Noah Holdings - Q1 2015 Earnings Call Script

OPERATOR

Good day, ladies and gentlemen. Welcome to Noah Holdings Limited first quarter 2015 financial results Conference Call. At this time all participants are in listen-only mode. Following management's prepared remarks, there will be a Q&A session. During the Q&A session we ask that you please limit yourselves to two questions and one follow-up. If you would like to ask additional questions, you may re-enter the queue to do so. As a reminder, this conference is being recorded. After the close of the US market on Monday, Noah issued a press release announcing its first quarter 2015 financial results which is available on the company's IR website at noahwm.investorroom.com. This call is also being webcast live and will be available for replay purposes on the company's website.

I would like to call your attention to the Safe Harbor statements in connection with today's call. The company will make forward-looking statements including those with respect to expected future operating results and expansion of its business. Please refer to the risk factors inherent in the company's business and that have been filed with the SEC. Actual results may be materially different from any forward-looking statements the company makes today. Noah Holdings Limited does not undertake any obligation to update any forward-looking statement as a result of new information, future events or otherwise except as required under the applicable law. The results announced today are unaudited and subject to adjustments in connection with the completion of the company's audit. Additionally, certain non-GAAP measures will be used in our financial discussion. A reconciliation of GAAP and non-GAAP financial results can be found in the earnings press release posted on the company's website. I would now like to hand the call over to Ms. Jingbo Wang, Chairman and CEO of Noah. She will be speaking in Chinese and her remarks will be translated into English.

Jingbo Wang – Chairman and CEO of Noah

Thank you, operator, and thank you all for joining us. With me today are Mr. Kenny Lam, Noah's Group President, and Ms. Ching Tao, Noah's CFO. Mr. Lam will start by providing a brief overview of our financial highlights for the first quarter of 2015 and will walk you through the performance of our core wealth and asset management businesses. After that, I will provide an update on the progress we are making to develop a global, open architecture product platform as well as progress with our new internet finance business. I will also review our strategic initiatives to establish an integrated financial services platform to support the sustainable growth of the company. Lastly, Ching will provide further insights into our financials and reiterate our 2015 guidance. We will be happy to take any questions at the end of our prepared remarks. Now I'll turn the call to Mr. Lam.

Kenny Lam – Group President of Noah

Thank you Chairman Wang. We are pleased to have delivered strong results in the first quarter of 2015, with top and bottom lines both in line with our expectations. Net revenues were US$71.8 million, a 43% increase from the corresponding period in 2014, and a 14% increase from the fourth quarter of 2014. On the bottom line, Non-GAAP net income was US$22.5 million, a 24% increase from the corresponding period in 2014, and a 45% increase from the fourth quarter of 2014.

In terms of our core businesses, we distributed US$3.9 billion of wealth management products during the first quarter, representing a 64% increase year-over-year and 108% increase quarter-over-quarter. Our total registered client and total active client base also increased at an encouraging rate. Total registered clients as of the end of Q1 increased by 35% year-over-year to 74,895. And total active clients reached 5,275, a 62% increase from the corresponding period in 2014.

Our strong performance in the first quarter was achieved amidst the rapid transformation of our product mix, the ongoing establishment of an open global product platform, rapid investments in our asset management team, the development of our new internet finance business and other mid to long term investments. So we are very pleased with these results.
In the first quarter, there was a substantial change in our customer product mix. The transaction value of PE and VC products distributed increased by 108% compared with the same period of the prior year and 139% compared to the last quarter, secondary market products distributed increased by 622% year-over-year and 97% quarter-over-quarter. We started distribution of asset allocation related products since the second quarter of 2014. In the first quarter of 2015, asset allocation related products increased by 1312% compared with the last quarter. Our clients' asset allocation to international asset classes increased by 761% compared with the same period of the prior year and 262% compared to the last quarter. Over the same period, the proportion of fixed income products with real estate as underlying assets dropped to 42% of the total transaction value. Due to the changes in product mix, our revenue model has gradually transitioned from one-time commission to recurring service fees and performance based or carried income. I believe this fully reflects our ability to understand and evolve quickly with the market and our team's execution capability.

2015 is a year of significant investments in our future. Earlier this year, we have developed our strategic direction for the medium term; our integrated financial platform is also now in place. Our investments going forward will be focused on strengthening our core competencies (in products, in our frontline and in our investment capabilities), the ongoing expansion of our business, and further opening up our transaction and product platform.

One of the drivers of our wealth management business is our national network of relationship managers. In the first quarter we increased our market penetration as our network grew to 112 offices covering 64 cities, up from 94 offices covering 63 cities from the end of last year. Our relationship managers also increased from 779 to 834 over the same period. Our team of top-performing relationship managers continues to expand and accounts for 34% of the total relationship managers. The fact that our revenue grew faster than the number of relationship managers and branch offices reflects improvements in the productivity of our relationship managers, and the success of our initiatives to expand offline coverage network while simultaneously developing the internet finance business. In the first quarter, the productivity of our relationship managers increased by 26% compared to the year ago period. The productivity of our top-performing relationship managers is 7.8 times the productivity of the other relationship managers.

Our mid to long term strategy for the wealth management business is focused on two key areas:

First – leveraging our new family office and discretionary portfolio management services to deepen customer relationships and significantly enhance the capabilities of our relationship managers;

Second – significantly improving the transaction platform for customers and relationship managers so that it is more open, faster and more convenient.

Our efforts to our family office and discretionary portfolio management services are also progressing well. The average transaction value for these client relationships is 53 million RMB (equivalent of US$8.5 million). We are very optimistic about the outlook for discretionary portfolio management for family office clients. We have already set up the mid and back office processes and investment capacity to support growth in this area.

We are also developing a next generation O2O platform for our wealth management business. This will enable customers and relationship managers to interact on a common platform much more simply, efficiently and safely.

We continue to enhance our engagement with our clients via Noah's education subsidiary Enoch Education. By selecting and customizing global high-end education we have formed a comprehensive international curriculum. Up to the end of the first quarter of 2015, over 1200 clients attended courses in Enoch Education. Through these courses, our clients understand the values and investment philosophies of Noah better.

Now, I'd like to provide an update on Gopher Asset Management. Established as a multi-boutique investment firm, Gopher Asset has been continually building its investment and asset management capabilities. It is now one of the most prominent players in terms of venture capital and private equity funds of funds in China, and its brand is widely recognized in the market.

As of March 31, 2015, Gopher Asset's had US$9.4 billion assets under management, a 54% increase from the first quarter of 2014, and an 19% increase from the end of 2014. In terms of asset categories, real estate funds and real estate funds of funds accounted for US$5.6 billion, private equity funds of funds accounted for $2.4 billion, and secondary market funds of funds accounted for $0.7 billion, and other funds of funds accounted for US$0.7 million. Gopher Asset Management specializes in private equity and venture capital funds of funds, real estate funds of funds, hedge funds, and alternative credit products denominated in both

Renminbi and U.S. dollars. It is worth highlighting that these fund products have generated very strong investment returns. This is a reflection of our rigorous approach to screening and selecting fund managers and strong management skills.

We believe that there are a lot of synergies in the financial industry. Building on Gopher's strong foundation and leadership in real estate, PE and secondary market products, we are now expanding into private placement funds of funds, buyout funds of funds, alternative credit funds and other categories. At the same time, with our improvement in talent cultivation, our fund-of-funds strategy has developed into manager of manager funds, as well as partner co-investment and direct investment in some projects. We are confident that Gopher's assets under management will continue to increase.

Lastly, I will briefly touch on some of our mid and back office initiatives. In 2015, we are focusing on developing our mid and back office platform in two areas.

First – we will invest in and develop a forward-looking and efficient mid-back office platform that can service the growth of our business.

Second – we will build the capacity of each business segment, to enable faster and more accurate execution.

On this basis, this year we have invested a lot of resources in IT, operations, risk management, and compliance. In terms of IT, this year we will also upgrade several systems to support the rapid growth of the company including core business systems, CRM, the finance system and so on. Operationally, we will implement a matrix management system, and build the Group's capability to implement policies and modular operations.

The transformation of our risk management team has been largely completed, and this team is already playing a key role in managing our product flow and operational risks. It is worth mentioning that, due to the ongoing efforts of our risk management team and state judicial organizations, the principal owed to clients involved in the Jingtai case have been recovered and distributed. We are unable to disclose further details while the litigation is ongoing.

In asset-light industries, people are a company's greatest asset. That is why we have always committed a lot of resources towards training our relationship managers, middle and back office staff and core management. Our relationship managers recognize this, and that is one of the reasons why our turnover rate was only 7.5% in the first quarter, which is a 32% decrease compared to the corresponding period of 2014. The turnover rate of our top-performing relationship managers is close to zero, which I believe is the lowest in the industry. With excellent talent retention, we are confident we can build one of the most experienced and capable teams of relationship managers in the industry.

Now, I will turn the call over to Chairman Wang to give an update on the development of our global, open architecture product platform, progress in internet finance, and other strategic initiatives.

Jingbo Wang – Chairman and CEO of Noah

Thank you, Kenny.

Noah was founded with the vision of becoming a wealth management company with outstanding asset management capabilities that serves Chinese people all over the world. Over the past few years, this vision has inspired us to continuously meet customer needs and constantly expand and grow. Thanks to Kenny joining Noah, I have a lot more time and energy to focus on building Noah's global, open architecture product platform and developing our internet finance platform.

Our product center, which is positioned as a global, open architecture product platform, covers 8 regions across China as well as global markets through our team in Hong Kong. Currently we have over 50 colleagues in our Hong Kong team. At the same time, we are also focused on extending our customer services by building professional product subsidiaries. For example, leveraging a specialized loan company to provide customers with collateralized loans to meet short term liquidity needs; or using an insurance brokerage to meet the insurance needs of our customers; or using overseas trusts and overseas insurance brokers to provide trust and insurance services to our family office clients.

In the first quarter, the local capital markets changed very quickly. We see the trend of previous alternative products transitioning into standardized wealth management products. Regarding secondary market products, we started the transition from a boutique, select model to a platform model. First, the research team and product team create a pool of products and provide our customers with a platform to choose secondary market products that they prefer. At the same time, our research department will closely monitor, investigate and report on managers of large funds on regular basis. Based on our internal research, we would choose some funds for large-scale distribution. The new platform plus our new screening model will effectively improve our coverage and enhance our risk control.

We are also increasingly focused on risk. Currently, there are many irrational elements in the market. We believe that wealth management should start with products, and then consider asset allocation. Hence, we are striving to promote asset allocation on our service platform.. In the first quarter of 2015, asset allocation products increased by1312% quarter-over-quarter. We believe that as the market rationalizes, particularly when the market declines, this type of products will protect customers' wealth and receive greater recognition.

At the same time, we understand that real estate related products will continue to remain a component of our clients' asset allocation. To meet this demand, we will collaborate with large high-quality real estate developers and enhance our risk management and asset investment capabilities. We will embrace new real estate finance models which we have developed through the integration of the real estate and internet businesses as well as the continuous innovation of our sales model. This will enable us to meet the fixed income product needs of our customers.

The current strong stock market drives the IPO market. Noah launched the VC/PE fund of fund business in 2007, from private equity funds to developing Gopher Assets fund of funds. As of March 31, 2015, we distributed and managed over US$2 billion of private equity fund of funds products. Due to the impressive performance of these funds, we believe that customer satisfaction will continue to increase. This will enhance Noah's leadership in the VC and PE space, which in turn will boost demand for our secondary market and private equity products and further improve customer loyalty.

Last quarter we noted that a growing proportion of high net worth clients are increasing their overseas asset allocation. Noah Hong Kong's product platform provides Chinese clients with many opportunities to select outstanding overseas assets. In the first quarter, Noah Hong Kong distributed products with an aggregate value of RMB 3.1 billiion, which is even more than the total products distributed in the full year 2014. The total number of registered clients increased from 802 in 2014, to 1960 in the first quarter of 2015, representing an increase of 144%. As of the end of the quarter overseas cumulative AUM reached RMB 6.1 billion, an increase of 508% year-over-year. The ability of our overseas asset management team also continues to improve. In the first quarter, overseas funds of funds included funds from world-renowned asset management companies such as Blackstone, Carlyle, and KKR.

At the same time, we will also be partnering with leading international private banks and fund managers to leverage their experience, train our relationship managers, and provide products and support to our clients.

Aside from investment products, Noah Glory Insurance Agency's team continues to develop new, innovative products. We already have completed our product lines, which includes high-end medical insurance, general accident insurance, aviation accident insurance, critical illness insurance and whole life insurance. Insurance has already become a standard consideration for Noah's high-end clients. By the end of the first quarter, we had sold over 10,000 insurance policies.

By establishing a global, open architecture product platform, and understanding the trends and developments facing the asset management industry, we will maintain our ability to continuously innovate and gain deep industry insights.

Now, I'll share an update on our developments in the internet finance space during the first quarter. Noah's YuanGongBao platform, our online private banking platform targeting white collar professionals, is rapidly developing. In the first quarter, the transaction value on the platform reached $347 million, this is a 57% increase from the $228 million of products that were distributed in the full year 2014. The average transaction value per client was about US$17,000, and the proportion of repeat customers was 52%. Going forward, we plan to combine our VIPLending and YuanGongBao platforms. This will help us to bring financial product collateralized loans and independent customer transfers online, thereby forming a closed loop for online transactions.

Noah's team has rich internet experience. By combining the advantages of Noah's financial products and the community of employees from the platform, YuanGongBao has rapidly gained recognition in the internet finance market. Sequoia Capital China completed a capital injection into this platform in the first quarter. The capital from this investment will be used to improve the development of YuanGongBao, and raised funds, insurance and other integrated financial products have been gradually released on line. “Yuan Gong Bao” is positioned as the private bank of white collar professionals and the average investment per person is over 100,000 RMB. We believe that YuanGongBao has the potential to become the platform of choice for white collar investors. According to a recent study by WangDai on the monthly transaction volume of similar platform, YuanGong Bao is already the third ranked platform in China. Due to YuanGongBao’s superior financial products and good user experience, it has been extremely well received and it has been promoted at many well-known Chinese companies. In the first quarter, enterprise clients increased by 56%.

Lastly, I would like to briefly touch on the overall financial environment and regulatory changes. The wealth management and asset management industries are gaining more and more attention from the government and regulators. As China’s economy transitions, financial liberalization will play an important role in efficient allocation of capital. This is a good opportunity for Noah to develop, but it also means that we need to implement stricter standards for risk control and compliance. This year, the Chinese government’s support of internet finance innovation is even clearer. We believe that with the ongoing standardization of regulatory oversight, we will be able to demonstrate our advantages in product selection, asset management, rigorous risk controls, and back office operations. We will also continue to drive our efforts in investor education to help our customers understand the nature and risks of financial products.

Noah is a learning organization. We are still early in the process of building our company. In the new internet era, we strive to integrate learning and progress so that we can drive the evolution of our business model. Our core strengths and values will enable us to continually optimize our business, so that our customers and our shareholders can see and benefit from our growth.

Now I will turn the call over to our CFO, Ching Tao, to review our financials. Thank you.

Ching Tao – CFO of Noah

Thank you Kenny, and hello everyone. To make the best use of everyone's time, rather than reading through the financials that are disclosed in our release, I will give a high level overview of our Q1 results and highlight a few areas before we go into the Q&A.

We are pleased to have started the year with a steady top and bottom line performance. Q1 net revenue increased 43% year over year to $71.8 million, and Q1 non-GAAP net income grew 24% year over year to $22.5 million, both largely in line with management's expectations.

We distributed approximately $3.9 billion of wealth management products during the quarter, representing a 64% increase year-over-year, and continued to diversify our product mix, as Kenny mentioned earlier in the call. You can find a breakdown of the operating metrics of our wealth management business in a table at the back of our earnings release.

The effective commission rate for the first quarter of 2015 was 0.82% compared to 0.77% in the same period last year and 1.08% in the fourth quarter of 2014. The sequential reduction in the effective commission rate was primarily due to changes in the product mix. Some fluctuation in the quarterly commission rate is also related to the volatility in the underlying markets and it is still within a very healthy range.

Recurring revenues was $34.7 million, accounting for 51% of net revenues in Q1 2015, compared to $30.9 million in Q1 2014, or 65% of net revenues. The decrease in recurring revenues as a percentage of total was primarily due to the increase of one-time commission revenue along with significant increase in total transaction value quarter-over-quarter and an increase of performance-based income as well as revenues from the internet finance business. While we believe the trend of steady growth in management fee does not change. We expect recurring revenues to make up roughly 50% of net revenues on an ongoing basis and see recurring revenues as an important tool to ensure revenue visibility and stability.

We are pleased to see continued momentum in our internet finance business where first quarter revenues reached $1.5 million, compared to $0.4 million in Q1 2014. While we are still in the investment phase in this business segment, we are very confident about the outlook and believe it will be an integral component of our comprehensive platform and service offering and an important growth driver for Noah in the future. We also received US$4.2 million in performance-based income during the first quarter of 2015 related to secondary market products. With the continuously increasing secondary market products and private equity products, we expect performance-based income will have bigger impact to our total revenue in the future.

And now onto profitability: our operating margin in Q1 was 31.7%, compared with 41.2% a year ago. The decline is primarily attributable to the fact that no government subsidies were received in the first quarter of 2015, and also due to our investments in building up our internet finance business and other key areas. We recognize government subsidies upon receipt or all conditions for their receipt have been satisfied so we typically experience some quarter to quarter volatility but on a year over year basis these tend to be smoothed out. Non-GAAP net margin was 31.3%, compared to 36.0% a year ago.

Our balance sheet remains very healthy. At the end of Q1, we had approximately $379 million in cash, short-term investments and long-term investments, an increase of about $65 million from the previous quarter. We used approximately $8 million in operations in the first quarter, primarily to pay annual bonus during the quarter. Cash inflow from financing activities for the first quarter was $71.9 million, mainly due to the issuance of $80 million of convertible notes in February 2015. Accounts receivable turnover of about 61 days is within the reasonable range of our average AR turnover days.

Finally, I would like to reiterate our net profit guidance range for 2015. We expect non-GAAP net income to be between $90 and $95 million for the full year of 2015. The midpoint of this range represents year over year growth of about 20%. This growth rate reflects the strong fundamentals and steady profitability in our core businesses, including wealth and asset management on the one hand, and also continued investments in our new businesses, primarily in internet finance, on the other.

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

<u>Q&A</u>

[Ellen Du – CICC *(Interpreted by Kenny Lam)*]

[Ellen Du] I have two questions, the first question is to Kenny and the second is to Kenny or Wang Zong.

[Translated by Kenny] The first question is really about the mid-back office and how we intend to invest in the mid-back office and what's the impact on the financial side, I will answer the strategy of the mid-back office, the impact on the financials we will leave to Tao Ching to answer.

The second set of questions is about our portfolio structure, which is further divided into two sets of questions. One is the mix between international and domestic asset allocation and the second is the asset allocation of products and what the impact is likely going to be going forward. Within the second set of questions, carried interests and performance based fee based on secondary market. I will first answer the first set of questions and let Wang and Tao Ching to answer the second set of questions.

[Kenny Lam – Group President of Noah]

We're basically focusing on a major transformation of our systems this year. We're focusing on two main areas; one is our core system transformation, where we are changing our ERP system as well as our functional systems like CRM, HR and Finance. Now we'll actually have an impact not only for this year but we expect this system to be helpful to our growth for the next 3-5 years.

The second part on our operation transformation is that we are now turning into a group management matrix organization, whereby the group will now set up policies for the main businesses, the wealth management, the asset management business and the internet finance. Each of the businesses will basically develop their own capabilities in each function. In that way, we'll be a lot more efficient as a group and we'll also develop a lot more capabilities at the business level.

[Jingbo Wang – Chairman and CEO of Noah *(interpreted by Kenny Lam)*]

I think on Gopher Asset Management, we're still progressing towards the multi-boutique asset management firm, especially on secondary market products. Most of our asset classes are still focused on fund of funds. We expect our clients to like our fund managers and invest in the product directly through our platform.

I think particularly for VC/PE, we've actually developed quite a leading brand in China where in our earlier positioning; we've now obtained a lot of client loyalty. And on that particular asset class, we will do a lot more co-investment, direct investment, whereas other asset class would do mostly fund of funds.

Overseas platform, we expect it to, currently around, like you said, around 10%. I think we're expecting it to be around 20% to 30% of the split within our total asset allocation.

Particularly Chairman Wang mentioned on real estate, we do expect it to be a substantial proportion of our asset management asset allocation.

We expect that within real estate, we currently have lot more that it share-based than debt-based, and so the way that we've screened, we've actually improved substantially. So we expect this to still continue to grow despite the volatility in the market. We believe the asset class is actually -- based on our risk management approach, it's still a very good asset class. The approach is different, but we believe it's still a good asset class.

[Kenny Lam – Group President of Noah]

[Addressed by Ching in mandarin, interpreted to English by Kenny] So basically, in our financial projection, we never forecast carry interest, but our revenue now is shifting away from one-time commission to more, that's, it's more carried income and performance, carried income as well as recurring management fee, and so this shift will reflect our business model, and will also make our revenue a lot more stable. As I said, I think the carried income is something that we don't forecast. In our projection, we tend to be a lot more conservative.

[Ching Tao – CFO of Noah]

I would like to say a bit more about IT expenditure. IT expenditures, we're expecting to spend anywhere from RMB80 million to maybe even RMB100 million on our IT systems this year, as Kenny mentioned, to improve the ERP, CRM, HR, and for example, we're upgrading to Oracle for the finance systems.

[Kenny Lam – Group President of Noah]

So what Tao Ching mentioned was in RMB, so around RMB80 million to RMB100 million which is around $15 million. And lastly, I would like to extend -- we can extend the call I bit. I know that we are going, but the business right now is quite broad, and so we could extend the call a bit to take more questions.

[Ella Ji – Oppenheimer]

Good morning. I have two questions. First, I have a question for Ms. Wang. You mentioned that Noah is adopting a platform-oriented approach for fund product development. In the past, Noah stressed that you have high standards for screening fund products and have done a good job in risk management. Does your new platform approach conflict with your high quality requirements for product selection?

My second question is relating to your overall spending level innovation to the IT related spending, especially the sales and marketing as well as headcount. What is your plan for the full year? And also, especially regarding the internet finance segment, I noticed that the compensation spending is slightly down quarter-over-quarter. I wonder if you can also explain that. Thank you.

[Jingbo Wang – Chairman and CEO of Noah *(interpreted by Kenny Lam)*]

So, let me just summarize on what Chairman Wang actually said. I think we are in select products moving to what we call a platform approach where we will screen in public mutual fund type products, secondary market products to be put on a platform to be sold.

Now, within that we would still select and recommend a certain type of products for our clients. This is how we will be approaching for the non-alternative products. For alternative products we maintain our protocol of highly selective product approach whereby we will spend lot of time selecting and screening the managers and putting things up on the shelf for our clients. So this is the broad approach.

The idea behind is that we believe the client needs are evolving and therefore there is a stronger need for us to put more products in the current market, in mutual fund areas where we want to make available on the platform. But in alternative products we maintain our selection approach it would still be highly selected by our product team.

[Kenny Lam – Group President of Noah]

Let me answer your second question, which is really around our investments in people and marketing expenses. We expect that we will continue to invest in people this year whereby we will increase our headcount still substantially.

We believe that across businesses we're still growing at around anywhere between 20% to 40%, in this market talent is the most important thing and therefore with our brand name and our position in market, we've been able to attract good talent, we want to maintain that trajectory this year, so we'll continue to invest in growing our employee base. And therefore the people cost would continue to see rise relatively faster than previous years, that's one.

Secondly, in terms of marketing and service, we're still very selective in how we spend our money in terms of marketing. Currently Noah still maintains a principle that we want to be selective in terms of how we advertise and how we connect with our clients, it is still a very high-end client base business. And therefore we're not going to do broad-based, broad-media advertising, we're still very selective.

At the same time, we want to be lot more targeted. We do want to spend money in the right media. I'll let Tao Ching answer a bit about the cost.

[Ching Tao – CFO of Noah]

First of all, with respect to selling and general administrative expenses, there has been an increase by segment in the internet finance segment mainly because we're still building scale there and we find that to be appropriate. Overall, we expect our operating margins to continue to suffer a bit as we continue to build scale across all of our businesses.

Also, I was mentioning for headcount, 2013 year-end headcount was approximately 1,300 employees, 2014 year-end was approximately 1,900 employees. As of the end of March, we're a tad over 2,000 employees, about 2,020 to 2,025 or so. So, as Kenny mentioned, we're going to continue to invest in talent in the team but we won't be doubling every two years like in the past.

And then lastly on Ella's question regarding the drop in employee related expenses for the internet finance segment, at the end of last year we combined several internet finance teams into one larger team, so it was a Yuan Gong Bao team, the VIP lending team and also the micro-lending business. And so, on a segment basis, the internet finance team has shrunk headcount a little bit.

[Kenny Lam – Group President of Noah]

We basically combine our VIP lending and Yuan Gong Bao platform together and that actually helps it to be a lot more effective at finance. And then we were now approaching the end of our official time that we can extend the call for another 15 minutes to take more questions.

[Julie Lu – Panther China Funds]

The first question is really around when would - when are we going to stop investing in IT or how long would the investment be on IT fund? The second question is really around incentives for our key management and how that's going to help on a long-term growth of the business?

[Kenny Lam – Group President of Noah]

So, in terms of IT systems, we expect that we will finish the implementation of a core transaction system by the end of the year. And then, some of the core functional systems to be also completed by the end of the year or first quarter 2016, so, we expect that the core transformation in related investments would actually be done by the end of the year or first quarter of 2016.

As I said, I think this is, the whole point is to make sure that we have a proper system to help us for the next three to five years because we expect growth to be continuous in the next three to five years.

[Jingbo Wang – Chairman and CEO of Noah *(interpreted by Kenny Lam)*]

In terms of compensation for our senior management. Basically there are three components, one is, a cash base bonus, one is a share incentive scheme and the third is employee fund that we invest in our new businesses. So, on the first part, on cash base, on the base salary and bonus, we actually mark-to-market and look at the corresponding market compensation to make sure that our executives are actually paid based on market rate. So that's the cash proportion.

On top of that, we also intend to buy space on share and options for executives. Last year I think about 80 to 90 executives actually received share based compensation, that is the second component.

The third component is we actually had created an employee fund that invest in our new businesses, and these funds were actually open to our executives at a relatively low share price for many of our businesses, for example Yuan Gong Bao and eventually we'll also have other subsidiaries that are open to this one.

So the best incentive is not actually monetary, the best incentive is actually the culture of the firm as well as the belief that we are still at the very beginning of the growth of the business. So that is how we have been driving the stability of our management team.

[Ching Tao – CFO of Noah]

So just to summarise again for IT expenditures; between expenses and also CapEx, which we will capitalize over a period of time, we expect to invest close to RMB100 million in the next few months or so to upgrade our systems.

[David Lee – DM Capital]

Given the growth of the Asian market, our performance fee of carried interest in equity products and also PE products is performing very well, if the market drops substantially, if there is a catastrophic situation in our Asian market what would the impact be on the business?

[Jingbo Wang – Chairman and CEO of Noah *(interpreted by Kenny Lam)*]

Overall we are probably the only wealth manager in China to have experienced market volatility. We started in 2004 and in 2005 the market was around 998 points and it grew to 6000 points in 2007 and dropped back to 1600 points. We have actually been through a few cycles within our history in the last 11 years. I think the two main things that we maintain, we maintain a very sane and clear approach to asset allocation our aim is to protect our clients not grow the assets. So in the secondary market, we may not be the best performer in the market but we will also expect in 5 years' time for example for the client to grow 5% per year, whereas clients investing in other funds the might actually lose their money completely.

For example In VC/PE we are heavily selecting our managers and our skill, as we have grown in the market so we are actually able to select managers quite clearly.

Our first point we want to make is that we have actually seen the cycles and the second point is that we have been able to maintain a very sane approach through Chairman Wang's leadership.

The last point is that we actually spend a lot of time on client education; I think this point was briefly mentioned earlier. Enoch Education a Noah subsidiary is focused just on our client's education in investments. So we strategic alliances with Stanford Wharton and Yale and all of these programmes are tailored towards investment philosophy and understanding how to invest.

This is also a cultural phenomenon; whereby we take the time to educate our clients so they fully understand the risk they are taking and how to allocate their assets. Last year we had about 1,200 clients who participated in our programmes. We expect that number to grow tremendously this year through the programmes we have with Stanford Wharton and Yale.

[Kenny Lam – Group President of Noah]

Thank you, everyone, for the time today, and look forward to our next call. Thank you. Bye-bye.