NOAH HOLDINGS 諾亞控股
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NOAH HOLDINGS 3Q 2019 EARNINGS CALL EDITED TRANSCRIPT

November 11, 2019, 8:00 PM (US EST)

OPERATOR

Operator: Good day, ladies and gentlemen. Welcome to Noah Holdings Limited Third Quarter 2019 Financial Results Conference Call. [Operator Instructions] As a reminder, this conference is being recorded. After the U.S. market closed on Monday, Noah issued a press release announcing its third quarter 2019 financial results, which is available on the company's IR website at ir.noahgroup.com. This call is also being webcast live and will be available for replay purposes on the company's website.

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

Today, the call will be hosted by Ms. Wang Jingbo, Chairlady and CEO; Mr. Zhao Yi, Group President; and Grant Pan, Group Deputy CFO.

With that, I would now like to hand the call over to Mr. Zhao Yi, Noah's Group President.

[Yi Zhao – Noah Holdings Group President]

Thank you, Operator.

For today's agenda, I will first briefly summarize Noah's overall performance for the first three quarters as well as the development of our segment businesses. Chairlady Wang will then provide an overview of the macroeconomic environment and the company's product strategies and updates on the Camsing incident. Grant will then follow with a detailed discussion of Noah's third quarter financial performance. We will conclude the call with a Q&A session.

In the third quarter of 2019, Noah generated net revenues of RMB840 million, up 0.4% year-over-year but down 3.4% quarter-over-quarter; non-GAAP net income of RMB350 million, up 23.7% year-over-year and up 34.3% quarter over quarter. In the first three quarters, net revenues reached RMB2.6 billion, up 5.5% year-over-year; and non-GAAP net income reached RMB920 million, up 17% year-over-year. We are encouraged to see the solid results achieved against a backdrop of challenging market conditions in the third quarter.

In terms of wealth management, as part of our overall transformation strategy on our product offerings, we have stopped offering private credit products in the third quarter. As a result, we distributed a total of RMB13 billion in products during the quarter, representing a decrease of RMB15 billion compared with the same period last year. If we compare the distributions during the two periods on an apple-to-apple basis -- that is, excluding the impact of private credit products -- the distribution of other products increased by 119% year-over-year. As the alternative of private credit products, our bond funds and mutual funds products in particular are continuously gaining trust and support from our clients. Consequently, distributions of our standardized products increased substantially by 74.3% compared to the previous quarter.

As of the end of the third quarter, the number of relationship managers was 1,368, demonstrating our efforts to proactively optimize and improve our RM roster. The number of elite relationship managers remained stable, with a turnover rate of only 3.7% in the first three quarters. Meanwhile, ultra-high-net worth clients are increasingly loyal to our services. The number of black card clients reached 875, up around 20% year-over-year. Their assets advised by us also increased by 53.2% year-over-year, while per capita AUA rose above RMB90 million.

While high-net worth individuals have a better understanding of risks from the evolving market dynamics, we also strengthened our investor education efforts. In the third quarter, we organized 776 investor education activities, directly covering over 15,000 clients. As of the end of October, we have launched 141 video episodes of our investor education programs. With these new programs on our online platform, we recorded 4 million more views with an increase of 19,000 in program followers. At the same time, we continue to provide financial products and services that help high-net worth clients mitigate risks, preserve wealth and inherit assets. These services not only ensure that we fulfill their complex and diversified allocation needs but also enable us to benefit from the increasing synergy effect with the sales system of our traditional financial products.

In terms of the asset management, the AUM by the end of the third quarter increased by 7.5% year-over-year but decreased by 2.4% quarter-over-quarter, to RMB176.5 billion. The quarter-over-quarter decrease is due to the accelerated maturity of 7.3 billion private credit products, which is an active choice by us to accelerate our product transformation. Except for the credit asset category that is under our strategic transformation, all other asset categories have zoomed along their growth trajectories. It is worth mentioning that the total AUM of bond funds denominated in RMB and U.S. dollars sustained its growth momentum from the second quarter to reach RMB5.49 billion in the third quarter, which is up 42.8% quarter-over-quarter. This growth has demonstrated the benefits that we have started to reap from our product transformation.

Additionally, Gopher's asset management products have been included in the white lists of multi large-scale security dealers and banks. So far, we have completed the product adoption procedures for one of the security dealers. We believe that the expansion of external distribution channels will drive Gopher's multidimensional growth. In the future, Gopher will keep focusing its strategy on asset allocation and value investment. We are confident that our commitment to our core values will help establish Gopher as a trustworthy asset management company.

Our overseas business maintained strong growth momentum. In the first three quarters, the total revenues of our overseas business increased by 33.7% year-over-year to RMB710 million, accounting for 27.2% of the group's net revenues. As of the end of the third quarter, the overseas AUM reached RMB25.6 billion, up 7.8% year-over-year, while remaining relatively stable on a sequential basis. In September, our Canadian office successfully obtained licenses to operate as an Investment Fund Manager issued by two Canadian provinces, which is the third license after obtaining our Exempted Dealer and Portfolio Manager licenses.

In addition, the election of our Hong Kong office as a member of the Asia-Pacific Committee of the Standards Board for Alternative Investments in October illustrated the global recognition of our standardized practices and integrity. We will leverage our new status to launch our fund operations into a new cycle of growth and create long-term excess returns for our investors.

Now I would like to briefly update what we have done to enhance our operational efficiency. Since the beginning of 2019, our efforts in optimizing management structure and establishing operating procedures have started to improve our operational efficiency. Building on what we have achieved in the last quarter, we further enhanced our efforts in the following areas during the third quarter.

Firstly, we upgraded our risk management system. We further beefed up our independent risk management and compliance teams to each individual business level to not only strengthen our risk management capabilities but also ensure better compliance with regulatory requirements. At the group level, we continuously improved our product's end-to-end risk management process. Now our systematic risk management process covers continuous optimization of risk management procedures, disposing risk projects and sorting underlying assets.

Secondly, we are putting in place more stringent cost control measures and optimizing our organization structure. The personnel-related expenses were reduced by 9.7% quarter-over-quarter. With improved oversight on major expenses, we are also seeing sequential reductions in non-personnel-related administrative costs. With that said, however, we are still committed in our investment and product-related researching capabilities and established an independent research center dedicated to providing timely and effective professional research for our investment teams.

Thirdly, we continued to drive the digitalization process for our core business procedures and scenarios. In the third quarter, we upgraded the dual-recording system to support point-to-point video verification. We also launched our OCR-based contract validation system to further digitize our compliance procedures with the newly launched mutual fund separate managed account, realizing complete paperless product transactions. The electronic contract signing will greatly improve the business development efficiency of relationship managers.

Going forward, we will remain devoted to building up a diversified high-quality open platform. In addition, we will also focus on expanding our presence in overseas markets as well as developing a complete process of comprehensive financial services. Although we face challenges ahead, our determination to maintain market leadership and become a reliable platform for global Chinese high-net worth clients will remain unchanged.

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

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

Thank you, Zhao Yi.

The year of 2019 will mark the beginning of the paradigm shift in China's wealth management industry. What I mean by paradigm shift, meaning the occurrence of fundamental changes in the industry's underlying dynamics following changes in the macroeconomic environment and regulatory policies. Take wealth management and asset management as an example: All industry players including but not limited to asset management companies, distribution channels, trustee agencies, clients, relationship managers and others are embracing the paradigm shift that changes how value is created throughout the industry value chain in the face of new laws, regulations and macro policies. The introduction and gradual implementation of the New Asset Management Guidelines have truly broken the illusion of implicit guarantees of all participants and formed the industrial consensus of supply-side finance reform by converting non-standard to standard products. On October 12, the Central Bank issued Rules for Determining Standardized Debt Assets on its website, fully launching the era of NAV-based standardized products.

In terms of our wealth management business, we remained dedicated to providing comprehensive wealth management services to high-net worth Chinese individuals all over the world. Our commitment to maintaining an open platform and cultivating industry-leading relationship managers enabled us to transform from product sales driven to investment consultant driven. In terms of product issuance, we are more focusing on distribution of products from major financial product suppliers and selected top managers. For other comprehensive services, we continue to provide clients with multifaceted services such as insurance, trust, credit and immigration-related services, so as to meet the diverse needs of high-net worth clients. Overall, our operational strategy has been well received by our teams and the market. In the third quarter, the total number of active clients in the group level was 9,961.

In the third quarter, the total transaction value of our products was RMB13 billion, down 46.8% quarter-over-quarter due to the termination of our private credit products. In the third quarter, 266 private credit funds in the amount of 7.3 billion were distributed to our clients, among which consumer finance and auto finance accounted for nearly 80%. For the remaining similar products, we are also working with the counterparties to accelerate the maturities, as contract permits, until they are fully repaid to our clients.

For public security products, the total transaction value reached nearly RMB7.4 billion in the third quarter, increasing fourfold year-over-year and 23.6% quarter-over-quarter. The transaction value of bond funds and mutual funds accounted for nearly 92% of the total. Since the launch of our Smile Fund app, as of the end of the third quarter, total transaction value for mutual funds have reached RMB9.56 billion for the first three quarters, and per capita value is 152,000. The number of active clients for mutual fund in the third quarter have been up 40.9% year-over-year and 53.8% quarter-over-quarter.

For the asset management segment, we are re-emphasizing that Gopher is dedicated to its comprehensive asset allocation strategy and creating absolute returns for clients. As of the third quarter of 2019, the AUM of Gopher's private equity funds reached RMB105.9 billion, up 9.3% year-over-year and 1.4% quarter-over-quarter. In the third quarter, among all private equity funds managed by Gopher, 9 companies have gone public in domestic and overseas capital markets, including 5 listed on the Sci-Tech Innovation Board. Additionally, 3 companies have been approved by the CSRC and are making final preparations for their IPOs. As of the end of the third quarter of 2019, the total AUM of real estate funds increased to RMB18.7 billion, up 12.7% year-over-year and down 2.1% quarter-over-quarter.

For our core real estate assets, the occupancy rates of Shanghai Gopher Centre and Qibao T2 Office Building have both exceeded 95%. We have also completed the construction for Shanghai Gopher Xiangyi Plaza, which has then entered the rental stage. In terms of Gopher's overseas real estate funds, in the third quarter, the AUM of our U.S. New York real estate investment funds increased by over USD30 million.

The AUM of Gopher's public security products exceeded RMB9.5 billion, up 95.9% year-over-year and 17% quarter-over-quarter. For a portion of our clients, our bond funds effectively fulfilled their demands for fixed income products. The AUM of our bond funds was about RMB3.5 billion as NAV-based products are gradually accepted by investors. Investment return of Gopher managed secondary market FOF and MOM flagship funds both exceeded 15%. Specifically, the flagship MOM fund achieved a positive return of 19.46%, while Quantitative FOF yielded a positive return of 8.23%. Since establishment, Gopher's public fund portfolio Fund Stewardship has delivered an annual return of 17%. Moreover, the AUM of multi-strategy funds reached RMB8.9 billion, up 64.8% year-over-year and 4.7% quarter-over-quarter.

Next, I would like to provide a brief update on the progress of the Camsing incident. The Camsing incident is suspected to be a carefully planned and complex fraud with a long-time span and a number of suspects. We continue to fully cooperate with the public security and judiciary investigations as they look into this matter. It is expected to take a long time to completely discover the truth and solve the issue. We engaged a group of top law firms with different specialties as well as a special task force led by senior management members that are responsible for this issue.

The Camsing incident was truly a wake-up call for everyone at Noah and revealed the heavy concentration on a single product category. As unpleasant as the truth may be, the incident led to a unanimous decision to move away from our dependency on private credit products. In addition, we are also determined to accelerate our transformation from private credit funds to more standardized products such as bond funds; from a product-driven strategy to a more comprehensive service-driven strategy; from product sales oriented to investment advisory oriented; from tunnel-visioning on the scale of transaction values to overall enhancing investment capabilities of active management. The incident has reignited our vigilance about the market and helped us to realign our focus on common sense and our founding principles.

Meanwhile, it helped us to form a deeper understanding of the wealth management and asset management industry. In almost all other industries, client experience is the deciding factor for product quality. By contrast, in the wealth management and asset management industry, the vast majority of clients cannot directly evaluate the quality of a product or service that they receive. This is not only the case for clients and regulators. Even practitioners may sometimes have a hard time evaluating the real quality of each financial product until the investment value has been fully realized. Therefore, practitioners of this industry must truly value their fiduciary duty.

On the other hand, investor education and the selection of qualified investors are also the cornerstones of the industry. We must pass on our common sense and knowledge of the industry to qualified investors and regard this as our moral responsibility. Investments are not deposits. It has risks. While we don't offer implicit guarantees, it does not mean that we are irresponsible. Finance industry is all about operating and managing risks, which is not something one can completely eliminate but can only diverse and disperse. Every financial adviser, every client and every product developed need to adhere to the principles of asset allocation.

2019 marks the 16th year since the establishment of Noah. In the past 16 years, we have made many mistakes, each bringing us memorable or even sometimes painful experience, but they also present opportunities to reflect on our practices and make continuous improvements. The lessons that we learned from our mistakes enabled us to make better business decisions and understand the importance of perseverance and sacrifice.

Noah's survival through various cycles and risks depended on our commitment to common sense by ensuring that all funds are independently managed in custodian accounts without any practice of fund pooling, cycle financing, implicit guarantees, term mismatch or utilization of leverage. Our mission statement is "enriching lives with wealth and wisdom." Meanwhile, we cherish the core values of integrity and professionalism; client satisfaction and passionate services, willingness to adapt, as well as high moral values. Our commitment to our principles and core values are what are keeping us inspired and motivated. I firmly believe that by dedicating to these core values and principles, time will prove the resilience of Noah and the wealth management industry.

Finally, with mixed feelings, I would like to announce that Shang is leaving the firm and pursuing a different career path in a new industry as of this month. Our Deputy CFO, Grant Pan, will assume Shang's responsibilities as our CFO. Grant was a former partner of Deloitte China and a member of Deloitte's National Office Accounting Research Expert Group. He has certified public accountant qualifications in the United States, Hong Kong SAR and Mainland China.

I would like to take this opportunity to express my gratitude for Shang's outstanding contributions to Noah. Since joining us in 2011, we all highly admired Shang's honest personality, strong execution capabilities, unwavering dedication in the past 8 years and firm determination to follow through on every task. Even after he decided to explore new opportunities in another industry, as professional and responsible as ever, relieving his duty only after helping us wrapping up on a few key issues and locating a qualified CFO replacement. Everyone at Noah, including myself, deeply respects his professionalism, responsibility and devotion to the company. I would like to thank Shang again for his efforts and devotion to Noah and wish him all the best in the future.

[Shang Chuang – CFO of Noah]

Thank you, Madam Wang. It has been an honor to work for Noah the past 8-plus years. As mentioned, I will be pursuing new endeavors outside of the financial services industry. I am confident Grant will continue the strive for excellence in his new role, especially with the investor community. Lastly, I am proud to have been part of the Noah team and I wish everyone the best.

[Grant Pan – Deputy CFO of Noah]

Thank you, Shang, and hello everyone.

Before I dive in this quarter's results, I'd also like to express my gratitude to Shang. And it has been a great 3-year period working with him side by side. It's always hard to see a friend leave. But at the same time, I'm also already excited to see him succeed elsewhere with his talents and experiences. Thank you. And we wish you all the best, Shang.

In the past quarter, we did travel a stretch of bumpy road including the product transformation, the Camsing incident, as well as global and regional turbulences. But I'm pleased to report a solid set of financial results for third quarter, which fairly demonstrated the resilience arising from revenue structure and continuous improvement of operational efficiency.

For the third quarter, our total net revenues were RMB842 million, up 0.4% year over year and down by 3.4% quarter over quarter. Non-GAAP net income was RMB353.7 million, up 23.7% over the same period last year and 34.3% from the last quarter, showing earning power arising from business diversification.

And now let me take you through performances by revenue mix, then by segments.

If we look at the type of revenues -- on the one-time commission revenue, due to the fact that we stopped offering private credit products in this quarter, one-time commission revenues of this quarter were RMB150 million, down 35% comparing the same period last year. But keep in mind, in that period last year, 80% or 22.8 billion was private credit products. Now if we do a comparison apple-to-apple, the transaction values this quarter actually increased by 119% from the same period. More than that, we distributed RMB6.9 billion of standardized products, with a 74.3% increase quarter-over-quarter. The transformation has started showing a good momentum.

On the other hand, recurring service fees were RMB521.6 million, up 9% year over year, with a further proportional growth to total revenue. The key attributes of the growth were primarily incremental total AUM as well as fees arising from accelerated repayments of certain credit products. We're also delighted to report that this is the 22nd consecutive quarter that we have recorded performance-based income for RMB42.7 million.

In addition, revenues from other comprehensive financial services to our clients is also growing. This quarter, revenues from Lending and Other Services for providing value-added services to clients were RMB132 million; grew almost a third, 33.5% year-over-year. The temporary pressure on the one-time commission revenue caused by product strategy shift was alleviated by the growth in recurring revenues and comprehensive service revenues which led to an overall slight increase in overall revenues.

From a segment standpoint, wealth management business, still the number-one revenue contributor that accounted for 64.4% of total revenue, recorded total revenue of RMB542.3 million, and down by 6% comparing with corresponding period in 2018. Asset management business achieved revenues of RMB240.4 million, recorded a strong growth of 21.1% year over year and accounted for 28.6% of total revenues. The continuing growth of asset management business and performance-based income also demonstrated our well-enhanced capabilities of active management of assets and investment capabilities, and how having a steady case of AUM helps the business through a choppy cycle of the economy.

Operating profit for the third quarter was RMB234.3 million, down 7% year over year. Operating margin was 27.8%, comparing to 32.3% year-over-year. The decrease can be mainly attributed to higher SG&A expense of RMB104.5 million, up 74% year-over-year. A majority of that increase was generated by litigation and legal expenses that we had incurred as an effort to preserve and recover assets from the Camsing incident.

Meanwhile, we continue to focus on improving our operating efficiencies by limiting the number of nonperforming personnel both in the front and back offices. In the third quarter, the number of total employees declined by 6%, and total compensation and benefits expense decreased almost 10% correspondingly on a quarterly basis. We also adopted stringent cost control focusing on eliminating unnecessary business travels and internal meetings or conferences.

Non-GAAP net income came to a single-quarter historical high of 354 million, with the adjusting items of share-based compensation expenses of 21.3 million as well as 140 million of gains realized upon the sales of our investments in equity securities.

Now with the effort made to improve operational efficiencies, one of our finance strategic priorities is also to improve the asset turnovers and liquidity. We sped up the collection of accounts receivables this quarter, which declined by 12.6% sequentially. And with the proceeds received from sales of securities, cash and cash equivalents have risen about 800 million. The debt/asset ratio has been lowered to a historical low of 16.4%; with no interest-bearing debt on our book. We believe we have built a robust balance sheet that is ready to take us through this cycle of economy that's still filled with unknown challenges.

All in all, we're very happy with the results of the third quarter and confident with the firm's future performance on the back of our comprehensive service offerings as well as the diversified revenue streams. We're confident about maintaining the previous guidance for the 1 billion to 1.1 billion non-GAAP net income for the year of 2019.

Now we're ready to take questions. Operator?

Questions and Answers

[Operator]

Your first question today comes from [Kathy Lei], with JPMorgan.

Kathy Lei: Thanks for giving me this opportunity to ask the first questions. I have two, mainly.

The first one is on the Hong Kong business. I see the net revenue from Hong Kong drop in 3Q. So I'm wondering like, first, is it related partially to the social unrest in Hong Kong? And what is the trend going forward? And then, maybe what's the trends that you have seen in 4Q so far?

Second thing is the credit products. Because we know that there is a very sharp drop in credit products in 3Q, and explain is just partly because of the withdrawal of the non-standardized products. But I'm just wondering, are you going to totally exit all non-standardized product as part of your strategy? Or are you going to retain some of the good-quality ones in the asset mix going forward? And then also, what is the trends in wealth management sales related to PE product and credit product so far in 4Q?

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

(Translated). So the first question -- Madam Wang commented that in association with the social unrest situation in Hong Kong, it did not have a lot of impact on the asset management side, as actually our main business in Hong Kong is the raising and distribution of product.

In terms of the insurance, it actually requires a physical visit to Hong Kong to finish the physical check, so it does have a short-term impact on that. We do have backup plans. And we're actually undergoing the plans to actually establish in obtaining the licenses from Macau in Singapore, which we believe will provide a good alternative to our clients in terms of insurance products.

And on the credit products side -- yes, we have made a strategic choice of completely moving away from the single counterparty credit product, as you could see this quarter. But obviously, we're not ruling out that if there is very good quality of similar products, we're looking to see if we have a different model that would actually help place that product for our client.

And in terms of the PE product -- we're actually seeing very encouraging signs that with the more stringent KYC requirements, lots of smaller GPs from are having sort of difficult days raising funds. And also the fund distributions are concentrated for the top GPs, which we happen to maintain very strong relationship with these top GPs. So we believe that, one, we're continuing to demonstrate our conventional strength in terms of distribution for the PE product. And we're actually seeing a growing trend in terms of distribution feed for the top GPs, as the services we have to put in place to comply with the stringent KYC as well as the follow-up services for our clients. So we're seeing good signs in terms of PE distribution.

I hope that answers the questions

Kathy Lei: I also have two follow-up questions.

First is that on the non-standardized credits, does it include the consumer credit that you have with Home Credit and Mashang?

So the second question is that in your Gopher AUM, what is the stock of non-standardized credits that is still there? Because I assume that those, once they reach maturity, then you won't roll over, right? So I just want to see what is the potential downside on the asset management business as well.

[Grant Pan – Deputy CFO of Noah Holdings]

The answer to your first question is yes. On the non-standardized especially, we're strictly speaking about the single counterparty private credit products. It includes consumer financing products like Home Credit and Mashang, like you have mentioned. And the impact on the Gopher AUM is primarily, as mentioned before, that the change in the AUM mix, that is going to shift, basically, from especially the single counterparty credit product to standardized products in that particular category. So the remaining duration for the private credit products is probably between 12 months to 16 months at the original terms. So for the remaining products, we're seeing hopefully completing, coming down to a limited amount in the second half of next year.

And in the same time, the distributions for the standardized products are climbing up. And we're hoping that growth in the particular standardized products will take up a little bit of space for that void sort of in the AUM for Gopher.

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

(Translated) So Chairlady Wang supplemented that during the transformation in the third quarter, we did realize that there's still very ample room in terms of standardized bond market. And with the strong counterparties that we have worked with in the past -- for example, Home Credit and Mashang -- they also have been issuing public ABSs in the past. And we believe, if we do look into that and are satisfied with the quality of those products, we believe on the public ABS side we'll be able to partner with them from a standardized bond funds side.

Yes, we have also added an in-house credit rating team since the beginning of this year, and also adding the research teams to enable the researching ability for the standardized bond investing capabilities.

Operator: [Operator Instructions] Your next question comes from [Xu Yuan], with CICC.

Xue Yuan: [Speaking Foreign Language].

[Grant Pan – Deputy CFO of Noah Holdings]

For the benefit of the audience, I will translate Xue Yuan's question from CICC.

The first question is regarding the change in number of active clients in the third quarter. And he was wondering, what is the main reason for the change or decrease, especially in which tier, the lower tier or the higher tier, of the client bases?

And secondly, he has a question specifically for Chairlady Wang about the macro environment, especially in the downward cycle of the economy, and what would be the competitive landscape in the next few quarters?

Xue Yuan, I hope I recapped your question okay.

[Jingbo Wang – Noah Holdings Co-founder, Chairlady & CEO]
(Translated) For the previous sort of criteria to define the active clients, we actually only included clients with single transaction values over 1 million. But now we're transforming to standardized products including the mutual funds. So sometimes the transaction values may not be over 1 million. But if we do include that particular group of clients, the total number of active clients is actually close to 10,000. It's 9,961. So that actually indicates a pretty good jump from the previous period.

And also, if you look at our core group of clients, or the higher tier of clients, which is the black card clients -- take them as example -- actually has increase of 7% from the same period last quarter. And their actual average AUM with AUA with us is over 90 million. So if you look at the top-tier clients or the total number of active clients, actually shows a pretty good trend of growth.

So on the topic of macro environment as well as competitive landscape -- we believe, actually, the situation or environment now is actually helping us in terms of competition. The first important reason is that investors are gaining deeper understanding of this financial services industry in the past. And they actually started to appreciate companies like us who continuously are being transparent and disclose risks or sometimes the things we're probably not doing perfectly. But they are gaining more trust for this type of client.

For example, after the Camsing incident, we have started sort of a group to initiate one-on-one discussions with our clients. And I believe we're pleasantly surprised that a lot of our clients are getting more and more mature in terms of the knowledge of this market. And they understand especially the risks associated with the investments.

And secondly, in terms of competitors, especially from maybe some security brokers or some brokerage firms that we are seeing recently, they are being quite aggressive, to be honest. But we're pretty confident about remaining the competitive advantage from our size is that, one, we're obviously still having the first-mover advantage. And we're having pretty good customer loyalty and stickiness with us. And third is we have a very stable group of elite RMs that will help us through this particular cycle.

And the three things we're doing or focusing on to maintaining that competitive advantage is -- one, we're continuing focusing on the investor education. And two is to train up RMs, especially on our transformation of new products and IC capabilities, as well as continuing to strengthen on the product strategy.

Operator: Thank you.

This concludes our question-and-answer session.

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

[Grant Pan – Deputy CFO of Noah Holdings]
Thank you, everyone.