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NOAH HOLDINGS 3Q 2017 EARNINGS CALL EDITED TRANSCRIPT

20 November 2017 (US EST)

OPERATOR

Good day, ladies and gentlemen. Welcome to Noah Holdings Limited third quarter of 2017 financial results conference call. At this time all participants are in listen-only mode. Following management's prepared remarks, there will be a Q&A session. During the Q&A session we ask that you please limit yourselves to two questions and one follow-up. If you would like to ask additional questions, you may re-enter the queue to do so. As a reminder, this conference is being recorded. After the close of the US market on Monday, Noah issued a press release announcing its third quarter of 2017 financial results which is available on the company's IR website at http://ir.noahwm.com. This call is also being webcast live and will be available for replay purposes on the company's website.

I would like to call your attention to the Safe Harbor statements in connection with today's call. The company will make forward-looking statements including those with respect to expected future operating results and expansion of its business. Please refer to the risk factors inherent in the company's business and that have been filed with the SEC. Actual results may be materially different from any forward-looking statements the company makes today. Noah Holdings Limited does not undertake any obligation to update any forward-looking statement as a result of new information, future events or otherwise except as required under the applicable law. The results announced today are unaudited and subject to adjustments in connection with the completion of the company's audit. Additionally, certain non-GAAP measures will be used in our financial discussion. A reconciliation of 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. I want to welcome all our investors and friends to our earnings conference call today. In addition to myself, Chairlady Wang and CFO Shang will also be participating on the call.

For today's agenda, I will first summarize Noah's overall performance for the first three quarters of 2017, as well as the performance of our two core businesses, wealth and asset management. Then I will talk about recent developments in our overseas business and our mid and back-office initiatives. Chairlady Wang will then talk about products by segment and provide her views on the current macro and regulatory environment. Our CFO Shang will then follow with a detailed discussion of Noah's third quarter financial performance. We will conclude the call with a question-and-answer session.

In 2017, China's economy has shown resilience and strength and its capital markets are also on solid ground for recovery. However, financial deleveraging and risk control remain as key concerns of China's domestic regulatory framework. Within this environment, we strive to uphold the highest standards and due diligence in all operations, continually providing a wide offering of diversified global asset allocation and integrated financial services that best cater to the demanding needs of our high-net-worth clients. Our stringent risk management processes ensure that our overall Group operations run smoothly and our financial performance remains solid.

In the first 3 quarters of 2017, we distributed a total of RMB89.2 billion worth of financial products, up 16.6% year-over-year. As of September 30, 2017, AUM in our asset management segment reached RMB142.9 billion, a 24.4% increase over the same period last year. In terms of financial metrics, the Group achieved net revenue of RMB2.1 billion in the first 3 quarters of 2017, representing a 12.7% increase over the same period of last year. Non-GAAP net profit attributable to shareholders reached RMB680 million, up 14.8% over the same period of last year. We are satisfied with the overall results achieved in the first three quarters of this year.

I will now discuss our individual business segments. For wealth management, as of September 30, 2017, we had 175,979 registered clients, an increase of 35% compared with the same period of 2016. In the third quarter, average transaction value per client reached RMB5.28 million, maintaining our industry-leading position. Meanwhile, more than 30% of our clients made repeated transactions in the second and third quarters, similar to trends seen in recent years. We also continued to optimize our product mix with the proportion of equity products rising to 41% of total transaction value in the third quarter. In particular, the quarterly transaction value of secondary market products, which we have been promoting, exceeded that for first half of this year.

While continuously providing high-quality products, we are also firmly committed to providing a wide selection of high-quality, integrated financial services to our high net worth clients. Our Family Office now provides trust planning, immigration planning, tax advisory services and insurance.

We also continue to optimize our coverage network for traditional wealth management services. As of the end of the third quarter, we have presence in 78 cities, with 222 branch offices and a robust team of 1,286 relationship managers, representing a 17% year-on-year increase. It is worth noting that amongst our relation management team, our elite relationship managers recorded below 3% in turnover in the first three quarters, which is very low in this industry. We are making a concerted effort to strengthen our RM training programs and recently launched Noah Private Banker Program in cooperation with Shanghai University of Finance and Economics. The 37 national relationship managers entering this program were carefully selected after passing a strict screening process and will, over the next 3 years, receive rigorous training. As they matriculate, our goal is to create a team of top-notch Chinese private bankers possessing exceptional skills, international perspective and long-term vision, who are firmly grounded in China and uniquely capable of providing sophisticated services to our clients.

For our asset management business, as of September 30, 2017, Gopher's AUM reached RMB142.9 billion, representing an increase of 24.4% year-over-year. The AUM of private equity investment funds increased by 59% over the same period last year to RMB81.3 billion, accounting for 57% of the total AUM. In the recently published "China's Best VC and PE Institutions Annual List", Gopher won the "China's Best Venture Capital Limited Partners TOP 10" and "China's Best RMB Fund-of-Funds TOP 10 " awards, once again demonstrating Gopher's recognition within China's private equity industry. Gopher also invests in credit, real estate, and secondary markets, with respect to AUM as of September 30, 2017, accounting for 20%, 8%, 4% of our total assets under management.

Going forward, Gopher will continue to leverage its many years of platform experience, cooperating with leading GPs in China. It will further strengthen its own investment capabilities, and increase its co-investment and direct investment ratio within the existing asset classes.

In terms of overseas business, as of the end of the third quarter, AUM of the Group's overseas asset management reached RMB19.8 billion, an increase of 25% over the same period last year. We believe that investing in overseas financial assets not only captures more global investment opportunities, but also helps hedge domestic cyclical economic risks and should be an important part of Chinese high-net-worth individuals' assets. We have executed well on our globalization initiative. Following the establishment of our Canadian office in Vancouver, we have recently appointed the CEO of our Australian office. Additionally, our U.S. subsidiary is now established on both the East Coast and West Coast. Our first U.S. Data Venture Capital Fund has also been successfully launched out of our Silicon Valley office.

Finally, I'd like to conclude with a brief summary of our mid-and-back office developments. As financial technology becomes more integrated into our everyday lives, we are increasingly aware that technological innovations are disrupting traditional business models. Against this backdrop, we are launching an effort to transform Noah into a technology-driven wealth and asset management company. An illustrative example within this theme is the new Noah app that clients can download to conveniently use to complete transactions online and keep abreast of updates within the portfolio and investor education. The proportion of online channel usage has exceeded now 50%. We are also analyzing the massive data accumulated over the past decade, and are integrating and upgrading the overall data system of the Group in order to enhance our overall service capabilities. It will help us better understand our clients' needs and optimize our service quality. By doing these, we are laying the foundation for Noah's development for the next decade.

With that, I will now turn the call to Chairlady Jingbo Wang. She will speak in Chinese, and her remarks will be followed by English interpretation.

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

Thank you, Kenny. A month ago, the 19th Party Congress convened, thereby attracting worldwide attention, to address China's current development stage and the major issues that are facing our society. As a deep thinker and an active participant in China's wealth management and asset management industries, we are fortunate enough to witness the starting, shaping, and substantial growth of many industries in China. From product-driven to integrated service-driven is the new trend that we have observed in wealth management industry. The asset management industry has also begun to shift from scale-driven to investment capability and brand-driven. Superior asset management companies might lower their market share in bull markets, but significantly increase their market share in bear markets. We sincerely believe that for the world as a whole, the greatest opportunities in the future will be found in China because of the strengthening of China's economy in a new round of technological revolution.

As a business, our biggest challenge is how to keep up with China's rapid rise, continue our adaptive learning, and iterate and evolve our capabilities. Wealth management and asset management industries, in the long run, will benefit from the economic growth in China.

The year 2017 represents the 12th anniversary of Noah's inception and 7th anniversary of our IPO. We are pleased to see that in November, many Chinese companies, representing new financial technologies, were listed in the United States and Hong Kong. Many of them are also our partners. We believe that 2017 will not only be a year of succession but also a year of new beginning. We are ready to embrace the unprecedented growth stage.

Now I will provide a more specific report on several major product categories of Noah and Gopher.

Noah has always been a preferred channel for domestic leading GPs in the VC/PE market while Gopher has become one of the top Fund-of-Fund managers in China. In this asset class, we have conducted 10 years of business. With our products demonstrating solid performance, we are able to be recognized by more and more high-net-worth and institutional investors. In the third quarter of 2017, total transaction value of VC/PE products distributed was RMB9.6 billion, up 78% from the same period last year. Total transaction value in the first 3 quarters reached RMB26.9 billion, approaching the full year figure of 2016. As of the third quarter, Gopher's VC/PE AUM reached RMB81.3 billion, accounting for 57% of total AUM with over 3,000 cumulative investment projects. In terms of exit projects, 40 companies in our portfolio have successfully gone public and 4 have received regulatory approvals and are awaiting IPO. These figures in the first 3 quarters of 2017 are already approaching the sum of the last 3 years. With the normalization of A-share IPO market and the opening of another round of overseas listing of Chinese companies, we believe this product category that we have worked so hard for last 10 years is entering its harvest season.

While continuing to leverage the advantages of our existing platform, we actively deepen the GP resources, strengthening our industry coverage as well as our active management capabilities. We have put forward multiple innovative product strategies, such as white horse funds with co-investment strategy, PE secondary funds and mezzanine funds. By increasing co-investment and direct investment in the portfolio, we aim to enhance the investment value for our clients and future revenue generation capability for the Company. In the future, we will also increase the allocation of co-investment and direct investment projects in the financial, cultural, consumer, healthcare and TMT sectors. In addition, we will support the government's resolve that financial services need to serve real economy and use our PE/VC financing to support the growth engine of China's new economy.

In the area of secondary markets, the A-share index has started to pick up since mid-2017, while overseas markets, such as Hong Kong and the U.S. stock markets, have performed above expectations. The confidence and investment enthusiasm of domestic investors is gradually recovering. In the third quarter, total transaction value of our secondary market investments was more than the sum of the entire first half of this year to reach RMB3.1 billion and Gopher's AUM has maintained above RMB6 billion. From a product strategy point of view, the vast majority of secondary market products that Noah helps distribute are leading value investment products, such as Perseverance and Greenwoods, whose performances significantly outpaced the market so far this year. Gopher adheres to a model that combines Fund-of-Fund and Manager-of-Manager, which further enhances its risk management capability and investment performance. The latest MOM product has significantly outperformed the index by increasing 23% year-to-date by the end of October 2017. With strict control of retracement, Gopher helps investors to achieve steady and sustainable returns.

In the category of fixed income products, with the recent increase in corporate credit risk events and regulatory oversight for financial risks, Noah is actively reviewing and innovating its product strategy. In the third quarter, we launched a new alternative credit portfolio fund, which diversified our underlying assets in our existing covered areas such as consumer finance, auto finance, supply chain finance and private bonds, and with already-familiar counterparties. By doing so, we significantly reduced our investment risk concentration and created excess returns through our proactive management. As we were in a phase of product transformation, and because we need to catch up with supply capacity and investor education for the new products, the amount of credit products sold in the third quarter dropped to RMB10.8 billion. However, we believe that adoption of an NAV-based mechanism for products like our new credit fund is an inevitable trend and is the only way to say goodbye to guaranteed repayment of fixed income products in China. As a front-runner of our industry, we should guide our investors to develop a rational and mature investment philosophy and to promote a healthier and more standardized development of our entire industry.

In terms of real estate products and investments, we believe that the genuine real estate funds, which focuses on existing, operating and yielding assets, and appreciates them by enhancing their operational capabilities has just begun in China. The real estate fund team of Gopher participated in the active management of over 120 projects in more than 30 cities, by covering high-quality assets in core cities, involving in property operations, transforming distressed properties into opportunistic assets as well as managing real estate acquisition mezzanine funds. Of the 94 projects that Gopher has already exited, the average IRR of equity funds exceeded 15%. Take Gopher Center as an example; it was acquired, constructed, and operated through a Gopher-managed real estate fund since 2 years ago. At present, the commercial property is fully open. The occupancy rate of the office building reached more than 90% and many Fortune 500 corporations have chosen this location. It has become one of the highest quality office buildings in Shanghai's World Expo riverbank area. In the third quarter, we successfully locked in several similar large-scale and high-quality commercial real estate projects. These reserved projects will further enhance the performance and product quality of our real estate investments. Our new real estate strategy has also been recognized by institutional investors such as insurance companies. We think by next year, this asset class will have a larger investment opportunity to invest in assets at relatively reasonable prices.

In the third quarter, we formally established a Special Asset Management Department, hoping to accumulate and inherit our past experience in disposing of distressed assets. Going forward, this asset class will also be our focus. We believe our capability of special asset disposal is a competitive strength differentiating us from the rest of the market.

Noah's internet finance and innovation subsidiaries, which were hatched from within the Group around customer needs, have also made great strides since the beginning of 2017. Caifupai established a platform based on standardized mutual funds and self-built a trading system. Through a unique approach blending quantitative analysis and Artificial Intelligence, Caifupai has enhanced its information processing capabilities and formed an intelligently focused portfolio selection investment platform. Noah Financial Express, our small short-term loan subsidiary, is also targeted at high-net-worth individuals. We continue to promote its product diversification and strive to establish a nationwide network layout.

The shift from product-driven to integrated service-driven is a trend that we have witnessed in the wealth management industry. It is also the direction that Noah is aiming for and moving towards. At present, apart from investment-based financial products, we can also provide in-depth integrated services to our customers in areas such as global insurance, trusts, family offices and education. We also spend a lot of time and energy on investor education to bring wisdom to our client's wealth development process. In the first 3 quarters of 2017, we hosted 7 Noah University events, 17 Noah Open Classes, as well as various nationwide professional investment forums and regional events, covering nearly 180,000 investors. Through these activities, we help our clients to take a more rational perspective to investment management and wealth inheritance. Our Public Welfare Foundation, Noah Foundation, brought about spiritual charity courses to meet the growing spiritual demand of our customers and help us to achieve greater customer resonance and connectivity. For example, Noah Foundation launched the Heart Journey in Desert project in 2017, challenging life limits in a 53-kilometer desert walk in 3 days, and influencing more people to participate through fundraising for public welfare. The event was supported by more than 16,000 participants and donors and raised more than RMB3 million in donations.

Lastly, I would like to briefly discuss our views regarding the recent regulatory environment. At the end of August, Interim Regulations for Private Equity Fund Management went for public comment. Coupled with pre-promulgated Proper Measures for Securities and Futures Investors Management as well as a series of rules and regulations regarding private equity fund filing, capital raising, information disclosure, it will guide the entire asset management industry towards a more standard and orderly direction. Noah, as an enterprise that adheres to regulatory compliance and a company with strong core competencies, we believe these regulations will be long-term beneficial to us. And we have already maintained disciplined communication with regulators. Just last weekend, the Central Bank led the formulation of Guidelines on Regulating the Asset Management Business of Financial Institutions and started to solicit public opinions. It explicitly prohibits some long-standing issues in our industry such as funding pools, maturity mismatch, guaranteed repayments, and multi-layered investments in asset management products. In particular, it explicitly requires that all assets under management should be managed in a net asset value manner. It also stipulates the specific identification and punishment for any sorts of guarantees for principals and yields, demonstrating regulators' strong determination. We consider this to be an important milestone for the long-term improvement of our industry.

On the other hand, in addition to promoting coordinated supervision and risk control, the speeding up of RMB internationalization was once again brought up during the 19th Party Congress. During President Trump's visit to China, the Chinese government clearly indicated that it would significantly lower access thresholds in the financial industry, which gave the market a clear signal of opening up and development. In our view, this dual focus of promoting development and controlling risk will be the main theme of financial regulation in the near future. A new pattern of China's economy and financial system will also be constructed in this process.

I was quite touched by a phrase that I recently read: We thought our competitors were our peers, but in reality, our competitor is the times. Faced with the changing times, we must maintain our commitment to deepening our learning and optimizing our cognitive capabilities in order to more accurately understand our customer needs and provide the right products and services at the right time. While we continue to leverage our competitive strengths, we will use our professionalism and innovative products and services to create more value for our customers, employees and shareholders, and contribute to the healthy development of China's wealth management and asset management markets.

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.

As Kenny and Chairlady Wang both noted, we are pleased with our financial results for the third quarter of 2017 and we are on track to deliver a solid result for the full year.

We realized RMB684.3 million of net revenues for the third quarter of 2017, an increase of 12.5% year-over-year, and non-GAAP attributable net income in the same period was RMB215.4 million, up 19.9% year-over-year.

By revenue contribution, recurring service fees in the third quarter of 2017 were RMB346.5 million, up 17.5% from the same period last year, contributing to 50% of total revenues. The growth of our accumulated distributed products and assets under management continues to provide strong revenue streams going forward.

One-time commissions received in the third quarter were RMB213.1 million, compared with RMB281.2 million in the same quarter last year. The decline was primarily due to a lower effective commission rate year-over-year as distribution of insurance products was lower. Total transaction value for financial products we distributed during the quarter was RMB23.5 billion, relatively flat from the year-ago. However I would like to highlight the robust transaction value growth of equity products, which have strong re-ocurring service fees and most have performance fee clauses.

Total performance-based income for the third quarter of 2017 rose to RMB74.8 million, driven by the successful exit of several real estate funds. We are pleased that performance-based income as a share of total revenues increased to 11% this quarter. It demonstrates our efforts to build a leading multi-strategy asset management platform with a strong investment capability and performance. We have now realized performance-based income for 13 consecutive quarters and we expect carry revenues to increase in the future as we generate strong fund performance for our clients. This will also be positive to our income from equity in affiliates which I will explain a bit later.

By segment, net revenue from the wealth management business continue to contribute over 70% of total revenues with RMB488.9 million. Net revenues from the asset management business amounted to RMB164.6 million, up 34.3% year-over-year. Our internet financial service business achieved RMB30.9 million in net revenues in the third quarter, representing a large 172% increase from a year ago as well as 17% growth quarter-over-quarter.

Total operating expenses in the third quarter of 2017 were RMB524 million, up 17.5% from a year ago, driven primarily by a decrease in government subsidies and an increase in relationship manager sales commission due to a larger portion of equity products in total transaction value. Operating income stayed relatively flat year-over-year at RMB160.3million for the third quarter, and operating margin was down to 23.4% from 26.7% a year ago. However, excluding government subsidies, operating margin in the third quarter was 22.7% compared to 19.6% in the same period of 2016, reflecting our continued focus on cost management.

We realized RMB45.7 million of income from equity in affiliates in the third quarter, mainly representing the increase in fair value of the funds which Gopher manages and invests in as the general partner. The strong performance in the funds we managed contributes to both performance based revenues and income from equity in affiliates.

As of September 30, 2017, the Company had RMB1.98 billion in cash and cash equivalents, down from RMB2.0 billion in the previous quarter as operating and investing cash inflows were offset by a financing cash outflow which was mainly because of the repurchase of Sequoia's stake in Gopher in the third quarter.

Finally, I would like to reiterate that our performance year-to-date reflects strong fundamentals and steady profitability in our core businesses and the RMB825 to RMB860 million non-GAAP attributable net profit guidance for the full year remains unchanged.

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

Q&A

[Operator]

(Operator Instructions) Katherine Lei with J.P. Morgan.

[Katherine Lei – JP Morgan]

I would like to ask a question: can you help me elaborate more on the fixed income product sales? I think the transaction volume is actually significantly down from 2Q and also comparing to the same quarter last year. Yes, so please help us to understand what led to this and then going forward, what should we expect? This is the first question.

The second question, I noted that on the revenue side, I think upfront fee is also lower compared to last quarter and also same time this last year. Is that because of the slowdown in fixed income sales? But recurring fees is improving and then is it due to (technical difficulty) --

[Shang Chuang – CFO of Noah]

Katherine, you cut off. Hello?

So why don't you finish your second question?

[Katherine Lei – JP Morgan]

Yes, I think the upfront fee is actually -- the upfront fee is slightly weaker this quarter, so but then the recurring fee make up for that. So I just want to understand the dynamics there. And then also going forward how should we expect because actually we increase distribution of PE products in recent years. Should we expect that the recurring fee will continue to be strong? Can we extrapolate the result of this quarter into future quarters on the recurring fee side? Thank you.

[Shang Chuang – CFO of Noah]

Yes, so Katherine, I'll answer both of your questions. So on the first question regarding the fixed income transaction value in the third quarter, as Madam Wang has mentioned in her remarks, I think for fixed income product, I think our strategic plan going forward is to launch more alternative credit portfolio. So effectively, we're doing -- distributing less single project fixed income funds and we are doing more portfolio-like funds.

We think the new type of portfolio fund is better for the client and ourselves because it really helps diversify better in terms of the underlying assets. And so we are evolving the type of product we're doing. I think this will take time for our relationship managers, as well as our clients, to adopt, so we're seeing good results in the last few months. So I wouldn't be too worried about the fixed income transaction of the third quarter.

I'd like to highlight that if you look at our product mix over the last few years, I think there has been rotation among the asset classes, and this is because of the changes in the macro environment as well as our top-down strategy approach in terms of helping our clients in terms of rebalancing the portfolio. So I think our goal in terms of transaction value is to continue to increase overall transaction value, but from time to time, the product mix will alter.

Now in terms of your second question, which is one-time commission revenue lower year-over-year and quarter-over-quarter, I think this is because of two reasons. One is compared year-over-year, we did less insurance product. Last year was a very strong insurance year. Insurance products are more front-end loaded in terms of revenues and less re-ocurring. Third quarter compared to second quarter, we did more equity products as opposed to fixed income products. Again, equity products have most -- a lot of the revenues come in recurring rather upfront.

So to some extent, I think you can say that doing more equity product helps building a bigger base for reoccurring service fees going forward. And as you noted, re-ocurring service fee has continuously been growing over the last 2 years and makes up more than 50% of our total revenues. And from a CFO perspective, I think it helps lay the foundation for a strong start in 2018 because more than half of our revenues are recurring in nature.

[Kenny Lam – Group President of Noah]

Katherine, just a point to add, fixed income products in early years were mostly real estate backed. I think we're shifting into other types of underlying assets; And two is we think it's actually a healthier mix of product and price. If you look at the first two quarters, it was -- over 70% of the allocation was on what we call fixed income. The market indeed has demand for that, so we're actively helping clients to reallocate assets to lower allocation to fixed income products.

[Katherine Lei – JP Morgan]

Can I have a follow-up question on that? Because on the revenue side, actually we did not -- even on the upfront fee is like some decline, but the decline is not -- I think the magnitude is not as much as in the sales, in the fixed income sales. And then can I say that for exotic product like the multi-portfolio fixed income product that you mentioned about, is actually have a higher fee than the single-project products.

[Shang Chuang – CFO of Noah]

Yes, I'll comment a little bit in terms of the revenue contribution from single project-based fixed income product versus portfolio. So for the single project-based, it's mostly upfront. So you could almost read it as we are charging like for that and mostly it's recognized upfront and received upfront.

We have the portfolio of credit fund which is almost like a portfolio of high-yield bond fund where, in addition to upfront discretion fees, there are ongoing re-occurring service fees. So our credit portfolio funds that we've been working with clients on over the last few months, its general duration is two plus one. It actually helps us lock in that fixed income investment for much longer than one year, so we will see part of the revenue being contributed in recurring service fee.

In addition to that, for some of the portfolio fund, we actually have performance fee clauses as well. According to fund terms, over the return of a preferred rate, let's say 6% or 7%, we may receive 5% to 10% in carry. So we actually think both for the client in terms of diversification risk and second, in terms of from our perspective, building up our asset management capability, we think moving into credit portfolio is the strategic right move.

[Operator]

(Operator Instructions) Haifeng Cao with Nomura.

[Haifeng Cao – Nomura]

Congratulations on the good results. I am Haifeng Cao from Nomura. I have threequestions. Firstly, in terms of the new asset management regulation rollout last Friday, one of the regulations is that non-financial institutions cannot delegate to series of asset management products going forward. So I wonder how much in our wealth management business is actually the asset management products. This is the first question.

The second question -- I noticed that the average transaction value per client for the third quarter decreased by around 4.1%. I wonder what's the reason behind this decrease?

Then thirdly, can the management team share our strategy for the next year, especially from the perspective of products, for us and our clients. Thank you so much.

[Shang Chuang – CFO of Noah]

So let me answer the first two questions and Madam Wang will answer third question. So your question is regarding the latest guideline that was promulgated by CSRC I believe. In that, it mentioned that non-financial institutions cannot distribute a financial product. And I think this is in line with the regulation we've been seeing over the last 2 or 3 years where regulation is stepping up in terms of both wealth management and asset management. And we think it favors established players, because obviously, we have had licenses for many years. And it's really a crackdown on those institutions that are active in the industry, but they're non-compliant - they don't have licenses. So overall, we think it's a very strong benefit for leading players in the industry. And also as Madam Wang mentioned, it's a crackdown on guaranteed repayment. And it's pushing for NAV-based product which, again, highlights our strategy into credit portfolio. And so in short, the comment about the non-financial prohibition doesn't affect us because we have the relevant licenses for both our wealth management and asset management businesses. The primary regulator is CSRC.

Your second question is regarding the average transaction value per active clients, it is down this quarter year-over-year. This is primarily due to the increase in transaction value for public market product. Public market product, compared to private equity and credit product, has lower minimum start, so the minimum start for hedge funds in China is RMB1 million. So it's really due to product mix rather than anything else. We still expect, for the full year of 2017, average transaction value per client to be stable or around RMB7 million to RMB8 million per year.

Now regarding your third question, I'll ask Madam Wang to comment on our strategy next year and I'll help with the translation.

[Jingbo Wang – Chairlady and CEO of Noah]

Jingbo Wang: (Speaking Chinese).

(Translated). So first, Madam Wang would like to comment that overall, she thinks the market will be much healthier next year. Clients are now starting to understand the direction of the regulation and several -- many clients actually over the last few years have got hurt by products that were not managed properly. So high-net-worth individuals, as she believes, will be focusing more on brand and quality next year. And obviously, these two will direct clients our way because obviously, we have a very strong brand in the market.

[Jingbo Wang – Chairlady and CEO of Noah]

Jingbo Wang: (Speaking Chinese).

(Translated). Now, Madam Wang would like to comment on our product strategy for next year. I think for our product strategy next year, it will be centered around value investing, in particular a very strong focus on public market product, including A-share and shares in Hong Kong or globally. We think it helps our clients in terms of value investing. Now our goal is to increase the overall transaction value for our secondary market products and while we are seeing results in the third quarter, we expect that to go forward next year.

Now in terms of credit product strategy, as I mentioned, we are rolling out and launching new types of credit-related products such as credit portfolio funds, mezzanine funds and preferred share funds. We think these types of funds are better for our clients as opposed to historically, when we did a lot more of single based-project funds. And I think it will probably take 2 to 3 quarters of investor education and then we can see the volume really pick up next year.

In terms of venture capital and private equity, we have already locked in or secured several leading GPs who will do new rounds of fundraising next year. And so that really gives us a good foundation in terms of our VC/PE fundraising next year.

In addition, now for several years, we've been managing our own private equity secondary funds, and given our leading position in this asset class, we have a strong advantage in terms of managing a secondary fund. And we think we have now built a leading, if not the number one brand, in the market, and we expect this to grow in overall AUM and attract a lot more institutional investors.

On the real estate side, as I mentioned earlier, we have also locked in several very high-quality commercial buildings which will help us with rolling out new product for real estate. So overall, we feel quite confident in terms of the product pipeline for next year. For overseas products, I think the focus on innovation and also our renewed efforts in terms of building or developing product around Hong Kong - Shanghai Connect.

[Kenny Lam – Group President of Noah]

Also I want to add two more points. As Madam Wang talked a lot about the product strategy, which is a substantial transformation alongside the market trends. We also are doing two things to substantially increase the growth rate of the Company. One is there will be substantial transformations of the front line that includes, as I mentioned in my speech, a training program that will take training for RMs to the next level. We're also launching a new approach in terms of network expansion that we'll detail later.That would allow us to grow much faster in terms of client wallet share and productivity of the RMs. So that's one thing we're growing quickly.

The second thing that I mentioned is around technology. We will be investing heavily on new technology to ensure that we are way ahead of the curve in terms of technological innovation, and that includes not only online transactions for mass affluent clients but also high-net-worth clients, plus how we use and leverage data in a very systematic way.

We are expected to increase not only our technology investment in infrastructure, but also in talent. That's the two things. The whole idea is that we're looking at pushing on the growth of the Company through not only its product transformation, but also front-line in technology.

[Haifeng Cao – Nomura]

Thank you so much. It's very clear and comprehensive. Thank you.

[Operator]

(Operator Instructions) Katherine Lei with J.P. Morgan.

[Katherine Lei – JP Morgan]

I have follow-up questions on the recurring fees. I would like to ask if the recurring fees, like what's the portion of performance related and non-performance related respectively?

[Shang Chuang – CFO of Noah]

Right. So we actually book our performance fee income separately. So as you look at our quarterly and annual disclosure, there are three main revenue items: One-time commissions, management fee and performance-based income, now so it's separate.

In terms of our AUM, about 50% to 60% of the AUM that we currently manage has performance-based fee clauses. Typically, equity products would have performance-based fee income more often than fixed income products. So I had mentioned earlier that in the third quarter, more than half of the product mix was equity product. That has actually helped in terms of our recurring service fees and also help potentially if we do well in terms of managing these funds on a performance-based fee income.

I'd like to remind investors that in terms of our performance-based fee income, we take a very conservative approach in terms of revenue recognition. We only recognize performance-based income when it is actually realized;We do not mark-to-market.

So with that in mind, over the last 13 quarters, we have consecutively booked performance-based fee income despite the Asian market volatility. It's because we have built a multi-strategy asset management platform. So it helps us achieve returns for our client and revenue for performance-based income in all weathers almost.

[Katherine Lei – JP Morgan]

Okay. Thank you.

[Operator]

(Operator Instructions) And we did get another question from [Wayne Helm], a private investor.

[Wayne Helm]

Could you please repeat your outlook for the year of 2017?

Yes, yes. We forecast a full year non-GAAP attributable net income of RMB825 million to RMB860 million.

[Wayne Helm]

Thank you very much.

[Operator]

And there looks to be no further questions. So this will conclude the question-and-answer session. I'd like to turn the conference back over to Kenny Lam for any closing remarks.

[Kenny Lam – Group President of Noah]

Thank you all for dialing in. After the call, if you have any questions, please reach out to our investor relations team. We'll gladly return your request and answer your questions. Thanks very much.

[Shang Chuang – CFO of Noah]

Thank you.

[Operator]

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