter, our lending company Noah Financial Express originated loans of RMB 2.5 billion, up 17.2% year-over-year. The net revenue of lending and other businesses reached RMB 98.6 million, up 132.6% year-over-year. It is the first time for this segment to achieve substantial profit, with operating profit of RMB 45.2 million.

Meanwhile, Noah's overseas business also continued to develop. As of the end of the first quarter, the overseas asset under management reached RMB 24.7 billion, up 15.6% year-over-year. Total revenues of our offices in Hong Kong, the United States, Canada, Australia and other countries reached RMB 250 million, accounting for 27.8% of the Group's net revenues. Our global comprehensive services system, including insurance brokerage in Hong Kong, the United States and Canada, family trusts and investor education in China and overseas etc., is gaining more and more recognition from clients, and also delivering increasing synergy with traditional financial product sales system. In the first quarter of 2019, the number of clients receiving Noah's value-added services increased to 1,400, up 40.6%year-over-year.

Improving management operating efficiency is an important strategy I put forward at the Group level since I took this new role. In the first quarter, we mainly focused on these aspects and made important progress:

First, structural adjustment: eliminating ineffective departments, merging overlapping departments and upholding flat management. In the first quarter, overall sales and G&A expenses decreased by 8.1% year-over-year and 25.4% quarter-over-quarter, which significantly improved the operating profit margin.

Second, talent upgrades: maintaining elite culture and improving assessment standards. Each department and subsidiary shall establish its own talents profiles, conduct quarterly performance review, and adjust unqualified staff in a timely manner. In the first quarter, the number of relationship managers decreased by 5.5% from the previous quarter. However, the elite ones were all retained. Compared with the last quarter, the total staff number of the Group decreased by 2%, and the labor cost decreased by 5.6% correspondingly.

Third, information technology development: developing system tools and empowering business scenarios. In the first quarter, our Client Relationship Management (CRM) system and client mobile APP "Micro-Noah" were upgraded in all aspects. We lead in domestic wealth management industry in achieving online audio and video recording, which greatly improved sales compliance and optimized client experience. In addition, we launched an online team servicing system model in four core pilot cities. Based on different scenarios and client needs, we formed expert teams composed of relationship managers, product experts, investment consultants (IC), mid-and-back office support personnel, etc. so that services are provided through team collaborations instead of single relationship managers to meet increasingly specialized and diversified needs of clients. Last year, Gopher developed a fully autonomous investment management system, or GIMSP, which clearly demonstrates the status of all funds and their sub-funds/sub-projects, while closely tracking top-down valuation through a fund rating system.

Fourth, system construction: setting up an operation management system covering 15 important operation modules and developing management tools and assessment system with a focus on data indicators. Through quarterly reviews and annual assessments, we constantly adjust and optimize our systems to improve the operation and management of the whole Group.

For the second quarter, we will push forward the organizational restructuring and talents upgrade, and implement a series of Group-level management systems featured with data model, for monitoring and evaluating the operational efficiency of each business segment. We are even more confident about 2019.

Focusing on creating values for clients is Noah's principle, and continuous optimization in response to client needs is Noah’s direction. As the market environment becomes increasingly uncertain, Noah will continue to build and improve management operating systems and enhance capabilities in research, investment, product development, sales and comprehensive services, so as to become an open and global integrated financial service company with sci-tech genes.

With that, I would like to turn the call over to Noah’s Chairlady and CEO, Ms. Wang Jingbo. She will speak in Chinese and her remarks will be followed by English translation.

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

Thank you, Zhao Yi.

In the first quarter of 2019, China has been adopting favorable macro policies, specifically maintaining a relatively liquid monetary policy, and the A share market performed strongly in the backdrop. Looking at current economic data for Q1 including GDP, foreign trade, finance and other metrics, the economy outperformed expectations as a whole, and operations of private enterprises have also improved at a certain extent.

For China's wealth management and asset management industries, 2018 was a year of adjustment. According to the latest China Private Bank Report 2019 jointly issued by Boston Consulting Group and China Construction Bank, despite the ongoing growth momentum in total wealth of domestic residents, the growth rate in 2018 was only 8%, significantly dropping behind the compound average growth rate of 16% during prior 2013-2017.

Domestic high-net-worth individuals with investable financial assets over RMB6 million only increased by 6% in 2018. Moreover, with increased complexity in the domestic economic home-front and foreign trade frictions, investors' aversion to risk increased significantly. At the same time, individual investors' understanding of risks and rationality of investment are growing through the volatile market, and their long-term expectation of investment return is normalizing with the adjusted market conditions.

Meanwhile, the same China Private Bank Report 2019 also estimated that, during the next five years, the investable financial assets of Chinese individuals will recover to a compound growth rate of 11%. Specifically, for high net worth individuals, with their invested assets transferred continuously from real estate properties and corporate direct investments to financial assets, the compound growth rate of their investable financial assets will exceed that of the industry to 16%. So we strongly believe that asset management industry will continue to be attractive in China.

Combining the asset management with wealth management business has better positioned Noah with higher profitability and less vulnerability to economic cycles. With the maturing of all stakeholders in these two industries, mingled with the ongoing wealth accumulation brought by stable macro-economic growth, the increased investments in financial assets promoted by the aging population, as well as the technological innovation accelerated by the internet, the overall asset allocation demands, including their global allocation demands, has been and will continue to be of utmost importance to domestic clients.

Now, let me share with you some updates of our product strategy:

1) In terms of the primary market, by the end of the first quarter of 2019, the AUM of Gopher's private equity investment reached RMB101.1 billion, up 10% year on year. Since the beginning of 2019, the domestic private equity market has remained sluggish in terms of fundraising, investment and exit, similar to 2018. Our strategy for this year is to still focus on offering first-tier funds, enhancing funds-of-funds operations, and keep improving direct investment capabilities.

   Over the past eight years, Gopher has invested directly and indirectly in over 210 funds and over 4,800 enterprises, among which more than 160 enterprises have been successfully listed at home and abroad, and 78 have grown into unicorns valued at over USD1 billion. We believe that as the system construction of China's capital market continues to improve, especially with the founding of registration system for public listing on the Science and Technology Innovation Board, China's private equity industry will establish a smoother exit mechanism, and Noah will be one of the beneficiaries.

2) In the public markets, after the Spring Festival of 2019, the A-share market has embraced a bounce and investors' risk appetite has gradually picked up. Beginning this year, we have integrated online and offline transaction channels, and focus on the mutual fund distribution through our wealth management sales team, together with traditional private funds. Total

transaction value of Noah's public securities products including mutual funds has rebounded to RMB3.2 billion in the first quarter, up 125% sequentially. The AUM of Gopher's public securities investment has also picked up in the first quarter, reaching RMB6.9 billion and up 11% quarter over quarter.

3) In terms of credit funds, we believe that individual clients have a strong demand for fixed income products with low correlation with the stock market. On the wealth management front, we continued cooperating with leading product providers, and the credit funds raised in the first quarter were amounted at RMB22.1 billion, up 67% year on year and 9% quarter on quarter. On the asset management front, the AUM of credit products by the end of the first quarter stood at RMB38.8 billion. While retaining existing products and counterparties, we adopted new strategies since the second half of 2018, delivering standardized bond funds and public ABS funds, all investing in publicly traded credit securities, to increase the breadth of available products. At present, a complete credit product line has been established, with RMB and USD products, flexible terms and stable returns. In 2019, we are focusing on both the scale and performance of our bond portfolio funds, and this strategy has been attracting increasing attention from both institutional and individual clients.

   In terms of USD denominated bond and cash management funds, we have developed the full product lines actively managed by Gopher. Specifically, our flagship USD global bond fund has ranked in the top 5% amongst its peers with respect to its performance since inception in August 2018. In terms of RMB products, by the end of the first quarter, Gopher's total AUM in RMB bond funds has exceeded RMB1 billion, and its AUM of cash management funds exceeded RMB5 billion. We believe that in the future, standardized bonds will become an important portfolio asset for individual investors, and we are fully prepared in this regard.

4) In terms of real estate funds, by the end of the first quarter of 2019, AUM of Gopher real estate investments reached RMB17.4 billion, up 46% year on year. In retrospect, Gopher's real estate preferred share funds, which were mainly fundraised in the second half of last year, has exceeds RMB4 billion in scale and has invested in 15 projects as of the end of the first quarter.

   Meanwhile, projects invested and managed through our core asset acquisition funds are still operating soundly. The occupancy rates of the office building and commercial properties in Shanghai Gopher Center reached 95% and 100% respectively. Gopher Xiangqi Plaza will also be reported for official completion in June 2019.

   Against the background of the continuous influx of foreign capital to acquire China's core assets, as well as gradual transition of China's real estate industry from an incremental market to a stock market, our extensive experience in real estate investment, as well as operation and management capabilities are showing their values.

5) From the first quarter of 2019, we officially changed the name of the strategy "Other Investment" under Gopher's AUM to "Multi-Strategies Investment," which represents our progress and achievements in promoting discretionary multi-asset funds and family office businesses. By the end of the first quarter, the AUM of Gopher's multi-strategies investment reached RMB6.9 billion, up 92% year on year.

   While attracting sustained client investment, our full discretionary asset allocation capability has also won recognition by global professional institutions: Gopher was recently granted "Best Wealth Manager in China- Discretionary and Segregated Portfolio Management" by Asian Private Banker, as well as the "Insights & Mandate 2019 Professional Investment Awards-China Multi-Asset Strategy (3 years) and Global Multi-Asset Strategy (3 years)".

In reviewing 2018, we believe that we now have an even better understanding of our client demands, with the core competency that was accumulated over the past 15 years. In terms of product strategy, we believe that in the "long-lived bull and short-lived bear market" such as US market, "buy and hold" the blue-chip stocks is a suitable strategy for asset managers. However, emerging markets feature high volatility of individual stocks, wide fluctuation ranges in stock price and rapid rise and collapse of valuation, resulting in significant systematic risks. Therefore, simply holding stocks is not the optimal wealth management strategy for emerging markets, while the allocation strategy among multiple asset classes provides more sustainability. Our advantages stand out in the market competition in terms of the investment and allocation capabilities of relevant assets, such as stocks, equities, bonds, real estate, asset-backed securities, cash management products and others.

Finally, I would like to talk briefly about the industry and regulation environment. Since 2019, China has continuously opened up the onshore financial market for foreign institutions to acquire financial licenses. With increased competition from strong foreign peers, domestic wealth management and asset management firms are facing both opportunities and challenges. And we also believe that this trend will influence China's wealth management and asset management industries in several aspects:

First, capital pools and implicit guarantees will no longer exist. Equity, portfolio and NAV-based products will gradually dominate the market, and unlicensed, non-compliant institutions will be weeded out. Second, investors will diverge. Without the protection of guaranteed returns, investors with low risk tolerance will have to leave the capital market and return to banks, while more sophisticated investors will make long-term investment in asset management products. Third, the business models of wealth management and asset management institutions will transform from competition in license resources, rule speculation and regulatory arbitrage to competition in investment, management and marketing capabilities. With the implementation of the New Asset Management Guidelines, the clarified direction of supervision and the continuous opening of financial service market to foreign investors, China's asset management and wealth management industries are going towards healthier and more standardized development that is in line with international rules.

For Noah, in 2019, we define our core businesses as wealth management, asset management, lending service, insurance brokerage, as well as global value-added financial services for high-net-worth clients. Our objective is to keep sustained growth of clients and AUM scale. In the wealth management segment, we will continue to build our capabilities to serve high-net-worth Chinese in a global scope, improve and optimize our relationship manager team and expand our client base. In the asset management segment, we will focus on improving our capabilities in multi-asset allocation, and provide comprehensive asset allocation services for high-net-worth and institutional clients.

Meanwhile, we are also seeking for external distribution channels of Gopher's asset management products to drive its multi-dimensional growth. Currently Gopher has been included in the white list of several large-sized securities firms and banks. In terms of providing more value-added financial services, we are mainly targeted in creating more client touch points and cross-selling opportunities. With a sustained dedication in 2019, we are confident in maintaining efficient operations and quality growth as always.

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

[Shang Chuang – CFO of Noah]

Thank you Chairlady and hello everyone.

We are pleased to report a solid set of financial results for the first quarter of 2019. Both net revenues and non-GAAP attributable net income reached historic highs on a quarterly basis. Total net revenues were RMB889.9 million, an increase of 7.1% year-over-year, and non-GAAP attributable net income was RMB304.6 million, up 19.9% year-over-year.

In terms of revenue mix, we achieved one-time commissions in the amount of RMB324.6 million, up 2.1% from the same quarter last year and up 33.6% from the last quarter. The strong sequential rebound was mainly contributed by an 11.4% quarter-over-quarter growth of transaction value reaching RMB28 billion, as well as the improvement of effective one-time commissions from 0.97% to 1.16%, mainly contributed by the increased distribution of insurance products.

Recurring service fees in the first quarter of 2019 were RMB420.6 million, up 5.7% from the same period last year, accounting for about half of total revenues. Performance-based income of RMB4.9 million was significantly lower than the first quarter last year because most of the public securities products have not exceeded high-water mark of last year, and there were no significant exits of other products. Other service fees were RMB145.4 million, primarily driven by our lending services business, as well as the increased demands of value-added services that we provide in the wealth management business.

In the first quarter, total operating income increased 10.2% year-over-year to RMB302.5 million. With operating efficiency enhancement measures, our operating margin increased to 34.2% from 33.0% a year ago. Total compensation costs were RMB404.3 million, up 12.1% year-over-year but down 5.6% quarter-over-quarter as we optimized our employee base. Our selling expenses was RMB90.5 million, down 14.9% year over year and down 13.7% quarter over quarter. General and administrative expenses were also well controlled during the quarter. The amount of RMB58.6 million represented a 4.7% increase year over year but 38.3% decrease quarter over quarter.

Non-GAAP attributable net income for the first quarter was RMB304.6 million, a strong increase of 19.9% year-over-year. This quarter we adjusted out RMB29.6 million of share-based compensation, RMB8.7 million of gains from unrealized fair value changes of equity securities and RMB5.7 million of tax effect of adjustments, and adjusted in RMB4.9 million of gains from sales of equity securities.

On the balance sheet side, the Company increased cash and cash equivalents by RMB165 million this quarter. Operating cash flow generated by core businesses remained strong at RMB152.7 million.

In summary, we continue to grow our business despite market uncertainties. Looking ahead we see huge potential in both wealth and asset management industries in China, and we are dedicated to creating values for our clients as well as our shareholders.

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

Questions and Answers

[Operator]

Thank you, sir. We will now begin the question-and-answer session. (Operator Instructions)

Our first question is from Edward Du with Deutsche Bank.

[Edward Du – Deutsche Bank]

Thanks, management team for taking my question. This is Edward from Deutsche Bank. I have two small questions. The first question is that I just saw your active client increase by around 49% year on year, but the total transaction value was up only 1% in the first quarter, making the average transaction value decline by around 32% year on year. And my question is may we know is there any transaction behavior change among your client base or any reason behind this?

And my second question is about the distribution fee. And based on my calculation your distribution fee rate came around 120 bps in first quarter, but we do not see any meaningful change in your product distribution mix in the first quarter compared to the fourth quarter last year. And may we know any pricing structure change, especially in the fixed income product and the secondary market product? And that's all my questions. Thank you.

[Shang Chuang – CFO of Noah]

Sure. Thank you, Edward. I will answer both of your questions. So the first question regarding the active client transaction value, as well as average transaction value per active client. In the first quarter of 2019, one of our strategy was actually to activate or get more of our client base to transact on products. And we were able to do so by broadening the type of product that we have with clients. And in the first quarter versus last year, we engaged clients with mutual funds. And we feel that by broadening our asset category to include public securities, or wider categories of public securities, we can engage deeper with our clients. And that I think worked quite well. And going forward I think both on the wealth management side and asset management side we see opportunities for us to deepen wallet share by expanding into public securities. Okay? So that's for your first question.

Regarding your second question, is yes, for the first quarter of 2019, effective one-time commission rate was up meaningfully to around 1.16%. This is up year over year as well as quarter over quarter. I think there are two main reasons. So, the amount of insurance distribution for the first quarter was actually quite robust. In addition, among the credit products that we distributed for the first quarter 2019, a portion of it were more longer-term fixed-income products. And for longer-term fixed-income product, we're able to achieve the revenue all up front.

So those are the two main reasons why we saw effective commission rate is up. But it's still within a very long-term range of 80 to 120 basis points. And so the change is mainly because of product mix rather than any structural trend going forward.

[Edward Du – Deutsche Bank]

Thank you.

[Operator]

The next question is from George Cai with JPMorgan.

[George Cai - JPMorgan]

Thank you for taking my questions, and congratulations on management for the results. I have two questions. The first one is on the private equity sales. As we can see from the first quarter, I think the product -- equity product sale has been quite weak as well as compared to the last quarter and on a year-over-year basis. Can you share with us more color on potentially when PE sales could rebound? So that's my first question.

My second question is relating to the lending [and other] business. As we can see, the revenue growth has been very robust and we achieved a very sizeable profit. But then we want to ask what's the current status of the asset quality, and what's the provision ratio? And then I understand this is more for internal client lending, but just want to ask if we have cooperated with other banks on the co-lending side. So these are my two questions.

[Shang Chuang – CFO of Noah]

Sure. For the first question regarding private equity I'll perhaps allow Madame Wang to speak about that. And then I will answer George's second question regarding our lending business.

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

[Speaks in Chinese]

[As translated by Shang Chuang]: So regarding the new fundraising for private equity, overall the market is still quite soft. It's mainly regarding the pace of exits by previous funds. As we see in the markets general, capital market activity has been sluggish in terms of new IPOs and new exits. But we do see a silver lining as top-tier GPs are still able to exit their very top portfolio companies. Our strategy in terms of private equity continues to be focusing on top-tier funds, our fund-of-funds business, as well as expanding the amount of co-investment and direct investment.

And so we believe our focus will allow us to capture growth opportunity in private equity on a long term. In the short term, challenges and difficulties are mainly regarding investors being reluctant to make a very long-term investment versus hedge funds or public securities, given there are still a bit of uncertainty in terms of the macro environment.

So that's Madame Wang's response to the first question.

Regarding the second question on our lending business, Madame Wang just wanted to add some high-level comments that the lending business she believes is an important complementary business to our wealth management business. In terms of our high-net-worth individuals using financial products or real estate to achieve -- to obtain short-term loans, we see it to be synergistic to both of our core businesses.

Now, specifically regarding George's question in terms of some of the metrics for our loan business, if you can take a look at our balance sheet. As of the end of the first quarter, the loan receivable that's on our books is around RMB 670 million. Okay?

Now I wanted to take this opportunity perhaps to describe the way our lending business works. We would originate loans to our high-net-worth individuals and most of the time they would have high-quality collateral. And the average duration is around 9 to 12 months. After originating these loans, we will sell or securitize these loan receivables. Then they are sold to investors and we continue to serve as a servicing agent in terms of the collection and the passing of interest and principal. But we're no longer liable for the financial risk. So it's [generally still] an asset-light business, if you may.

In terms of the loans that we're servicing, it's roughly about RMB 10 billion. So the loans on our book actually, we have 1% NPL position, but historically the last 2, 3 years we have not seen any meaningful default. The main reason is because of the high quality of the borrowers, as well as the soundness of the collateral that we have when we make those loans. Thank you.

[Operator]

The next question is from Stephanie Poon with Citi.

[Stephanie Poon - Citi]

Stephanie Poon: Hi, management. Thanks for taking my question. So the first question is regarding your product mix for your product strategy. We understand that, like, traditionally the alternative products have been your core strength, like for example on the private equity or some [non-standardized] credit side. But as you now expand into these standardized credit products for these mutual funds, it seems to be a more competitive area, that we see lots of other traditional banks or brokers that are also offering these products. Can you share with us more about what you see as your competitive edge here on these standardized products? And also, as you expand into this product category, does it also mean that you are penetrating into maybe a lower-tier client base?

And the second question is regarding your asset management distribution channels. You mentioned earlier that you are expanding into some lower distribution channels. Can you share with us any specific channels that you have currently and what is the percentage exposure there? And also, in terms of the positioning of this asset management business going forward, I guess in the past we understand it as more supplementary to your whole wealth-management business to serve your existing high-net-worth individual clients. But going forward, should we see it as maybe more standalone business, that [means] that you are also expanding into some external client base? So that's all of my questions. Thank you.

[Shang Chuang – CFO of Noah]

Thank you, Stephanie. Just for the benefit of my colleagues who are also on the phone, may I just quickly summarize the three questions you raised? One is regarding our public security products, specifically mutual funds, how they'll impact our business. Second is regarding Gopher Asset Management's expansion into non-Noah distribution channels. And third is asset management positioning going forward. I will answer these three questions and see if Madame Wang or Mr. Zhao have anything to add.

Regarding the first question, as you know and many of our shareholders are aware, Noah has been and will continue to be a firm believer of asset allocation. Over the last 10, 12 years we have consistently expanded in terms of the product categories and investment strategies that we are able to offer and manage for our clients, because we believe a true diversified asset allocation is the best way for high-net-worth individuals to ride through capital market volatility. And we believe mutual funds should be an important aspect of that toolbox, or an important tool in the toolbox. And if you look at leading private banks, for example UBS, their high-net-worth individuals have 20% to 40% allocation in mutual funds.

So specifically, on this particular strategy, it's actually in line with our long-term strategy of deepening client wallet share rather than us expanding into mass retail. So I just wanted to clarify in terms of our approach with some mutual funds. So how do we get more of our existing clients' wallet share? How do we have or engage more clients to transact with us? So that's the reply for number one.

[Turning to] number two, as Ms. Wang mentioned for Gopher, I think we have always been seeking ways to broaden the capital sources for Gopher. We have had some success with large insurance companies. But we also see opportunities as Gopher established more track records as well as expertise across investment strategy. And most recently we had very good progress in terms of mid- to large-size securities firms in terms of getting on their preferred list, in terms of distributing Gopher's public securities product, i.e., [private] hedge fund, or others -- and [quant] funds. And we see as the capital market continues to develop in China, we want Gopher to be able to grow its AUM from all various different sources.

And I guess tied to your third question in terms of the long-term positioning of Gopher. I think a very good example would be globally we see a lot of private banks when in its early stages would incubate an asset manager. But as the asset manager grows and expands its business it becomes quite fairly independent, i.e., their capital sources come from institutions, come from other distributors. A reference is -- I believe last time when I spoke with my peers at UBS Asset Management about 20% to 30% of the capital comes from UBS Private Bank, i.e., more than half, 70%, comes from non-USB private banking sources.

And I think that is a good role model or an example of what Gopher can achieve. As Madame Wang mentioned in her prepared remarks, and we continue to believe so, asset management in China is still very early days. If we use a baseball analogy, probably only in the second or third inning. So the future growth potential is quite huge for Gopher.

Okay, and I believe Madame Wang has things to add as well.

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

[Speaking in Chinese]

[As translated by Shang Chuang]: For Gopher, since establishment in 2010 over the last decade, I think we have accumulated expertise in the various investment strategies that we operate in. And, most importantly, we have now seen the benefits of being an [expert] in terms of asset allocation and a diversified solution provider. What this means to our investors is delivering low volatility as the various investment strategies have low correlation to each other. Now, we will continue to expand Gopher based on fund of funds, co-investment and direct investment, with the goal and intention of delivering [absolute] return to our investors. And we believe we are able to do so by executing on our multi-strategy efforts.

Now, based on various data that we have accumulated over the years as well as recent conversations and surveys with our clients, we believe that we are very well positioned to be the leading brand for multi-strategy in China and in terms of an asset manager for alternatives.

So now, adding some comments on our expansion into public security, again I want to emphasize this is part of our asset allocation approach. It is not aiming to expand into a new client segmentation, but rather how do we use new tools to cross-sell to existing high-net-worth clients. Now, for the first quarter I think we had some efforts in terms of mutual funds fundraising. And historically we have been a mutual fund fund of funds on an asset management basis. So we're actually quite familiar with this asset category. And for some of the funds that we were focused on fundraising the first quarter, the fundraising size that we achieved is actually similar to some of the mid-to-large banks. And this just shows that the potential of our clients in terms of this asset category, the average transaction per clients in mutual funds for our client base is much higher than the banks.

Now we are confident in terms of getting non-Noah channels or distributor for Gopher Asset. As Shang mentioned, there are a lot of asset management firms globally that have originated from wealth management roots, but have grown to be very sizeable and their reliance on their existing private banking partner is now only 10% to 20%. In other words, as Gopher develops, the potential from our non-Noah channel should be even larger than the amount coming from Noah today.

[Operator]

Our next question is from Yuan Xue with CICC.

[Yuan Xue - CICC]

[Speaking in Chinese]

[Shang Chuang – CFO of Noah]

[As translated by Shang Chuang]: Yes. For the benefit of the audience I will translate the question from the research analyst from CICC. I know from the quarterly disclosure the company has for the first time disclosed segmentation by geographic location. And we see for the first quarter of 2019 our revenue coming from others, or other regions, have made good progress. And if you can give us more color on that.

I'll comment on this question and see if my colleagues have anything to add. But over the last two years and we continue to express our views that we want to build a global business. And since the establishment of our Hong Kong business in 2012 we have continued to make good progress.

As of the first quarter of 2019, our overseas markets have contributed roughly about 25% of total revenue. And over the next 3 to 5 years we want to continue to grow that percentage.

Now as you know, we set up our business in the US roughly about 2.5 years ago, both in Silicon Valley and New York. Both of these offices and these teams are focused in terms of product sourcing and developing product. And we're now able to offer VC fund investment opportunity, co-investment and direct investment opportunity, as well as US insurance products to our clients. It's an example of how we replicate our success in Hong Kong to other large capital markets or large markets elsewhere in the world. We believe our clients are becoming more mobile and global. Our investment in terms of building a global presence will benefit us in the long term.

[Operator]

Our next question is from George Cai with JPMorgan.

[George Cai - JPMorgan]

Thank you for -- well, I have a follow-up question. I think on the net profit there is quite a large gap between the GAAP net profit and non-GAAP profit. And a large chunk of it I think is related to the unrealized gains from the fair value change of equity securities. So could you add more color on this? And going forward, do you expect the volatilities be smaller? Thank you.

[Shang Chuang – CFO of Noah]

Yes. Thank you, George, for the question. If you note, on Page 17 of our 6-K, our quarterly disclosure, we break out the details of our GAAP net income and non-GAAP net income. The largest adjustment is actually share-based compensation, which is quite in line with how other listed companies define non-GAAP net income. And part of it, the other part of the adjustment, comes from fair value changes of equity securities unrealized. You can define this or interpret this as basically mark-to-market of equity securities that we hold. And the markets have been a bit volatile and so we adjust out those noises. And then we add back in unrealized gains. And there is a detailed breakdown, so I won't read the numbers one by one.

[Operator]

This concludes the question-and-answer session and today's conference call. You may disconnect your lines. Thank you for participating and have a pleasant day.