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NOAH HOLDINGS 2Q 2018 EARNINGS CALL EDITED TRANSCRIPT

Aug 28, 2018, 8:00 PM (US EST)

OPERATOR

Good day, ladies and gentlemen. Welcome to Noah Holdings Limited Second Quarter 2018 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 Tuesday, Noah issued a press release announcing its Second Quarter 2018 Financial Results which is available on the company's IR website at http://ir.noahgroup.com. This call is also being webcast live and will be available for replay purposes on the company's website.

I would like to call your attention to the Safe Harbor statements in connection with today's call. The company will make forward-looking statements including those with respect to expected future operating results and expansion of its business. Please refer to the risk factors inherent in the company's 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.

With that, 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 investor and analyst friends to our earnings conference call today. In addition to myself, Ms. Wang Jingbo, Chairlady and CEO of Noah, our CFO Shang, will also be participating in our call today.

For today's agenda, we'll first review Noah's second quarter 2018 performance as well as the development of our core wealth and asset management businesses. Chairlady Wang will then share her overall view on the current market, the regulatory environment, and our company's product strategy. Our CFO Shang will then follow up with a more detailed discussion of Noah's second quarter financial performance. We will conclude the call with a Q&A session.

In the first half of 2018, the downward pressure on the Chinese economy increased, and market sentiment remained volatile. Measures aiming to strengthen financial supervision were steadily carried out. The trend of financial deleveraging was quite clear; the growth rate of domestic money supply M2 fell to a historical low of 8% in June.

On the global front, the Sino-U.S. trade dispute escalated and the depreciation of RMB intensified recently. These factors have led to a greater divergence of market expectations, with investors generally lacking confidence. The expansion of Chinese financial institutions has by and large slowed down under such environment.

In this context, Noah has continued to focus on deepening connections with clients in order to adapt to the new market environment together. In the second quarter of 2018, the wealth management sector raised a total of RMB29.1 billion in financial products, down 12% year over year. AUM of our asset management business reached RMB161.5 billion, up 17% year over year.

In terms of financial results, the Group's net revenues in the second quarter was RMB798 million, and non-GAAP net income attributable to Noah shareholders reached RMB252 million, up 13% and 11% year over year, respectively. Non-GAAP net income in the first half of the year reached RMB509 million overall.

Breaking down in business segments, in the wealth management, we continued to steadily expand offline physical channels and talent recruitment. As of the end of the second quarter of 2018, we are in 81 cities across the country, and the number of relationship managers increased by 19% year over year to 1,495. Talent is at the core of Noah's development.

With increasingly strict supervision of banks' wealth management businesses, we have the opportunity to recruit higher quality professionals this year to prepare for our next round of development.

At the client level, our efforts, such as in-depth small-group client communication, online client activities, and investor education events, have allowed us to establish multi-level connections with our clients. Through small-scale activities, such as those that provide post-investment services and communication with our core management, and those that take regional clients to our Hong Kong and US offices for new business development, we have increased the stickiness with our clients and gained greater understanding of their individual and personalized needs.

Enoch Education, our investor education subsidiary, continues to help clients build their investment knowledge through professional courses that target the individual needs of high-net-worth customers. These efforts have helped us upgrade our business from a pure product-driven model to a comprehensive service-driven platform.

In the field of professional services, Noah Research Team focuses on providing industry research reports targeting our relationship managers and high-net-worth investors. The research team has been fully integrated into product due diligence and sales process, and is playing an increasingly important role in providing systematic support for our front line. In the first half of 2018, Noah Research Team published 225 internal and external research reports. Many of these original reports have been quoted by external media, which helps Noah establish its influence in the market.

At the same time, the online knowledge database of Noah Research has begun beta testing. It supports the front line in searching data and sharing research reports, and is poised to further enhance the professional support for our relationship managers in the future.

Our asset management business is experiencing a transformation. As of the end of the second quarter of 2018, Gopher's asset under management reached RMB161.5 billion, representing a year-on-year increase of 17%. Within that, the AUM of private equity investments increased by 30% year over year to reach RMB93.9 billion, accounting for 58% of the total assets under management. s

It is also worth mentioning that the AUM of our real estate investments continued to rebound in the second quarter, reaching RMB17.6 billion and accounting for 11% of the total AUM. This results from our adjustments in real estate investment strategies, which helped us better understand the market fundamentals and capture investment opportunities. In June, Gopher won two major awards at "China Private Equity Golden Bull Award", recognizing our investment capabilities in secondary market fund-of-funds area.

In terms of overseas business, Noah's journey towards globalization has continued. Our overseas offices in Canada and Australia have seen rapid growth, with increasing number of clients allowed a variety of selection. In the second quarter, we appointed the CEO of our Singapore office and will begin applying for license there. As of the end of the second quarter, Gopher's overseas assets under management reached RMB22.3 billion, increasing 22% year over year.

Noah Hong Kong, the global business center of the company, is constantly striving to improve its service quality. In June, Noah Hong Kong updated its risk measurement system. The new KYC scoring mechanism can more accurately reflect the client's risk appetite and help our relationship managers to provide more suitable investment recommendations. We also completed an update of the client suitability assessment system in collaboration with an independent expert firm, and the product due diligence system update is also close to completion.

Lastly, I would like to share the progress of our technology at the group level. Every business innovation is inseparable from the contribution of technology, and we aim to build a technology-driven platform in Noah. We have built a comprehensive risk management information platform based on the new regulatory direction. The updated Noah app has also enabled online audio and video recording to ensure authentic and efficient transaction processes. Our AI capability covers customer service channel 24x7. The client labeling technology has helped relationship managers better portray and understand their clients.

In 2018, Noah once again won the "Best Wealth Manager in China" award by Asian Private Banker, the "Best Private Bank in China" award by Private Banker International, , as well as the "Best High Net Worth Independent Wealth Management Institution" and "Best Overseas Asset Management and Wealth Management Institution" by AsiaMoney magazine. All these international awards are the recognition of our sustainable development and professional excellence.

We enter the second half of 2018 with increased market volatility. We will remain steady in our approach and continue to invest for the long run strategically.

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

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

Jingbo Wang: (Speaking Chinese).

(Translated). Thank you, Kenny. (Speaking Chinese).

(Translated). In the first half of 2018, China's capital market faced both great opportunities and massive challenges. On one hand, the official launch of the "New Asset Management Regulations" led the Chinese asset management industry into a new stage of normalized development; on the other hand, accompanying the implementation of the new regulations and wider economic deleveraging, many of the deeply-rooted problems accumulated over the rapid development of the industry started surfacing as well.

Examples include the high leverage level of major shareholders of listed companies and the problem of duration mismatch, which overlapped financial institution deleveraging and winding down of bank WMP funding pools.

Since the beginning of this year, major shareholders of more than 1,000 A-share listed companies have reached a pledge ratio of more than 90%, among which 300 companies have touched the liquidation line. 25 bonds from 13 issuers have defaulted, with the total amount exceeding that of the entire year 2017.

During the past three months, the P2P industry has also been continuously stepping on landmines. More than 250 Internet-based funding platforms have experienced difficulties of varying levels, causing significant social concerns.

Jingbo Wang: (Speaking Chinese).

(Translated). On the client end, investor risk aversion has become more apparent. Due to the long-standing concept of implicit guarantee, Chinese investors are not accustomed to investment risk. With the mentality that "investing in wealth management products is the same as bank savings", clients are complaining to regulators and media for the recourse of their defaulted investments. The pressure on government for social stability and crisis management has been massive. It can be said that this is challenging times for investors, industry practitioners, and regulators alike.

In the first half of 2018, the accumulated domestic financing volume in China increased RMB9.1 trillion, down RMB2.03 trillion from the same period of last year. In particular, the scale of entrusted loans and trust company loans was significantly reduced, and banks' on-balance sheet funds used for off-balance sheet wealth management investment fell by RMB1.76 trillion. Both the supply and demand sides of the asset management industry have been facing challenges.

At the same time, however, we also heard some good news, especially with the recent introduction of a series of policy measures. The regulators have appeared to gradually understand the market situation, and are moving away from the previous "hypercorrection" and "one size fits all" approach with increasing rationality.

Jingbo Wang: (Speaking Chinese).

(Translated). We continue to believe that both wealth management and asset management are sunrise industries in China. The new regulatory approaches may affect the growth rate of the industries in the short run, but from a long-term perspective, it will allow the industries to develop in a healthier and more orderly fashion. The process is indeed painful, but the future is promising.

At the same time, with ongoing risk discovery and elimination, the overall industry will enter into a more advanced and complex stage. The financial needs and psychology of high-net-worth investors will change significantly, and mature customers will tend to gather around leading companies such as Noah. Our comprehensive services capabilities built over the years in the global scope are beginning to show greater value.

Next, I would like to share with you a more detailed report on the major product categories of Noah and Gopher.

In terms of PE/VC investment, difficult funding situations in the market have continued in the second quarter. In fact, funds raised by the entire PE industry in the first half of the year decreased by 75% year-over-year, according to CV Resource. Our strategy is to continue working with the first-tier leading GPs; to maintain “fewer, but better” partners; to insist on raising “cross-cycle” products; and to pay greater attention to investor education and in-depth communication with clients. As the market valuation has trended downward, our secondary fund strategy will show greater investment value, and we will continue to strengthen in that area.

In the second quarter of 2018, Noah private equity products’ transaction value remained stable at RMB6.3 billion quarter-over-quarter. As of the end of the second quarter, the total AUM of private equity funds managed by Gopher reached RMB93.9 billion, up 30% year-over-year. At the same time, the number and proportion of co-investment and direct investments within the total AUM is also steadily increasing.

Talking about historical performance of Gopher's products in terms of various indicators, the fund returns and distributed value to paid-in-capital (DPI) are all significantly higher than the market averages, all of which as evidence of the value created for our clients.

Jingbo Wang: (Speaking Chinese).

(Translated). In terms of real estate funds, we practice the concept of contrarian investment and actively promote the strategy of preferred shares and core and value-added strategies. In the second quarter of 2018, Gopher’s real estate fund size increased RMB6.5 billion, and the total AUM continued to rebound to RMB17.6 billion. At present, we remain focused on tier-one major cities like Shanghai to lock in quality existing properties. This strategy is highly recognized by institutional clients such as insurance companies, who have also been investing with us in this type of products.

On the secondary market equity products front, the A-share market in the first half of 2018 was both volatile and lackluster in terms of performance. Concerned by a series of internal and external risks, investors are generally pessimistic and hesitant, further contributing to the low valuation of the public markets in China. In the second quarter, our secondary market equity products transaction value fell back to RMB2.8 billion quarter-over-quarter, but still increased 155% year-over-year.

From product performance point of view, in the first half of 2018, 87% of the secondary market products distributed by Noah outperformed the benchmark (The CSI 300 index fell 12.9% in the same period), and 9 products even achieved positive returns. In a market environment with significant volatility, these selected products showed strong resilience.

The NAV of Gopher's MOM flagship fund fell only 0.9% in the first half of the year, significantly outperforming the CSI 300 Index and highlighting the value of our manager selection and portfolio investment strategies. Our customer recognition has also been greatly increased during this process.

In the area of fixed-income products, as the risk appetite of individual investors declined and the scale of bank WMPs shrank, fixed-income products once again are in high demand. Thanks to the transformation of our fixed-income product strategies in the past three years, including diversified underlying assets and credit portfolio strategy, our fixed-income products transaction value rebounded quarter-over-quarter to RMB19.3 billion in the second quarter.

By the end of the first half of the year, the AUM of Gopher's credit investments also stabilized at above RMB40 billion. At the same time, we also increased the supply of short-term credit products with less than one year duration, in order to meet the relatively conservative risk appetite of our clients. The underlying assets for our investments mainly range from consumer financing, auto financing to supply-chain financing.

Our counterparties are all large-sized leading companies with strong qualifications and relevant licenses. The strategy that we have been adhering to over the past years has provided us with a strong buffer amid the current market risk exposures.

Jingbo Wang: (Speaking Chinese).

(Translated). Gopher's discretionary investment and family office teams have also achieved breakthroughs in 2018. For multi-family office services, we have helped our ultra-high-net-worth clients allocate their assets through the dual-currency and multi-strategy funds within the Gopher Heritage Fund series. By the end of the first half of 2018, we were serving around 700 black card customers, and the AUM of Gopher's discretionary funds exceeded RMB4.4 billion.

This year we also launched the new joint-venture family office business. Gopher's professional team customizes investment strategies based on a deep understanding of client demands, and shares the value-added service resources of both Noah and Gopher to help customers construct their unique family investment culture and capabilities. These efforts support ultra-high-net-worth individual investors in their pursuit to institutionalize their investment activities. We are glad to report that, in terms of cooperation with ultra-high-end clients, our progress and scale have both exceeded our expectations.

Lastly, I would like to briefly share our views on the recent market. Since the official release of the "New Asset Management Regulations" at the end of April, strict regulations have been imposed on financial institutions for capital pools. Part of the domestic asset management businesses, especially the bank wealth management businesses, have basically been in a state of suspension, which directly leads to the scale contraction of China's overall asset management industry and financing activities. This further leads to heightened refinancing pressure, and, when combined with other factors, contributed to increasing default events.

With a series of follow-up documents released on July 20, including PBOC's implementation of rules of the New Asset Management Regulations, the drafts for opinion of CBIRC's New Regulations on Bank Wealth Management Products, and CSRC's New Regulations for Private Asset Management Business for Securities Firms, it's safe to say that the regulators have reiterated their postures on dismantling the implicit guarantees through measures such as portfolio management, NAV management and capital pools prohibition, and ultimately to reach the actual status of "sellers bearing fiduciary duties and buyers taking their own investment risks".

While this basic supervision logic remains intact, for the sake of credit stability and risk reduction, we are seeing some recent relaxation on the pace of implementation. We believe this is a rational approach to avoid short-term systemic meltdown.

It has also been witnessed that the pace of registration and filing of private funds in China has slowed down significantly by regulators recently. In the long run, we believe regulatory tightening is beneficial for good companies like Noah. However, in the short run, we expect that the overall size of China's asset management market will continue to experience a temporary period of contraction.

The compliance costs in the financial industry are continually rising globally. We understand that compliance and risk management are the lifeblood of financial institutions. We are continuing to strengthen the compliance and risk control capabilities of Noah's global subsidiaries, supplement relevant operating teams, and promote in-depth investor education and multi-dimensional screening and selection of qualified investors, so as to prepare ourselves for the global business expansion and the Group's next round of growth.

Jingbo Wang: (Speaking Chinese).

(Translated). In conclusion, we believe that with the rapid development of China's economy and growth of the private wealth, both wealth management and asset management industries still have a lot of room for expansion. The asset management demands of individuals and institutions have not been fully captured yet. After the recently-released regulations being fully implemented and market risks cleared, the industry will enter into a new and more mature stage of development.

At the same time, after undergoing multiple market risks, both domestic and international supervision of the asset management industry will become increasingly stringent. Thus, the possibility of ultra-strict supervision and the continued decrease of both supply and demand cannot be ruled out in the short term. Having overcome several economic cycles in the past, we are confident that we can weather the storm. We believe that there is no shortage of one hit wonders in China, but companies that can sustain over time are scarce.

"Revering the market, adapting to the market, controlling risks, and operating in compliance" will always be Noah's motto. To summarize our core business strategies of the next stage: first, continue to improve our capabilities to serve Chinese high-net-worth customers around the world, and maintain a multi-dimensional customer relationship through our global comprehensive services; second, continue to focus on investor education, online and offline simultaneously; and third, continue to improve the quality of both our products and clients, strengthen risk management and compliance capabilities, and establish a new and higher threshold for our core businesses.

Winston Churchill once said, "Never let a good crisis go to waste." We are optimistic for the long-term triumph and believe time will correct mistakes. Companies that want to truly withstand the test of time must face both themselves and the market honestly. They need to reduce unnecessary costs, sustain good cash flows, maintain a rational mentality, and keep low profile in order to stand in line with the trend of time.

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

[Shang Chuang – CFO of Noah]

Thank you, Chairlady, and hello, everyone. Thank you Chairlady and hello everyone. We achieved another set of solid results for the second quarter.

Net revenues in the second quarter increased 12.8% year-over-year to RMB797.6 million and Non-GAAP net income attributable to Noah shareholders reached RMB252.1 million, an increase of 11.3% year-over-year.

Strong double-digit growth in both recurring revenue and performance fee more than offset weaker one-time commissions. For the second quarter, recurring revenues reached RMB451.6 million up 32.8%, driven by continuous AUM growth. We achieved performance-based income of RMB39.3 million, up 65.5% year-over-year, reflecting our ability to deliver investment returns to our clients through market cycles.

Revenues from one-time commissions declined 22.0% year-over-year to RMB234.6 million due to lower transaction value. Effective one-time commission rate declined to 0.81% this quarter as we distributed more shorter duration credit products to address clients' uneasiness with the market volatility. For the first half of 2018, however, effective one-time commission rate was 0.97%, relatively flat compared to last year.

Now turning to our other financial services business segment. Revenues were RMB45.6 million, a 73% increase year-over-year, and operating loss narrowed further this quarter to RMB15.1 million.

In the second quarter operating income was RMB221.2 million and margin declined to 27.7%, primarily due to increase in marketing expenses and compensation. The comprehensive marketing campaign we launched this year was well received and further strengthens our brand value. We continue to build up our talent pools for both our wealth management and asset management businesses. These investments in brand equity and talent will enable us to grow faster than industry growth rate on a long-term basis.

Non-GAAP net income for the second quarter was RMB252.1 million, an increase of 11.3% year-over-year. This quarter we adjusted for RMB49 million of loss from unrealized fair value changes of equity securities, the main difference between our Non-GAAP and GAPP earnings.

On the balance sheet side, as of June 30, 2018, the Company had RMB2.1 billion in cash and cash equivalents, slightly down from the previous quarter. The cash outflow of RMB302.7 million from operating activities in the second quarter was mainly due to the temporary increase of other current assets for financial leasing business.

Overall, we are pleased with our first half results. Revenue grew 14.6% and we achieved Non-

GAAP net income of RMB508.5 million. Despite challenging headwinds, we are focused on delivering another year of profitable growth for shareholders. We maintain our full year guidance of RMB1.0-1.05 billion and will keep the market updated with any changes.

With that, let's open up the call for questions. Operator?

Questions and Answers

[Operator]

Thank you. We will now begin the question-and-answer session. (Operator Instructions). Katherine Lei with JPMorgan.

[Katherine Lei – JPMorgan]

I will ask in English first, and will translate into Chinese. So I have two questions. The first one will be what is your stand on the Huishan incident? We know that local regulator has issued a warning to Noah. So what is the development on that one?

The second thing is that if we look at the first half profits, do you think it's still on a good track towards your guidance of RMB1 billion, given that there are some uncertainties in the markets, and tough regulation to be implemented in the whole industry? Thank you. (Speaking Chinese).

[Jingbo Wang – Chairlady and CEO of Noah]

Jingbo Wang: (Speaking Chinese).

(Translated). Regarding your first question, so yes, we did receive a warning letter from the local Jiangsu Bureau of the CSRC. We interpret this warning letter as the local bureau getting pressure from a couple of Huishan clients who are making quite a lot of complaints regarding this product. The clients have asked us to bail them out, but this is against our business principle. So we are in the process of making administrative appeal because the content of the warning letter differs from the favorable ruling we received from court proceedings regarding the bankruptcy.

On the bankruptcy side for Huishan, overall, it's making good progress, and we are cautiously optimistic that there will be a successful resolution. The local government, as well as the national government, has highlighted the strategic importance of developing the dairy industry. So we think there are favorable drivers for a successful resolution of this public company.

[Kenny Lam – Group President of Noah]

Yes, Katherine, I'll add one more point about the whole regulatory environment. I think we're all dealing with this as we speak. I think the regulators are trying to strike a balance between adhering to the principle of no implicit guarantee, and also balancing clients' aggressive active tactics sometimes with the regulators. I think this warning from the regulator is one way for them to understand -- our understanding to relieve pressure on themselves while maintaining the guiding principle of no implicit guarantee. I think that's our interpretation.

[Shang Chuang – CFO of Noah]

Yes, Katherine, go ahead.

[Katherine Lei – JPMorgan]

(Speaking Chinese). So my question is, the simple way to interpret is Noah's management saying that you are not going to bail out the investors because of this pressure? Thank you.

[Jingbo Wang – Chairlady and CEO of Noah]

(Speaking Chinese).

(Translated). Yes, so in short, we will definitely not bail out investors. Actually, the regulator, after issuing the warning letter, called us and said despite the fact that they sent us this warning letter, we are not allowed to pay our investors. So the way we interpret this warning letter is, the local bureau trying to balance, on one hand, client complaints, but on the other hand, the national regulator trying to push the industry into a healthier manner of making sure that investors are liable for their own profits and losses.

[Shang Chuang – CFO of Noah]

So Katherine, if you don't have any follow-up on the first question, I'll take your second question.

[Katherine Lei – JPMorgan]

Okay, thanks.

[Shang Chuang – CFO of Noah]

Okay, sure. So the second question is regarding our full year non-GAAP attributable to shareholder net income guidance. So overall for the first half of 2018, we were quite pleased with the financial results that we achieved despite difficulties in the first half in terms of the operating environment. We note that transaction value was down first half versus the same period last year, but we still achieved double-digit revenue growth.

This is really attributable to the fact that over the last few years, we have been strongly developing our asset management businesses. We have a focus on improving our investment capability, which translate into higher fees. And so you see for the first half of this year, our performance fee is significantly up versus the same period last year. So this overall puts us in a very good base of trying to achieve our full year guidance. For the first half, we achieved non-GAAP net income attributable to shareholders of roughly about RMB510 million. So the results are in the range of full year guidance.

Now for the second half, obviously, there continue to be headwinds primarily from the hyper-regulation that Madam Wang and Kenny mentioned. I think regulators are fine-tuning that. Also, there continues to be uncertainty in terms of capital markets whether is in the U.S. or whether in China. So we are cautious, but we continue to focus on delivering a profitable growth year for shareholders. And for the second half, in addition to driving our revenue, we will also be focusing on better cost management. So from increasing revenue to better controlling costs, our goal is to deliver on our full year guidance.

[Katherine Lei – JPMorgan]

Thanks.

[Operator]

Yuan Xue with CICC.

[Yuan Xue- CICC]

Yuan Xue: (Speaking Chinese).

[Shang Chuang – CFO of Noah]

Sure. So for the benefit of the audience, I will translate the two questions from the research analyst of CICC. The first question is we note that registered client is higher this year; however, active client is lower this quarter. Can you explain the difference in trend?

Second is we note that performance fee for both the first quarter and second quarter of this year is significantly higher than that of last year. Can you provide a bit more details on these performance fees?

So I'll answer both of these questions. So our registered clients is up roughly about 30% this quarter. This reflects our successful brand campaign that we launched this year. So for an investor traveling in Hong Kong, in China, I'm sure you probably saw some advertisement of Noah. We, in the past, never have done such a promotional campaign, but we felt that in an environment like this, it's really important to further strengthen our brand equity. So the increase in registered client really reflects that.

So again, a registered client is defined as those clients who signed up for an account, or have gone through our basic know-your-client procedure, so they open account. Active clients is a metric where a client who bought product in a given period. So in the second quarter of this year, 4,461 clients bought products, so roughly flat compared to the same period last year. So in the uncertain macro-environment and uneasiness of investors, I think clients, especially newer clients, are taking a much longer time to observe before actually deciding and making an investment. So I think that it's quite understandable.

At the same time, Madam Wang also mentioned that registering private fund the last few months has taken much longer time than our experience in the past, and so that has also put some pressure on product supply. So active clients didn't grow this quarter primarily of two reasons. One, clients, our newer clients, are taking longer time to evaluate and making decision to invest; and second, we're seeing some pressure on product supply due to regulatory reasons.

On the second question regarding performance fee, we're quite pleased with the performance fees that we achieved for the first half of this year. The performance fee has been quite balanced. If you track our performance fee for the last 3 years, we have consecutively booked performance fees for the last 14 quarters. This really reflects the fact that we are a diversified strategy platform, i.e., we do private equity; we do real estate; we do secondary market products. And so it really helps us deliver investment returns to our clients through the cycle.

Specifically for the second quarter and for the first quarter as well, the performance fee is quite balanced. It comes from three of -- all three of our major asset categories, private equity, public markets as well as real estate. Also our offshore asset management also contributed roughly about 15%, 20% of the overall performance fee. So our expectation is that we'll continue to deliver on investment return, which will translate into a performance fee in terms of our income statement.

[Yuan Xue- CICC]

Thank you Shang.

[Operator]

And as there are no further questions, this will conclude our 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]

Why don't we wait for another minute or two? If we don't have any questions, we'll close the session.

[Operator]

Okay. (Operator Instructions). Daphne Poon with Citi.

[Daphne Poon – Citi]

I've got two questions. So first is you mentioned about some cost-cutting measures potentially into second half. So actually, I guess first, we noticed the operating margin was down quite a bit on a year-over-year or quarter-over-quarter basis, mainly because of the higher compensation expense. So I'm wondering what is your relationship management cost strategy here? And also can you give us some update in terms of your brand promotion campaign, whether you may consider like putting that on hold, given the challenging market outlook?

And the second question is, I noticed that the one-time commission fee rate for the wealth management products was down a bit on a quarter-over-quarter basis in the second quarter. So just wondering whether there's any specific reasons behind? Thank you.

[Kenny Lam – Group President of Noah]

I'll answer the first question and then Shang will answer the second one.

So the first question about the margin and the cost-cutting, we invested heavily in the first half in our brand promotion, the first time of such scale in the company's history. I think the whole idea is that we're now at a point where the brand can really be built, and can further consolidate the market. The impact is quite significant in terms of brand recognition. So you see, as Shang mentioned, that our registered clients has gone up substantially, and a few other measures including online recognition rate has also increased substantially.

For example, Baidu searches have actually gone up by over 200%. So the impact is quite substantial. We believe that that will eventually convert into active clients over time. The margin in the first quarter -- in the first half was actually largely affected by our investment in advertisement. I think that will be slowed down in the second half. That's point one.

Point two is we are looking to be much more conservative in the second half in terms of not only in advertisement, but also in terms of recruitment. We will continue to invest in strategic areas; for example, in front-line training. For front-line staff, we will be much more conservative. In areas such as mid and back-office, we will maintain quality over quantity.

We will be more strategic in terms of investments; also in client education, in global expansion. So that's basically what we intend to do. The whole idea is that we do foresee that there will be more volatility in the second half and maybe early next year, and therefore, we need to be a lot more prepared.

[Shang Chuang – CFO of Noah]

On the second question regarding effective one-time commission rate, as I mentioned earlier, the second quarter was lower, roughly around 81 basis points. This is primarily because we wanted to really lock in client capital in this time of uneasiness of global volatility, so we distributed more shorter-duration credit product. But if we look at the first half, I think the general trend is that we are still focused on the medium to long term to increase our fees.

So for the first half fees, it's actually slightly higher compared to that of the full year 2017, so roughly around 1%. It is in a very comfortable range of 80 to 120 basis points. We have always been in this range since we were listed in 2010. So for the full year of 2018, my expectation is that we'll continue to be in this range, probably in the mid to higher end as we continue to focus on rolling out a product that better demonstrates our investment capability.

But again, I think one of our competitive advantages is being flexible and nimble because there's a lot of macro changes, and the key issue is to engage with your clients, and I think that is important. And we have demonstrated that we are able to do that throughout different cycles of the market.

[Daphne Poon – Citi]

Okay, thank you. So maybe just a quick follow-up. So is it right to say that the lower fee rate or the offering of shorter-duration products is just maybe a temporary pressure, given this market environment?

[Kenny Lam – Group President of Noah]

Yes, I would say it's temporary pressure, or another way to phrase it is actually reflects our proactive strategy to better lock in client capital because clients are hesitant to put money for the long term, especially in May and June. So we were still able to engage them with shorter-duration products.

[Daphne Poon – Citi]

Okay. Thank you.

[Operator]

George Cai with JPMorgan.

[George Cai – JPMorgan]

I have two follow-up questions. I think the first one is on Opex. I think Shang mentioned in the previous call that the whole marketing campaign in the full year guidance is RMB80 million to RMB100 million for the marketing and advertisement. So we're wondering what's the current run rate of the marketing campaign? And do you have any quantification on conversion ratio into profits? This is my first question.

And then the second question is on the -- a follow-up question on fee rates. I think besides the wealth management fee rate decline quarter-over-quarter, on the asset management side, I think overall, management recurring fee, is staying flat. So we're just wondering, what is the outlook for the management fee in the Gopher side? So this is my second question.

[Shang Chuang – CFO of Noah]

So on the first question regarding Opex, I think if you look at the details of first half operating expenses, the margin was primarily down because of selling or marketing expenses. So as I mentioned in the past, we had never launched any brand campaigns. We are towards the end of that brand campaign. We have spent roughly about RMB60 million to RMB70 million for the first half. So I think the cost pressure in this regard for the second half would be much lighter. If you look at the other major line item, I think the increase has been in line or reasonable.

So for the second half, as Kenny mentioned, we will be very focused on cost, better cost management. And so we want to keep our margin for our full year at around 30%.

Now, in terms of contribution of our brand campaign to profit, I think that will take time to realize. We're already seeing increased traffic; we're seeing some initial conversion. But given the market environment as well as time for our relationship manager to follow up with these potential clients, I think it will take several quarters, if not into 2019, for us to really see a bigger impact.s

[Kenny Lam – Group President of Noah]

That one, I could give more numbers; I just gave that in the last answer partially. So there are two or three metrics we're looking at specifically. I think one is in terms of inquiries to our customer client hotline, and that one, we've seen about 8x to 10x increase in the second quarter.

Second is our online search rate and how our brand name has been searched. That one has gone up by over 200%. Third is, as Shang reported, in terms of our registered clients. That one has gone up by 30% year-over-year. So overall, we are happy with the brand campaign. The conversion will take time in terms of conversion from inquiries into active clients. The immediate conversion rates, I don't think we could track directly, but I think it will be shown over time. But overall, as I said, the three metrics have shown the right direction and matches our expectations.

[Shang Chuang – CFO of Noah]

Yes. And regarding your second question about effective fee rates, the effective one-time commission rate, I already explained earlier. But I wanted to clarify and point out that our asset management effective fee rate, it's actually higher this quarter, whether it's compared to the second quarter of 2017 or to the first quarter of 2018. So the asset management, effective management fee income rate is about 42 basis points.

So it continues to be in an upward trend starting from the beginning of 2017. This is a reflection of our expansion into co-investment and direct investments, demonstrating our investment capability. And with that, we're able to generate better returns to our clients and also be able to increase our fee take-up.

So our goal and strategy, continue to improve our overall fee across our different core businesses because we think having a better grip on the underlying asset is beneficial to the clients, as well as our business development.

[George Cai – JPMorgan]

Thank you.

[Operator]

Chen Gu with Artisan Partners.

[Chen Gu - Artisan Partners]

I just have a quick question. You recorded a cap gain from equity disposal. I'm just curious if there's more capacity for you to recognize disposal gains in the future?

[Shang Chuang – CFO of Noah]

Yes, so if you look at our balance sheet, we have a long-term investment of roughly about RMB800 million. So I think we obviously, depending on the market environment, we may decide to exit or dispose some of our long-term investment. So for the second quarter, we decided to exit some, to offset some of the brand campaign that we are investing in. But in short, there's definitely more room for us to realize gain from that regard.

[Chen Gu - Artisan Partners]

Okay. Thank you.

[Operator]

Okay. And there look to be no further questioners at this time. So I'd like to turn the conference back over to Kenny Lam for any closing remarks.

[Kenny Lam – Group President of Noah]

Well, thank you all for taking time to do this call. Our IR team will continue -- oh, I think there is one more question, right? Okay. I think we're good.

Okay. We'll take more meetings and calls post this conference call, and our IR team would be more than happy to answer any questions from analyst friends, okay? Thanks so much.

[Operator]

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