

NOAH HOLDINGS 2Q 2019 EARNINGS CALL EDITED TRANSCRIPT

Aug 28, 2019, 8:00 PM (US EST)

OPERATOR

Good day, ladies and gentlemen. Welcome to Noah Holdings Limited Second 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 Wednesday, Noah issued a press release announcing its Second 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.

Today, the call will be hosted by Ms. Wang Jingbo, Chairlady and CEO; Mr. Zhao Yi, Group President; Shang Chuang, CFO, and Grant Pan, Group Deputy CFO and Gopher Managing Partner. With that, I would now like to hand the call over to Mr. Zhao Yi, Noah's Group President.

[Yi Zhao – Noah Holdings Limited Group President]

Thank you, Operator.

For today's agenda, I will first briefly summarize Noah's overall performance for the second quarter and first half of 2019 as well as the development of our segment businesses. Chairlady Wang will then provide her current views on the company product strategies and updates on the Camsing incident. Our CFO Shang will then follow with a detailed discussion of Noah's second quarter financial performance. We will conclude the call with questions and answer session.

Next, I would like to share with you the financial and operating results we have achieved.

In the first half of 2019, Noah generated net revenues of RMB1.76 billion, up 8.2% year-over-year, and non-GAAP net income of RMB570 million, up 13.2% year-over-year. In terms of profit margin, non-GAAP net margin in the first half of 2019 reached 32.2%, up 140 basis points year-over-year,

maintaining at a healthy level.

By business segments, we distributed RMB52.4 billion worth of total products in the first half of 2019 for our wealth management segment. Although the transaction value in the first half of the year fell by 7.8% year-over-year, product mix and product strategy evolution have achieved initial positive result, with a significant increase of standardized products. Specifically, in the second quarter, the distributions of standard products such as bond funds and mutual funds increased 89.7% quarter-over-quarter. As of the end of the second quarter, the number of relationship managers was 1,428, down 4.5% year-over-year, while the number of elite relationship manager increased by 20.8%, demonstrating further optimized structure. The turnover rate of elite relationship managers maintained at a low level of 1.4%. With respect to the clients, in the second quarter, the number of active clients increased by 31.9% year-over-year. With the accumulation of clients' investments with us. The number of registered clients at all asset levels increased. Particularly, the number of black card clients, our top tier clients with at least 50 million assets advised by us, grew rapidly, up by 17.9% year-over-year, indicating the continuous trust ultra-high-net-worth clients have in Noah.

Moreover, value-added services drew attention. In the second quarter, the insurance business grew by over 100% year-over-year, extending global insurance planning services to more than 1,500 clients. In the first half of this year, the number of newly established family trusts increased by 340% year-over-year, providing comprehensive protection for high-net-worth clients in terms of risk management/mitigation, wealth planning and asset inheritance. Noah will continue to provide comprehensive value-added services to meet the needs of high-net-worth clients.

In terms of the asset management segment, the AUM in the second quarter increased by 12.0% year-over-year, reaching RMB180.8 billion. Specifically, the AUM of private equity, real estate, public securities and multi-strategy funds increased by 11.2%, 9.1%, 90.7% and 93.2% year-over-year, respectively, reflecting the continuous improvement of Gopher's ability in liquidity management and asset allocation, seeking breakthroughs in active management capabilities. It is also worth mentioning that by the end of the second quarter, the total AUM of RMB and USD denominated bond funds exceeded RMB3.8 billion, up by 2.2 times quarter-over-quarter. Going forward, bond funds will gradually replace private credit products to meet clients' strong needs for fixed income investments. 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.

In June, the Gopher hosted the annual LP Conference and PE Summit that attracted over 2,000 investors and dozens of prestigious funds managers. In July, Noah's first-ever overseas investors summit and post-investment communication meeting was successfully held in Hong Kong, attracting over 500 high net worth clients globally. A comprehensive review of existing funds and exchanges of investment concepts, against the backdrop of the domestic macroeconomic and global geopolitical uncertainties, have led a closer relationship between global investors and us.

Lending and other business segment continued to grow steadily. In the first half of the year, the principal amount of new loans originated totaled RMB5.3 billion, relatively flat from the same period of 2018. As part of the comprehensive solutions for high-net-worth clients, we will continue to grow this segment in accordance with clients' needs and improve our core competitive edge through technology and big data risk control.

We are also happy to see that our overseas business maintained great momentum. In the first half of the year, the total revenues of our overseas business reached RMB480 million, accounting for

27.2% of the Group's net revenues. As of the end of the second quarter, the overseas AUM reached RMB25.5 billion, up 14.6% year-over-year. Our Canadian office also successfully obtained dual licenses to operate as a Portfolio Manager (PM) and Exempted Market Dealer (EMD) issued by two Canadian provinces, marking the global recognition of Noah's compliance and a key step in our overseas expansion. Looking ahead, Noah will continue to adhere to the compliant principles, maintain close contact with regulators of overseas markets, to further strengthen our capabilities of global asset allocation for overseas institutions and individual investors.

Now, I would like to talk about what we have done to enhance our operational efficiency. Building on what we've achieved in the last quarter, in the second quarter, we did the following:

In order to further optimize the organizational structure, we continue to upgrade the structure of regional service centers, merging small ones to streamline inefficient use of personnel and improve the productivity of relationship managers. Gopher's organizational structure was also improved, with per capita AUM of investment teams up by 22.6% quarter-over-quarter. At the group level, we continue to build and strengthen our professional teams, and uphold the elite culture.

We continue to invest heavily in technology; in the second quarter, the dual recording system for client screening was put in operation and within the same quarter, 76% of all transaction approved were conducted online while the rest were done in the conventional way. This new technology not only meets the compliance requirements but also greatly improved clients experiences comparing to the lengthy process in the old days. The international version of our Client Relationship Management (CRM) system and Core Business System (CBS) have been launched recently, which promotes overseas compliance capacity together with the Group's.

Moreover, in the second quarter, we launched a new mutual fund app called "Fund Smile". This app merged the public and private fund account system, so that user experience upgrades, and post-investment monitor becomes much easier for our clients. Meanwhile, the system will automatically recommend the fund and rebalance according to the user's risk appetite and current asset, making the asset allocation service more intelligent.

In the second quarter, we also strive to establish the group's operation efficiency and effectiveness through the following: 1. Top Ten Key Operating Metrics for business segments; 2. Quarterly performance ranking and monitoring 3. Quarterly business reviews; 4. Ranking and grouping of business units; 5. Value proposition of key positions, etc.

We are also delighted to share some good news with you: we won several major international awards, including "Wealth Management Firm of the Year" and "Best Wealth Manager for Fund of Funds" in China by *AsiaMoney* 2019, as well as "Best Boutique Wealth Manager in Mainland China" by The Asset. Moreover, Noah is the only independent wealth manager in the mainland that has been listed in the 3A awards list of The Asset. We will stay true to our mission and strive to become the leading wealth management brand for global Chinese community.

Looking forward, Noah will continue to focus on the fundamentals and proactively manage challenges and opportunities. By focusing on overseas and strengthening risk control, we endeavor to provide our clients with various and high-quality products and services.

With that, I would like to turn the call over to Noah's Chairlady and CEO, Ms. Wang Jingbo.

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

Thank you, Zhao Yi.

The most significant macroeconomic risks that China is currently facing are Sino-US trade relations externally and the debt burden domestically. The key goals of debt reform in China are to dismantle implicit guarantees and promote financial supply-side reform. As these reforms are gradually implemented, they are profoundly affecting Noah's core wealth management and asset management businesses.

As we have observed previously, China's wealth management and asset management industries have encountered some structural contradictions: First, implicit guarantees have seriously distorted the market-oriented development in China. Without the elimination of implicit guarantees, it is difficult to solve the "bad money drives out good money" problem. Second, more and more financial consumers suffered losses amid the removal of implicit guarantees in the P2P industry, which caused tremendous pressure on the government to maintain social stability, and created uncertainties with respect to regulatory policies and orientation. Third, the size of assets held by China's high-net-worth clients has been rapidly increasing, but we are seeing clients developing more conservative expectations as a result of China's accelerated economic downturn. We believe it will take some time for portfolio and NAV-based products to be fully accepted by clients.

Fortunately, for the past 15 years since Noah started its business in 2005, based on our understanding of the industries, we have never been involved in any capital pool business. Fund products either distributed by Noah or actively managed by Gopher are all operated independently of each other and held in escrow by third-party and reputable custodian banks or institutions, without any duration mismatch, highly leveraged financing, or implicit guarantee, etc. Therefore, Noah has been able to stay away from pervasive risks that would spread over different products or asset classes even during several rounds of economic downturns or facing various financing risks.

Next, I would like to share with you some updates on our major products and strategies in the second quarter:

- 1) In the second quarter of 2019, transaction value of Noah private equity products amounted at RMB7.66 billion, up 22% year-over-year and 475% quarter-over-quarter. As of the end of the second quarter, AUM of Gopher's private equity funds has reached RMB104.4 billion, up 11% year-over-year, and accounting for 58% of the total assets under management.
- 2) For public securities products, in the second quarter, the transaction value maintained a good momentum, raising over RMB6 billion, up 88% quarter-over-quarter. Noah and Gopher continue to put more efforts in developing standardized products, adhering to the comprehensive asset allocation strategy in a volatile market environment. We are also strengthening our in house research, risk control and credit rating teams. Providing relatively low volatility and absolute returns to high-net-worth clients is the long-term goal of our fund managers. The bond funds launched by Gopher in 2019 grew rapidly. By the end of the second quarter, the AUM has exceeded RMB3 billion. Developing standardized products will be one of Noah's core strategy going forward. We will proactively trim down our private credit products under management and focus on meeting clients' demands for fixed income products with bond funds.

In the first half of 2019, the investment return of Gopher managed secondary market FOF and MOM flagship funds both exceeded 10%. Specifically, the flagship MOM fund has realized a positive return of 16.21%, while Quantitative FOF yielded a positive return of 7.86% and maintained a low volatility rate of 3.81%.

Gopher's offshore secondary market strategy is similar to onshore and has also achieved good returns. Since its inception in August 2013 to the first half of 2019, Gopher Offshore China Selected FOF has achieved an APR of 13%, outperforming MSCI China and CSI 300 Index to a large extent. For the second quarter, the AUM of our USD denominated bond fund reached a balance of over RMB500 million and increased by 3.7 times comparing with the previous quarter.

- 3) For the real estate funds, we will continue to expand and focus on multi-project based preferred share funds and core asset acquisition funds. As of the end of the second quarter of 2019, the AUM of Gopher's real estate preferred share funds have exceeded RMB7 billion, and the total AUM of real estate investments reached RMB19.2 billion, up 9% year-over-year. Among the real estate projects actively managed by Gopher, 114 projects have matured, including 25 equity projects, with an average IRR of 16.47%. Nearly 70% of equity-based funds achieved a 10% IRR or higher.
- 4) Gopher's discretionary multi-strategy funds and family offices have also attracted more attention from ultra-high-net-worth clients. By the end of the second quarter of 2019, the AUM of multi-strategy investments reached RMB8.5 billion, significantly up 92% year-over-year. In addition, Gopher is currently running about 10 family offices to meet the personalized needs of ultra-high-net-worth clients, and also actively engaging with several other potential clients.

Next, I would like to provide a brief update on the current situation and progress of the Camsing incident. At present, we understand that the criminal investigation by the public security organization in China is still ongoing. According to the media reports, the police have arrested a number of suspects for suspected fraudulent activities. The Camsing incident appears to be a carefully planned fraud involving many large e-commerce platforms and financial institutions. Gopher and our clients are among the victims of this suspected fraud. We proactively reported to the police after discovering the problem to protect our clients and shareholders. We take this matter very seriously, and pride ourselves on operating our business with integrity and ethics, and consider protecting the security of our clients' assets as our top priority. At the same time, we continue to offer full cooperation to the government investigations looking into this matter.

The products in cooperation with Camsing, namely The Chuangshi Core Enterprise Private Funds managed by Gopher, mainly provided supply chain financing involving third-party companies related to Camsing International Holding Limited in connection with account receivables between such companies and Beijing Jingdong Century Trading Co., Ltd. Since 2016, Gopher has been conducting due diligence and risk management measures with respect to the loans and the applicable counterparties. Up till now, we have submitted detailed evidences to the public security organization and filed a civil lawsuit to the Shanghai Financial Court, demanding JD.com to assume the debt repayment obligation, and for Camsing, Luo Jing and other parties to assume joint guarantee obligations. The civil lawsuit has been accepted by the court, and we are waiting for the trial to commence.

At the same time, we are also actively seeking to preserve relevant assets, including but not limited to freezing bank accounts, increasing stock pledges and stock freezes, and tying up other physical

assets, among other things. At this time, both the criminal investigation and civil cases are ongoing, and it is premature to assess the recovery rate of fund assets. To reiterate, Gopher takes the fiduciary duties of the fund manager with the utmost seriousness and remains 100% focused on achieving the best possible result for its clients who invested in the affected credit funds, honoring the trust and confidence from our clients and shareholders.

In addition to assisting the judicial authorities in their investigations, we also continue to cooperate and communicate with regulators. At present, both the regulators and Noah are waiting for the results of the criminal and civil lawsuits as well as further clarification of the incident. After the incident, the S&P rating team re-conducted due diligence on Noah based on currently available information, and reaffirmed that our corporate credit rating maintained at investment grade.

In terms of client communication, we issued announcements to respective clients on June 24 and July 8 to inform that we are extending the redemption date for an additional six months to one year in accordance with the fund contracts, and we will continue to communicate with affected clients as the situation develops. According to our data, we estimate that their investments in the affected credit funds account for about 20% of their total assets at Noah on average.

We are also conducting an internal review on this incident. Up till now, no similar risks were identified in other existing products, and the product-specific risk of Camsing-related funds will not affect other products previously distributed by us. To reassure clients, from June 18 to July 31, 2019, Noah distributed RMB10.8 billion of investment principal and profits to more than 6,800 domestic and overseas clients, of which over 40% were redeemed prior to the contractual date upon agreement with the counterparty. During the same period, almost 2,000 clients chose to purchase our products and services, and invested over RMB7 billion with Noah. Notably, nearly 10% of clients affected by the Camsing incident have placed new orders at Noah. We are very pleased to see the gradual recovery of client confidence.

In the past 15 years, Noah has cumulatively distributed over RMB600 billion worth of financial products, and the AUM managed by Gopher has exceeded RMB180 billion. The total principal amount of the loans extended by the credit funds to Camsing-related parties accounts for less than 2% of Gopher's AUM. However, the Camsing incident has affected our clients, shareholders, as well as Noah's reputation, and I am deeply disappointed to see this situation as a member of senior management and a leader of the Company. Meanwhile, I want to reassure that we will continue to use best efforts to protect and promote the interests of our clients. At present, our firm is committed to comprehensively promoting business and product transformation while embracing financial supply-side reform promoted by regulators: we will continue to provide comprehensive asset allocation advices to clients and select NAV-based portfolio products as the only choice; the strategic transformation from private credit funds to bond funds, from product-driven to comprehensive service-driven strategy, and from increasing transaction value to enhancing investment capabilities of active management is our future direction.

Finally, I would like to address that Noah will always trust common sense, respect the market and stick to its fundamental missions. With the passage of time, I believe that Noah's resilience as well as that of the market will show through. Through the experience and handling of this incident, we believe that our team will be stronger, more effective, and able to turn this bump in the road into promising opportunities.

Thank you all. Now I will turn the call to our CFO Shang, to share the second quarter financial

results.

[Shang Chuang – CFO of Noah]

Thank you, Chairlady, and hello everyone. We had a solid quarter despite renewed market volatility, which we believe demonstrates the resilience of our business.

For the second quarter net revenues were RMB871.6 million, up 9.3% year over year, driven by a strong increase in one-time commissions and other service fees. Non-GAAP net income was RMB263.4 million, up 6.4% year over year, and margin was healthy at around 30%. For the first half of 2019, we realized non-GAAP net income of RMB568.0 million, up 13.2% over the same period last year.

Our wealth management business had weaker transaction value of around RMB24.4 billion but the overall product mix was much more diversified, with private equity and public securities contributing more than 55% of the total. Net revenues were RMB625.6 million, up 12.4% year over year, resulting from higher effective one-time commission rate of 1.2%.

Gopher Asset Management achieved strong AUM growth, one of the most significant drivers for this segment. Total assets under management was RMB180.8 billion or USD26.3 billion at the end of second quarter, up 11.9% year over year and 5.7% quarter over quarter. Net revenues of the asset management segment were RMB171.1 million, a decline of 12.5% year over year, as a result of lower performance-based income this quarter. We think performance-based income will be a key component of total revenues going forward as we continue to strengthen our investment capabilities and realize more investment gains on behalf of our clients. It is worthwhile to note that close to 60% of our total AUM has performance fee clauses.

Now turning to our lending and other businesses segment. Net revenues were RMB74.9 million, up 64.1% year over year, making up less than 10% of total group revenue. Income from operations for the segment were RMB35.2 million.

Operating profit for the second quarter was RMB251.9 million, up 13.9% year over year. We continue to manage costs and expect additional savings to be realized in the next few quarters. Total relationship managers' compensation was only up 4.4% year over year this quarter. Compensation for other employees increased by 17.9% as we optimized our mid- and back office functions and we expect to see the cost benefits going forward. SG&A for the quarter decreased by 13.3% as we focused on improving operating efficiencies. However, we do expect an increase in legal and other expenses related to Camsing incident. We continue to pursue actions to protect the interests of affected clients and recover assets, as explained by Madam Wang. Overall operating margin was 28.9%, up more than 100bps compared to the corresponding period in 2018.

Moving to our balance sheet. We continue to maintain a healthy financial position and recently Standard and Poor's reaffirmed our investment grade rating. One of our largest assets on the balance sheet is investments alongside funds we managed. Investment in affiliates totaled RMB1.4 billion or USD205.5 million at the end of the quarter. We expect this to appreciate over time, and future monetization will further enhance our liquidity. Accounts receivable from Gopher managed funds increased this quarter with the strong growth in AUM.

Lastly, I want to comment on our update to the 2019 forecast. In consideration of macro-economic

conditions in China, ongoing geo-political tensions, as well as the expected short-term impact resulting from the Camsing incident, we estimate that non-GAAP net income for the full year 2019 will be in the range of RMB1.0 to 1.1 billion. We believe that the strength and recurring nature of our core businesses allow us to ensure profitability as we strategically upgrade our business for higher quality and sustainable long-term growth.

With that, we are happy to open up the call for questions. Thank you.

Questions and Answers

[Operator]

Yes, thank you. We will now begin the question-and-answer session. Martin Ma with Nomura.

[Martin Ma - Nomura]

So let me first ask a question in Chinese, and then will translate into English. My first question is about is about the different -- is about overseas strategy. We have seen that from the second quarter reports that the revenue from Mainland China increased by only 1%, but overseas business increased by 39%. And we want to understand what is your future [expectation] in terms of overseas business expansion? And what is kind of -- what is your key focus in terms of products and the clients?

And the second question is about lending and other segments. We have seen that the loan origination decreased by 12.5% year-over-year, but the revenue from that segment increased by 64%. So what is the main reason for that difference?

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

(Translated). So I will answer question number one. So our current offshore business is primarily in Hong Kong, and we have expanded in regions such as the U.S., Singapore, Canada and Australia. Over the years, we have seen very strong demand and need from our clients in terms of global diversification, and our expansion in offshore business is meeting this demand.

So in terms of the product side for the offshore market it's a very mature market compared to emerging markets. And our clients are primarily overseas Chinese, and the product we're focusing on are more standardized and more established products.

And in addition, expanding Gopher's active management capabilities and products is also a very strong focus. As mentioned earlier, we saw very good growth on this regard, and we're focusing on our fund-of-funds business both in terms of private equity, as well as public securities.

[Shang Chuang – CFO of Noah]

And I will answer the second question. So the question is regarding our lending and other businesses. Yes, for the second quarter, new transaction on new lending was slightly down year-over-year, but revenue was up 64%. This is due to the fact that there's quite a bit of recurring revenue, or recurring service fees, for the lending business because it is the servicing agent for previously originated loans that it has sold to third parties.

[Operator]

Katherine Lei with JPMorgan.

[Katherine Lei - JPMorgan]

I have two questions. So the first question is on the overseas business too, because as Madam Wang had mentioned that Hong Kong is a key hub for your overseas development. But with the latest developments in Hong Kong, have you seen any slowdown in product purchase by clients in 3Q? So this is the first thing.

The second thing is just surrounding the Camsing incident. So I would like to know, because by media, so there were -- like the parties which were helping the investigation, are you being arrested? There were not only the counterparties. So I want to know what is your assessment, or the legal team's assessment, on if Noah will need to resume -- if Noah will have any risk of also being held accountable to compensate part of clients' loss, if any, in this incident? Yes, so these are my primary two questions.

[Shang Chuang – CFO of Noah]

Okay. If you will give me a minute or two to translate for the benefit of the wider team? One second.

[Katherine Lei - JPMorgan]

Sure.

[Shang Chuang – CFO of Noah]

So the first question is regarding our Hong Kong business in the third quarter. As mentioned earlier in my remarks, I think ongoing geopolitical tensions in lot of places is one of the risks to our business. In the third quarter for Hong Kong, we did see slower interest from clients because often times, clients would visit Hong Kong office, but travel has been a lot subdued in the third quarter.

And for the second question, Madam Wang will answer that question.

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

(Translated). So the Camsing incident is still under criminal investigation. A lot of the information is kept confidential by the police authorities. So I think it's difficult for us to really assess what will be the various outcomes for the various parties involved. So as mentioned, I think the police are working very hard on the overall case.

We, as a victim, we are assisting the investigation, but in terms of information provided to -- from the police to us in terms of the progress is very limited. So like a lot of research analysts on the call, we have been actively monitoring the media report to assess some of the latest updates.

So it has been reported in a lot of various media that the overall Camsing incident is a very large-scale fraud; may have been very highly concealed in terms of the misconduct, and has affected a lot of large e-commerce platform as well as financial institutions. And so we are actively monitoring the various updates, whether from the media or from the official authorities.

[Operator]

George Cai with JPMorgan.

[George Cai - JPMorgan]

I have two questions. The first one is regarding our wealth management sales in the third quarter. So we noted that the sales has dropped quarter-over-quarter, mainly driven by the credit product. So two questions here -- why is there a drop in credit products and there is a surge in public security products? Is it because of the effort of transferring some of our non-standardized credit products into the standardized one?

And then second, we noted a pickup in private equity products. Could you share with us more color on that, and the potential outlook in the second half of 2019?

And then my second question is on fee rates. So we noted that recurring fee rates in second quarter has dropped by 4% year-over-year. And then if we look at the growth basis of our recurring fee rate of asset management business, by adding up both the income from asset management and wealth management, the fee rate seemed to drop year-over-year. So could you share with us the fee rate trend going forward?

[Shang Chuang – CFO of Noah]

Sure. Again, if you give me a minute or two, I will translate your two questions for the wider team.

[George Cai - JPMorgan]

Sure, sure. Thank you.

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

(Translated). So now I want to comment on the first question. So I think you accurately identified, I think we have been, since the beginning of this year, actively transferring our private credit business into more public securities. We think that it is a better strategic decision in terms of managing and risk. So I think that is one of the reasons that you saw the transaction value for public security in the second quarter to go up quite meaningfully. And if we continue to implement and execute this strategy, we expect that it will continue to demonstrate good growth.

At the same time, I'd like to slightly comment that for public securities, on the credit side at least, for bond funds, the management fee or recurring fee would be slightly lower than private credit funds. But we think that it is, again, still a better strategic decision to pursue public securities, bond fund assets, protect -- better protect our clients in the current operating environment.

Now in terms of private equity, yes, I think overall, private equity fund raising in China continues to be difficult. But I think we have had some success in the second quarter because we have very strong long-term relationship with very key asset managers. And this momentum, we have seen it continue in the third quarter.

Now, the second question is regarding the recurring fee. So recurring fee year-over-year is slightly lower. This is because for the middle of last year, primarily the second and third quarter, there were

a couple of products with higher recurring fee that matured, and some of the recurring fee was a bit more back-ended.

Now, the overall Gopher asset managed product, the blended growth management fee is about [68] basis points. It has been fairly stable over the last 2 quarters. I think there are two factors that play here. One is as we strengthen our investment capability and do more direct investment on the private equity and real estate side, I think that will be a positive for overall blended management fee rates. But on the flip side, (as Madam Wang mentioned), as we transfer our private credit business into public security bond fund, the management fee rate will be slightly lower.

So I think it really will depend how our product mix plays out over the next 1 or 2 years. But I want to comment that achieving a blended growth management fee rate of around 67, 68 basis points is actually a very good metric compared to other asset managers globally.

Operator?

[Operator]

Yes, thank you. All right. And at this time, I would like to return the floor to management for any closing comments.

[Shang Chuang – CFO of Noah]

No closing comment. Thank you, everyone, for attending our second quarter earnings call. Thank you very much.

[Operator]

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