Noah Holdings Limited [NOAH]
First Quarter 2020 Results Conference Call
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Company Representatives
Jingbo Wang, Co-founder, Chairlady, Chief Executive Officer
Grant Pan, Chief Financial Officer

Analysts
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Presentation

Operator: Good evening, and welcome to the Noah Holdings 1Q20 Earnings Conference Call. (Operator Instructions). After today's presentation, there will be an opportunity to ask questions. Please note this event is being recorded.

I would now like to turn the conference over to Mr. Grant Pan, CFO. Please go ahead.

Grant Pan: Thank you, operator, and good morning and good evening to all the investors on the call. Chairlady Wang and I are very happy to report to you about our first quarter performance. First, let me hand it over to Chairlady Wang to share with you the performances of Noah for the first quarter in 2020.

Jingbo Wang: (Speaking Foreign Language).

(Translated). For today's agenda, I will first share my views on the macro economy, and then briefly summarize Noah's overall performance in the first quarter of 2020, the development of our business segments, and the achievements and challenges during our transformation. Our CFO, Mr. Grant Pan, will follow with a detailed discussion of Noah's financial performance in the first quarter. We will conclude the call with the question-and-answer session.

It is fair to say that the Covid-19 pandemic since 2020 has pushed wealth management institutions in China to accelerate the transition to provide more proactive and customized asset management services, and expedite the supply of net value-based products. Our industry is constantly transitioning from product-driven and product sale-oriented to investment advisory-oriented, providing clients with effective asset allocation services.

The Covid-19 pandemic also restarted wealth management industry with new methods and rules. Contactless services, live-streaming, online solutions, intelligent processing, have become critical elements for every institution. As Noah has shifted our focus from providing private credit funds to more standardized products, we are able to enhance technology and innovation in our wealth management business, and empower different operational aspects, including new clients and channels development, products services, investment research services, and risk management with digital technologies such as big data and artificial intelligence. During the Covid-19 pandemic, over 99.5% of Noah's clients have been completing their transactions entirely online.

Next, I will go over our wealth management segment, asset management segment, and operational efficiency in the first quarter.

Starting from the third quarter of 2019, Noah ceased the distribution of single counterparty non-standardized private credit products and fully entered the field of standardized products. Now, I am delighted to report that our transaction value has reached RMB23.19 billion in the first quarter of 2020, up 76.1% quarter-over-quarter.

The transaction value of standardized products, including mutual funds, equity and bond funds, achieved an increase of 496.3% year-over-year, and was up 96.9% quarter-over-quarter. Excluding single counterparty non-standardized private credit products, the transaction value has increased by 287.5% year-over-year, and was up 88.3% quarter-over-quarter.

We are pleased to see that standardized products are well received by our clients. Thanks to their continued trust, the growth of the AUM of standardized products at Noah has exceeded our expectations. Especially, in consideration of the severe impact of the Covid-19 pandemic in China, we are quite satisfied with our achievements so far.

In the first quarter of 2020, Noah's net revenues reached RMB746 million, down 5.4% quarter-over-quarter. Non-GAAP net income attributable to shareholders reached RMB256 million, up 119.6% quarter-over-quarter. The reason for the slight decrease in our net revenues was due to the decline of revenues from other businesses under the impact of the Covid-19. In the first quarter, net revenues from our overseas segment reached RMB208 million, down 16.1% year-over-year, and down 12.7% quarter-over-quarter, accounting for 27.8% of the Group's total revenues.

In the first quarter of 2020, the number of our active clients reached 16,831, up 4% quarter-over-quarter. Among the active clients, 12,756 were mutual fund clients, up 9.2% quarter-over-quarter. In the meantime, by the end of March this year, the number of black card clients reached 880, up 16.1% year-over-year. In the first quarter, the transaction value from black card clients increased by RMB4.25 billion, with AUM reaching RMB78.85 billion, accounting for 48.8% of the Group's total AUM.

Noah's clients generally have high incomes, or have the potential to earn high incomes, with excellent educational background and a dedication to long-term study of investment and wealth management. Their reception to our transformation to standardized products has far exceeded our expectations in the past several months. They understand the macro cycle, accept the concept of asset allocation, and are willing to increase the proportion of standardized products in their portfolios.

Changes in the industry and client demands are also driving the development of our relationship manager team. Starting from the first quarter, we have been applying a new relationship manager compensation scheme, comprehensively relating relationship managers' bonuses to clients' interests. This policy demonstrates the shift from the sales-driven towards focusing on the maintenance of outstanding AUM, and highlights the consultancy value provided by relationship managers.

In the first quarter of 2020, the turnover rate of our elite relationship managers dropped to 1% from 4.1% in the fourth quarter of 2019. Faced with new market conditions, relationship managers need support from a professional one-stop service platform. We have formed a skilled triangle asset allocation team consisting of product experts, fund managers, and experts for integrated services, to provide our relationship managers with strong middle-office support in various key aspects in their business activities.

Affected by the global pandemic and mandate travel restrictions overseas, in the first quarter of 2020, revenue from our insurance business decreased by 51.8% year-over-year, and down 22.5% quarter-over-quarter. We are currently actively planning for the upcoming quarters.

On one hand, we have launched the service reservation system, and on the other hand, we have initiated the mode of providing integrated services online. Since the last Chinese New Year, we have conducted over 100 online courses and roadshows, as well as a considerable number of high-quality live-streaming sessions online. For example, the Noah at Home initiative has helped to acquire nearly 1,600 new high-net-worth clients for our mobile app Micro-Noah.

In terms of asset management, as of March 31, 2020, Gopher's AUM stood at RMB161.7 billion, down 5% quarter-over-quarter, and down 5.5% year-over-year; as a result of our voluntary early redemption of private credit funds resulted in a net decrease of RMB9.71 billion in AUM.

If we exclude the impact of private credit assets, the AUM of private equity, public securities, real estate, and multi-strategy funds increased slightly, up 0.8% quarter-over-quarter, and up 7.1% year-over-year. The AUM of our overseas segment reached RMB26.4billion, up 6.9% year-over-year, and up 6.5% quarter-over-quarter, accounting for 16.3% of the Group's total AUM.

We understand that our high-net-worth clients are paying increasing attention to asset allocation capacity. We have officially taken into consideration the diversified growth of Gopher's AUM when implementing the strategic targets of the Group.

In the era of standardized assets, the wealth management industry has embraced a new paradigm driven by asset allocation. Under such circumstances, Gopher positions itself as an asset management company that focuses on multi-class asset allocation and pursues absolute returns.

On the public securities front, its flagship MOM fund reported an excess return of 30.31% by the end of the first quarter, since its launch. The absolute return of Gopher's flagship inheritance private equity fund was 17.16% by the end of the first quarter, which was 5.72% higher than its market benchmark.

In terms of VC/PE and real estate funds, our focus for 2020 will be on secondary PE fund series 5, co-investment PE fund, U.S. funds investing in data industry, real estate flagship fund, and U.S. rental property fund. We will continuously improve our management and the capability of direct investment.

The wealth management industry is gradually shifting from product-driven towards AUM and asset allocation-driven. To adapt to this market change, we have more detailed requirements for the services our relationship managers provide. We administered responsive mechanisms and organizational policies to ensure the quality in each step of our operations. When serving clients, we have always been adhering to the principle of being kind, responsible, and reasonable, helping them retain and increase their asset value more scientifically, basing on our understanding of their needs. The way we understand our clients, is to put ourselves in our clients' shoes and place their interests in the first place, following the market rules and acting in accordance with rules, laws and regulations.

In 2020, Noah has established a Client Interest Committee to evaluate any new project before its launch from the clients' perspective, based on the clients' needs and long-term interests. In the case of client complaints and disputes, the committee will make impartial judgments. For the asset allocation of high-net-worth clients at Noah, there will be also be a professional team to review the portfolios and remind relevant relationship managers and clients of any issue.

As we enter the era of standardized products, to better serve our clients, we must improve their online and offline experience. I believe that technology will fully empower and support the wealth management industry in the coming years. As such, we will conduct more data research and utilize AI-based investment-advisory and open-product platforms to unlock more channels for portfolio management, cost reduction and efficiency improvement. Therefore, Noah has been actively improving the user experience on our mutual funds app, Fund Smile, and establishing AI-based investment-advisory system.

In the second quarter of 2020, we also plan to launch the new version of I Noah, which will be our standardized product platform overseas. Based on the existing model of relationship managers providing consultation services, we will further develop our business layers. This means serving ultra-high-net-worth clients via the VIP Center and investment advisory while reaching more potential clients online. By optimizing payment efficiency, offering more high-quality content, and supplying diversified products, we are dedicated to constantly improving our client experience with us.

The wealth management industry is quite special. When the returns of our products or investment don't meet clients' expectations, even if the investment accounts for less than 1% of our RMB700 billion accumulated transaction value, for those clients who are affected, it's 100%. Therefore, we fully understand when clients complain and voice their dissatisfaction. Compliance and risk management are the lifeline of wealth management institutions. Noah will always keep this in mind and behave more prudently to ensure the compliance of transactions and diligent risk management.

For some risky assets occurred in the past, we have established a special non-performing asset team to deal with them through market forces and by normative and legal means. In this process, we have been constantly communicating with our clients and providing updates on the progress. This process turns out to be quite effective, and now, a majority of the risky projects have been successfully managed.

At the same time, we are continuously working on investor education, and promoting the formation of a more mature market, letting clients understand that investments are not deposits. It has risks. While we don't offer implicit guarantees, it does not mean that we are irresponsible. We adhere to the principle of being kind, responsible, and reasonable, and are committed to creating value for our clients. We are grateful for the trust of our clients.

Noah's transformation means we are returning to the mindset of respecting common sense and the market, as well as raising our awareness of potential risks. Looking back, we have experienced several economic cycles in the past 15 years. Especially the Covid-19 pandemic makes us realize more than before that we are now in an era with the combination of volatility, uncertainty, complexity and ambiguity. It requires more wisdom to secure certainties among so many uncertainties.

For Noah, it means we must pivot around our high-net-worth clients, and provide them with integrated services, including wealth management, asset management, and other services such as insurance and lending.

In 2020, Noah has launched a new governance structure and process system, aiming to create a new corporate culture and incentive plan. In addition, we will focus more on monitoring the market, developing insights, reaching strategic consensus, and implementing strategies. We gave up the previous management meeting decision-making mechanism, and fully adopted the mechanism of decision-making by committees. We have set up committees of strategy, technology, human resources, client interests, auditing and discipline, etc.

And employees at execution level who are not standing members of a committee are also invited to join, so as to ensure a more comprehensive review of our operations, and to improve the quality of decision-making. The appointment of management is subject to their qualification and KPI performance.

We have also formed a multi-layer relationship manager compensation scheme based on clients' different behavior patterns, to promote the development of the VIP Center and self-service investment platform.

2020 marks the 10^{th} anniversary of Noah Holdings' listing on the New York Stock Exchange, and the 15^{th} anniversary since Noah's establishment. I am really grateful for the trust and support our clients and shareholders have placed with us, allowing us to come such a long way with all of you.

In the future, the team and I will continue to do our best to honor the trust given to us, and to create value for our clients, shareholders, employees, and the society.

Grant Pan: Thank you, Norah, for sharing. And let me walk you through the more detailed financial performances for the first quarter.

We entered the year of 2020 with a strong start despite the Covid-19 situation that had literally shut down the nation for an extended period of time. Especially as part of the transformation strategy, we see very positive signs in the strong growth in the distributions of standardized products.

First of all, we are on track of, or as matter of fact, stronger-than-expected trend to meet the guidance of RMB800 million to RMB900 million profit target for the year, as we ended up with a non-GAAP profit of 256 million, reaching the milestone one-third of the way.

Operating profit margin improved to 34.3% as a result of scrutinized management of total costs and expenses.

Against all the odds, the transformation, the pandemic situation that had made the first quarter a seemingly very difficult quarter for sales, I am most proud of, which is also the biggest highlight this quarter that comes from the total transaction values distributed in this quarter that went up strongly to RMB23.2 billion, or a 76% growth from this last quarter, driven by a group of resilient Noah team of relationship managers and management members, on the back of a stronger performance of Chinese stock market in the first quarter, and showed signs of resilience of our investors even during a very difficult quarter.

But let me caveat here that our first quarter is usually strong and we continue to face challenges that caused by mainly the travel bans and economic pressures that gradually effects as the year goes on.

Revenue-wise, considering the major disruptions to the overall economy by the unprecedented pandemic situation, we are also delighted to see that recovery in one-time commissions from last quarter, that went from RMB160 million from the fourth quarter of 2019 to RMB211 million in this quarter, increasing by 33.1%. The growth can be attributed to largely the increase in total transaction values as mentioned previously.

Comparing to the first quarter 2019 one-time commission, we are down by 34.7%, as the travelling restriction hinders the sales of higher-margin overseas insurance products, which in turn, affected the total take rate of the revenue. But at the same time, 46% of the total standardized products, about RMB10 billion, had a duration longer than 3 years, which provides our clients a healthier allocation of the assets that would offset short-term fluctuation from the volatile stock market, and at the same time, provides us with assets that would generate more recurring fees for a longer period.

But then again, like everybody else, the Covid-19 situation, especially restrictions on travelling and offline gathering, did have, and will continue, to impact part of the businesses, especially the overseas business where some of the services or products would require clients' physical presence; for example, the oversea insurance products, as have mentioned earlier.

More important than mere quantity and distributed transaction value, we are excited to see a clear switching in product mix that is in line with our transformation to standardized products. In the first quarter last year, RMB22.1billion out of the total transaction value, which is RMB28 billion, about 79% was the single counterparty credit products. And standardized products at that time only took about 11%. Now, after 2 quarters -- 3 quarters transformation, the mix has clearly switched. The standardized public products now takes up about 82% of the total financial products distributed this quarter.

Obviously, we cannot yet claim final victory in terms of strategic transformation, as distributions of public securities had a lot to do with the stock market performance. And it happened to be a very strong Asia stock market this quarter, which may not sustain for the rest of the year. But apparently, we are very encouraged to see that initial sign of success that indicated our clients' confidence in us, as well as the increased level of activity from our clients.

We will continue to feel the pressure in the following quarters depending on the timing of the relaxation on the travelling ban. For example, the originally scheduled May 8 lifting of mandatory quarantine upon arrival in Hong Kong area have been extended for another month, now scheduled for June 8. Obviously, we did not just sit around obviously, to wait for miracles to happen. Our team are actively helping our clients to plan ahead, and have logged several hundreds of pre-orders that will be readily converted once the travelling is allowed for the oversea insurance products.

Management fee increases slightly year-over-year based on the growth of AUM comparing to a year ago, went from RMB419 million to RMB450 million, a 7.3% growth year-over-year. Although it had a [3.4%] decrease sequentially from the last quarter in 2019, mainly because of the generation of some back-end-loaded management fee from existing -- from exiting of single-counterparty credit products in the last quarter.

We had also again recorded another RMB20 million of performance fee or carry in this quarter, mostly arising from public security funds. This is the 23rd consecutive quarter that we had recorded a carry, and we anticipate more to come in the following quarters.

Another area that sees a more direct impact by the Covid-19 situation, revenues arising from lending and other services that had decreased by 71.5% year-over-year and 50.1% quarter-over-quarter; the operation of which typically requires interactions with governmental branches such as notarization services and administrative services, which was not back in full function during the quarter.

Revenues from offline classes offered by Enoch education have also seen greater challenges during this quarter.

Our OpEx, operating expenses and our costs, in the first quarter is witnessing a significant improvement both from year-over-year and quarter-over-quarter perspective. For the year-over-year, it went down about 28.1% and quarter-over-quarter, down by 52.1%. That resulted from two reasons mainly. The first one is both internal and client-oriented conferences have been moved online through a web-based platform that led to less travelling and lodging expenses. Although we anticipate that these expenses will increase in the future, once the restrictions on travelling and offline gathering is relaxed, we'll continue to explore and invest in our IT infrastructure to host more client events online.

And secondly, in anticipating a challenging year ahead of us, we had also carried out several cost-cutting measures on non-essential areas proactively. For example, we implemented a temporary 2-week nonpay leave in the first quarter and it resulted in a nearly 10% drop in comp and benefits in the first quarter. Although the NPL was a temporary measure, and has been restored to a normal level by now, we'll continue to closely monitor expenses and costs to prepare for rainy days ahead of us.

In addition, we had also asked our regional heads to apply for relief on rental expenses throughout the nation that had cut our overall rental expenses for office space for several million.

When it comes to balance sheet, we continue to strive for leaner balance sheet, and have further improved our asset-debt ratio to a record low of 18.3% while maintaining a 4.8 multiple current ratio. We believe that maintaining a healthy level of liquidity is key to fuel a rather strong recovery during this difficult time, which also allows us the capabilities to further invest in longer and strategic initiatives such as technology and online platforms and explore for new business opportunities.

When it comes to segments, the wealth management segment realized a good recovery in this quarter in its operating profit, that was impacted -- last quarter was impacted by significant one-off expenses. And this quarter, it recorded RMB166 million and contributed to almost 65% of the total operating profit this quarter.

The strongest driver in this quarter's profit also comes from our asset management segment that recorded RMB93.5 million; that is a 37.8% growth year-over-year and a 3% quarter-over-quarter growth. The increased level of profit margin from that segment is also demonstrating a very disciplined operation of the segment and is also showing the effect of the scale of economy.

Speaking of the asset management segment, we do see a decrease in terms of absolute amount of the total AUM in Gopher of about RMB8.5 billion. But if we do take into consideration of the massive expiration of single counterparty credit products of about RMB9.7 billion, the rest of the asset classes recorded a total increase of nearly RMB1 billion. That's mostly driven by PE and RE real estate products that Noah is conventionally strong with.

However, the growth in the standardized products manufactured by Gopher was disappointing in the first quarter, as a few of the standardized and balanced fund products did not launch as scheduled. We expect that situation to improve quickly in the following quarters, as these products have already been manufactured, packaged and scheduled to distribute in the second and following quarters.

As mentioned earlier, the lending and other businesses segment experienced a more direct hit by the Covid-19 situation, and recorded an operating loss for the first time since it went profitable in the third quarter in 2018. We continue to seek ways to improve this sector, and we are most likely will be conducting a more fee-type of businesses as an assistance to the banks and trust companies, using the technology, experiences and know-how that we have developed in this sector.

All in all, we are pleasantly surprised by the strong start in this quarter, that we should really thank our clients for their confidence in us, as evidenced by the growth in number of active clients; also in the number of black card clients even, and also in the macro transformation to standardized and diversified asset management; and thank our team for the resilience and courage they have shown in this global pandemic.

We are obviously fully aware of the challenges ahead of us due to the delayed effect on economy as the rising of unemployment rates, on exports that may affect many of our clients, who are owners in the export manufacturing businesses. But we are also confident that we will continue to spear forward our transformation to a modern financial services institution that is equipped with technology, as well as great products and services to our clients.

Operator, we're ready to take questions.

Questions and Answers

Operator: Thank you. We will now begin the question-and-answer session. (Operator Instructions). Daphne Poon from Citi.

Daphne Poon: So a couple of questions from me. The first is regarding your transaction volume of the public securities. Clearly, it's a very strong rebound QoQ. So just want to understand that what are the key drivers here? Will you be able to provide us a breakdown by the products? For example, mutual funds and hybrid funds, how are they doing respectively in Q1 maybe compared to the previous quarter? And also want to check on the trend in Q2 so far.

So as you also mentioned earlier, this is highly depending on the Asian market performance. So we do see that the Asian market is recording that normalizing in terms of the level of GDP. So how is the trend in Q2 so far and how sustainable do you think this strength in Q1 would be?

And the second question is I see on your on registered high-end growth, so we see a very strong number of new registered clients in the first quarter was strong by 4x times quarter-over-quarter. So can you provide more color on the underlying drivers, whether that's due to some IP or some organic growth, and also how sustainable you think that is?

And lastly, want to check on the lending business. So we see there's a provision for the credit loss in first quarter. So first, can I check on what's the number in the fourth quarter last year, because apparently, it's a big increase on a year-over-year basis? So want to understand what are the drivers and maybe what are the underlying NPL trends of the lending business that you're having here. Yes, so that's all my questions.

Grant Pan: Thank you, Daphne. Give me a second to translate question and share with management.

Okay, thanks, Daphne. For the first quarter, yes, we actually had put out quite a bit of the online conferences. And especially during the shutdown period, we actually do have very live sessions where the clients to get online, and we're actually able to experience a pretty higher level of activities or interaction with clients compared to the conventional way.

Even during those several weeks, we probably had about close to 600,000 of hits and visits during that session. And we're actually able to launch quite a bit of standardized products on the back of obviously good performance; also from strong fund managers that we're actually able to package a product that has a longer duration, actually about RMB10 billion out of the total RMB23 billion with duration of longer than 3 years.

So in terms of Q2 trend so far, I think you brought up a very fair point. The standardized products do have a little bit of correlation with the Asia stock market. But at the same time, we're also offering more balanced funds for our clients. So we're not just pushing the clients to the equity market, but also a more balanced allocation of the product, so will be mixed between probably equity and bond and standardized products. So we'll see how the Q2 go, but we do have good alternatives for our clients other than just equity security products that ties to the stock market performance.

Jingbo Wang: (Speaking Foreign Language).

Grant Pan: Yes, just a few more comments from our Chairlady. First of all, not just because of the performance for the stock market, we did do a quite a bit of preparation ahead of time. So we're actually able to put together a good roster of outstanding fund managers. So we're actually able to launch good products in a relatively short period of time.

And two is that we have moved offline conferences to online, including our traditionally-held offline Diamond Conference in hotels. We actually moved them online and was able to get in a lot new clients through the sessions. And third is really the change in the demand of our clients that a lot of them have experienced risks or some non-ideal experiences from so-called non-standardized credit products in the entire industry. So their demand and appetite is switching to a more balanced allocation of assets instead of concentrating their asset allocation in one class, especially the volatile class.

And we also want to stress that other than in addition to the standardized products, we're still maintaining a pretty good level of distribution for the BCP products. And even from the standardized products, about RMB10 billion is with longer duration, which obviously, the assets that we help our clients to allocate or put together has better quality and actually allows them a longer period to profit.

And obviously, we'll see a slight depression on one-time commission, as for the standardized products do have a lower fee rate than the oversea insurance products, as I've mentioned. But we do believe that having the longer-duration pipeline of assets for clients will generate more recurring fees for us. So that's the first question, Daphne.

And second question in terms of growth in registered -- in the number of registered clients, yes, we do have pretty strong traction. As we have mentioned before, when we do move the conferences and also the interactions online, we're actually able to see a very much higher level of activity interacting with our clients. And we're actually able to -- with the help of enhanced IT infrastructure, we're actually able to track and also retain some of the clients' traffic better than we did before. So that's mostly attributable to the number of new registered clients, and also through the distribution of standardized products actually easier to help the new clients to actually get to us.

And for the third question, in terms of lending business, we do have a provision, but that is basically a statutory provision that is required by the auditors when you have the lending piece on your balance sheet. In terms of that particular business, we are seeing a transition, especially from industry and regulators' standpoint, that we wanted to go light in terms of we do have --

mostly using technology, also databases, in terms of open the banks and trust companies to assess the quality of collateral, especially properties for their clients.

And we have been experimenting, and actually seeing some initial cooperation with a couple of trust companies, that we will actually be able to provide more or less a service type of -- a fee type of services to these institutions instead of servicing the loans ourselves. So we'll be seeing a slight change in business model in that particular area.

Daphne Poon: Thanks for the very detailed answer. So maybe just want to follow up a bit on the last question. So in terms of the provisioning level, is that like stable versus the previous quarter? Do you see any increase in the underlying risk, I guess also because of more challenging macro environment here?

And as you mentioned about the shift in the business model to the (inaudible) company, what the revenue model looks like going forward? And how would the [fee rate] revenue model differ from the previous model?

And also want to go back on to the first question that you mentioned just now you have over RMB10 billion of transaction value with over 3-year duration process. So can I assume that that is all from the hybrid funds that you are -- I think it was stepping up efforts on selling more hybrid funds this quarter, which has a more favorable fee rate. Just want to confirm on that.

Grant Pan: Okay, one second. Yes, for the lending piece, the provision is quite stable. Obviously, the shutdown of the nation actually delayed a little bit some of the loan refunding, as some of administrative branches of government was literally shut down for a few more -- for a few weeks actually. But we don't see a massive worsening of the provisions for the particular assets.

In terms of transitioning, the fee is more or less like 1% to 2% of a service fee that will be charged on the back of the loans that the trust companies or banks, when they do issue loans to the investors. So basically, our service will be helping them screening these investors, as well as the assessment on the quality of the collaterals.

So I will let Norah, our Chairlady, to supplement your question on the hybrid funds on the longer-duration funds.

Jingbo Wang: (Speaking Foreign Language).

Grant Pan: (Translated). Yes, so the majority of the first quarter is still equity-type of funds in the first quarter. And the hybrid fund, like I mentioned before, are mostly manufactured by Gopher, will be launched in the second quarter and the following quarters.

Daphne Poon: Okay. That's very helpful. Thank you.

Operator: Ethan Wang from CLSA.

Ethan Wang: Congratulations on the first quarter results. I have three questions. The first is on the competition landscape of mutual funds specifically. So we know that Noah did very well in the first quarter, but actually, this space was quite crowded with all the financial institutions and online payers like Ali Pay. So when clients stay at home during Covid-19, and they open their apps, they have a lot of choices. So just want to understand why they need to turn to Noah, rather than Ali Pay, where they can just select hundreds of funds with a simple tap on the phone. I just want to understand our position, strategy position, in this space.

And my second question is on the one-time commission rate of the wealth management segment. So Chairlady just mentioned that the first quarter, the one-time commission rates went down because of the standardized product, the rate was lower. But I remember from the last call, that when we are shifting to bond or hybrid -- I mean hybrid standardized products, maybe the one-time commission rate was low, but for equity types, it was higher.

And we saw that in the third and fourth quarter last year, actually, the blended one-time commission rate was quite good. So the first quarter was lower. I just want to understand the specific reasons behind that, are returning to more maybe lower commission rates kinds of mutual fund product? So just wanted to get more details on that.

And my third question is on the general and admin expense for wealth management segment. So we understand that last year, especially in the third and fourth quarter, we booked some legal fees maybe related to the Camsing incident in this segment under general and admin and other operating expenses. But we saw that this level of expense came back to the normal level in the [first] quarter. So should we assume that the legal expense is a thing of the past, or is a seasonal thing where we should expect it to come back in the fourth quarter every year maybe? Yes, so that's my question.

Grant Pan: Thank you, Ethan. Give me few seconds.

Jingbo Wang: (Speaking Foreign Language).

Grant Pan: (Translated). So in the past, obviously, our firm specializes in alternative products, like VC/PE, some of even the single counterparty credit products, but still credit alternative products. In the future, we believe our positioning will be about 80%, 20% allocation between standardized products and alternative investments. So we are actually, like I mentioned, entering into a bigger playing field, probably with more competition. But still we're at a very different competitive position as compared to Ali or Tencent, some of the retail type of fund platforms.

For example, the investment threshold at Noah for our clients, mostly it's around RMB1 million. And the average AUM for our clients in mutual funds is about RMB310,000, which comparing to probably a few thousand on the retail mutual fund app you have mentioned. So even for the mutual fund purchasers that we have been serving, mostly professionals and also have a pretty discipline investing in mutual funds as part of the allocation strategy. We're even seeing some management or professionals, that they might purchase mutual funds from other platforms, still come back to Noah to get more comprehensive and complicated type of products like fund-of-funds or even alternative investment, VC/PE type of products.

And please let me take you through the next 2 questions. The first one is for the take rate. You're right, for the standardized products we have mentioned, that actually does come with a pretty good fee rate as comparing to standardized bond funds that we have mentioned before. So basically, the standardized products that we have been distributed this quarter is usually between

100 basis points in terms of commission revenue. But blended commission rates was higher in the last year that we have mentioned that the higher profit margin that's contributed by the oversea insurance products, which also the revenue is accounted for within the commission revenue actually do have a lot to do with the overall blended take rate.

As you would imagine, it actually doesn't account for a lot of the transaction volume, but the revenue actually comes in with a pretty higher margin. But as you would imagine, the first quarter, especially probably for a brief period in January, people weren't able to travel overseas for the last 2 months in that quarter.

So that actually does have impact on the overall take rate, so which is about 91 basis points as compared to close to 110 in the past. But we have always been telling our investors that the fee rates, especially the blended take rates, do fluctuate between 80 to 120 basis points depending on the mix of the products that we'd be distributing in the quarter.

In terms of the general G&A expenses for the wealth management segment, yes, this is actually ideal level of profit margin that we're looking to maintain for the wealth management segment. And the legal fee doesn't actually have a seasonality in the last 2 quarters, especially right after the Camsing incident, that there was quite a bit of one-off initiative legal expenses when you first engage your law firms and you first probably pursue your losses for the first time. So you do have a little bit of a down payment or initiation fees.

So the legal fees, especially in the third and fourth quarter last year, was probably -- is a little bit disproportionately higher. And in the future, I would believe that this level of expenses for wealth management is about normal. It will fluctuate, but it shouldn't fluctuate too much. I hope that answers your question.

Ethan Wang: Yes. Thank you.

Grant Pan: Okay. Operator, is there any more questions?

Operator: Thank you. There are no further questions at this time. I will now turn the conference back over to you, Mr. Grant Pan, for any closing remarks.

Grant Pan: Okay. Thank you, operator. And thank you, our investors and analysts. If you do have further questions, or want to have scheduled one-on-one conferences, feel free to contact us if you want to speak more. Thank you very much for your time.

Jingbo Wang: Thank you.

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