Noah Holdings Limited [Noah]
Q4 and Year-End 2021 Results Conference Call
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Company Representatives
Ms. Jingbo Wang, Co-Founder, Chief Executive Officer
Mr. Grant Pan, Chief Financial Officer

Analysts
Mr. Ethan Wang, CLSA
Ms. Emma Liu, Bank of America
Mr. Andrew Carrion, Emeth Value

Presentation

Operator: Good day, and welcome to the Noah Holdings Fourth Quarter 2021 Earnings Conference Call. (Operator Instructions). After today's presentation, there will be an opportunity to ask questions. (Operator Instructions). Please note this event is being recorded.

I would now like to turn the conference over to Chairlady Wang. Please go ahead.

Jingbo Wang: (Speaking foreign language).

(Translated). On today's conference call, first, I'd like to talk about my observation of the macro environment, then report on Noah's overall results in 2021 and performances of major business segments. Our CFO Mr. Pan Qing will then introduce detailed annual financial results of the Company, followed by a Q&A session.

Looking back on the past year, we once again experienced the complexity and periodicity of the financial market. In China, the wealth management and asset management industries have undergone paradigm transformation. The industrial changes, business ecology and characteristic positioning are different from those in the past. The industry has ushered in an inflection point in the evolution of business model. The loose supervision cycle ended, and the sales orientation became the past. The underlying assets provided by domestic private banks to clients migrated from real estate bonds to NAV-based funds, embracing the era of equity products.

We believe that we must replace the sales mindset with a client-centric one in order to survive the competition. Investors and practitioners have been gradually maturing. The aging population and the increase of residents' wealth is helping the continuous growth of the industry. All these developments show that China's wealth management industry is developing steadily and healthily.

At the same time, the inflation of risky assets is prevalent across the globe due to the quantitative easing policy and surplus of liquidity that have persisted for a long time. The reversal of quantitative easing will change regulatory models and market valuations of many industries.

Over the past 10 years, China's economy has achieved remarkable growth, but there are also certain major structural issues that concerns the market: shadow banking, real estate imbalance, financing platform, industry with overcapacity, as well as resource industries with high pollution and high energy consumption. After a long-term but firm adjustment, we can see that in 2022, the shadow banking, real estate and government invisible liabilities that the central bank worried about in the past have been corrected. China's macro strategy of steady growth and structural adjustment has achieved good results.

In 2022, China's economy will further return to real economy. The manufacturing industry will be upgraded iteratively. The industrial competitiveness will be significantly improved. Small and medium-sized enterprises will continue to be active and enjoy a low tax rate. Manufacturing, export and key supply chains have shown strong resilience and vitality. China's private enterprises pay more attention to high-quality development and begin to seek benefits in management. These findings allow us to have full confidence in China's economy and the market.

While the ongoing Russian-Ukraine war is worrying, we can be sure that, in this process, the market will continue to fluctuate. From the perspective of understanding the financial needs and wealth sources of the market, in the first strategy report of Noah CIO office in 2022, we plan to suggest our wealth management clients to adopt the strategy of protection before growth: First of all, actively check the asset allocation of themselves and their family, and make sure of asset protection and asset safeguard.

Secondly, further balance their global asset allocation, and consider the long-term situation of excessive currency issuance and inflation. In the secondary market, primarily utilizes multi-strategy portfolio allocation strategy; in the primary market, adopts the strategy to pay more attention to the cross-cycle early investment in hard technology.

In 2021, Noah made a great step forward to successfully transform from non-standardized products to NAV-based products, and further optimized the asset allocation for clients. We also internally and structurally promoted the transformation from product-driven to client-centric. Despite the impact of the epidemic, Noah still achieved unprecedented growth in terms of net revenues, non-GAAP net income, the number of black card and diamond card clients, and the number of active clients in 2021.

Throughout the year 2021, Noah achieved net revenues of RMB4.29 billion, an increase of 30% year-on-year, and achieved a non-GAAP net income attributable to shareholders of RMB1.4 billion, an increase of 22% year-on-year, which is also 14.4% higher than the annual guidance. Despite the effects of the epidemic and the volatilities in the market, our net revenues and net income both hit record highs. We believe that all success of business is inseparable from the trust of our clients.

Currently, Noah's asset under advisory is approximately RMB280 billion, over 85% of which are private equity and private secondary products with lock-up periods.

With respect to the overseas market, in 2021, we reported a net revenue of RMB1 billion, a 38.6% growth year-on-year, and a 7% growth compared with 2019, indicating the performance of the overseas market has rebounded to the pre-epidemic level. One-time commissions, management fees, and performance-based income increased by 43%, 4.4%, and 243% year-on-year.

Overseas transaction value reached RMB14.3 billion, a big increase of 61% year-on-year. The overseas AUM was RMB28.4 billion, accounting for 18.2% of the total AUM of the Group, representing an increase of 14% from the end of 2020. Thank Noah's overseas colleagues for their outstanding achievements under the influence of the epidemic.

In terms of core business data, the net revenue of wealth management segment reached RMB3.2 billion, up 35% year-on-year. The transaction value of financial products was RMB97.2 billion, a slight increase of 2.6% year-on-year; among which private equity was RMB18.1 billion, up 1.1% year-on-year; private secondary funds in standardized products was RMB37.8 billion, up 7.4% year-on-year; mutual funds was RMB37.2 billion, a slight decrease of 2.1% year-on-year. Affected by the risk aversion of clients under market fluctuations in the second half of the year, the transaction value of other comprehensive services such as insurance products reached RMB4.2 billion, a year-on-year increase of 35%.

In 2021, the high-net-worth clients of Noah continued to grow and remained active. The number of total active clients, including mutual-fund only clients, exceeded 42,000 people, up 25% year-on-year; the aggregate number of black card and diamond card clients increased by 18.2% in the year, of which the number of black card clients increased by 38%, and diamond clients increased by 14%, a growth that exceeded our expectations. The fact that the 3 main categories of clients' number reached record-high again, indicated our client-centric transform has been well received by our clients.

The transformation of our marketing strategy gave birth to the Noah Triangle service model, which focuses on coordinated business development and professional specialization, is proved to be effective in upgrading our service quality and enhancing client stickiness.

In 2021, we also launched Smile Treasury, a SAAS platform to connect small and medium-sized enterprises, and allow them to buy mutual funds with tailored treasury services for convenient online cash management, with the aim to help improve the investment and operating efficiency of corporate cash, and to satisfy their needs for working capital management. By the end of 2021, Smile Treasury covers 95% of the mutual funds and 90% of the mutual fund managers in the market, serving institutional clients from 14 industries including real estate, finance, and technology.

The asset management business reported a net revenue of RMB1.04 billion, an increase of 19% year-on-year. Gopher's AUM increased slightly by 2%, reaching RMB156 billion, with continued optimized asset mix. To be specific, the AUM of private equity was RMB131 billion, up 11% year-on-year; public securities was RMB11 billion, up 13.4% year-on-year; while real estate assets decreased by 48% year-on-year to RMB6.6 billion, including U.S. rental apartment funds. Gopher's asset structure has been continuously optimized, now healthier and in line with expectations.

For public securities, by the end of 2021, Gopher's standardized products have delivered steady investment performance. Among them, the annual return of Gopher Megatrend MoM, Manager of Managers fund, was 14.2%, exceeding the benchmark return rate by 9% during the same period; Gopher's Top 30 fund of hedge funds posted an annual return of 13%, beating the benchmark rate by 4.5% during the same period; Gopher's overseas selected U.S. dollar funds' annual return rate was 16%, exceeding the benchmark by 10.5% during the same period.

It is worth mentioning that Gopher's wealth stabilizer product target strategy, with its stable strategy launched in August, balanced and positive strategy launched in April 2021, achieved cumulative returns of 1.1%, 4.9% and 5.4% respectively by the end of 2021, effectively limited fluctuations and controlled pullbacks amid market volatilities for clients.

In terms of private equity, Gopher continued to promote the establishment and investments of Fund of Funds, S secondary funds, and co-investment funds. Fund of Funds lays out capital in cutting-edge technology and healthcare sub-funds, with more than 7,000 underlying companies through more than 230 sub-funds; secondary funds have been ranked as one of the Top 20 Best Secondary Funds in the World by Global FOF Association for the second consecutive year in 2021.

Gopher's direct and co-investment funds mainly focus on areas such as early-stage fintech, consumer, technology and pharmaceutical projects. Gopher Silicon Valley's Venture Capital funds and Gopher New York's Real Estate funds have achieved large-scale successful exits from certain projects in 2021 with excellent investment returns.

Gopher has constructed an effective investment research system and team, composed of fund research team, macro strategy research team, and industry research team. A product-end integrated product development process has been implemented for all funds managed by Gopher around the world.

In 2021, in accordance with our planned strategic directions, we finished the reform of the qualifications system for relationship managers, and greatly increased the base salary for them. The Company continuously makes strategic investment in three areas, including client interface, technology system and investment research.

In 2021, the number of black card clients grew significantly thanks to the strategic investment in the core client base; client service experience has also been enhanced. In 2022, we will continue to invest in the development of core client bases and key cities, the improvement of technology and investment research capabilities, so as to pave the ground for long-term healthy and sustainable growth of Noah while maintaining profit growth at a reasonable level.

Since 2014, Noah has been publishing the Noah Corporate Sustainability Report for 7 consecutive years. The report was awarded the AAA highest rating for Excellent Corporate Social Responsibility Report by the Ministry of Industry and Information Technology at the 4th China International Import Expo, an honor for the first time to be awarded to a private financial company in China. In 2021, we launched special ESG fund sections on our domestic Fund Smile and overseas iNoah platforms. Among the Gopher's investment portfolio, a number of excellent investment cases in line with the principle of sustainable development have been identified.

Together with our partners and clients, Noah has organized to plant a saxaul forest and consists of approximately 360,000 trees in the Tengger Desert, and identified 23 rare species through Noah's Ark Biodiversity Conservation Project. In 2021, verified by the international certification body SGS, Noah obtained the companywide greenhouse gas emission information certification of international standard certification system's latest carbon verification quantification and reporting standards ISO 14064-1:2018, becoming the first enterprise in China to pass this version of the standard.

In addition to focusing on sustainable development and fulfilling corporate social responsibility, Noah also actively promotes women's equal rights. In 2021, I signed my support statement on the principle of empowering women at UN women. I am very pleased that by the end of the year, female employees accounted for 62% of all employees of Noah; female executives accounted for 37%; and there is no significant gender-based income gap. There are also 1/3 of female members of the company's board of directors. Noah also won the UN Women Asia Pacific WEPS award for transparency and reporting in China this year, marking the only enterprise to win the award in the country.

I'd also like to give you an update on our status under Holding Foreign Companies Accountable Act. The SEC estimated that 273 registrants might be identified as Commission-Identified Issuers under the Act. We anticipate that a large number of U.S.-listed companies with operations in Hong Kong and other parts of China will be added once we file our annual reports with the SEC around April this year.

The Act is part of a continued regulatory focus in the United States on access to audit and other information currently protected by national laws, in particular China's. The Act requires the SEC to prohibit the securities of any covered issuer from being traded on any of the U.S. securities exchanges, if the auditor of the covered issuer's financial statements is not subject to inspection by the U.S. Public Company Accounting Oversight Board for 3 consecutive years, beginning in 2021.

Noah Holdings may be provisionally named as a Commission-Identified Issuer, following our filing of the annual report on Form 20-F at the end of this month with the SEC. Thus, our Company's American depositary shares may face the risk of being delisted from the New York Stock Exchange in early 2024. In addition, legislation is being considered in the U.S. to shorten the number of non-inspection years from 3 years to 2 years. We will continue to monitor market developments and evaluate all strategic options.

In 2021, we repositioned Noah to focus on serving global high-net-worth clients as a one-in-a-hundred wealth management company, by connecting leading asset managers around the world, to provide high-quality wealth management services for high-net-worth and socially responsible families and institutions. In 2021, with the united efforts of a seasoned team, Noah moved forward without burdens, achieved sustained net revenues growth and drove our net income to a new level without any exposure to real estate high-yield bonds.

We are in a rapidly growing industry. We respected common sense and market rules, reflected and corrected ourselves after the encounter of risks. So even under the complex market conditions in 2021, we still successfully protected the interests of most clients and created long-term value for them.

In 2022, Noah will continue to understand and reflect on the wealth management industry, understand the changes and invariance in the market and client needs, respect common sense, respect the market, continue to deepen organizational change, and truly practice from product-driven to client-centric, survival as the bottom line, and professional people-oriented to create value for clients.

China's wealth management and asset management industry is at an inflection point. The future market will further test our professional capacities of asset allocation, client service and technology. Noah will continue to work in the direction of being committed, specialized and in-depth, to achieve one-meter-wide and 1,000 meters deep, seek benefits in management, and become a one-in-a-hundred wealth management company for global high-net-worth clients. I am certain that we still have a lot of growth space and we will go a long way. Today, Noah's positioning is clearer and more focused. The brand vision of Noah is wisdom beyond wealth, devote ourselves to creating a legacy for generations to come.

Now, please welcome our Group CFO Pan Qing to report on detailed financial performance in 2021. Thank you.

Grant Pan: Thanks, Sonia. Thank you, Chairlady, and hello, investors and analysts. Looking back at 2021, I'd say it's been a very challenging year, as supply chain and inflationary pressure persisted globally amid new variances and outbreaks of Covid-19, coupled with stricter regulatory policies on many industries and a bumpy equity market. And it is also what makes it so special that the young, but vibrant Noah has accomplished a record-setting year, with unprecedented achievements across revenue and profit, benefiting from a well-executed client-focus strategy and our investments in client relationships that paid off.

Now please let me walk you through the detailed financial results of the fourth quarter and full year 2021. Net revenues for 2021 were RMB4.3 billion, up 30% year-over-year, and also the highest since listing, thanks to strong increases in performance-based income and revenue arising from the distribution of insurance products.

Benefiting from the successful execution of core-client strategy, one-time commissions grew 57% to RMB1.3 billion. Recurring service fees were RMB2.1 billion, up 9% year-over-year, as a result of a larger asset base we manage for our clients.

Performance-based income achieved another milestone, amounting to RMB780 million, more than doubled from the previous year. Specifically, long-duration private equity products and private secondary products accounted for 46% and 48% of performance-based income respectively, again demonstrating our excellent investment and product selection capabilities that in turn translated into value creation for our clients.

Income from operations was RMB1.2 billion, down 5% year-over-year, due to increased talent retention and acquisitions efforts, continued strategic investments in client experiences to better meet the evolving needs of our high-net-worth clients, as well as expenses incurred related to our new headquarter renovation. For instance, we increased our investments in technology and investment research talents by RMB120 million as part of our talent acquisition strategy.

In 2021, we continued to set aside a strategic budget totaling RMB133 million, which accounted for about 3% of our annual net revenues, covering key initiatives including client acquisition, client interfaces, digitalization, development of new products, compliance transformations, as well as operational enhancements in key cities and regions. I'm happy to note that these investments have harvested excellent results, as we have accomplished prominent improvements in technology infrastructure and investment research capabilities, as well as record-breaking growth in our core client group and overall client activities.

Investment income was RMB65 million compared to a loss of RMB86 million from 2020. Equity in earnings of affiliates more than tripled to RMB302 million from the previous year. These were mainly attributable to fair value adjustments made to the group's direct investments and the underlying assets of Gopher's funds.

We recorded a non-GAAP net income of RMB1.4 billion for the year, a 22% increase year-over-year with a profit margin of 32%, and 6% over the upper-end of our annual guidance. We plan to continue our strategic investments in areas where we could strengthen our unique positioning and competitive advantage to achieve continued growth over the long term, while maintaining efficient and disciplined expense management.

In terms of segmented results, net revenues from the wealth management business were RMB3.2 billion for the year, up 35% year-over-year, accounting for 74% of the total net revenues of the group. The growth in our wealth management business was supported by robust client activities and strong growth of core clients.

Total active clients, including mutual fund clients during the year, was 42,764, a 25% jump from the previous year.

As I have mentioned previously, expanding our diamond and black card client group was one of the key strategic initiatives for the year. And we have made great accomplishments on this front, with 14% and 38% increases in diamond and black card clients respectively, and an 18% increase overall, by deepening our wallet share of existing clients and effective new client acquisition strategies. That includes more targeted marketing spending, more high-quality offline client activities, refined client servicing process empowered by our Noah Triangle service model, as well as digitalized client management and analytic tools, essentially indicating an effective client-centric reform.

Total transaction value for 2021 was RMB97.2 billion, up 3% year-over-year. We noticed and respected clients' flight-to-safety sentiment in face of the market volatilities, and successfully allocated more insurance products, while maintaining slight increases in private equity and private secondary funds products.

Net revenues from the asset management business were RMB -- around 1 billion, up 19% year-over-year. We continued to exit private credit assets and real estate assets in 2021, and successfully maintained a marginal growth in AUM, with a net increase of 2.1% to RMB156 billion. Since the start of the standardization transformation, Gopher has exited and distributed over RMB32 billion of private credit assets to our clients. The mix of our AUM has been optimized as our PE and public securities AUM grew by 11% and 13% to RMB131 billion and RMB11 billion, respectively, while real estate AUM decreased by almost 50% to RMB7 billion.

Despite the Covid-19 pandemic, our overseas businesses posted exceptionally strong growth, with net revenues increased by 39% year-over-year to RMB1 billion, driven by larger AUM and a 243% increase in performance-based income. We are proud to have a resilient and diligent team who strive to create values for our clients. By the end of 2021, we offer more than 1,300 standardized products on our offshore online platform, iNoah, and we will continue to strengthen our capabilities in providing global asset allocation services for clients.

When it comes to our fourth quarter results, net revenues were RMB1.3 billion, up 32% year-over-year and 39% quarter-over-quarter, also the highest single quarter in history. One-time commissions were RMB479 million, up 76% year-over-year and 123% quarter-over-quarter.

Recurring income was RMB558 million, up 28% year-over-year and down 2% quarter-over-quarter. Performance-based income was RMB173 million, down 16% year-over-year but up 111% quarter-over-quarter.

Total operating cost and expenses were RMB1.1 billion, up 83% year-over-year and 66% quarter-over-quarter, mainly due to increased expenses related to offline client activities including a series of Black Card Gala events, as well as increased RM commissions in relation to higher insurance sales in the quarter. As a result, operating profits were RMB132 million, down 61% year-over-year and 42% quarter-over-quarter.

Non-GAAP net income, on the other hand, was RMB290 million, up 10% year-over-year and 2% quarter-over-quarter, as equity in earnings of affiliates increased by 300% year-over-year and 150% quarter-over-quarter to RMB161 million, due to favorable fair value adjustments made to the underlying assets of Gopher's funds.

The bumpy equity market throughout the quarter led to a swift shift in investment preference from our clients, resulted in a 13% dip quarter-over-quarter in our transaction value during the quarter. However, we were able to cater our diverse product offerings to meet with our clients' changing risk appetite, which in turn let to more allocation of insurance products and solid financial results for the quarter.

In terms of balance sheet, our cash has increased to RMB3.4 billion and total assets stood at RMB10.9 billion as of December 2021. Our current ratio was 2.4 multiple, and debt-to-asset ratio was 25.2%, again with no interest-bearing debt. We are mindful about the usage of our cash when facing uncertainties, but we are also considering to install long-term shareholder return mechanisms when the timing is right.

Looking forward, we will likely see another year mixed with uncertainties and market volatilities, and perhaps escalated frequency of disruptions of travels and commuting when China adjusts to post-Covid 19 times. As Chairlady has mentioned, our clients have demonstrated high-risk-averse preferences, and we are committed to refining our client services and product offering, essentially creating values for clients and shareholders by enhancing our product selection, research, and technology capabilities.

In 2021, we successfully converted difficult market environment into record-high net revenues and net income. And we believe the contribution to clients and talents are, if not the only, reason. In 2022, we plan to provide more varieties of market-risk neutral alternatives such as Gopher's target-strategy products, fixed income enhanced funds and insurance products. I am confident that we will continue to deliver growth in 2022, by enlarging core client base, increasing market share, and gaining more wallet share of the existing clients.

At the same time, we will continue to implement a strategic spending budget in 2022 to focus on core client acquisitions, operational improvements in key cities, incubating innovative products and services, as well as key operational and digital transformations, in an effort to set structural foundation for long-term growth. With that in mind, I would like to announce that the non-GAAP net income guidance for 2022 will be in the range of RMB1.45 billion to RMB1.55 billion, reflecting management's current business outlook.

Thank you, everyone, for listening, I will now open the floor for questions.

Questions and Answers

Operator: We will now begin the question-and-answer session. (Operator Instructions). Ethan Wang with CLSA.

Ethan Wang: (Speaking foreign language). I have two questions. The first one is based on the fourth quarter last year and year-to-date market environment, have we seen any change in the product preference in terms of mutual fund and employee segment products? That's the first question.

The second question is that we noticed the increase of the (inaudible) has been kind of fast, [very] fast, in the first quarter. We mentioned that it's mainly due to talent acquisition. So just wondering if management can explain more details, our strategic consideration behind our cost growth, especially in the context of this year's market environment and the Covid situation in China.

Jingbo Wang: (Speaking foreign language).

Grant Pan: (Speaking foreign language).

Jingbo Wang: (Speaking foreign language).

(Translated). First of all, to your question, Ethan, your first question, is that it seemed pretty apparent that our clients have turned quite conservative in terms of investment preference. But we have tried our best to exit some of the products that are already earning profits and distribute that back to our clients. But it seemed our clients are more conscious this year in terms of the health check of their overall asset allocation strategy. So obviously, we have noticed a shift to holding cash, or allocating more assets towards insurance products, as well as some of the trust structural design to have segregation of assets from more risky returns. So that shift is actually pretty obvious, I would say.

And in terms of outlook of the Covid-19 situation, it seems that it's probably not too big a question when there probably will get different cities and towns that have continuous, but obvious occasional shutdowns towards the 20th Annual Conference -- Annual National Conference. But we're also actually looking at that as an opportunity. When actually people get shut off from the offline activity, they probably intend to trade and allocate a little bit more online, and also is more willing to engaging interactions with us in terms of knowledge-sharing tips.

Okay. So that's the first question.

And the second question in terms of the cost in the fourth quarter, it's actually a little bit of, I guess, a mix of seasonality and also the result of transformation. First of all, the fourth quarter is actually typically the conventional season where we have a pretty high number of annual client activities, including a series of Black Card Gala events in Guilin in December, as long as the separate diamond card client conferences across our cities. So that actually accounted for quite a bit of increase in marketing expenses.

And two is also part of the result of transformation when we actually upgraded the compensation scheme of relationship managers, as you probably are familiar with that, that we have increased the fixed pay of RM by close to 30%. We did the first batch in the upper-half of the year, and also the rest of the 11 regions and cities actually also came into program in the fourth quarter. So obviously, that also increased expenses of the fourth quarter.

And looking forward at 2022, we'll continue to actually monitor the expenses. But it seems the [height] in terms of in the transformation in the compensation mechanism will not as tricky as in the fourth quarter. And obviously, looking at the margin, we'll continue to actually maintain pretty prudent attitude towards the uncertainties in the year of 2022.

Ethan Wang: (Speaking foreign language). That's all for my questions.

Operator: (Operator Instructions). Emma Liu with Bank of America.

Emma Liu: (Speaking foreign language). So I will briefly translate my question. So the first question is that recently received a China [ADI], as well as Hong Kong stock [more] than significantly. So how will it impact the performance of Gopher's AUM, as well as the products of the third-party managers? And how will it impact the investment behavior of your clients?

Second question is related to your cost. I see that the (inaudible) large [private] cost for your lending business. So how is the progress of restructuring of your lending business? And do you continue -- will you continue to book more credit costs for this business going forward?

And we see that your net margin declined to around 21% to 22% in the fourth quarter. Previously, you guided that you wanted to spend net margin between 30% to 35%. Do you continue to expect that?

And we see that the number of your RM declined in the fourth quarter. What's the reason behind it and what's your plans for RM build in this year?

Jingbo Wang: (Speaking foreign language).

(Translated). First of all, I think, in 2019, we actually started transformation. We're pretty lucky that they gave us actually room and time to adjust the product mix. And as of the end of 2021, we have pretty much completed the first of all private credit products, as well as any credit exposure that relates to real estate, which actually made our portfolio pretty stable for our clients.

And two is we also actually noticed probably will be emergence of a new group of clients that also have experienced some of the losses that they may have experienced from other institutions, where they actually have investments in the so-called non-standard private credit products. And this will be a new group of clients who actually help to probably with their allocation of assets this year.

In terms of portfolio of Gopher and Noah, as you know, that a majority of the assets, the AUM that we have is within the primary market, the P-products. But also in the year of 2021, we have exited some of the products actually for our clients to materialize the gain on the products that they have. So I think overall, for the clients of Noah, they're in an okay position comparing to the volatility we have seen on the public markets, especially recently.

But one of other things that we have noticed obviously, is that the demand on the asset allocation have obviously taken a turn in face of such high level of volatility and uncertainties. They're probably very much risk-averse, and also have demonstrated high interest in terms of protection and allocation type of our product.

And one of the main key transformation initiatives for Gopher is to become the fundamental layer of choice for our clients' asset portfolio. For example, the secondary key products, which actually generates quicker cash returns for our clients, as well as the target return products and also some of the balanced portfolio products that generates moderate returns, but at the same time, probably give them a better stability in terms of the assets.

And we did notice that some of the products that would help distribute, some of the products actually still show a pretty resilient return, including the CPA-type products and also multi-strategy products, that actually still have maintained a small but positive return as of yesterday, recently. So obviously, that strategy is working in the highly volatile market.

But again, I think the fact is for them to beat Bally Blue Chip type of products, probably are experiencing a little bit of difficulty. But again, some of the major hedge funds that we held for our clients, actually have a 3-year lockup period. Probably at this time of uncertainty and volatile period, it probably also provides another layer of protection for clients assets. So overall for the clients that Noah has, we believe they're probably in okay and better position than the rest.

So moving on to your second question, Emma, in terms of the credit loss on the loan product is that we actually proactively have retracted from the original loan product, if you recall, in 2019, that we actually have issued products on the loan on the back of some of the relative products. And we have decided -- moving on to your second question -- we have decided to actually seize the offering overall of similar products. So in terms of restructuring, we're probably going to continue to exit this type of product.

And we have pretty much, based on the valuation model that we have worked with our audit, the majority of the credit loss have been computed. We don't foresee a large increase in that type of reserve going forward, as we are now continue to expand our business.

What was your third question, Emma?

Emma Liu: The third question is about your net margin. If we decided to keep it at 30% to 35%, it was to 21% in first quarter. And why there is a decline in your number of relationship managers in both quarters?

Grant Pan: Yes, for the net margin, as I have actually explained in Ethan's question, first of all, it's actually a pretty concentrated marketing season. So basically, a series of marketing conferences, including the offline Black Card Gala, and also the galas in separate cities, so that's one thing. And two is that the increase in (inaudible) fixed pays, so that obviously, the last [bench], which is also half of the population of volume that joined the reform, also actually added a little bit pressure on the cost in the single quarter.

But when we are talking about the net margin, we usually take a look at the margin from the annual budget process. We still actually aims to maintain around 30% or to 35% operating margin for the year, but I guess fourth quarter is a low quarter. But overall, we're probably, I think, close to 28%, 29% of [overall] operating margin. So from that standpoint, that's still the goal that we're maintaining.

And two is that in terms of our RM, we did have some proactive adjustments in terms of the RM mix, as we have mentioned in the transformation. When we're actually forming the (indiscernible) book, we are actually only appointing, I guess, the high-performing [relationship] managers into the direct client interface or AR account representative. So there has been quite a bit of regrouping activities, especially when absorbing the last half of the RM group into the reform.

So there's becoming a little bit of volatility in terms of it's a mix between when you're adjusting to the new reform, and also the proactive adjusting on the low-performing -- relatively low-performing RM. But at the same time, we continue to put in pretty reasonable amount of budget for recruiting in 2022, and we believe actually, the market is a good timing for us to probably heighten the investment in terms of talent acquisition in 2022.

So we'll see a moderate increase in the total number of RMs, but I guess at the same time, we're actually very -- being selective in terms of getting some of the talent that we wouldn’t have had the opportunity to acquire in a normal market condition.

Emma Liu: Got it. Thank you.

Operator: (Operator Instructions). Andrew Carrion with MS Value.

Andrew Carrion: I was hoping to ask a question on capital allocation. You all have an exceptionally strong and clean balance sheet, which I think is a testament to really the quality of the business, with over 500 million in U.S. dollar cash; and your headquarters, which I think you purchased just this past year, against virtually no debt on the business.

And even with the strategic investments and talent that you've made, it sounds like you're projecting still quite a healthily cash flow positive year next year. With the volatility that we've seen in the share price, you could spend just a bit of that cash and have that be quite accretive if it goes towards share repurchases. And I know at the end of 2020, I think you all spent about $100 million on share repurchases at prices that were a 30% to 40% premium to where the stock price closed today.

So I was hoping to understand the willingness to maybe look at capital allocation in the terms of some return to shareholders in that form.

Grant Pan: Thank you, Andrew. (Speaking foreign language). So thanks, Andrew. I guess to put in a simple way, that's definitely one of the considerations that we have, and also one of the topics that we have discussed extensively on internal meetings. So obviously, I'm very conscious of the ROE of our stock and at this time, it seems it's at a very low point. And I guess I am actually not at the convenience of comment too much on this, but I just wanted to share [with] the shareholders and analysts, we're definitely keeping that in mind. When the timing is right, we are planning to install some shareholder return mechanism that will be probably including all kinds of tools that we have, but we have to wait for the right timing.

And understand the -- I guess it's also a reflection our management style that will find to keep abundance of liquidity to cope with the uncertainty of the market. But at the same time, I'm also very conscious of creating value and also returns for our shareholders.

Andrew Carrion: Okay. That’s helpful to understand. Thank you.

Jingbo Wang: (Speaking foreign language).

Grant Pan: Okay. So Chairlady Wang supplemented some color on this question.

First of all, I think especially on the side of the stock price, I think for the Chinese FPIs overall at a low point, that's probably a majority of the value is not correctly reflected. But for management and for (indiscernible), we're still very optimistic about our future and especially the industry, and also the company's position in this particular situation. And I guess we're lucky that we started transformation probably 2 years earlier, and we have no burden, no matter from the balance sheet side or portfolio of AUM, and we actually managed to protect the majority of the client's assets through this wave of uncertainty is probably some of the volatility.

And as you can see evidenced by the returning of especially the core group of clients, which is probably the competitive, where the competitor is putting all the resources trying to gain, when we still made about 18% increase in [corporate] client group in the year 2021. So I guess we're in a pretty good position.

And also Chairlady Wang mentioned that she is also the biggest shareholder of the company, obviously, very much conscious of the value creation for and return to our shareholders.

Andrew Carrion: Thank you for the additional color, very helpful. And yes, I think it's undoubted that operationally, you all have been exceptional in terms of execution. And as a shareholder, it's been fun to watch, and congratulations on all the success. I think from a shareholder's perspective, seeing some of those positive signs on a capital allocation front would be the cherry on top, and I think even more pointing towards optimism. So we'll look forward to the future with much joy. So thank you very much for answering the questions.

Operator: This concludes our question-and-answer session. I would like to turn the conference back over to Grant Pan for any closing remarks.

Grant Pan: Great. I don't have any more remarks. And thank you, everyone, for your time. And we have [several] conferences scheduled and we'll talk to you soon on those calls. Thank you.

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