NOAH HOLDINGS 4Q and FY 2016 EARNINGS CALL EDITED TRANSCRIPT

27 Feb 2017 (US EST)

OPERATOR

Good day, ladies and gentlemen, and welcome to Noah Holdings Limited fourth quarter and full year 2016 financial results conference call. (Operator Instructions). Following management's prepared remarks, there will be a Q&A session. (Operator Instructions). As a reminder, this conference is being recorded. After the close of the U.S. market on Monday, Noah issued a press release announcing its fourth quarter and full year 2016 financial results which is available on the Company's IR website, IR.noahwm.com. This call is also being webcast live and will be available for replay purposes on the Company's website.

I would like to call your attention to the Safe Harbor statements in connection with today's call. The Company will make forward-looking statements, including those with respect to expected future operating results and expansion of its businesses. 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 for our financial discussion. A reconciliation of the GAAP and non-GAAP financial results can be found in the earnings press release posted on the Company's website.

I would now like to hand the call over to Kenny Lam, Noah's Group President.

Kenny Lam – Noah Holdings Limited Group President

Thank you, operator. Thanks, all, for participating in our earnings conference call today. Joining me today are Ms. Jingbo Wang, Noah’s Chairlady and Mr. Shang Chuang, Noah’s CFO.

As for today’s agenda, I will start by providing a brief overview of our financial highlights for the full year 2016 and then discuss our core wealth management and asset management businesses. I will then touch upon the development of Noah’s mid and back-office capabilities.

After that, Chairlady Wang will provide an update on our product strategy and share her views on the macro and regulatory environment. Then Shang will provide further insights into our financial performance for the fourth quarter and full year 2016. He will also discuss our 2017 profit guidance. Lastly, we will be happy to take any questions you may have.

Looking back on 2016, despite a volatile and uncertain environment, we continue to differentiate our products and upgrade our services. We have been strengthening our global presence, diversifying our product portfolio, and improving product selection and risk control capabilities. Thanks to these ongoing efforts, we have achieved solid operational and financial performance.

In 2016, new product transaction value and assets under management both broke above the RMB100 billion mark. Specifically, total transaction value reached RMB101.4 billion; total AUM grew to RMB120.9 billion at the end of 2016, up 39.6% year-on-year.

For the full year 2016, Noah's total net revenues increased 18.6% year-over-year to RMB2.5 billion.

Through effective cost control, our profitability has improved.

Non-GAAP net income attributable to Noah shareholders was RMB723 million, an increase of 19.8% from the previous year and above our profit guidance.

Again, we are very pleased with what we achieved in 2016 and will remain committed to further consolidating our leading position in China's wealth management and asset management industry.

Our wealth management business provides global wealth and asset allocation services to high net worth individuals and enterprise clients in China. As of December 31, 2016, the number of total registered clients was 135,396, up 36.7% from 2015. The number of active clients that transacted with Noah in 2016 was 12,027.

Further on the client front, we have deepened the multi-layered architecture in client management. As an example, we recently adopted a new Black Card client service framework focused on serving Noah's highest-end clients. The new service setup is a tangible benefit for the ultra-high net worth clients and wealthy families who can be entitled to highly bespoke wealth management and value-added services. We believe our new client segmentation strategy will yield high client satisfaction and trust.

We have further enhanced our branch network by optimizing the regional coverage structure. After the latest initiatives ushered in last year, a new city-level management structure has been established to shorten management bandwidth and increase precision in client targeting. Our 8 regions have been reorganized to 11 regional and provincial divisions, and we now have 185 branches covering 71 cities as of December 31, 2016, compared to 135 branches and 67 cities as at the end of 2015.

As for recruitment and retention of relationship managers, our key strategy in 2016 was workforce optimization. More specifically, we replaced underperforming RMs with high-potential new recruits. We also continued to provide professional training to our RMs to improve their productivity. The number of relationship managers was 1,169 as of December 31, 2016, a small increase from 1,095 as of the end of 2015. The turnover rate for top-performing relationship managers was kept at a mere 0.7% for the full year.

The stability of the core front-line staff is quite outstanding in the industry. In 2017, we will refine our incentive mechanisms to encourage RMs to shift the focus more to after-sales services, with an ultimate goal of enriching overall client experience.

With regards to our overseas business, we saw rising demand from clients for global asset allocation in 2016, and that has brought a window of opportunity for Noah, which has built out our international presence since 2012.

By the end of 2016, Noah's overseas AUM reached RMB16.9 billion, a 32% increase from a year ago.

In 2016, we continued to broaden and deepen the U.S. dollar offering, particularly in fixed-income, private equity and real estate, where Noah now has both the confidence and the capacity to meet the diverse client demands.

Noah has formed strategic relationships with many top-notch global financial institutions. For example, among the top 10 PE managers, we have been partnering with 8 of them, including Carlyle, Blackstone, KKR, TPG, Bain Capital among others.

As a critical part of our globalization strategy, our U.S. team will be primarily focused on screening out more high-quality local PE/VC funds, and at the same time, exploring more product and service providers in insurance, immigration and real estate and so forth.

With Noah Hong Kong and Noah U.S., the two engines for our global presence, our goal is to provide our clients with the best-in-breed overseas products and related value-added services.

Next, I would like to spend a bit more time talking about our asset management capabilities. The strategic objective of Noah over the long term is to become a comprehensive financial platform with wealth and asset management capabilities as its twin pillars. We believe that Noah's distribution franchise and Gopher's investment capabilities are complementary.

Gopher has developed a mature product lineup, specializing in PE/VC investments, real estate and secondary markets. By the end of fourth quarter of 2016, Gopher's total AUM reached RMB120.9 billion, a 39.6% increase year-on-year. The AUM of PE/VC, the largest asset class at Gopher, was RMB61.7 billion, accounting for 51% of the year-end AUM, further up from a share of 43.7% at the end of 2015. Real estate AUM was RMB23.2 billion, equivalent to 19.2% of total AUM, further down from the previous year's 36.7%.

As we have been carefully managing down our exposure to residential real estate, total exits of real estate investments amounted to RMB37.0 billion in 2016, compared with RMB30 billion in the previous year. Secondary market product AUM was RMB8.3 billion by the end of 2016, accounting for 6.9% of total AUM. And other AUM, which includes multi-strategy, full discretionary mandate segments was RMB27.8 billion, representing 23% of total AUM, much higher than the 7.3% as of end of 2015.

Gopher's family office and full discretionary portfolio management services are undergoing fast transformation. Under the new strategic cooperation framework, Gopher starts to leverage Sequoia's proven family office experience and combines that with Gopher's local know-how and differentiated product line to construct an endowment-style, cross-asset, cross-cycle fund to help ultra-high net worth clients preserve and grow their wealth.

In 2016, Gopher's Real Estate team stayed ahead of industry shifts. We have proactively remodeled the business and adjusted down the exposure to residential development. We shifted our focus to development and operation of commercial properties in the core first and second tier cities, a strategy that is in line with the new market trend and regulatory requirements, as well as new client needs.

Alternative investments are becoming increasingly institutionalized in China with pension funds, insurance, city commercial banks and other large institutions entering into this space. For this reason, Gopher has been building up a professional institutional sales team.

In the fourth quarter of 2016, a number of institutional investors invested in Gopher's Flagship Fund of Funds after rigorous due diligence. We also understand that when it comes to dealing with institutional investors, post-investment management can be the make-or-break factor as they are subject to stricter regulatory reporting and audit requirements than retail investors. Gopher is pushing ahead a major system upgrade in operation, risk control and disclosure to better serve institutional clients.

Lastly, I will briefly talk about our mid and back-office initiatives. I think one of the brightest spots in 2016 was that we have further strengthened our talent pool. We have made quite a number of important senior hires in 2016. These newly recruited industry veterans with proven global experience can help us strengthen our investment and research capabilities.

We also put in great effort in coaching and developing talent within our group. We launched the so-called Noah 100 Program to train and enable high-caliber relationship managers to better serve our high net worth clients. We also have programs in place to help identify capable mid and back-office professionals to unleash their potential. We have also been conducting a management trainee program for many years to prepare for Noah's next wave of talent.

Aside from talent and retention, we've also prioritized on a few IT upgrading projects and kicked off a firm-wide digitalization initiative. In 2016, Noah's new core business management system, CBS, and sales system, CRM, have both gone live, streamlining IT system across the front and back office.

We also launched a few new mobile apps including Noah 2.0 and Noah Hong Kong APP, both of which are key client mobile portals. Last quarter, we established a Data and Innovation Center to implement big data and smart data technologies across departments to ensure that Noah remains at the forefront in serving the evolving needs of our clients.

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

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

Thank you, Kenny.

Globally, the year of 2016 was the year of Black Swans. Here at home, China's stock market kicked off the year with [stock market circuit breakers] and ended the year with a sharp fall in market sell-offs. The Chinese economy continued to shift gears and juggled between a slowdown of the old economy and the growth of the new economy.

The growth of a company or a country could be likened to the growth of bamboo plants. In an expansionary phase, the economy would grow smoothly along an even path, just as a bamboo would grow upward without nodes in tranquil seasons. However, vulnerability would also be accumulating. Economic restructuring is akin to the originating of the nodes on the stem of bamboo during adverse conditions. It is the nodes that hold leaves and buds which can grow into branches. Similarly, economic reforms, or nodes can make the economy ever more resilient and create the foundation for the next take-off.

Fraught with changes and challenges, 2016 was the end year for problematic companies, a difficult year for new entrants and a demanding year for established players. As a leader in China's wealth management industry, in 2016, we focused on avoiding mistakes, being compliant, innovating product, retaining talent, and improving efficiency and controlling cost. Throughout Noah's development, we have learned the importance of respecting the market and as such, always view compliance and risk management as our foundation.

In 2016, we held ourselves to higher standards. In the face of volatile markets and intensifying competition coming from wealth management companies, FinTech products and even P2P platform, we invested more in investor education and relationship manager training, and focused on product and operation. We adhered to our pledge that we only distribute and manage products which have independent custodians and never sell products backed by capital pools with maturity mismatches or with excessive leverage. We raised the standards for investor screening, which in return, increased our fine quality.

Inside Noah, Noah University, Afternoon Investment Seminars, as well as a series of client communication events, attracted nearly 170,000 investors in 2016. In addition, more than 9,000 clients participated in various Enoch Education programs and Noah Care events. With market risks on the rise, we are pleased to see our clients increasingly embrace the concept of asset allocation, long-term investment and risk diversification, which we have been advocating from the very beginning. As investors become more sophisticated, our client quality continues to rise as well.

Next, I would like to talk about the main categories of Noah and Gopher products. After years of unwavering effort, Noah has become arguably the preferred distributor of choice for leading PE/VC buyout fund managers. And Gopher has become one of the most active and sophisticated fund of funds in the market.

Most of the breakthrough companies representing the new economy are sponsored and capitalized by the top PE and VC funds. Globally, private equity investments, traditionally considered alternative investment, are increasingly more mainstream and becoming the driver of innovation and entrepreneurship. In China, the private equity industry has expanded more than 50 times in size in the past 10 years, during which Noah is an important industry player and beneficiary.

In the realm of the PE/VC market, "head effect" and "Matthew effect" manifested themselves quite prominently as the top 20% GPs can harvest 80% of the total returns. As such, we have been adhering to our key strategy of partnering with leading managers. Over the past 10 years, Noah and Gopher have established strategic relationships with the top 20% managers. Our track record has been recognized by the industry leaders and we believe that in 2017, Gopher will attract more institutional investors, including but not limited to, insurance companies, banks and local government funds.

Based on our latest quarterly results, total transaction value of VC/PE products distributed in the fourth quarter reached RMB8.5 billion, up 33% year-over-year and 58% quarter-over-quarter. Total transaction value for the year reached RMB27.5 billion, accounting for 20% of total distribution of wealth management products. By the end of the fourth quarter, Gopher's PE/VC AUM reached RMB61.7 billion, up 63% year-over-year and now representing 51% of total AUM.

Gopher only invests in market-leading white horses and high-potential dark horse funds, which help our clients capture rare investment opportunities. Our clients have started harvesting the VC/PE products distributed by Noah since 2007 as there were quite a few successful exits in the past year. We believe there will be more to come this year.

Among the clients who invested in Noah's PE/VC products, there is a growing consensus on the cross-cycle asset allocation philosophy which Noah has been an avid supporter of. According to the just released 2017 High Net Worth White Book, more than 70% of the investors polled have plans to increase positions in PE/VC products. Therefore, we believe there will be further room to grow both PE/VC transaction and AUM in 2017.

On secondary market products, because volatility in the theme-driven A-Share market continued unabated in 2016, retail investors remained unenthusiastic and the market did not stage any meaningful revival. However, we think this adjustment is conducive to the long-term development of China's stock market, as investors and practitioners will become more rational and their impetuous trading mentality will turn more stable. Moreover, we believe there will be more outperforming fund managers emerging in the secondary market. Noah will continue to research the market and screen out the best hedge fund managers to help clients better manage their assets in this category.

We distributed a total of RMB7.8 billion secondary market products in 2016. In the meantime, Gopher has strengthened its secondary market fund of funds offering to cover hedge fund of funds, quant fund of funds, private placement fund of funds and mutual fund of funds. At the same time, Gopher has been optimizing its fund of funds fee structure, promoting segregated account management and managers-to-managers strategy to lower the expense ratio and create higher net returns for our investors.

Gopher's major hedge fund of funds and quant fund of funds have outperformed the CSI 300 Index by around 10% in 2016 with the max drawdown of around 7% versus the CSI 300 Index of 21%.

Noah's fixed-income product line made a significant breakthrough in 2016 following a strategic decision made in the last 2 years to diversify the product mix away from residential property development. First of all, the quality of the underlying assets has improved; risk control measures and systems have advanced.

Under our coverage are the very top product providers in this sector, ranging from consumer financing and auto financing to supply chain financing.

And the counterparties include HomeCredit, Mashang Finance, China Mobile, Suning, Grand Auto Services, Herald Leasing (inaudible).

Total transaction value of fixed-income products reached RMB64.5 billion, up 76% year-over-year and accounting for 64% of overall transaction value, which is a reflection of increased investor risk aversion and higher demand for liquidity the past year.

In terms of real estate product and investment, Noah and Gopher have borne some fruit after shifting our focus 2 years ago from providing financing for residential development to acquiring operating assets and value-added properties in the core regions of Beijing and Shanghai. We also started to make equity investments in both upstream and downstream companies in the real estate value chain.

Firstly, the team has been restructured. Asset acquisition and operation capabilities have become the team's key competency. Secondly, the composition of our investor base has changed. More than 80% of the interested investors are institutions, namely, insurance companies. As real estate is a major asset class which is very capital-intensive in nature, we believe there will be tremendous investment opportunity ahead for us to keep an eye out for.

We believe the business model of the real estate funds in China is gradually convergent with the buyout operational model of the commercial real estate funds in the offshore market. With a first-mover advantage, we trust Gopher's real estate team will become a new business engine in 2017 and forward.

Noah's long-term goal is to provide wealth and asset management services to the global Chinese. In the past year, both Noah and Gopher had remarkable achievements in the offshore arena. By the end of last quarter, Noah's overseas AUM reached RMB16.9 billion, a 32% increase from a year ago. According to Noah's client survey, the number of clients who allocated their assets globally has increased about 30% year-over-year.

In 2016, Noah received a license for trust operations in the Jersey Island and established Ark Trust (Jersey) to conduct the offshore trust business, making us the very first independent Chinese wealth management company to be licensed for the trust business outside of China and Hong Kong. The number of overseas trust accounts we manage have expanded about 30% in 2016.

Noah's U.S. office, which has started generating synergies with Noah Hong Kong, will cover more leading PE/VC funds in the U.S. to better serve the needs of onshore our high net worth clients to make global asset allocation more efficient.

With aging of population, clients' desire to accumulate and transfer wealth is growing stronger year-over-year; so is the need for family trust services. Therefore, family office services is positioned as an extremely important part of Noah's long-term strategy. Last year, we successfully launched a new Black Card brand focused on servicing ultra-high net worth clients.

Under this new setup and based on the profiles of Noah's most high-end clients, we offer them the most professional family consulting services. Noah is capable of providing our family office clients with an unmatched range of services including offshore company and corporation consulting, onshore and offshore family trust, insurance planning, trust, estate advisory, individual and corporate tax planning under CRS and education planning for their children.

In 2016, our internet wealth management business has re-accelerated following the transformation. By the end of the fourth quarter, the number of registered clients on Caifupai exceeded 400,000, a 45% yearly increase. Total transaction value on this platform was RMB20 billion, up 68%, bringing accumulated transaction value above RMB33 billion.

In 2017, Caifupai will continue to promote various standardized products and at the same time, pay added attention to mutual fund and mutual fund of fund selection, customization, and automated portfolio management. One of Caifupai's visions is to build an online mutual fund boutique [details] for the mass affluent individuals in China.

Being an integral part of Noah's ecosystem of financial services, Noah's subsidiaries are developed around the needs of high net worth clients. For example, our factoring business, micro-lending company, auto financing company and Enoch Education all made significant progress in 2016, and some of them have become profitable. We anticipate these subsidiaries will grow even faster in 2017 to provide high net worth clients with high quality one-stop financial services.

Next, I want to talk about regulation. We have seen a broad-based tightening of financial regulations in 2016. The new and revised rules have been promulgated for industries such as private equity, asset management, trust and wealth management and so on. In some financial sub-sectors, the era of no regulation was ended.

In particular, to better govern the distribution of financial products, regulators have been trying to implement an approval-based market-access mechanism, rather than dictating a one size fits all policy with either complete openness or prohibition, which is very beneficial to the health of the wealth management industry, and we strongly endorse this idea.

Furthermore, the introduction of new regulation on private fundraising last year was especially important for this industry, which entails extremely high practitioner professionalism. The new rules stipulate that in order to raise private funds, private fund managers must obtain a fund distribution license issued by the (inaudible). This development is positive news for disciplined wealth management institutions such as Noah.

Looking forward, we believe a slowing economy and growing consumer consumption are the two main themes. The number of the mid-class in China is estimated to surpass half billion by 2020. At that time, China's middle class will become the largest in the world. Wealth management and asset management are sunrise industries and will grow exponentially and benefit enormously from this trend.

Our clients have been increasing their well-being at not only materialistic levels, but also psychological or spiritual levels. Beyond these needs, our clients are now in a quest for belonging and self-actualization. They become more willing to pay for brand and quality and this trend is even more pronounced among Noah's clients.

In summary, Noah will continue to build a comprehensive ecosystem of financial services with wealth management and asset management as its core competencies to serve the global Chinese. We view the wealth and asset management business as a marathon. To succeed in the competition, we must overcome temptation and concentrate on value creation. We need to keep up with industry trends and remain insightful. We have to understand clients' true needs as well as long-term needs.

We will keep diversifying and innovating our products and services. We need to continue to strengthen our capability to acquire good assets, and continuously improve our capabilities in research, product selection, risk control, and asset management. We should also keep enhancing the professional service of our relationship managers and educating the investors.

We have convinced ourselves that by pushing for these positive initiatives and staying innovative and motivated, we will create a revolutionary model for wealth management and asset management which can meet clients' evolving needs in the new era.

Thank you. Now I will turn the call over to our CFO Shang, to review our financial results.

Shang Chuang – CFO of Noah

Thank you, Chairlady Wang, and hello, everyone. Today, I'll give an overview of our fourth quarter and full year 2016 results and provide a profit guidance for 2017; then open the call up for questions.

As Kenny and Chairlady Wang noted, we are generally pleased with our results for the fourth quarter and full year 2016.

Net revenue in the fourth quarter increased 12.6% to RMB646.2 million and full year net revenues increased 18.6% to RMB2.5 billion.

On the bottom line, non-GAAP attributable net income grew 23.7% year-over-year to RMB131.4 million in the fourth quarter; and for the full year 2016, grew 19.8% to RMB723 million, exceeding our guidance of RMB690 to RMB720 million. The financial results have been achieved during quite a volatile and challenging year. We continue to be confident we can grow our business despite market uncertainty.

Looking more closely at our fourth quarter performance, we distributed RMB24.9 billion worth of wealth management products in the fourth quarter, up 24.4% from the same period a year ago.

Revenues from one-time commissions increased 21.7% to RMB262.8 million on a year-over-year basis.

Recurring revenues in the fourth quarter of 2016 were RMB336.5 million, increasing 17.3% year-over-year, and accounting for 51.7% of total revenue, compared with 47.6% for the corresponding period in 2015. Our balanced and stable revenue model enables us to smooth out revenue cyclicality despite market fluctuations and focus on longer term development.

We received RMB13.7 million from performance-based income during the fourth quarter 2016, compared with RMB60 million in the fourth quarter of 2015. The decline was primarily due to the year-over-year decrease of performance-based income from secondary market products.

It is worthwhile to note we have received performance-based income for more than eight consecutive quarters now, which reflects that performance revenue has become a recurring part of our revenue model given our diversified product strategy.

Our internet finance business achieved RMB21.6 million of net revenues in the fourth quarter, representing a growth of 41.8% year-over-year.

We have been making efforts to control costs while ensuring business needs are met. Total operating expenses in the fourth quarter of 2016 were RMB562.8 million, up 6.9% from a year ago. A slower-than-headline growth rate was helped by a 0.2% year-over-year decline in total compensation costs.

For the fourth quarter, operating income increased year-over-year 77.2% to RMB83.4 million and operating margin was 12.9% compared with 8.2% for the corresponding period in 2015.

Non-GAAP net margin attributable to Noah shareholders for the fourth quarter was 20.3% compared with 18.5% a year ago.

For the full year of 2016, despite market headwinds, we managed to achieve a record high in total transaction value of RMB101.4 billion of wealth management products, up 2.4% year-over-year.

Revenues from one-time commissions increased 34.4% to RMB1.1 billion from a year ago, as changes in the product mix led to higher effective one-time commission rates.

As total assets under advisory and under management continue to rise, revenues from recurring service fees were RMB1.25 billion in 2016, representing a 20.7% year-over-year increase. Performance-based income was RMB59.2 million, attributable primarily to successful exits in real estate investments. Compared to 2015, the decline in performance-based income was due to lower performance revenue from secondary market products as broader indexes were down in 2016.

Net revenues from the internet finance business were RMB50.1 million in 2016, with a year-over-year decrease of 12.7%, mainly due to the business focus shifting to standardized products. We strongly believe FinTech will be an integral part of the Noah ecosystem for mass affluent clients in the longer term, and we have seen very encouraging signs of reacceleration as of late, as both transaction value and net revenue reached all-time highs in the fourth quarter of 2016.

Total operating expenses were RMB1.8 billion for the full year of 2016, up 18.3% and matching the full-year net revenue growth rate.

Total compensation costs were RMB1.3 billion, up 11.7% year-over-year, driven by the increase in the number of back-office employees and a number of recent senior hires.

Operating income for the full year 2016 was RMB667.3 million, increasing 19.4% from a year ago, and operating margin for the full year remains stable at around 26.5%.

Non-GAAP net margin attributable to Noah shareholders was 28.8% in 2016 compared with 28.5% in 2015.

Our balance sheet remains very healthy. As of December 31, 2016, the Company had RMB2.98 billion in cash and cash equivalents, an increase of RMB1.2 billion from the previous quarter. The increase was mainly due to inflows from strong operating activities, funds received from strategic investors, and collections of accounts receivables.

Finally, I would like to provide our net profit guidance for 2017. We expect non-GAAP attributable net income for the full year of 2017 to be between RMB825 million to RMB860 million, implying an increase of 14.1% to 18.9% compared with the full year of 2016. This growth rate reflects the strong fundamentals, positive business prospects and steady profitability in our overall business.

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

Q&A

[Operator]

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

[Kenny Lam – Group President of Noah]

I think we've taken up a good part of the first hour. So we'll extend the call if necessary if there are more questions.

[Operator]

Yes. We do have a question if you're ready for it. It is from Xue Yuan with CICC.

[Xue Yuan – CICC]

For the wealth management segment, secondary market products have been decreasing. What is the outlook for product mix in 2017?

[Jingbo Wang – Chairlady and CEO of Noah]

For this year, for A-share public equity product distribution, it's quite correlated to the broader performance of the public indexes. So if you look at our A-share fundraising amount for 2012 and 2013, it was generally in line with the broader indexes and accelerated in 2014 and 2015. So I think it's quite difficult to predict the amount of A-share public equity fundraising for 2017. I think it will be quite dependent on the performances of A-share.

In terms of private equity and venture capital, we think that there will be really high growth potential for 2017 as we see continued growth in the new economy and structural changes in the Chinese overall economy structure.

For fixed income, we'll continue to focus on the newer type of fixed income products, mainly consumer financing, supply chain financing and auto financing. We think they will have a long growth trajectory.

In terms of real estate, our focus will be on holding and investing in core and value-added projects. So I think these four will generally compose our product mix for 2017.

Over the last few years that we have been a listed company, sometimes I see a correlation between our own share price and the performance of the A-share market, which I think is not warranted, because over the last 6 years that we've been a public company, our business metrics and financial metrics have reached a new high despite the volatility in the A-share market, given our diversified product mix is quite resilient to market cycles.

For public equity products, I think we have been focusing on ruling out various types of strategies, including fund of hedge funds, including fund of quant funds, including mutual fund of funds. And I think we have laid the groundwork. If there is to be a bull market, we're quite confident our AUM will accelerate and we'll be able to capture the opportunities ahead of us.

At the same time, we have been innovating our product to lower expected expense ratios in terms of manager of managers, and segregated accounts. So with that, we have also increased our coverage and screening of managers, especially in the most recent downturn bear market, we have gotten to know the managers in the market better. So we're able to really prepare ourselves. Once the A-share market comes back with a recovery, we'll be able to increase the transaction value as well as the AUM for this product category. Thank you.

[Operator]

The next question is from Euston Wang with Rosefinch.

[Euston Wang – Rosefinch]

The question is regarding regulatory framework. I noted that PBOC recently announced its intention to streamline the asset management industry in China, particularly around alternative investment. I would like to seek the management team's opinion for the impact to our wealth management business.

[Jingbo Wang – Chairlady and CEO of Noah]

I think it's a very good question, so I think we have quite a lot of insight in terms of the long-term development of both wealth management and asset management industries in China. I think for both of these industries, I think we're in early days. There's a lot of growth ahead of us. However, for the growth to be healthy, I think there should be multi-perspective or multi-factors to promote the development of the industry, from the regulators, from the asset managers, as well as the investors. I think one of the key focuses of regulation and the healthy development of industry is basically a tearing-down of the concept of guaranteed returns.

I think we need to spend more effort in terms of investor education to increase the quality of clients and this will be one of the winning factors for wealth management companies in the market. But this alone cannot fix the industry or promote the industry to grow in a more healthy manner. I think the regulators need to be on board, which we think they are in terms of making sure that the products are now moving towards a NAV or asset value concept and there is no such implicit or explicit guarantee for return. For the asset managers, they need also to be ruling out the products in line with regulatory framework.

In terms of our own business, we have been pushing for NAV products many years ago. In fact, if we look at real estate residential financing, we can perhaps do quite a lot of volume around this particular alternative debt, but we have been reducing this line of business, because we think that is not sustainable. Now, for our real estate investments, we are moving away from residential to commercial building, where you buy, fix and sell, which is basically the strategy employed by leading alternative asset managers globally, like Blackstone, like Tishman Speyer.

So I am quite confident in terms of long-term development of the wealth management and asset management businesses, and the multiple drivers in terms of the players in the market, the regulators as well as clients, I think all together, will ensure that the market in China will grow in a healthy manner. Thank you.

[Euston Wang – Rosefinch]

So the follow-up question is -- thank you for your comments, but I would like to ask specifically is there any impact on the products that is currently under advisory? Is there any influence?

[Jingbo Wang – Chairlady and CEO of Noah]

We think that impact for our business is quite minimal. We have been transitioning our product type from 2 years ago already and so the regulatory shift in 2016 we think is just the beginning. I think the regulators will continue to catch up with the leading passages globally, and I think that is for the best.

[Euston Wang – Rosefinch]

I have two additional questions, the first one is I note from your filings that for wealth management segment, other revenues there was a reclassification. I wonder what the reclassification was. For Gopher AUM, we see an increase in terms of other types of investment. Can you also provide some color on what are the other types of investments that Gopher is managing?

[Jingbo Wang – Chairlady and CEO of Noah]

So for the first question, our wealth management segment for other services, this is primarily revenue related to our new businesses that are complementary to our wealth management segment, for example, Enoch Education. Previously, there were some marketing sponsorships by our product providers, which we have put into other service fees, but we have starting from this quarter reclassified it to one-time commission because we think it's more related to the distribution of wealth management product. And we wanted to have the others to be more in line with our new businesses within the wealth management.

In terms of your second question for Gopher's other types of investments AUM, this is a mixture of products that we are developing that includes multi-strategy funds, discretionary funds and also credit products that we are now developing and managing. And I think for any of these new product lines, if they get big enough, we will consider to break them out. Thank you.

[Euston Wang – Rosefinch]

Thank you.

[Operator]

We have another question from Henry Liang with Goldman Sachs.

[Henry Liang – Goldman Sachs]

The question is related to the profit guidance for 2017. I note that the implied growth rate is from 14% to 19%. Can you give us color on this guidance in terms of your expectation versus 2016? Because I know that the growth rate is similar. A related question is can you give us some color in terms of performance-based fee income for 2017 and how is that related to the profit guidance that you're giving us in related filings?

[Kenny Lam – Group President of Noah]

I think the guidance -- we tend to give conservative guidance. You can see that every year, we've been giving out guidance for a good part of the last 4 to 5 years. In 2017, we expect to have better than 2016 in performance fees. But again, that will put a lot into our guidance because that's subject to market, but we do see market's actually performing better than 2016. So what you see in guidance we expect it largely in line with last year, maybe off by 2 percentage points. But the idea is that we want to be conservative. There will be better performance than we expect, but we don't put that a lot in our guidance. The performance fees may add more on what we budgeted.

[Shang Chuang – CFO of Noah]

To add some more color to your question, so I think generally we tend to be a bit more conservative in terms of profit guidance at the beginning of the year and as we actually progress throughout the year, we will update our guidance to the market as necessary.

In terms of performance fee, I think I mentioned earlier in my prepared remarks that for the last eight quarters consecutively, we have been booking performance-based income. And I think that is a function of the fact that we have a diversified product mix. Now obviously, for 2016, the amount of performance fee income is not as robust as 2015 because in 2015 we had a very strong public A-share market, which we benefited from quite a lot.

For performance-based income, we expect it to continue to maintain. In terms of the amount we have budgeted, but we are quite cautious, given that the actual performances of the categories of products that we manage, whether it's public equity, whether it's real estate or private equity, there's a level of volatility and uncertainty. But I think that can potentially it will be a very big upside if the market develops well.

[Kenny Lam – Group President of Noah]

Last year I think we gave guidance of a growth of 14.4% to 19.4%. This year, I think we gave guidance of 14.1% to 18.9%, so essentially they're about the same in terms of expectation of growth. But as we say, I think we're even more confident than last year.

[Henry Lang – Goldman Sachs]

Thank you.

[Operator]

Our next question comes from Kitty Yan.

[Kitty Yan]

I'd like the management team to comment on the impact on our business if any in terms of the tightening conversion of US from RMB. Also, we have observed that for the last few years, overseas business has been growing quite strongly. What is our expectation for the overseas business? And lastly, the distribution insurance product has been a growth driver for the business the last 1, 2 years, and how is that doing internally and what is our expectation for 2017?

[Jingbo Wang – Chairlady and CEO of Noah]

In terms of the tightening of conversion of RMB, I think the impact on our business should be manageable. The last few years in terms of our business out of China, in Hong Kong, that merely focused on clients who already have assets offshore. I think that's a very large market in itself. Only for a brief period of time, late 2015 and 2016, we leveraged or capitalized on the various ODI programs that were available. But the bulk of our offshore business is still primarily clients with offshore assets already. Now, I think we've done a fairly good job the last few years in terms of getting our clients to be familiar with the products and services we're able to offer globally and I think we expect the growth rate or the growth trajectory for our global business to continue, as we continue to put in more resources, not only Hong Kong, but opening of our US office around August and September of last year.

[Kenny Lam – Group President of Noah]

Just to add one point, I think the slower flow of capital from China in global actually has led to an emotional reaction whereby clients were actually more active in global investment. In our Hong Kong office, I think on a 3-month basis, we're fundraising around $100 million to $130 million, and that's all U.S. dollar investments of our clients who already are outside of China. So I think that we continue to see as a trend which is our clients to have more US dollars outside than we expected.

[Kitty Yong]

I have another question. In the prepared remarks, the management team highlighted for Gopher asset management business, we expect more institutional investor participation. Can you give us color in terms of expectation or goals or benchmarks? For wealth management, you highlighted that the strategy is enhancing client segmentation for the ultra-high net worth clients or the high-end Black Card clients, what do you think will be the financial impact in terms of ruling this out? Thank you.

[Jingbo Wang – Chairlady and CEO of Noah]

For the first question, I want to highlight that the high net worth individual is still very important in the base of our client segmentation. And with that said, we have been observing in terms of the market, especially the last year, institutional investors in China have been a lot more active in terms of the volume of investment and the participation in investments. Now, just to give you some color for the recent fundraising for our RMB flagship private equity fund of fund and co-investment, currently about half of the LPs are institutional investors, where previously it was mostly individuals.

Now I have also mentioned for our real estate investments, we have shifted from residential to more of a commercial buy, fix and sell strategy. Now in terms of the real estate commercial investment opportunities, we're seeing a lot more institutional interest as well. I think at the height of our real estate business, we had around 100 billion of residential and they were attracting mostly individual clients, but now as we shift into commercial buildings, I think the interest from investors is mostly institutional investors.

I think it's still early days to quantify the financial impact in terms of our new client segmentation strategy for “Black Card” clients, but I think the objective is quite clear. I think the objective is to deepen the wallet share for the wealthiest families in China. We want to improve client retention in terms of this segment of clients. And so we will be offering bespoke wealth management services and product, allowing them to have more customized tailored products, providing more value-added services both in terms of estate planning, family trust and tax planning. And I think with a bit more time, I think we will be able to quantify and share you with the financial impact, but I think we're quite optimistic that this will be a very important strategy for us not only in 2017 but going forward as well.

[Kenny Lam – Group President of Noah]

Why don’t we take one more question? I think one more.

[Operator]

The next question comes from Steven Zhu with Credit Suisse.

[Steven Zhu – Credit Suisse]

My question is more of a macro question. There is an expectation for the interest rate to increase in China. What will be the impact for our wealth management business? How about clients' return expectation, if the management can provide some comments on this. Thank you.

[Jingbo Wang – Chairlady and CEO of Noah]

Sure. I think in terms of the changes in the interest rate environment in China, I think the impact will primarily be more pronounced in terms of standardized bond funds in China. I think we have been focusing more on alternative investments and specifically, the equity investments in China. So I don't think the impact will be so significant.

In terms of clients' return expectation, I think in China if we look several years back, 5 years, 6 years back, clients' return expectation was much higher than their counterparts in developed markets. And I think the return expectation has become more rationalized, or it's been coming down because of the excess liquidity in the market. There's more risk out of surface and so the last few years, we have seen clients' return expectation come down. So in China, I think the clients' return expectation has not been so correlated to the interest rate environment or the interest rate movements in China. Thank you.

[Kenny Lam – Group President of Noah]

Great. I think that just ended our session. I think if you have more questions, please write to us, call us. We will also have individual conversations as we go through discussions in the next 2 weeks. Thanks so much, everyone.

[Shang Chuang – CFO of Noah]

Thank you.

[Operator]

The conference is now concluded. Thank you all for attending today's presentation. You may now disconnect your lines.