NOAH HOLDINGS 2Q 2016 EARNINGS CALL EDITED TRANSCRIPT

15 Aug 2016 (US EST)

OPERATOR

Good day, ladies and gentlemen, and welcome to the Noah Holdings Limited second quarter 2016 financial results conference call. As a reminder, this conference is being recorded. After the close of the US market on Monday, Noah issued a press release announcing its second-quarter 2016 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 statements as a result of new information, future events, or otherwise, except as required under the applicable law. The results announced today are unaudited and are 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 the 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. Please go ahead.

Kenny Lam – Noah Holdings Limited Group President

Thank you, Operator. Thank you to all investors and analysts who are participating in our earnings conference call today. Joining me today are Ms. Jingbo Wang, Chairman and CEO, and Ms. Ching Tao, Noah's CFO. For today's agenda I will start by providing an overview of our latest financial highlights and walk you through the performance of our core wealth and asset management businesses. I will then talk about the development of Noah's mid- and back-office capacities. After that, Chairman Wang will provide an update on our product strategy, and the group's strategic position. Lastly, Ching will provide further insights into our financial performance in the second quarter of 2016. After that we will be happy to take any questions at the end of our prepared remarks.

First of all, I'm pleased to report that both the operational and financial performance in the first half of 2016 was in line with our expectations. Net revenues in the first half of this year were RMB1.2 billion, a 22.8% increase from the corresponding period in 2015. And non-GAAP net income was RMB412 million, up 24.1% year over year.

We distributed a total of RMB52.6 billion of wealth management products during the first half of this year, relatively flat from the same period a year ago. Total assets under management as of June 30, 2016 crossed the RMB100 billion mark, up 57% from a year ago.

In the context of a challenging macro economy, volatile capital markets, and heightened risk aversion amongst investors, we're pleased to have delivered steady results in the first two quarters of 2016. The good performance was primarily attributable to our continuous efforts to optimize product and service offerings with increasing differentiation and innovation. Our achievements in the first half of this year further consolidated our leading position in China's wealth and asset management industry. Entering into the second half of 2016 we see investor sentiment recovering from one to two quarters ago, which implies more opportunities for Noah in the rest of the year. We're very confident about meeting 2016 financial guidance and business targets.

Noah's wealth management business provide global wealth investment and asset allocation services to high net worth individuals and enterprise clients in China. By the end of June 30, 2016, Noah's registered clients reached 114,870 clients, up 8.8% from the first quarter and 40.2% from the same period last year. The number of registered clients who bought Noah products totaled around 5,000 in the second quarter. In the meantime, strong client trust in Noah has translated into more contribution from active clients. This was actually reflected in the increase in average transaction value per client, which grew by 7.7% year on year and 12.3% quarter on quarter to RMB5.63 million in the second quarter of 2016.

We believe that high net worth clients still prefer personalized one-on-one services, so we continue our efforts in expanding branch network and improving service capacity of our relationship managers. By the end of the second quarter we had 175 offices covering 68 cities.

At the same time, our RM team remains quite stable and headcount expanded 14.7% year on year to 1,093 by the end of last quarter. We are improving retention and loyalty by continuing to provide professional training to relationship managers and expanding marketing activities to build our client base. As a result, we had zero turnover of top performing relationship managers during the past quarter, a reflection of our industry-leading position in talent training and retention. Moreover, more than 100 of our best performing relationship managers will go to the Silicon Valley this month to participate in a week of training focused on investments in high tech and technology innovation, giving them an opportunity to deepen their understanding of the latest developments in the US VC industry.

Our new family office and full discretionary portfolio management services business have been performing very well so far this year. We have found that ultra high net worth and family office clients are more than willing to learn about and embrace asset allocation management services. They're also motivated to learn about global asset allocation and wealth management planning. By the end of the second quarter, our family office business had managed an aggregate of 96 client accounts.

There is a growing demand for overseas assets from domestic ultra high net worth clients. Noah Hong Kong has raised RMB2 billion in offshore funds during the second quarter, up 52% quarter on quarter. The number of registered high net worth clients in Hong Kong has exceeded 3,000, increasing 39% year on year and 11% quarter on quarter. By the end of the second quarter our overseas AUM reached RMB14.8 billion, a 10% increase from the first quarter and a 75% increase from a year ago.

In the meantime, we started laying out our event-driven investment strategies. Brexit, as an example, has led to an abrupt adjustment of excess valuation that many European companies had before. We're trying to seize this kind of opportunities by structuring event-driven funds and buying undervalued distressed assets amid the consolidation and restructuring wave in Europe.

William Ma and PV Wang, our Co-CIOs of Gopher, are collectively in charge of rolling out and implementing these new strategies. These new initiatives reflect our efforts in strengthening our asset management capacity, and attracting talents have begun to contribute to our business in a meaningful way.

Since Noah Hong Kong was founded in 2012, we've been constantly devoting resources to the development of our global open product platform, implementation of our global strategy, and delivery of quality professional service with a global reach for our clients. Recently Noah received license for trust operations in Jersey Island and established Ark Trust Jersey to conduct the offshore trust business, making us the very first independent Chinese wealth management company to be licensed for trust business outside of Hong Kong and China. In addition to that, our Noah US office was recently opened in Silicon Valley, the first US subsidiary set up by an independent Chinese wealth management company. These events mark a significant milestone, not only just for Noah, but for the entire wealth management industry in China.

Now I'd like to provide an update on Gopher Asset Management, Noah's asset management subsidiary. Established as a multi-boutique investment firm, Gopher has continuously enhanced its asset management capabilities and innovative product lines. Gopher has evolved from a single fund-of-funds strategy to the manager-of-manager model and then penetrated into co- and direct investments to create unique value for our clients.

The China Fund-of-Fund Association was recently founded in Beijing, in which Gopher was elected its Chair, which demonstrates that Gopher is now one of the most prominent alternative asset managers in China and its brand is highly and widely recognized in the market. Last quarter Gopher's AUM reached a historic high at RMB101.2 billion, up 57% year on year and 6.9% quarter on quarter. Not only expanding its AUM scale, Gopher has also developed a mature product lineup, with PE/VC products accounting for 50% of the quarter-end AUM and remaining the largest asset class at Gopher. Real estate funds and fund-of-funds accounted for 21% and secondary markets funds accounted for 11%.

Through comprehensive top-down research, Gopher aims to develop a product line that not only covers the entire value chain, but also specializes in each market sub-segment. In addition to cross-asset allocation we help clients build sustainable investment portfolios through rigorous due diligence and screening and fund managers. Gopher funds have been performing quite well, generating risk-adjusted returns that exceeded many of its benchmarks. Such performance has been recognized by both clients and the industry. When we look at our financial reports we can see the performance-based net revenues attributable to Gopher jumped 158% quarter on quarter to RMB24 million in the second quarter.

On a final note, I want to briefly talk about recent developments in our middle and back offices. In the second quarter we've upgraded, optimized, streamlined many IT, administrative, risk management and compliance systems as part of our efforts in enhancing our capabilities in precision marketing based on big data. Several important IT systems also went live in the second quarter, including our global client app, Noah Hong Kong App. Using the online platform, qualified clients now can open accounts overseas, send orders to redeem mutual fund units, manage existing portfolios at their fingertips. Furthermore, the upgrading of our internal management system, such as the core business banking system, OA system, were also fully completed. Operationally, we continue to carry out matrix management to increase flexibility, systemization, and centralization and operations management and strengthen the effectiveness in project execution.

With regard to talent retention and attraction, we had a number of high profile hires in the second quarter. PV Wang, former partner of Adams Street; Peter Zhang, former partner of F&G Venture; Elise Huang, a 20-year veteran in the high tech industry investment in Silicon Valley, joined Noah last quarter to help us build a world-class investment team. Two weeks ago, Mr. Yihao Liu was officially appointed as Noah Hong Kong's new CEO. Before joining us Mr. Liu was the Chief

Representative of New York Stock Exchange in China and, before that, an executive at Bank of America Merrill Lynch.

Apart from our efforts in bringing industry leaders to top positions at Noah, we are always dedicating considerable resources to train our relationship managers, middle- and back-office staff, as well as midlevel management. We keep promotion of an internal rotation program. We also recently kicked off a program for high-potential, non-management staff to help them advance their careers, in return, create a talent pool for our middle and back office functions. It is also worth mentioning that we launched the so-called Noah 100 Private Banker Program to train and enable high-caliber relationship managers to better serve ultra-high net worth clients, family office clients, and institutional clients. The ultimate goal is to train 100 topnotch private bankers in China, who will then help Noah lay a solid foundation for the next five to ten years.

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

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

Thank you, Kenny.

In the second quarter, as the economy slowed and the L-shaped recovery is likely to last longer, we see more risks in the market. Investors, practitioners, and regulators all start to form a deeper and better understanding of the market and its inherent risks. Facing headwinds, we respect the markets even more strongly than before, and we anticipate this environment may persist for some time which, however, is not a bad thing for us, as weathering adversity allows the industry to mature. This will be very positive for the industry's long-term development. Indeed, there exist tremendous challenges and uncertainties in the broad economy and capital markets. In order to succeed, Noah must maintain a well-defined strategy, distinguish between opportunities and temptations, and ensure the Company's sustainable development without any hesitation.

2016 is a critical year for us. Equally important are communications with clients, screening of qualified investors, optimization of our product mix, cooperation with the best fund partners, and enhancement of our risk controls. Thanks to the efforts we have put into these areas, Noah has maintained steady improvement in profitability. We believe that under China's “new normal” of slower growth, Noah should place long-term interest before short-term gains and continue to maintain high standards of risk control, because compliance and risk management are the lifelines of wealth management companies.

In the first half of 2016, we witnessed that the economic slowdown and market volatility led to increased risk aversion and cautious sentiment among investors, forcing many into a wait-and-see mode. This has had a profound impact on demand for wealth management products from high-net-worth clients. Based on the needs of high-net-worth clients, Noah provides a one-stop wealth management platform, offering a broad range of customized financial services covering not only wealth management, but also insurance planning, trust advisory, education planning for clients and their children.

At the same time, we proactively adjusted our product strategy and mix, developing and distributing more insurance and non-real-estate fixed income products. These initiatives have allowed us to achieve satisfactory results despite the challenging market conditions of the first half of this year. Based on our semi-annual results and current business trends, we are confident that we can meet our guidance set out at the beginning of this year.

Next, I would like to talk about our products.

First, in private equity, Noah has maintained our leading position. Our core strategy is to partner with the best fund managers in the industry. Transaction-value private equity funds distributed in the second quarter reached RMB7.6 billion, accounting for 27% of total transaction value. By the end of the second quarter growth of private equity AUM reached RMB50.4 billion, accounting for 50% of total AUM.Noah has established strategic partnerships with top-performing fund managers in the PE/VC industry. As technology advances, the new economy industry, such as the internet, biotech, culture, media, consumption, smart manufacturing, will all become major opportunities for PE and VC investments.In particular, private equity investments compared to secondary market products are less cyclical, more resilient to short-term volatility, and generate better mid- to long-term returns. We believe the top 20% of fund managers will take 80% of the total gains in the industry. And that's why selecting private equity fund managers is critically important. Gopher offers a complete range of private equity investment solutions, including renminbi and US dollar fund-of-funds, co-investment funds, direct investment, and family heritage funds.

Regarding the secondary market, we realize it will take longer to restore market confidence than we had previously thought, as the market remains volatile and the regulatory landscape remains uncertain following last year's turmoil. However, we still hold the view that the worse the market currently is, the better opportunity there is for clients to position themselves. We have established a comprehensive hedge fund platform and continue to focus on improving asset selection and portfolio structuring capabilities.

We are pleased to see that Gopher's secondary equities AUM is up 15% year over year and 6% quarter over quarter in the second quarter, to reach RMB10.6 billion. In the first half of this year, Gopher's major hedge fund and quantitative funds delivered superior performance and outperformed the CSI 300 Index by around 10% or above.

While focusing on the A share market, we are also developing overseas secondary market products and strengthening fund-of-hedge-funds portfolio. For example, we recently launched the Gopher Asia New Opportunities Fund, which will explore regional investment opportunities in emerging Asia.

In the first half of 2016, heightened risk aversion among investors drove up the sales of fixed income products. We have optimized our product mix in this product segment. As a result, asset quality has improved significantly across fixed income products. As one example, transaction value of traditional real estate financing products has continued to decline. In the second quarter we distributed RMB8.4 billion of non-real-estate fixed income products, accounting for 50% of the fixed income total, significantly higher than last year's 19% share.

We are rolling out our comprehensive platform of insurance products, which includes global health, critical illness, endowment and jumbo life insurance policies. Our continued training of the relationship managers and increased customer demand led to a healthy growth in this business. Currently, insurance products only comprise a small portion of clients' portfolios, leaving significant room for future growth.

Looking at our overseas business, our Hong Kong office continued to build its comprehensive product offerings, which now include venture capital, private equity, quantitative funds, hedge fund, fixed income, family office, trust, and insurance services. Our goal is to provide clients with a one-stop asset allocation services with global reach which can meet the diverse demands of high net worth clients. By the end of the second quarter Noah's international AUM reached RMB14.8 billion, which is up 75% year over year and 10% quarter over quarter.

We have actively been developing our internet wealth management business with a commitment to maintaining stringent risk control standards. The transformation of Caifupai has begun to bear some fruit. At the end of the second quarter, the number of registered clients on the platform was 325,000, up 146% year over year and up 10% quarter over quarter. In the second quarter alone, total products distributed by the internet platform reached RMB5.8 billion, increasing 72% year over year and over 207% quarter over quarter. In the long run we will continue to make efforts to build Caifupai to be one of the top internet finance brands, catering to the aspiring high net worth clients in China.

Our priorities for 2016 include improving client communications and investor education, and we will continue to advocate long-term value investment and portfolio diversification to protect clients' long-term interests. In the second quarter, we launched various high-end training and investment seminars, attracting some 47,000 participants. As part of this, clients attended educational seminars in Silicon Valley, at Yale University in Israel, and they attended the Berkshire Hathaway

Annual Shareholder Meeting. We also offered our clients chances to come to the Noah headquarters to have face-to-face sessions with Company management. Meanwhile, the Noah Foundation care events have helped Noah to embrace clients closer as we work together on charity events. Our effective communications with clients and education seminars have helped clients understand risks and preserve and grow their wealth. First-rate client communication and relationship management is what makes Noah stand out, especially during the current challenging environment.

We believe that the market adjustment will be long and persistent. High net worth clients' wealth management preferences and needs will change as a result. To provide high net worth clients with global, one-stop, comprehensive financial services will be the trend of the future. And this will bring us more new opportunities as we are fully ready to handle evolving market trends and demands in the years to come.

Lastly, I would like to talk about China's regulatory environment. We have seen a broad-based tightening of regulations in 2016, including the recent promulgation of new rules governing private equity funds, online wealth management platforms, and peer-to-peer lending platforms. The introduction of new regulations on private fundraising was especially important. For the first time, the regulators drew a clear-cut line between legitimate and illegal fundraisings and issued detailed rules securitizing fundraising institutions, investor suitability, and fundraising process, aimed to protect the interests of investors. The new rules stipulate that in order to raise private funds, private fund managers must obtain a fund distribution license issued by the CSRC, and must be an accredited member of AMAC.

This development is good news for disciplined wealth management institutions such as Noah. Recently, excess market liquidity, coupled with a shortage of good assets, has led to a spate of illegal fundraising activities and the implementation of these new regulations should prevent the illegal behaviors more effectively. We believe that this new framework will have far-reaching impact on China's wealth and asset management industry, as it may prompt a reshuffle of market players and ultimately eliminate competitors who don't play by the rules. This is positive for Noah's long-term development.

It is likely that 2016 will turn out to be an eventful year. Hedging, portfolio diversification, long-term investment, and risk mitigation are already emerging as key themes for the year. For a longer horizon, technological developments such as artificial intelligence, biotechnology, and renewable energy represent the hope of the future. With our global perspective, Noah is striving to strike a healthy balance between long- and short-term returns, risks and opportunities, domestic and global strategies to help our clients formulate the best solutions in cross-cycle, cross-region, cross-asset and cross-currency investments. We continue to respect the markets as we foresee value and invest in the future. We will continue to look for future trends and find opportunities for our clients to capitalize on China's economic transformation. Our ultimate goal is to help our clients achieve sustainable growth of their tangible and intangible wealth.

Now I will turn the call over to our CFO, Ching Tao, to review our financials for the second quarter of 2016. Thank you.

Ching Tao – CFO of Noah

Thank you, Chairman Wang. and hello everyone. Today, I'll give an overview of our second-quarter 2016 results and then open up the call up for questions.

As Kenny and Chairman Wang have noted, we are very pleased to have delivered solid results for the second quarter of 2016. Second-quarter net revenues increased 12.8% year over year, or 7.3% quarter over quarter, to RMB651.7 million. On the bottom line, non-GAAP net income grew 3.3% year over year, or decreased 7.5% quarter over quarter, to RMB197.9 million.

Looking more closely at our second-quarter performance, we distributed approximately RMB27.7 billion of wealth management products in the second quarter, a 2.0% decrease from the same period a year ago, or an 11.8% increase from the previous quarter. You can find a breakdown of operating metrics in our wealth management business at the back of the earnings release.

Net revenues from one-time commissions for the second quarter of 2016 were RMB293.9 million, accounting for 45.1% of total net revenues and representing a 32.2% year-over-year increase from the corresponding period in 2015. The increase was primarily due to a change in the product mix in the first half of this year compared with the same period a year ago. Net revenues from recurring service fees for the second quarter of 2016 were RMB304.3 million, accounting for 46.7% of total net revenues and representing a 28.9% year-over-year increase from the second quarter of 2015. The increase was mainly due to the cumulative effect of wealth management products with recurring service fees previously distributed by the Company and the increase in outstanding assets under management. Going forward, we expect recurring revenues to account for around 50% of net revenues in the longer term.

Net revenues from our internet wealth management business in the second quarter were RMB11.3 million, a 34.3% decrease from the corresponding period in 2015. The year-over-year decline was primarily due to the ongoing transformation of this business. On a quarter-over-quarter basis, net revenues rose 94.9%. The sequential improvement strengthened our confidence that after the transformation, the internet wealth management business will become an integral part of our comprehensive platform and service offerings in the long term.

We received RMB23.7 million in net revenues from performance-based income during the second quarter, compared to RMB92.9 million in the year-ago period. The decline was primarily due to the decrease of performance-based income from secondary market products compared with the corresponding period in 2015.

On profitability ratios, operating margin for the second quarter of 2016 was 29.8% compared to 33.5% for the corresponding period in 2015. The year-over-year decrease in this ratio was primarily because operating expenses grew faster than revenues due to growth in compensation and benefits, increased rental and related expenses associated with the relocation to the new head office building and increased marketing expenses, compared to the same period last year.

The year-over-year increase in compensation and benefits expenses was mainly due to increased headcount in 2015 in response to our strong business growth. Headcount growth had slowed in the second quarter of 2016, but the substantial increase last year had a cumulative impact on our compensation and benefits expenses on a year-over-year basis.

Non-GAAP net margin for the second quarter was 29.4% compared to 33.5% a year ago.

On the balance sheet, as of June 30, 2016, the Company had approximately RMB1.39 billion in cash and cash equivalents, a decrease of about RMB162.8 million from the second quarter in 2015, or RMB1.08 billion from the first quarter of this year.

The decrease was mainly due to a temporary impact of other current assets and liabilities. The cash outflow of RMB750.0 million from operating activities in the second quarter was also mainly due to the same reason.

Accounts turnover days was 64 days, compared with 58 days in the first quarter of 2016.

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

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

Q&A

[Sam Dubinsky – Carlson Capital]

Just on the cash on the balance sheet, it declined about 45% quarter over quarter to US$175 million. What exactly are the changes in current assets and liabilities?

[Kenny Lam – Group President of Noah]

Let me take that question and I'll have Ching also give you more details. This is Kenny, Sam.

It was actually a positive impact on our business. We're building a new supply chain finance business. And that business, actually at the end of the second quarter there's a short temporary impact on cash because we were actually buying products for distribution in the supply chain business. It's a new build-up. It's actually a very short-term impact.

The money was actually returned to us probably five to six days after the quarter. So if you look at the balance sheet now, it actually doesn't reflect that cash position. And when you look at the business, the stable part of the business, is that it's actually going to be not requiring that amount of capital when we build up the business.

This business actually was established in April of 2014 with investor capital of about RMB100 million. We began really building the business around early 2015. Right now there is quite a lot of partners that we have in the supply chain business, including China Mobile and a few others. So what we tried to do in the second quarter is to ramp up that business and, with that, some temporary impact on the cash position.

[Sam Dubinsky – Carlson Capital]

So you could buy the product ahead of time before selling it, is that the gist?

[Kenny Lam – Group President of Noah]

That's right.

[Sam Dubinsky – Carlson Capital]

Okay. And so does that mean that cash is up next quarter? Or is it still going to be depressed?

[Kenny Lam – Group President of Noah]

I think cash will be largely -- remain similar to what we had seen in the first quarter, or maybe slightly up, depending on our third-quarter performance. But it wouldn't be –

[Sam Dubinsky – Carlson Capital]

Cash would be similar to the first -- higher than Q2, but similar to Q1?

[Kenny Lam – Group President of Noah]

Exactly.

[Sam Dubinsky – Carlson Capital]

Okay. And then, on the investing activities, I think there was an $83 million investment in affiliates, and also some other liabilities and whatnot. Can you just explain what are the investments in affiliates?

[Ching Tao – CFO of Noah]

Some of the -- whether it's long-term investments in affiliates, they represent for example when we may be co-GP-ing some of the Gopher funds and we're taking 1% to 2% of the fund. So those would be booked on the balance sheet as investment in affiliate for long-term investments.

[Sam Dubinsky – Carlson Capital]

Okay. And –

[Ching Tao – CFO of Noah]

There are well over 100 Gopher funds right now. So we have a small percentage and we don't consolidate the funds onto our financial statement.

[Sam Dubinsky – Carlson Capital]

Okay. And then, on the relationship managers, I think they declined about 4% quarter over quarter, despite you guys opening up nine branches. What exactly caused the decline in relationship managers?

[Kenny Lam – Group President of Noah]

What you see is us being very actively managing the performance of the relationship managers. So between end of 2014 and end of 2015 you saw that our relationship manager grew from 700 to around 1,000. And so over the course of the last quarter or so we we're looking at the performance of each manager to make sure that they reach our performance targets. We care a lot more about the quality of the relationship managers and the productivity of these managers, more so than the absolute number of the relationship managers.

[Sam Dubinsky – Carlson Capital]

Okay. And so were you letting them go or were the low-performing managers leaving on their own?

[Kenny Lam – Group President of Noah]

We actually have what we call the basic law, which is quite a clear process of making sure that they meet certain performance targets that are quantitative and qualitative. If they don't meet those targets then they will need to go.

[Sam Dubinsky – Carlson Capital]

Okay. And then, how do you think about operating margins and expenses going forward, including the subsidy income?

[Kenny Lam – Group President of Noah]

The government subsidy income is, as we discussed in different quarters -- can be volatile or fluctuating between different quarters. But over the course of the year it tends to be stable. So in terms of the amount that you get over the course of one year versus the year before should be relatively stable and growing, because it's actually highly linked to the growth of our business.

In terms of margin, again, actually because of government subsidy it fluctuates between quarters. We're looking at a late 20s and early 30s as being a stable margin for this year.

[Sam Dubinsky – Carlson Capital]

Late 20s, early 30s. Okay. And then, typically I think in the past couple years Q2 is the high point of revenue for the year. I'm not sure if there's some seasonality in your business or is that kind of, when we look going forward for the back half, is there -- like, how do you think about the revenues?

[Kenny Lam – Group President of Noah]

For the next two quarters?

[Sam Dubinsky – Carlson Capital]

Yes, because I think in the past two years Q2 tended to be a little bit higher for the year. Then you kind of had weak -- a little bit softer in the back half. I'm just wondering, is that seasonal? Does that repeat this year? When you built your guidance what's kind of embedded in that?

[Ching Tao – CFO of Noah]

Historically there has been some seasonality in the revenues. But I would note that if we look at the first half of last year, 2015, and especially the second quarter of 2015, the markets were very frothy. And, correspondingly, we did a lot of business. So I don't know that comparing to first half or even second quarter of last year is particularly appropriate. I would say that is not a typical type of business or market environment.

At the same time, I think overall we feel that for the first of this year our performance has been solid and we maintain our full-year guidance. So we're not changing guidance at this time. On the one hand we're very pleased with our first-half performance. On the other hand, the business environment and the markets remain challenging.

[Sam Dubinsky – Carlson Capital]

Okay. My last question, just in terms of you mentioned that the equity fund was I think 10% above some benchmarks. What about the real estate and private equity? I think you said the performance has been good. Could you maybe give some more color on what the performance was in 2015, what it is yield to date, and what benchmarks you're comparing it against?

[Kenny Lam – Group President of Noah]

Sam, I was just translating the question for Chairman Wang, who actually looks at this a bit more actively. On the real estate fund you see that what we're trying to do is to basically exit on a lot of real estate funds. So what's remaining in the real estate funds are high-quality underlying assets that we actually are comfortable with. And I think so far when we look at the performance they actually reach or exceeded our expectations in these cases.

[Jingbo Wang – Chairman and CEO of Noah]

(Speaks in Chinese)

[Kenny Lam – Group President of Noah]

Right. So one of the properties that we own through our funds is the Gopher Center in the middle of Shanghai that actually has already improved a lot in asset value, as one example of the underlying asset for real estate funds.

But the overall theme for this year is for us to exit a lot of the lower-quality underlying funds and retain the good ones that we see as quality and to hold for [longer term].

[Sam Dubinsky – Carlson Capital]

What about the private equity performance? I'm just trying to understand what your performance has been and -- yes, just how you compare it to the benchmarks.

[Jingbo Wang – Chairman and CEO of Noah]

(Speaks in Chinese)

[Kenny Lam – Group President of Noah]

And actually I was just -- Chairman Wang also concurred with this. The private equity funds actually usually quite long duration, you know, 7, 10 years. It's very hard for us to judge now exactly how they perform.

[Jingbo Wang – Chairman and CEO of Noah]

(Speaking Chinese)

[Kenny Lam – Group President of Noah]

And we're quite confident I think -- and Chairman Wang, if you understand Chinese, is that we basically cover -- we have a monopoly in the market in terms of the best funds. And so the way we cover it and the depth of coverage has allowed us to have a lot of confidence in the performance of these funds.

[Sam Dubinsky – Carlson Capital]

Okay.

[Kenny Lam – Group President of Noah]

She was saying that it's probably 18 of the top 20 funds and within that we have a selection of what we do. And so therefore I think on the PE funds we're actually quite confident that it's going to be up [on these markets].

[Sam Dubinsky – Carlson Capital]

Okay. Thank you very much.

[Lan Tan – CICC]

Congratulations on another set of solid results. Two questions from me. The first question is regarding the regulatory development. So basically recently the Chinese bank regulator put out the Number 82 rule to regulate the wealth management products in bank channel, which basically regulate off-balance-sheet products and force channel like trust companies to become a must.

Can you elaborate this a bit more? What do you think the impact on independent wealth management industry and Noah-like? Do you think in short term such rule is likely to boost our sales? Or do you expect similar regulatory tightening happening in our industry as well?

My second question is coming from in terms of the number of relationship managers. This quarter the growth is negative 4% on the sequential basis. Just want to understand what happened in Q2. Have you seen very aggressive talent poaching from direct competitors who might pay more compensation? Thank you.

[Kenny Lam – Group President of Noah]

Okay, just give me one second. I want to translate this properly for our Chairman. One of the questions I would love for her to answer. The second question I could take. Just give me one second.

[Jingbo Wang – Chairman and CEO of Noah]

(Speaking in Chinese)

[Kenny Lam – Group President of Noah]

Okay. So I think overall just to summarize what Chairman Wang said, I think the regulation that you mentioned actually has limited or no impact on us directly. We actually do not any of these kind of products actually in the market.

[Jingbo Wang – Chairman and CEO of Noah]

(Speaking in Chinese)

[Kenny Lam – Group President of Noah]

Yes. So I think there's still a lot of companies that are still doing things that are not complying in these type of products. And therefore we think that there will still be more cleansing in the market. And with that cleansing in the market it will make the market more stable, which in turns helps a firm like us.

So that's the answer to the first question. The second question I think we answered partially just now. Basically we're seeing -- while we've seen competition trying to poach our talent, we're known in the industry for having a leading training program for relationship managers. But I think what you see are two things.

One is the high-performing relationship managers continue to be very loyal to us. We have basically zero churn in our high-performing relationship managers. There's no one from the high-performing relationship management team has left our team in the second quarter.

Second is that the decrease in RM is simply our effort to make sure that we ensure the current RM is high -- is more productive. And therefore we don't want to grow scale through simple growth of our RM base. So you see that our RM base, as we said, grew from 700 to now about 1,000. We think it's time that we look at our RM base and make sure that they're more productive instead of just kind of grow numbers for the sake of growing numbers.

[Lan Tan – CICC]

Okay, got it. Very helpful. Thank you.

[Polar Zhang – BOCI]

My question is I have noted the number or the proportion of our self-managed products in our total distributed products has increased around 60% in previous years to, like, 80% to 90% in current year. So my question is, has [the path] changed? And would this change have any implication on the fee rate in the future? Thank you.

[Kenny Lam – Group President of Noah]

Okay. So, yes, we're just looking at the numbers right now. I think it's highly dependent on the product mix. If you look at last year same quarter, it was actually a lot of the secondary market products were distributed on our platform. I think this year the secondary market products were actually -- was quite a small proportion.

And so I wouldn't use the 80% as a stable number. It fluctuates between different quarters. I think over the course of the year it's going to be around 50, 55% if you look at what products we distribute that are self-managed and what products we distribute that is third-party.

[Polar Zhang – BOCI]

Okay. My question is actually I've seen more and more trusts or PE companies that are establishing their own wealth management arms to distribute their own products. So I'm not sure if this is related to the lack of supply of the products for us to distribute. Is it relevant?

[Kenny Lam – Group President of Noah]

I would say no, and a very emphatic no. I think you see in this market leading players are not trying to build their own retail distribution arm. The smaller players may not have enough reach and they may have large family office that they distribute their own products. From our end, we don't see any lack of supply. It's a matter of us really ensuring the product mix is correct for the client base.

And just let me also translate this for Chairman Wang so that she can also give her views as well.

[Jingbo Wang – Chairman and CEO of Noah]

(Speaking in Chinese)

[Kenny Lam – Group President of Noah]

No. She doesn't have any more to add to what I said.

[Ching Tao – CFO of Noah]

Actually, I will add something. So typically every quarter we have an investor presentation. The slides are up on the website. And it's page 14 of the slides that we have some wealth management operating statistics. And we have pie charts at the bottom basically showing from the distribution in wealth management, what would be Gopher funds or what would be third-party funds.

So the comment I would make is last year and before we were typically running at about two-thirds Gopher, one-third third-party fund. But the (technical difficulty) of the pie has been growing consistently. That means from a product sourcing standpoint both the Gopher fund AUM is growing and also we continue to be able to source products from third parties.

In the first quarter of 2016 the third-party piece fell to under 10%, but Gopher is still going strong. Now, in the second quarter the third-party piece has recovered somewhat to 17%. So the third-party fund sourcing is still recovering somewhat. And we're focused not only on just doing our own funds, but also continuing to work with the top fund managers in the industry to provide the best products to our clients.

[Polar Zhang – BOCI]

Thank you, team. And it's very clear.

[Matt Fortune – WFA]

Kenny Lam, on the March 19, 2015 conference call you stated that Noah wants to be the Blackstone of China. Is that still the Noah Holdings business model?

[Kenny Lam – Group President of Noah]

Wow, you quote me from a year ago. I have to be very careful in what I say. That's funny. Well, the whole idea of Blackstone is to give us an aspiration to be -- to ensure that we are leading in the asset classes that we choose to be in. And so it's a multi-boutique strategy.

And I think that strategy still remains to be the same now for Gopher. You see that we're quite [different] two asset classes, in private equity fund-of-funds and real estate fund-of funds. We're now moving towards hedge fund fund-of-funds. And we're building not only in domestic China, but also globally. And so in that context I think we still remain true to aspirations.

In terms of growth, we're still directing at growth in those particular two asset classes.

[Matt Fortune – WFA]

Are there any additional new asset classes which Noah is seeking to get into?

[Kenny Lam – Group President of Noah]

Let me just translate this for the Chairman so she could also add her views, too. Just one second.

I think in terms of asset classes you see that we've done probably around 16 billion of AUA last year in the wealth platform around AUM, around 15 billion, 16 billion in AUM for Gopher now. We think as we grow in scale we will need to build on our standardized products. So products like insurance and mutual funds would also have to be included in our portfolio. So we're working very hard to make sure that on the standardized products front we're actually building our capabilities as well.

[Jingbo Wang – Chairman and CEO of Noah]

(Speaking in Chinese)

[Kenny Lam – Group President of Noah]

So in terms of -- just to try to say what Chairman Wang added, asset class types we haven't really added a lot. But we've actually changed our operating model in a few examples. Right? So for example, we've moved in hedge funds from a fund-of-funds model to a Manager of Managers model. And also, in terms of real estate we've actually moved from working with new projects in development to now operating real estate and moving to commercial operations.

I think we see the markets shifting in terms of opportunities in each of the asset classes. So we are trying to be ahead of the curve in each of the asset classes.

But for your question as to whether or not we've expanded on asset classes, I think we haven't largely expanded a lot except for in standardized products where we start moving towards more standardized products in our coverage.

[Matt Fortune – WFA]

Okay. You mentioned that you're getting more into the insurance business. Are you also looking to get into the insurance brokerage business?

[Kenny Lam – Group President of Noah]

Well, we do have two insurance brokerage license, one in China and one in Hong Kong. We've had this for actually three or four years now. We see a structural change in demand of our clients in the last 12 months. And so now we're simply basically delivering the services to our clients through those licenses.

[Matt Fortune – WFA]

All right. So the last question, sir. I know you recently had a US$50 million stock buyback program in place. Is that the model going forward, to return cash to shareholders via stock buybacks instead of dividends?

[Kenny Lam – Group President of Noah]

I don't think that's our new way of paying back our shareholders. Those are two separate things. The share buyback is simply our view that the current stock valuation is below our expectation and below the real value of the Company. And so that's why for the second year in a row we're doing buyback when the stock reaches a certain low point.

The dividend policy is a separate discussion. We think we're in the midst of a expansion phase. We want to make sure we conserve cash for investment in our growth companies. And that's why. We haven't really changed our dividend policy.

[Matt Fortune – WFA]

All right. Well, thank you. Smooth sailing to all of you over at Noah Holdings.

[Henry Liang – Goldman Sachs]

So, congrats, Kenny for the good result on second quarter. My question is regarding that Noah is selling less of the real estate fixed-income products and more of like other fixed-income like supply chain stuff. Can you share more on the risk and kind of your development on the supply chain fixed income products? Are they like just basically with lower rates and higher returns? Can you just kind of share more about the thoughts on that?

[Kenny Lam – Group President of Noah]

So one second. Let me translate this for Chairman Wang as well. (Speaks in Chinese)

[Jingbo Wang – Chairman and CEO of Noah]

(Speaking in Chinese)

[Kenny Lam – Group President of Noah]

So let me translate what Chairman Wang said. We've actually spent a year to look very deeply into what type of fixed income products would be high-quality fixed income products in the market. We do think that purely real-estate-based fixed income products is actually not sustainable. There's a high demand for fixed income products in the market so we're looking very heavily.

So that's why in the last year we've built relationships on supply chain finance and consumer finance. Those are the two areas that we've built a market-leading position, particularly in China Mobile and China [Camp], and Homecredit and a few of these core relationship partners which provide us with underlying assets that are high quality that turn into fixed products for our clients.

[Henry Liang – Goldman Sachs]

Okay. Thank you, Kenny, and thank you, Chairman Wang. And the other question from my side is that even though you (inaudible) and then you guys have been talking about potential M&A in different fields. But we don't see any progress. Can you please share some additional color in regards? Thank you.

[Kenny Lam – Group President of Noah]

So you see that we've currently expanded into Silicon Valley in US with both a team in direct investments and a team that's going to be looking at product partnership. That's our careful next steps to build a US presence.

I think -- and in terms of expansion and M&A, we're still actively looking. As we mentioned one to two quarters ago, we're looking for partners that complement with us, including asset management as well as institutional investors. So we're still actively looking. We don't have anything to report just yet. So we're still very active in looking at it.

[Henry Liang – Goldman Sachs]

Thank you, Kenny. That's all of my questions.

[Kenny Lam – Group President of Noah]

I think I just want to mention to everyone that the question about the fixed-income product is actually very on point. We are trying to make sure that in this market with such a high demand for fixed income products that we provide high quality products for our clients.

And therefore, Chairman Wang and the team have looked into this for a long time to build relationships that are hard to replace, that provide very high quality products compared to what we see in the market. And so, we're known in market to provide very high quality fixed income products, which is a position that we want to maintain.

Okay. With no further questions, then I will close this call. I want to thank all the investors and participants for joining us this time. And we look forward to discussing with you more on different settings. Thank you so much.