NOAH HOLDINGS 3Q 2016 EARNINGS CALL EDITED TRANSCRIPT

14 Nov 2016 (US EST)

OPERATOR

Good day, ladies and gentlemen. Welcome to the Noah Holdings Limited third quarter 2016 financial results conference call. Following management's prepared remarks, there will be a Q&A session. As a reminder, this conference is being recorded. After the close of the US market on Monday, Noah issued a press release announcing its third 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 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 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, Noah's Chairlady and CEO, Mr. Zhe Yin, Noah's co-founder and Gopher Asset's Chairman and CEO, and Mr. Shang Chuang, Noah's CFO. For today's agenda, I will start by providing an overview of our financial highlights for the first three quarters of 2016 and walk you through the performance of our core wealth management business. I will then talk about the achievements and long-term strategic plans of Gopher Asset Management. Lastly, I will touch on the development of Noah's mid-and back-office. After that, Chairlady Wang will provide an update on our product strategy and share her views on the macro and regulatory environment. And then Shang will provide further insights into our financial performance in the third quarter of 2016. Lastly, we will be happy to take any questions at the end of our prepared remarks.

Currently, we see Chinese macro economy still undergoing an L-shaped adjustment and the global capital markets are still full of uncertainties. Despite a challenging macro environment, we continue to focus on clients' needs and provide them with the best possible products and services through superior fund selection with an emphasis on diversification and balanced risk/return objectives. Thanks to our efforts in building a global product platform, and strengthening our product and risk capabilities, we did not only generate healthy returns for our clients, but also ensure solid year-to-date operational and financial performance for Noah, which enables us to further consolidate our leading position in China's wealth and asset management industry.

In the first three quarters of 2016, we distributed a total of RMB 76.5 billion of wealth management products, up 2.3% year-over-year. Total assets under management as of September 30, 2016 reached RMB 114.8 billion, up 49.2% a year ago.Net revenues in the first three quarters of 2016 were RMB 1.87 billion, a 20.8% increase from the corresponding period in 2015. And non-GAAP net income was RMB

592 million, up 19% year-over-year. Generally speaking, we're pleased to have delivered steady results in the first three quarters of 2016.

Noah's wealth management business provides global wealth investment and asset allocation services to high-net-worth individuals in China. By the end of September 2016, Noah has 130,491 registered clients, up 13.6% from the second quarter and 47.2% from the same period last year. Through our continuous investor education, coupled with comprehensive wealth management services, our clients continue to stay close to us. The average transaction value per client reached RMB 5.51 million in the third quarter of 2016 and the repeat purchase rate was maintained at about 30%, both of which are quite high compared to the industry averages.

Recently, Noah has been recognized by a number of high-profile international organizations for excellence in China's wealth management industry, including “Best Wealth Management Institution” awarded by Asia Pacific Fortune Forum, “Outstanding Private Bank for Organic Growth Strategy” by Private Bank International, and Fortune Magazine's “Top 100 Fastest Growing US Listed Companies”, just to name a few.

These awards and recognitions are a testament to our diligence and perseverance in this industry. Specifically, we have been continuously expanding our branch network with 173 offices covering 71 cities by the end of the third quarter. While we maintained a number of relationship managers around 1,100 at the end of the third quarter, we optimized the RM team by replacing the RMs with low-levels of productivity with high-potential talents. We are improving retention and loyalty by continuing to provide professional training to our relationship managers to improve the servicing skills and productivity and also expanding marketing activities to help them run their client base. As a key indicator for our stability, the turnover rate for top-performing relationship managers was zero for a second consecutive quarter.

With regards to our overseas business, by the end of the third quarter, Noah's overseas AUM reached RMB 15.9 billion, a 42.4% increase from a year ago. The recently opened Noah US office marked the beginning of version 2.0 in terms of our internationalization strategy. Noah US is positioned as a product research and sourcing center at the current stage, aimed at exploring more high-quality overseas products and covering more leading PE/VC funds in the US. We hope the synergies between Noah US and Noah Hong Kong will help our high-net-worth clients manage their overseas assets in a more efficient way.

Now I'd like to provide an update on Gopher Asset Management. Total AUM at Gopher reached RMB 114.8 billion, up 49.2% year-on-year. In the third quarter, private equity funds-of-funds AUM increased by 70.4% on a year-over-year basis, and accounted for 47.6% of total quarter-end AUM, up 5.9 percentage points from a year ago. Gopher is now one of the most prominent alternative investment managers in China and its brand is highly recognized in the market. Gopher was ranked number one in *the best funds of funds*, *the most active funds of funds* and *the best market-oriented funds of funds* categories in the recently released 2016 *China Private Equity Funds rankings*. In addition to private equity funds-of-funds, Gopher also established mature product lines for real estate funds-of-funds, secondary market funds-of-funds and a term credit products, which accounted for 21.8%, 9.0% and 21.6% respectively of total AUM at the end of the third quarter. For the first three quarters of 2016, total recurring service fee for Gopher amounted to RMB 355 million, up 35% from a year ago, as the asset management business became an important contributor to the group's total revenue.

Let me talk more about Gopher's long-term strategy. Established as a multi-boutique investment firm, Gopher has been consistently enhancing its investment capabilities, expanding its asset management scale, innovating its product line and diversifying its asset classes. Gopher has systematically reviewed about 2,000 companies and projects to develop insights into specific industries, and has formed proprietary top-down views on each of them. This invaluable experience will lay a solid foundation for Gopher to upgrade its model from a single funds-of-funds strategy to co-investments and direct investments. The latest Gopher Flagship PE Funds-of-funds already plans to co-invest 50% of its AUM directly in individual assets, alongside with reputable GPs.

Gopher has also been expanding its investment horizon globally, with its upcoming Global Harvest of Funds-of-funds II covering several first-class global PE funds and providing cross-currency investment strategies. Gopher's internationalization strategy is further boosted with the arrival of several industry veterans with a global perspective and the opening of the US office. Moreover, the client base of Gopher is expanding from high net worth individuals to institutional investors, including pension funds, insurance companies and city commercial banks. Looking ahead, Gopher is strategically aimed at becoming one of the most prominent multi-strategy and multi-asset management firms in China. To achieve this goal, Gopher will adhere to stringent risk management standards, maintain longstanding relationships with top GPs all over the world to enable its investors to capitalize on the emerging economies and industries globally.

Speaking of Gopher's strategic development plans, I want to share with you more information about the strategic investment by Sequoia, which was announced a few weeks ago. Sequoia China invested RMB 348 million to take an 8% stake in Gopher and Noah continues to be Gopher's controlling shareholder with 92% of its total shares. Beyond this, Gopher has no further plans to invite new strategic shareholders. Sequoia's investment into Gopher will add enormous value to our long-term strategic positioning. As you all know, Sequoia China has been an important shareholder and partner of Noah, helping us become one of the leading wealth management companies. Through the new partnership between Sequoia China and Gopher, we further developed Gopher's capabilities in PE/VC co-investments and direct investments both in China and globally.

Gopher's family office business will also benefit from Sequoia China's experience with its best-in-class family office services. Based on Sequoia's Heritage Fund's "portfolio construction plus active management" concept, Gopher will be rolling out a similar fund to help Chinese ultra-high-net-worth families to preserve, grow and transfer wealth to next generations by multi-asset, multi-currency, cross-cycle, cross-region active management strategies. There's no doubt that the partnership between Sequoia and Gopher will combine Sequoia's expertise in global investing with the unique opportunities in the Chinese market. We're excited to work with Sequoia to create long-term value for Gopher's future growth.

Lastly, I want to briefly talk about our mid- and back-office initiatives. One of the priorities in the third quarter was to launch off a number of initiatives to drive cross-group digitization, focusing on client acquisition, marketing analytics and a creation of robo-advisory databases. The completion and implementation of these projects will help the group enhance its front office capabilities, as well as increase mid and back-office efficiency in the future, providing cutting-edge technical support for Noah's development in the next decade.

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

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

Thank you, Kenny.

As 2016 draws to a close, transition and divergence have become a major global economic and political theme. The UK has voted for "Brexit"; the Fed has started hiking interest rates; and US presidential election results were largely surprising; Japan and Europe have both entered an era of negative interest rates at a time when the RMB was officially included in the SDR basket. All these historical events could be signposts that a new international paradigm is gradually taking hold. A closer look at China's macro-economic trend also seemed to confirm our judgment on its L-shaped recovery mode. The current macro-environment and market are still full of challenges and uncertainties. There is increasing contrast between a barren market for quality assets in China versus rising demand for overseas investments. In the midst of recent rapid depreciation of the RMB against the US dollar, how to achieve wealth preservation and steady capital appreciation, how to avoid the market and currency risk, how to safely transfer wealth to the next generation, all have become the issues that China's high-net-worth families are most concerned about.

We remain steadfast that under China's new normal of slower growth, Noah places long-term interest before short-term gain. Enhancing investor communication and client education and improving relationship managers' professional servicing skills are the key areas on which we should focus ourselves in the remainder of this year and beyond. Compliance and risk management are the lifelines of wealth management companies, but there are still wealth management products in the market, backed by "capital pools" with maturity mismatches and without independent custodians. In order to spur short-term business volumes, some wealth management companies offer so-called "implicit guarantees" which they can't honor when products do not perform as well as they'd expected. Such non-compliant behaviors pose competition pressure for us in the short term. However, we firmly believe that anything that can't last forever will not, and it is just a matter of time. In order to win out in the long run, Noah must maintain a well-defined strategy, distinguish between opportunities and temptations and ensure the Company's sustainable development.

This year we spent a lot of time and resources on investor education and RM training. We launched Noah University, organized "Afternoon Investment Seminars" and held various investment conferences, and many other types of communication events, which cover more than 160,000 participants. In a tough market, the more challenging the market is, the more we challenge ourselves. Our emphasis has always been in staff training. In terms of the team's ability, we maintained a zero turnover rate for elite relationship managers last quarter. So far this year, we continued to build up our risk control and due diligence system and through covering top-tier product providers and selecting the best partners, we continue to deliver high-quality products and services to China's high net worth clients. It is through these active initiatives which I just mentioned that enabled us to achieve stable growth in the first three quarters of this year.

Next, I would like to talk about our products.

Total transaction value for PE/VC products distributed in the third quarter reached RMB5.4 billion, accounting for 23% of total distribution. We only team up with the top-performing fund managers in the industry by adopting a quality over quantity strategy in fund manager selection. The reason is that China's private equity venture capital industry has morphed from the "warring states" period into a new area where investment returns start to diverge widely. The 80/20 rule has manifested itself in this industry, meaning the top 20% GPs can harvest 80% of the total returns. In order to earn "alphas," selecting the right industry to invest in, and the best fund manager to invest for you, is much more important than ever before. On top of that, we're also vigorously promoting Gopher's funds-of-funds products. Research has found that the funds-of-funds strategy can effectively reduce the volatility and improve the risk-adjusted returns, compared with the all-in strategy in terms of venture capital investing where information asymmetry is rampant. Funds-of-funds can help accredited individuals lower their investment threshold of PE/VC products and reduce the concentrated investment risk. Among private equity funds-of-funds in China, Gopher has become the number one brand. In addition to its already strong high net worth client base, Gopher's funds-of-funds institutional sales have also gained momentum this year, as more and more institutional investors, such as insurance companies, listed companies and city commercial banks are warming up to private equity venture capital investing. At the end of the third quarter, Gopher's PE/VC AUM reached RMB54.7 billion, up 70% year-over-year and now representing 48% of total AUM for Gopher.

Regarding the secondary market equity products, the A-Share market has yet to stage a secular uptrend at a time when the broad economy has shown no sign of re-acceleration. However, we still hold the view that the worse the market currently is, the better the opportunity there is for us to strengthen and optimize our manager portfolio and to screen out the good hedge fund managers who could outperform during the bull market phase. We also encourage our clients to position for the long term and help them identify both cyclical and structural investment opportunities through more innovative products which we are planning to roll out in the next two quarters. At the end of the third quarter, secondary market equity AUM at

Gopher maintained above RMB10 billion. It is worth noting that so far this year, Gopher's major hedge funds-of-funds and quant fund of funds have outperformed the CSI 300 Index by more than 10%.

The increase in distribution of fixed-income products was in part driven by some clients' robust demand for safety and yield. Our strategy in fixed-income products is to diversify the product mix away from real estate and towards more new product categories by establishing relationships with new product partners with corresponding risk control mechanisms, procedures and standards. We have also made significant headway into new areas such as consumer financing, auto financing, supply chain financing, and mezzanine credit products. The companies that we have been working with have high credit worthiness, including Haier, China Mobile, and HomeCredit, just to name a few. In the third quarter, non-real estate fixed income products such as these accounted for 54% of the fixed income total, reaching RMB9.3 billion, which helped us improve the underlying asset quality and secure the supply of fixed income products in a barren product landscape.

In terms of real estate, our core strategy is re-positioning. We are shifting our focus from providing financing for residential development to acquiring operating assets; from project investment to equity investments in companies in the real estate value chain; from development projects to improvement of existing properties. We will continue to be actively involved in real estate, which remains one of the largest asset classes in the market. We believe that the redefined model of real estate funds will become mainstream in the future. And our real estate team, after 2 years of adjustment, is getting fully ready. What's worth mentioning is that Gopher Center in Shanghai has been completed and put into operation recently, becoming the first Grade A office building that is solely funded and operated by Gopher. Needless to say that Noah and Gopher have a team comprised of highly experienced real estate professionals with proven operational track record. We are working hard to explore more new real estate opportunities for our clients.

For our overseas business, client demand remains quite strong and our overseas AUM continues to grow. While consolidating the existing Noah platform in Hong Kong, we are strengthening the development of our global open product architecture by multi-dimensionally balancing our portfolios between traditional and alternative products; developed markets and emerging markets; active and passive investments. We also started exploring new opportunities in event-driven and global macro strategies, global buyout funds, European distressed assets, overseas properties, and new energy investments. The new Noah US office and Jersey Island Trust Company are both up and running, together with the existing overseas platform to provide our clients with comprehensive financial solutions ranging from offshore wealth management to insurance planning, trust and estate advisory and education planning for their children.

We have been improving our servicing standards with regards to our family office and full discretionary portfolio management business. As Kenny just mentioned, we will leverage Sequoia's family business experience to further upgrade this business. In late November, we will bring another group of ultra-high net worth family office clients to visit Wharton Business School where they will have the opportunity to discuss with some well-known family wealth managers to help them better understand the active asset allocation solutions and the tools available for generational wealth transfers.

On the internet wealth management business, Caifupai has been re-accelerating following the transformation, after which Caifupai focuses on distribution of standardized products, including mutual funds, mutual funds-of-funds, insurance products, etc. Caifupai is positioned as mass affluents' online private bank powered by advanced technologies such as robo-advisory capabilities. By the end of the third quarter, registered clients totaled more than 346,000, a 120% increase from a year ago. Total transaction value in the third quarter reached RMB4.8 billion, up 114.5% year-over-year. Average transaction value per active client was RMB214,000, up 110% from year-ago levels. Growth prospects are enormous for Caifupai. Going forward, we will not only focus on the scale of this business, but also its profitability.

Being an integral part of Noah's ecosystem of financial services, Noah's subsidiaries are developed around the needs of high net worth clients, some of which have made significant progress after the incubation periods. For example, our factoring business, micro-lending company and Enoch Education have been performing well this year, and we expect them to grow even faster in 2017. Although Noah has become China's largest independent wealth management company, we still view ourselves as a business in the early stage of entrepreneurship. Continuous learning and evolution is what we are pursuing infinitely.

Lastly, I want to talk about regulation. Beginning in the second half of 2014, continued easing of monetary policy unlocked a lot of liquidity, which rattled China's stock market, bond market, housing market and commodity futures market, one after another. Chinese regulators are now taking steps to tighten financial regulations in an attempt to channel the liquidity into the real economy. Particularly, to prevent any further abnormal currency volatility, the PBOC is tightening up capital controls. Chinese authorities are also planning stricter regulations on wealth management and asset management companies in a bid to ensure that financial markets play an effective role in the allocation of funds. The recent promulgation of new rules governing private investment funds, commercial bank wealth management products and capital-guaranteed funds would have a profound impact on the wealth management and asset management industry in China. In the context of broad-based tightening of regulations in 2016, Noah's overall business has been running very well and is on track to achieve the goals we set at the beginning of the year. In the long run, Noah will benefit from a more rigorous regulatory environment where companies can be better funded and then boost economic activities, which in turn will create more investment opportunities for Noah's clients. Moreover, Noah's core competencies in product selection, asset management, risk management and back-office operations can help Noah stand out in the future by gaining more client trust and market share.

As ever, value investing, long-term investing and asset allocation remain our core principles. We have always maintained our focus on building our core competitive advantages in wealth and asset management, global asset allocation and comprehensive financial solutions. We have continuously improved our capabilities in research, product selection, risk control, and post-investment management capabilities. We have also continuously strived to understand our clients' needs. By starting from their long-term goals and adopting effective client communications, we have worked with our clients to protect and build their assets. However, by maintaining our unwavering commitment to Noah's core values and our focus on long-term goals, we may give up some short-term profit and even lose some clients in the short term. But this approach has enabled us to build a high-quality base of long-term customers that recognize Noah's value. We would like to create and maintain strong, high-quality relationships with our clients as a way of contributing to the healthy development of China's wealth management market.

Thank you. Now I will turn the call over to our CFO, Shang, to review our financial results for the third quarter of 2016.

[Shang Chuang – CFO of Noah]

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

As Kenny and Chairlady Wang have noted, we are generally pleased with our results for the third quarter of 2016. Third-quarter net revenues increased 16.9% year-over-year to RMB608.5 million, and non-GAAP net income grew 8.7% year-over-year to RMB179.7 million.

For our wealth management business, we distributed approximately RMB23.9 billion of products in the third quarter, down 8.3% from the same period a year ago. However, looking more closely, net revenues from one-time commissions increased 48.4% to RMB281.2 million on a year-on-year basis. This was mainly due to changes in the product mix and higher effective one-time commission rate.

Net revenues from reoccurring service fees, which mainly come from private equity and real estate products, were RMB294.9 million in the third quarter of 2016, representing a 7.9% increase year-over-year. Reoccurring service fees as a percentage of total net revenues decreased year-over-year to 48.2% from 49.6% a year ago, as we exited several real estate funds, which usually have higher management fees than funds-of-funds products, and started repositioning our real estate investments towards commercial real estate projects. We expect reoccurring revenue to continue to provide stable, sustainable income going forward.

We received RMB4.7 million in net revenues from performance-based income during the third quarter, compared to RMB63.5 million in the third quarter of 2015. The decline was primarily due to the large decrease of performance-based income from secondary market equity products. As we exited several real estate funds this year, we achieved total performance-based income of RMB45.4 million for the first 9 months of this year. The solid investment performance of our products not only helps our clients with capital appreciation, but also translates into income for our business.

Net revenues from our internet finance business in the third quarter were RMB11.4 million, a 28.4% decrease from the corresponding period in 2015. The year-over-year decline was primarily due to the transformation of our internet wealth management business, Caifupai, to focus on distribution of standardized products. Although the effective fee rates for standardized wealth management products are lower, we believe the market potential is huge, and through increased cross-selling, there is synergy with our traditional wealth management business. With the transaction value back on track, we will seek more balance between scale and profitability for our internet wealth management business going forward.

For the third quarter, operating income decreased to RMB162.5 million year-over-year and operating margin was 26.7% compared to 33.9% for the corresponding period in 2015. The year-over-year decrease was primarily due to the decrease in government subsidy we received in the third quarter compared to the same period a year ago. Excluding government subsidy, which can vary quarter-to-quarter, operating income increased by 33.8% year-over-year.

Non-GAAP net margin for the third quarter was 28.3% compared to 32% a year ago, which is within a relatively stable range in recent years.

On the balance sheet side, as of September 30, 2016 the Company had approximately RMB1.75 billion in cash and cash equivalents, an increase of RMB357.9 million from the second quarter of this year. The sequential rebound from the second quarter was mainly due to inflow from operating activities and expiration of held-to-maturity securities.

Finally, I would like to highlight our performance year-to-date reflects the strong fundamentals and steady profitability in our core businesses.

With that, Chairlady Wang, Kenny, and our Gopher Asset Management CEO, Mr. YIN Zhe and I would be happy to take any questions. Operator?

Q&A

[Operator]

Thank you. We will now begin the question-and-answer session.

[Kenny Lam – Group President of Noah]

Hi, I just also want to let you know that I think Shang mentioned this, Gopher Asset Management CEO and Noah's co-founder, Mr. YIN Zhe, is also on the call. We understand that there are questions about Sequoia's investment into Gopher, so at this time, we also have Mr. YIN Zhe in the call to answer questions.

[Bolun Tang – CICC]

Congratulations on the solid results. I've got two questions -- the first question is regarding the recent Union-pay ban for the policies purchased in Hong Kong. I just want to understand some color on the ground. What's the impact like for Noah? Because I noticed in this quarter, roughly 2% of the transaction volume comes from the insurance policies and other products. I just want to understand what's your outlook?

My second question is in terms of the AM business. Despite strong growth in the AUM for the first three quarters, I noticed that the recurring service fee actually has increased in a relatively low speed of 7%. It seems like the average recurring service fee charged as the average of AUM has decreased. Is it related to, for instance, the -- you said you will introduce the institutional investors. So I just want to understand the rationale behind and the way you try to introduce the institutional investors will -- the ultimate trend of the recurring fee charge rate, [2% to 4%]. Thank you.

[Kenny Lam – Group President of Noah]

Let me just take the first question about the Union-pay, and then the second question about reoccurring service fees, Shang will answer.

I think in terms of the Union-pay, it actually has very limited impact on our overall revenue. It actually represents only about less than 10% of our total revenue that's actually in overseas insurance. Even within that, I think the Union-pay policy is just a subset within the overseas insurance. We understand that currently, actually, two things that's happening -- one is there are other providers, Visa and MasterCard, that can actually still process in Hong Kong. Secondly, many of our clients actually do have access outside and so a lot of them actually do not purchase through the Union-pay route.

And so just to reiterate, overall, the impact of our revenue is actually much less than 10% of the revenue in terms of overseas insurance. Even within that lower than 10% insurance share, there are 3 or 4 routes of buying insurance in Hong Kong and many of our clients actually have access outside of China. And therefore, they don’t use the Union-pay route.

So in summary, it's a very limited impact so far on our revenue and bottom line.

[Shang Chuang – CFO of Noah]

And on your second question regarding reoccurring service fee, as you may know, Gopher Asset Management is primarily a fund-of-funds asset management company. However, in the real estate asset category, it has also a very strong direct investment team. For this year, we have actively managed the expiration of maturity of many of our direct real estate funds. Now, many of these real estate funds have higher management fees than fund-of-funds products.

And so on a blended weighted average rate, our management fee has slowly come down because as you can see our overall real estate AUM growth has slowed a bit. But as Madam Wang has mentioned, we will be repositioning our real estate investments towards more commercial, rather than residential projects. So we still feel quite confident on a going-forward basis, as our asset management business grows, our overall reoccurring service fees will grow in line with that.

[Jingbo Wang – Chairlady and CEO of Noah]

And you mentioned about the impact of institutional investors for our asset management business. You rightly pointed out this year, many high-quality institutional investors have been very interested in investing in Gopher Asset Management products and some of them have actually made commitments already. But all of it have not been recognized in terms of revenues. It'll be towards later this year, as they only recently made commitments.

[Kenny Lam – Group President of Noah]

Just one more point about the insurance -- actually, we've run some numbers for our performance this year. We see a lot of clients, actually a majority of our clients buying below $50,000 type protection investment. So it's actually contrary to popular belief, we're not actually selling a lot of saving investment linked type products. The driver of the insurance growth is still very much protection-oriented and about $50,000 or below in a majority of our client base. So this Union-pay policy is actually affecting us in a very limited way.

[Bolun Tang – CICC]

Okay. Thank you, sir, for clarifying.

[Euston Wang – Rosefinch]

The first question was earlier this month, we noted a news article by 21st Century, which commented or speculated that private funds in China won't be allowed to invest in credit assets or underlying assets. What's your view on this and will there be any impact on our business?

The second question was earlier this year, you mentioned about rolling out a new incentive scheme to improve the retention of key employees at the firm, can you give us any update regarding this initiative? Thank you.

[Jingbo Wang – Chairlady and CEO of Noah]

Okay. A couple of points regarding your question on the news article. We consulted our relevant regulatory bodies and our view now is that the article is more of a speculation, rather than a fact. However, this also points out to an ongoing market trend, or a regulation trend. There will be more regulation to prevent misselling, to prevent unhealthy investment into the credit market. What do I mean by unhealthy? In the implicit guarantees that we've seen in previous years, the capital pools and mismatches, I think there will be more regulation to make sure that these types of investments cannot continue on a going- forward basis. There is a number, which I didn’t share on my call script, but I would like to point out. Actually this year, we have noted that those clients who have invested more than RMB 10 million actually grew at quite a healthy rate of more than 16%.

Actually, in terms of our fixed income or credit products, there's going to be more and more of a divergence. So a lot of the larger, high-quality clients, will rely on good relationship managers, and the smaller clients, they'll probably start to buy more fixed income products online, rather than relying on relationship managers. So overall, I think in terms of the development of the market and the regulation, we think that streamlining, minimizing systematic risk, is actually all good for our business, as we are an established player already.

[Kenny Lam – Group President of Noah]

So let me just answer the question raised on the idea of a partnership at the senior management level at Noah. I think I raised this concept in the beginning of the year. We're actually implemented this in concept. We've selected the top 30 senior management at Noah to be distributed with higher concentration of Noah's stock options, and we've actually done an exercise whereby we're distributing to fewer management, but much more concentrated in higher allocations. So that's one.

Secondly we've also selected the next wave of management, the next tier, about 30 staff, which have also been selected to be provided with stock and stock options. And so these are basically our next-generation leaders.

In terms of the management team stability, basically since 2015, for the last 18 to 24 months, we've maintained a turnover rate at the low 7% to 8%. So that's basically helping us maintain a very stable management team. We want to have some turnover, but not high, so anything below 7% to 8% is something that we're shooting for.

[Frank Lin - Lin's Value Capital]

Hello to management. There are a couple of things I'd like your comments on. Number one, I noted the number of relationship managers this year has stayed relatively flat. Can you please provide us the rationale of these numbers?

Second, I also do hedge fund investing in China and I'm also a big believer in value investing, and I think that -- it goes with what Madam Wang says -- I think that's the way to go in the future. I know for Gopher, more than 50% of the AUM is in private equity and hedge funds. In your opinion, what are good private equity and hedge fund products? I note that for these equity products, the average duration is 0.6. Can you comment on that as well? Thank you.

[Kenny Lam – Group President of Noah]

There's a question about the RM growth.

We've actually seen a limited growth this year and we're maintaining it about at 1,100 in terms of RM, but have you seen our growth recently? End of 2014, we have about 750 RM, so we've grown about 50% in the last 18 months. What we wanted to do in the last 3 quarters is to basically improve the quality of our RMs, including a special program to train the top 100 RMs to be leading private bankers. We've also focused on overall the productivity of our RMs and the capabilities of our RMs. So you see that they'll be generating more revenue and also generating more AUM for each RM, and that's the focus this year, which is the quality of the RM.

And I'll let Ms. Wang talk a bit about the product question.

[Shang Chuang – CFO of Noah]

I'll answer your -- in terms of our private equity and hedge fund products in China, I think we're very stringent in terms of our manager selection process. We review multiple factors, including our investment team, their track record, their method and philosophy, etc. I think that over the last 5, 10 years, we've built strategic long-term relationships with the high-quality asset managers in the market. Many of them continue to outperform; they're often in the top quartile in terms of performance.

For our various asset categories, I think the product durations are quite in line with market standards. For private equity funds, the typical call cycle is anywhere between 5 to 10 years. For hedge funds in China, usually there's a 1-year lock-up and quarterly or biannual redemption window thereafter.

You mentioned a particularly number, 0.6, and I think that's possibly referring to our 6-K. That is the amount of secondary market equity funds that expired in the third quarter of this year. So that's 600 million that have expired versus 200 million of new flow. Despite the Asia weakness this year, our secondary market equity fund-of-funds AUM for Gopher has remained quite stable and steady at more than RMB10 billion for most of this year.

So I guess that points out and illustrates the fact that we have very good manager selection; the performance exceeds the benchmark and generally, I think our clients appreciate that. And so that translates into the fact that we have maintained our AUM over the last 9 months.

[Jingbo Wang – Chairlady and CEO of Noah]

The first question regarding our relationship managers, I would like to highlight that for the wealth management industry in China -- I think over the last 5, 10 years of development, we're seeing the industry, as a whole, advancing. It's not just a number of growth or plus hiring as many relationship managers as you can. I think we're now focusing more on quality over quantity, so we're very focused on improving the productivity of our relationship managers.

So as we're able to improve the productivity of a typical relationship manager from RMB 300 million of new inflow per year to USD 300 million of new inflow per year, that alone will help us increase our overall business volume 6, 7 times without adding new relationship managers. Especially in this year, in 2016, as the macro environment is quite uncertain, we think focusing on quality is a more prudent way of expanding our business, rather than just hiring new RMs. So the overall tone is more of an optimization, so you will see, in terms of relationship managers, in terms of that number, we have been quite steady this year. That is showing we're optimizing the overall team layout.

However, I would like to point out that we're adding new city coverage, the number of cities that we are covering actually increased this year. So I think there are some markets in China we have yet to cover well, so I think we'll plan to increase the number of city coverage going forward.

Now, you mentioned about our product strategy and I'd like to reiterate that Noah in the market, we have a very strong reputation for selecting and working with the top-quartile managers. We believe there is a very strong 20/80 rule in terms of alternative, i.e., the top 20% managers will earn more than 80% of the return to the market. So we're focused on deepening long-term strategic relationships with the best-in-class managers that's in the market. Thank you.

[Frank Lin - Lin's Value Capital]

Yes, thank you.

[Stanley Guo - Wharton Investment Fund]

I have two questions. The first question is I noted that for the third quarter of this year, in terms of the amount of private equity funds that were distributed, it's roughly about RMB 5.4 billion, which is down about 40% year-over-year. Given the current landscape of a more barren market for quality assets in China, do you think there's going to be a bottleneck to secure high-quality private equity managers going forward?

The second question is you mentioned that you're seeing more interest from institutional investors in terms of our Gopher Asset Management business. Can you give us a bit more color and commentary on how that's growing and what is the percentage of AUM that's contributed by institutional investors currently and going forward? Thank you.

[Jingbo Wang – Chairlady and CEO of Noah]

Sure. On your first question regarding security quality managers for our private equity business, I think there are a lot of factors in play. Obviously, you mentioned that there's a barren market for quality assets in China. I think we have so far been able to secure long-term relationships with the top-quartile managers. For the private equity space, the managers do not -- the quality managers don't always raise funds every single year. They usually raise a fund and it takes about 2 to 3 years to invest before they raise a new fund. So there's some cyclicality in terms of fundraising.

So for example, last year we raised the fourth private equity RMB fund for Sequoia, so obviously, they're not in the market this year. For the third quarter, I think we picked a couple of managers and I think our clients are still very interested in these type of long-term anti-cyclical products. I think on a quarter-to-quarter basis, depending on who we're fundraising for, there may be some volatility in terms of the actual amount we have raised each quarter.

[YIN Zhe – CEO of Gopher Asset Management]

I would like to answer the second question. If you remember, Gopher Asset Management was set up about 6 years ago, and after 6 years of operation, I think we're at a very good potential inflection point in terms of institutional investors. Number one, we have developed capabilities and multiple strategies, including private equity, real estate, secondary market equity products and credit. We have built a very strong management team around that and have demonstrated very steady investment ability and performance.

In terms of the second question about the regulators and institutional investors, I think many of them are now realizing and appreciating the values in hand with a fund-of-funds structure. As the asset management industry in China grows rapidly, there are more and more managers that emerge every single day. And I think selecting the right manager is becoming much harder now versus a couple of years ago. So through a fund-of-funds approach, many of these institutional investors can reduce their risk when they invest in alternative products with a fund-of-funds model. This year, I have been interacting with a lot of insurance companies, banks, and government-led funds. They're all very interested in terms of working with Gopher to increase their alternative asset allocations. For the fourth quarter and going forward, I think we'll be able to report a lot of good progress in terms of our relationship and our cooperation with institutional investors. Thank you.

[TONG Chengdun – Citic]

We note that for Gopher, the AUM has increased at quite a rapid pace, 49% year-over-year, for the third quarter. However, the management fee revenue only increased 16%. Can you give us some commentary on the differences between these two percentages? Thank you.

[YIN Zhe – CEO of Gopher Asset Management]

As mentioned by Madam Wang, Gopher Asset Management is a multi-strategy, multi-product line asset management firm. So we have not only private equity, but also real estate, secondary market equity product and other strategies as well. I think if you look at the mix of our AUM this quarter versus the last 2 years, you'll have noticed that the AUM, though it has increased, the mix has changed.

Currently, private equity is the largest asset category, but a year or 2 years ago, real estate was actually a very significant volume of our overall AUM. This year, based on the overall real estate market trends, I think we have actively sold and matured a lot of our real estate funds and we have recognized good performance, meaning we have made good money for our investors.

And as mentioned, for many of our direct real estate funds, the management fee is much higher than the fund-of-funds structure. So we're repositioning our real estate business to focus more on commercial rather than residential, and we already have many plans to launch new funds to meet the new opportunities that we see in the real estate industry.

[Jingbo Wang – Chairlady and CEO of Noah]

Previously, real estate, this particular asset category, was the largest in terms of contribution to Gopher AUM. For direct real estate funds, our typical fee rate was 2% management fee and 20% carry. This year, given the development of the residential property market in China, our view is that we'd rather be a seller, rather than a buyer. So we have managed the expiration of many of our real estate funds.

Going forward, I think the opportunity will be more on the first-tier cities like Beijing and Shanghai, holding operating assets that are situated in core business districts. I think going forward in 2017, we see a lot of fundraising opportunity around this particular strategy. And I think the differences in percentages is more of the changes in the AUM mix, rather than any structural issues. Thank you.

[Operator]

Thank you. This concludes our question-and-answer session. I would like to turn the conference back over to Mr. Lam for any closing remarks.

[Kenny Lam – Group President of Noah]

Okay. If there are no more questions, we want to thank you all for dialing in. If you have further questions after this, call please to reach out to our Investor Relations. They will answer your questions. Thank you so much.