NOAH HOLDINGS 4Q 2018 EARNINGS CALL EDITED TRANSCRIPT

March 12, 2019, 8:00 PM (US EST)

[Operator]

Good day, ladies and gentlemen. Welcome to Noah Holdings Limited Fourth-Quarter and Full-Year 2018 Financial Results Conference Call. (Operator Instructions) As a reminder, this conference is being recorded. After the close of the U.S. market on Tuesday, Noah issued a press release announcing its fourth-quarter and full-year 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 statement 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 Shang Chuang, Noah's Chief Financial Officer. Please go ahead.

[Shang Chuang – CFO of Noah]

Thank you, Operator. I want to welcome all our investor and analyst friends to our earnings conference call today. For today's agenda, Ms. Jingbo Wang, Chairlady and CEO of Noah, will first briefly summarize Noah's overall performance for the full year 2018 and then discuss our core businesses, wealth management and asset management; as well as the overall market and regulatory environment. I will follow up with a detailed discussion of Noah's fourth-quarter and full-year financial performance in 2018. We will conclude the call with questions and answer session. Now I would like to turn to Ms. Jingbo Wang for her prepared remarks.

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

(Speaking Chinese).

(Translated). Thank you, Shang.

(Translated). The recently passed 2018 was marked by a global macro environment that was full of uncertainties, highlighted by Sino-U.S. trade conflicts, geopolitical frictions and global capital market volatility. Domestically, China is faced with rigorous economic downward pressure resulting from the compounding effects of several economic cycles, such as the downturn of economic growth, the turning point of demographic dividend, as well as the decline of consumer demand and employment. Real economy enterprises are facing difficulties in operations, especially those small and medium-sized companies with increased capital and cost pressures.

For the financial market, the general economic deleveraging, continued slump of A-share market and increased policy uncertainty accumulatively resulted in a hugely challenging year for investors. In 2018, bond defaults in China reached RMB120 billion; The outstanding balance of peer-to-peer online loans exceeded RMB1 trillion at peak, of which 70% were at risk, and the total number of online lending platforms decreased by over 50%; There were more than 400 listed companies of which the controlling shareholder's stock pledge rate exceeded 90%.

Looking at the short-term, market risks appear to have been fully exposed and investors' mentality is overall panic. However, from a medium- to long-term perspective, we can see that the market is actually brewing new opportunities. "The best way to eliminate risk is to expose the risk" and "never waste a good crisis" are the two phrases that helped us better understand the market situation in 2018, and also through this process can we truly witness the end of an era and the beginning of a new one. The crisis of 2018 allowed us to learn "you reap what you sow" and to experience the complete cause-and-effect cycle.

Several core viewpoints that we want to share with the market: First, the exposure of market risks will help accelerate the elimination of backward production capacity, leading to more reasonable pricing for all assets and a healthier market. Second, as China's GDP growth keeps slowing down, the market shares of various industries will increasingly concentrate to leading enterprises. Third, with the aging of population accelerating in China, demands for wealth management and asset management will remain robust. Meanwhile, with the market risks fully revealed, investors, regulators and market practitioners are all gaining greater sophistication. Benefiting from China's huge population base and market demands, we are convinced that, over time, there will be super-sized firms in the wealth management industry.

Especially after 2018 crisis, investors are beginning to understand that no single asset could consistently outperform in the market, and we are seeing increasingly urgent demands from high-net-worth clients for professional, one-stop wealth management services. The comprehensive capabilities that Noah has accumulated over the past 13 years in asset allocation, investment expertise and financial services for high-net-worth clients are gradually showcasing its values during the industry wash-down, and helped us become a company that could truly go through a business cycle.

Next, I will report to you Noah's 2018 performance. For our financial results in 2018, net revenues for the full year reached RMB3.29 billion, representing an increase of 16.4% year over year. Non-GAAP net income attributable to shareholders exceeded RMB1 billion for the first time, reaching RMB1.01 billion, an increase of 20.7% year over year.

In terms of core operational results, total transaction value of financial products for the wealth management segment remained similar year over year at around RMB110 billion. The AUM of our asset management segment continued to grow, reaching RMB169.2 billion, among which private equity investments increased by 15% and surpassed the threshold of RMB100 billion. We are happy and satisfied to realize such achievements in 2018.

Our two core business segments, wealth management and asset management, both made impressive achievements in 2018. In terms of wealth management, we now cover 83 cities in mainland China, as well as high-net-worth Chinese communities in Hong Kong, Taiwan, the United States, Canada, Australia, and Singapore.

Noah's high-net-worth client base continues to expand. The number of active clients who have placed orders over the year also grew 7% to 13,600. Our ultra-high-net-worth clients have increased both in number and their assets invested, while our comprehensive services for these high-end clients has also improved prominently, with dedicated teams providing value-added services. The number of our highest level "black card" clients has increased by 30% over the year, and 4 out of 10 black card clients having used one or more of Noah's value-added services. Through these endeavors, we have been able to develop a deeper connection with our clients and a more comprehensive understanding of their in-depth and long-term wealth management demands.

Concurrent with the upgrade of our client service system, we have also been putting forward higher requirements for the quality of our relationship managers. On the wealth management side, we have continued to maintain the elite quality of our relationship manager team. The total number of relationship managers has increased from 1,335 at the beginning of the year to 1,583 at year end, achieving a small but high quality increase. The turnover rate for top-performing relationship managers has also been reasonably kept low at around 4.6%.

Meanwhile, we have been striving to improve the professional capabilities of our sales team, organizing more than 200 training sessions for relationship managers and providing over 2,700 online courses at Noah University platform. The average learning hour for our relationship managers has reached 47.5 hours per year. Our annual training camps for elite relationship managers, as well as the 3-year Noah Private Banker project, have also helped them to further enhance their professional skills and better meet the increasingly complex and diverse needs of clients.

As our research brand, Noah Research Team is now fully integrated into the business process, and published 5 investment strategy reports and industry white papers as well as over 600 professional research reports and in-depth articles in 2018. We have also comprehensively launched the Noah Research Knowledge Library platform, which is shared with all employees, specifically to support and empower relationship managers.

"Technology leads Noah" continues to be an important strategy of us. We have continued to invest in technology with the goal of better supporting our business development. In 2018, we implemented a comprehensive upgrade of our Customer Relationship Management (CRM) system and the client mobile app Micro-Noah. To enhance compliance and know-your-client capabilities, we have also launched online audio/video recording and facial recognition functions, helping clients to execute online transactions more conveniently.

In 2018 we also received a series of industrial awards both domestically and globally, including winning the Best Wealth Manager China Domestic award by Asian Private Banker for the third consecutive year, shortlisted for Best Private Bank in China by Private Banker International, also winning the Best Independent Wealth Management Institution in China award by Asian Banker, as well as Best Independent Wealth Manager for High-Net-Worth Individuals and Best Wealth Manager for Overseas Asset Management awards by AsiaMoney. In terms of domestic heavyweight awards, we have won the Golden-Shell award for excellence in wealth management for the fourth consecutive year, the Golden-Tripod award for comprehensive wealth management institutions for the fifth consecutive year, as well as the Excellent Family Wealth Management Team award by Yi Cai and RFP.

In addition to enhancing the distribution capabilities of our wealth management business, we continue to develop Gopher Asset Management into a leading multi-asset manager in China, adhering to comprehensive asset allocation strategy and exploring synergies among various asset classes. By the end of 2018, nearly 60% of Gopher's total AUM was invested in private equity funds with duration of over 5 years, and nearly 15% was invested in offshore assets.

In terms of real estate funds, our main focus in 2018 was on preferred shares funds and acquisition of core properties in key cities. We remained strategically selective on working with high-quality developers and investment projects, and maintained ongoing project monitoring and active management. Our U.S. real estate team also began to manage its first real estate fund, primarily focusing on the investment in rental apartment projects in the United States. By the end of 2018, the AUM of Gopher real estate funds has increased by more than RMB11 billion, or 44% year over year, to reach RMB16.7 billion.

In the area of alternative credit funds, we have insisted on diversifying underlying assets and promoting net-asset-value-based portfolio funds. We have further improved our proprietary ABS credit system, conducting rigorous pre-investment counterparty screening and consistent post-investment monitoring of both our counterparties and underlying assets. In the full year of 2018, Noah distributed a record high amount of RMB75.5 billion in fixed income and alternative credit products.

In secondary market equity funds, Noah and Gopher continued to search for long-term champions in a depressed market environment and adhering to the philosophy of fundamental investing. In 2018, 80% of the secondary market managers selected by Noah beat the CSI 300 Index, and the average performance of existing products outperformed the benchmark by nearly 100 basis points. The annualized yield rates of our key products have all reached or exceeded 10% during the past three years, while the correspondent return for the CSI 300 Index was only minus 7.8%.

Gopher's fund-of-funds products have also been favored by institutional investors for their steady return and lower drawdown, with the flagship FOF and MOM fund outperforming the CSI 300 Index by over 150 basis points, and the Quantitative FOF realizing a 6.16% return and 3.88% low volatility in 2018.

Another important investment strategy upgrade that we pursued in 2018 was in discretionary multi-strategy and family-office business, with the AUM of related assets increasing by 86% year over year. As customers' trust in Noah and Gopher brands continued to increase, Gopher's discretionary multi-asset funds have also been garnering greater attention from high-net-worth clients, and able to cater to different risk appetites through a series of multi-currency, multi-strategy funds as well as fund customization for large clients.

In addition, Gopher won the bid in October 2018 to become the manager of the angel investment fund-of-funds supported by Hunan Xiangjiang New District. This is the first time that Gopher has participated in a government tender through competitive negotiation, demonstrating Gopher's brand and investment capabilities further recognized by institutional investors.

Year 2018 was a big year in China's financial regulations. Starting from the New Asset Management Guidelines launched in the first half of the year, various financial regulatory documents emerged one after another. According to incomplete statistics, there were accumulatively 349 policy documents issued by various financial regulatory authorities in the year. Through this process, Noah's core management team have reached a clearer consensus on establishing a comprehensive risk management system covering the whole business process, all relevant risks, and all products. The compliance and risk control capabilities at Group level have also been further strengthened in practice.

In 2018, we delivered steady and solid results amidst market anxiety and panic. In the face of crisis, moderate pessimism is both healthy and necessary. Only through accurate judgment and truthful reflection of facts can we make a proper response. "Trusting common sense and respecting the market" is the long-term philosophy of Noah, and we aim to endeavor on the micro level despite a change of macro environment. We believe that when a company has the ability to operate through business cycles, it can liberate itself from macro uncertainty and truly focus on real and long-term value creation.

For the year 2019, we predict it might be a light year in terms of economic growth, but heavy in terms of favorable government policy support. Local governments are issuing bonds to replace high-interest-bearing debts. Enterprises are enjoying reduced taxes and fees. The keynote of capital markets are shifting from risk prevention to market efficiency reform.

The opening-up policy is also accelerating in all relevant industries. For Noah, we have always been focusing on the demands of high-net-worth clients, while maintaining scalable profitability and positive cash flow of our core businesses. Looking into the future, we will proactively capture business opportunities with clear profitability and continue to invest in and incubate new businesses for long-term strategic growth.

I would now like to take this opportunity to introduce our new Group President, Mr. Yi Zhao. Mr. Zhao joined Noah in 2012 and has been serving as the Group's Chief Sales Officer and CEO of our wealth management segment for the past few years. Under his leadership, Noah's wealth management business has achieved milestone development. We believe that in his new role, Mr. Zhao will lead the company to further improve management capabilities, optimize operational efficiency and strengthen our brand advantages. At the same time, we'd also like to thank Kenny for planning and promoting Noah's key strategic initiatives during the past four years as the Group President. We respect his decision to return to Hong Kong for new professional pursuits, and sincerely wish him all the best in his future endeavors. Today, both Mr. Zhao and Kenny are here onsite at this earnings conference. They will also participate in the Q&A session.

This concludes my remarks. Now I will turn the call over to our CFO, Shang, to share our financial results for the fourth-quarter and full-year 2018.

[Shang Chuang – CFO of Noah]

Thank you, Chairlady, and hello everyone.

We are pleased with our solid financial performance for the fourth-quarter and full-year 2018. Net revenues in the fourth quarter increased 13.8% year over year to RMB822.1 million and full-year net revenues increased 16.4% year over year to RMB3.3 billion.

On the bottom line, non-GAAP attributable net income in the fourth quarter grew 29.2% year over year to RMB223.2 million; and full-year net income grew 20.7% to RMB1.01 billion, in line with the guidance we previously provided, reflecting our strong performance in 2018 despite macro headwinds.

I will now discuss in more details about our fourth-quarter financial results. We distributed RMB25.2 billion worth of financial products which generated RMB242.9 million in one-time commissions, substantially the same as the corresponding period in 2017. Recurring service fees for the quarter reached RMB448.4 million, up 13.1% year over year. Fourth-quarter performance-based income was soft at around RMB11.0 million due to weak performance of secondary market equity products. Lastly, other services fees more than doubled, reaching RMB126.2 million, primarily due to the growth of our lending business.

Operating income increased 17.8% year over year to RMB159.7 million in the fourth quarter, and operating margin was 19.4% compared with 18.8% for the corresponding period in 2017, due to improved cost control.

Now turning to full year 2018. Amidst challenging operating environment and market volatilities, we distributed over RMB110 billion worth of financial products, slightly down by 6.3%. Revenues from one-time commissions were RMB1.03 billion and effective one-time commission rate was 0.93% compared with 0.94% in 2017. Recurring service fees grew more than 26%, reaching RMB1.8 billion as Gopher AUM continues to grow, up 14.1%, and Gopher's effective gross management fee rate increased from 0.62% in 2017 to 0.76% in 2018. More than half of our total revenues continued to come from recurring service fees which enhances our resilience to economic cycles. Despite weak capital market performance in 2018, we achieved performance-based income of RMB143.6 million, up from the previous year. Revenues from other service fees was RMB361.9 million, primarily from our lending business.

Both of our core businesses grew in 2018. Wealth management revenues reached RMB2.3 billion, up 8.5%, as the growth in recurring service fees more than offset a slight decline in one-time commissions. Asset management revenues reached RMB748.5 million, up 27.3%, as both recurring service fees and performance fees increased.

Total operating expenses were RMB2.4 billion for the full year 2018 and operating income margin improved from 27.5% to 28.2%, as we meaningfully reduced losses for our other financial services segment. Specifically, total compensation costs were RMB1.6 billion, up 11.1% year over year, as we continue to recruit high-quality relationship managers and experienced investment professionals. Selling expenses were up 28.8%, due to the comprehensive marketing campaign we launched in 2018. G&A and other operating expenses were RMB279.4 million and RMB169.4 million, respectively, with 12.3% and 15.0% year-over-year growth. In 2019 we will focus on improving operating and cost efficiency, at the same time investing in technology and other strategic initiatives.

For the full year 2018 we achieved non-GAAP net income attributable to Noah shareholders of RMB1.01 billion, up 20.7%. In the reconciliation of GAAP to non-GAAP results we adjusted for share-based compensation, unrealized fair value changes of equity securities and for sale of equity securities, net of relevant tax impact. Attributable non-GAAP net margin was 30.7% in 2018 compared with 29.6% in 2017.

Moving on to the balance sheet. As of December 31, 2018, the Company had RMB2.7 billion in cash and cash equivalents, up from RMB2.4 billion in the previous quarter and RMB1.9 billion at the end of 2017. For the full year 2018 we generated more than RMB1 billion of operating cash flow, driven by profit earned from business operations and enhanced collection of factoring receivables.

Let me close with our profit guidance for 2019. We expect non-GAAP attributable net income to be between RMB1.13 billion to RMB1.18 billion, representing an increase of 11.9% to 16.8% over 2018. On the foundation of continued business momentum, we believe we are well positioned to deliver steady earnings growth and achieve long-term market growth.

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

Questions and Answers

[Operator]

We will now begin the question-and-answer session. (Operator Instructions). And our first question comes from Shengbo Tang of Nomura.

[Shengbo Tang- Nomura]

[Speaks in Chinese; repeats in English] Congratulations for the very good results and -- in a very challenging 2018. I've got two questions. Firstly, could you give us more color on the key difference between the non-GAAP net income and the reported net income, particularly the tax effects of the government?

Secondly, since the equity market sentiment this year is quite strong, [do you think] your guidance on non-GAAP net income is conservative? Thanks.

[Shang Chuang – CFO of Noah]

Thank you. I will answer these two questions. First for our guidance, we've been now listed for around eight years and I think our practice is to be prudent in terms of giving a full-year guidance. We note that for the beginning of 2019, capital markets did improve quite a bit. But if people recall, in the beginning of 2018 it's actually a very similar situation. So it's still very early on in 2019, we want to be prepared for any potential volatility. And, as always, we will update the market accordingly if our full-year guidance changes.

And regarding to the second question, for the reconciliation of GAAP to non-GAAP results, we primarily adjust for four items: One is share-based compensation; second is fair value change on unrealized equity securities; and the third is the actual sales of equity securities; and lastly, tax effects adjustments. The last item is new to our non-GAAP results adjustment, and this is in discussion with our auditor. We just want to make sure that for the non-GAAP result on a tax basis it is consistent with GAAP net income.

The detailed reconciliation can be found in the 6-K that we announced a couple hours ago.

[Shengbo Tang - Nomura]

Thank you. Thank you very much.

[Operator]

(Operator Instructions) And our next question comes from Daphne Poon of Citi.

[Daphne Poon – Citi]

Thank you for taking my questions. So my first question is actually a follow-up to the previous question about, like, the market and the investor sentiment. So I guess apart from the A-share market rebound, we also see lots of supportive policy coming out since late last year to call for more support, like, for the private sector or the SMBs. So I was wondering if there has been any change in terms of your current risk appetite or sentiment recently, given all this policy easing. Are there more -- are there any impact in terms of your transaction volume year to date? And especially on the PE product side we know that 2018 has been a pretty tough year, so wondering if there is any recovery on that front.

And the second question is about the management fee rate on the Gopher Asset Management business. We see that the fee rate was down a bit, both quarter over quarter and year over year, so wondering if we can have more color on that. Thank you.

[Shang Chuang – CFO of Noah]

Sure. Daphne, if you can allow us a minute to translate your question.

[Daphne Poon – Citi]

Yes.

[Shang Chuang – CFO of Noah]

I will answer the second question regarding Gopher Asset Management's fee rate, and Madam Wang will answer the first question regarding our high risk appetite.

So for Gopher, if you look -- I think you are referring to Gopher's net management fee rate, which was down quarter over quarter and year over year. The decline year over year is mainly because for certain product the split between our asset management and our wealth management is slightly different. So if you actually look at Gopher's gross management fee rate, it's actually improved versus 2017. So the full year of 2017 gross fee raised roughly about 62 basis points whereas for the full year of 2018 it's about 74 basis points.

So I would encourage analysts and investors to look at the fee rate on a net basis as well as a gross basis. And I want to remind people that for both our asset management business and wealth management businesses, they're both wholly owned and, depending on the products, the management fee rate from the segment reporting might be slightly different.

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

[Speaking Chinese]

[Translated] So year to date in 2019 we do note the pickup in A-share prices. And there's a bit of euphoria now in terms of public equity investing. However, if you look at it more closely, a lot of the increases is more weighted toward a smaller company or a company that [hasn't] yet really proven a sustained -- sustainable earnings abilities. And so we're still a bit cautious in terms of guiding our investors to increase their equity investments.

We are prudent in that we work and select with high-quality managers. These managers are more fundamental-based in terms of their investing approach. And we will help our clients to look at a time horizon that's 2 to 3 years rather than a short-term volatility either up or down.

Now, there have been a lot of discussions and policies on the new innovative board that will reform the way that private companies can be listed, particularly those in the high-tech sector. This introduction is quite promising. Actually, it will be quite good for a lot of our venture capital and private equity investment. I know last week one of the general partners that we're quite familiar with had lined up 16 meetings, or for 16 of their portfolio companies to meet with regulators about potential listing on the innovation technology board.

With that said, in terms of long-term risk appetite for our investors, I think it's not yet fully recovered. There's some improvement but, again, I think it's too early to conclude whether this is going to be a sustained bull market.

However, we will continue to maintain our advantages, particularly in equity investments. We strongly believe that China's equity capital markets will develop on a long-term basis similar to the U.S. So building and securing strategic relationship with quality asset managers is crucial. We believe the top 10% manager will generate the bulk of the return. And by building that long-term relationship and providing access to the manager we'll be able to maintain our leadership position in terms of working with and investing in high-quality equity managers.

[Operator]

Our next question comes from Yuan Xue of CICC.

[Yuan Xue - CICC]

[Speaking Chinese]

[Shang Chuang – CFO of Noah]

Thank you, Yuan Xue from CICC. For the benefit of the audience I'll translate your two questions. The first question is regarding transaction value for the fourth quarter. We note that it's slightly down year over year. It would be helpful if management could provide some color on transaction value for 2019.

The second question is we have noted that the large banks in China all have started plans to set up asset management subsidiaies. And from information that we have collected these asset manager subsidiaries can distribute various products to the public. So how do you think this will impact the wealth management industry as a whole?

[Yi Zhao – Group President of Noah]

[Speaking Chinese]

[Shang Chuang – CFO of Noah]

So Mr. Zhao wanted to comment on the first question. So for the full-year 2018 as well as the fourth quarter of 2018 transaction value is slightly down, around 5% to 7% year over year. The main reason is because in 2018 we saw the overall transaction value for private equity products or this asset class was down meaningfully, around 40 -- more than 40%. We performed slightly better than the overall private equity fundraising market as the overall industry fundraising was down more than 60%.

Now with that big of a drop in private equity in 2018, we still managed [to achieve] transaction value similar, slightly down from 2017. We have demonstrated, or continuously demonstrated, our ability to adjust product mix based on the changing economic and investing environment. So in 2018 you saw that our fixed-income products grew. We also distributed more insurance product in 2018 as well. This addressed our clients' risk aversion and so safer -- a product with higher certainty, more cash flow, was more preferred.

Now, we continue to work on diversified product strategies. We believe this is important, to be less correlated to economic cycle and be more resilient. For 2019 we think it will be a more favorable regulatory environment. For the real economy I think there will be some improvement, but we're still a bit cautious. So we really want to see actual improvement in the real economy.

Now for product mix in 2019 I think we will continue to focus on equity products that are investing in the long term, as Madam Wang mentioned. But, again, we want to be flexible and nimble and we want to be able to address our clients' demand, whether -- and regardless of the market.

Now, looking into our strategy for 2019, we will focus on growing our core businesses of wealth management and asset management and at the same time will further grow our value-added services. And then lastly, we want to start building and pushing for strategic initiatives regarding investing in technologies, building our mutual fund platform which is more global, and third, expanding Gopher's fundraising ability beyond existing Noah channels.

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

[Speaking Chinese]

[Shang Chuang – CFO of Noah]

So Madam Wang will comment on the second question regarding bank asset management subsidiaries.

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

[Speaking Chinese]

[Translated] As mentioned in my prepared remarks, I think 2018 was an overall very difficult year. And we saw various sectors within the financial industry undergo major reforms or restructuring. And really, through 2018 you saw the cause and effect of the overall market. So we are grateful that for 2018 not only did we survive, but we continued to grow our revenues and profitability.

Now, for the bank asset management subsidiaries, I think we are closely observing the development. We're watching. We would caution that these subsidiaries should not prolong or in another way continue to operate capital pool, which we think are not sustainable. I think it's important for these bank asset management subsidiaries to really develop core investment capabilities.

Now, 10 years ago when we first started our business, when we talked to international peers such UBS and Credit Suisse, they mentioned that when serving clients for the long term, it's really important to be able to provide product and services. And we didn't really understand that 10 years ago. We thought everything revolved around product.

However, 10 years later, today, we have seen that it's really, really important to be able to not only be product driven, but product and services driven. Our clients are now a lot more sophisticated. The way they evaluate and select wealth management firm is based on the ability to provide global comprehensive services. And so I think we are ahead of our peers in terms of building that ability and expertise. And we'll continue to develop our core competencies around that.

In conclusion for bank asset management subsidiaries, we are hopeful, certainly, by having more strong, quality product providers in the market it suits us because we're able to put -- select better products to help our clients direct and invest their money. But we will continue to observe it very closely. Thank you.

So the key lesson from 2018 is that a way to grow fast is that you don't need to repeat and start over. So I think a lot more respect for the market and a lot more respect in terms of risk.

[Yuan Xue - CICC]

[Speaking Chinese]

[Operator]

Our next question comes from Katherine Lei of JPMorgan.

[Shang Chuang – CFO of Noah]

Hi, Katherine.

[Katherine Lei – JPMorgan]

Yes. Can you hear me?

[Shang Chuang – CFO of Noah]

It's a bit light. It would be great if you could speak up or get closer to the microphone.

[Katherine Lei – JPMorgan]

Okay. Is this better now?

[Shang Chuang – CFO of Noah]

Yes, much better now. Thank you.

[Katherine Lei – JPMorgan]

Okay, sure. [Speaking Chinese]

So I have two questions. One question is on the lending business, because it beomes a driver for growth in the 4Q. Can we have some more details on the reason we were in the lending business? And what is the strategy on that one?

The second question is on WMP sales, because we noted that the percentage of -- the contribution from fixed income products has been increasing back to about 80% of the total WMP sales. What is management's guidance on 2019? Will that be a change in product mix? And if that is, then would that be a change in fee rates because we understand that different products will have different fee rates.

[Shang Chuang – CFO of Noah]

Thank you, Katherine. Madam Wang wants to address your questions first. And I'll provide some support in terms of numbers.

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

[Speaking Chinese]

[Translated] Yes. So the first question is regarding our lending business. Historically in terms of our wealth management business, credit has not been an advantage because we're not a bank. However, many years ago we have already noted that on a long-term basis, high-net-worth clients, or wealth management clients, would have short-term lending needs or credit needs. So we started to test on a small basis lending, collateralizing our clients' wealth management products and providing them with short-term loans. Then we expanded the credit business to -- for property collateralization.

The way that we approached our lending business, or credit business, is actually quite prudent. Over the last few years the NPL, nonperforming loan, is nearly 0. The way we look at our business is to provide lending to high-quality borrowers with very sound collateral. And so we will continue to expand this business with this approach. We want to lend to high-quality borrowers. And just to give you a sense, for 2018 the average LTV is around 70% and the average APR in the gross interest rate that we charge is around 10%. So both of these figures reflect the fact that we're working with, or dealing with, very high-quality borrowers. And the average ticket size for the loans is around RMB1 million.

Now regarding the second questions on transaction value for our fixed-income product, now, 2018 we did see transaction value for fixed income product to grow. This reflected the risk-aversion client sentiment appetite in 2018. And we were able to grow our fixed income product because we started to build our expertise and abilities around asset-backed securities many years ago, or earlier, three years ago. So we focused and worked with very strong counterparties, particularly in auto financing, consumer financing and supply chain financing. And that's the reason why we're able to increase the supply of these products.

Now over the last few months we saw that there's more liquidity in the market. There has been a decline in rates. And with that, we're still able to provide and secure a supply of high-quality products, just because we have built very strategic and very deep relationships with the counterparties that we have worked with over the last few years. We have connected our system to their system, so we get regular fees on the performance of the underlying assets. And so there's more than 100 million data points now.

And regarding 2019, I think we will still guide the Street that overall effective one-time commission rate, we would like it to continue to be around the range of 80 to 120 basis points. Now for the full year 2018 it's around 93 basis points, which is roughly the same for 2017. So I think -- a base case scenario I think it will be similar to that of 2018, but it really depends on how the market develops. But we want to maintain our pricing and our effectiveness.

[Operator]

And our next question comes from Edward Du of Deutsche Bank.

[Edward Du – Deutsche Bank]

I have two questions. The first one is a follow-up question to the distribution amounts. And I think that I just found according to the China Ventures data which you've quoted before, we've seen the PE/VC market distribution in January this year was still quite muted. Can you just let us know more about your year-to-date, maybe to just March, the progress of your PE/VC distribution amounts, year-over-year growth and overall trend? And do you see any price or risk appetite rebound regarding given the rebound of A-share market? And can we know more details about how the Technology Innovation Board could help your PE/VC distribution business? Because I think that's more related to your product exits. How does it help your product distribution side?

And my second question is about the tax rate. I just noticed that in your 4Q last year your tax rate just declined meaningfully to 16%, compared to last, like, 12 quarters the average is around 22% to 23%. May we know, is this a one-off reason? Or is there any reason to support a continual trend going forward in 2019? Thank you.

[Shang Chuang – CFO of Noah]

Yes. If you will give us a minute I will translate both of your questions to Chinese for my colleagues. Hold on.

[Edward Du – Deutsche Bank]

Thank you.

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

[Speaking Chinese]

[Translated] Yes. So for the overall transaction volume for venture capital and private equity for 2019, again I think it's difficult to predict, but I think there are signs of optimism, or there are ways that we can grow this particular asset class. For 2019 there's already a plan by some of the very top-tier, top-performing GPs to raise their new flagship fund in the second half of this year. So we have a very robust pipeline of fundraising for venture capital and private equity. I think the demand will be a function of how quickly investors' sentiment and appetite can recover.

But we want to continue to be a very active participant, a very active investor in private equity and venture capital. By maintaining our presence in investment we're in a better position to secure long-term strategic relationships with the top-tier GPs. And we believe the top-tier GPs will continue to gain market share and will continue to generate and earn the bulk of the returns.

Now for the introduction and development of the Technology Innovation Board, this is certainly going to be beneficial, not only for exits, but also for new fundraising. If the Board is successful in generating realized returns for previous funds, this will give a lot more confidence for an LP investor, particularly high-net-worth individuals and family offices, that they'll be able to see more distributions.

Now a lot of our family offices who are shareholders in listed companies, I think they have now really recognized this benefit and then investing in private equity.

And I think the overall private equity industry is becoming more sophisticated. Some of the unsophisticated capitals though, that are chasing for short-term gain are starting to exit the market. So I think overall valuation, overall expectation for the long-term growth of the industry is a lot more reasonable. Yes. So that's the first question.

[Shang Chuang – CFO of Noah]

Regarding the second question on the effective tax rate for the fourth quarter, I think generally for 2018, I think there's two main reasons that it's meaningfully lower as opposed to 2017. Number one, there were some realized investments that had a lot -- much smaller tax rate, because it was an investment that we exited offshore. So that's number one.

Number two, the tax rate will also be influenced by the split of our offshore business and onshore business, as the corporate tax rate for these two regions are different. But overall, coming into 2019 I think it's finally on the lower end of our historical effective tax rate. So I think for 2019 I think it should be closer to that of 2017 rather than 2018. But it should be in that range.

[Edward Du – Deutsche Bank]

Thank you.

[Operator]

Our next question comes from Emma Zhu of Merrill Lynch.

[Emma Xu– Merrill Lynch]

[Speaking Chinese]

So last month CSRC public administrative measures sourcing the public opinion on the sales agency of public-raised security investment fund and are raising the barriers for these sales agencies to distribute public-raised security investment fund. And we know Noah outright has the license. So I was wondering if these administrative measures really has any impact on our business. Thank you.

[Shang Chuang – CFO of Noah]

Thank you, Emma. I believe Madam Wang wants to comment on your question.

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

[Speaking Chinese]

[Translated] Thank you, Emma. As always, we believe that upcoming regulation, particularly around our core businesses such as wealth management is very important. We maintain very disciplined dialog with the regulators. And we have been actively providing comments to these draft regulations. The regulations that you quoted are a draft version and the regulators are actively speaking with market participants. So we have had several rounds of discussions with the regulators.

I think the background of the regulation for 2018 as well as going into 2019 is that over the last few years there have been a lot of -- or some aggressive players that are less compliant and they disrupted the overall market. So as a leading market participant and a compliant leader in the industry, we welcome more regulation. We think with more regulation it will ensure that the market and industry develop in a healthier manner. People are more compliant. And that should lead to overall industry consolidation. We are very confident about our compliance as we are much -- we hold ourselves to a much higher standard, interests like KYC, AML, as well as field reporting.

Now, for the draft regulations there are some points which highlight the development or the need to promote more mutual funds or standardized product. And as mentioned in my earlier comments, I think this is a strategic initiative that we will develop or provide more resources to ensure that our product offerings will expand into a mutual fund and on a global basis.

And lastly, I think that based on our conversations with regulators we expect there will be more details, or more updated policy regarding private fund sales. As you mentioned, the draft so far is mainly focused around public mutual funds. We expect there will be more details around how distribution of private funds will be upgraded and regulated. Thank you.

[Shang Chuang – CFO of Noah]

Operator, is there any more questions?

[Operator]

This concludes our question-and-answer session. I would like to turn the conference back over to Shang Chuang for any closing remarks.

[Shang Chuang – CFO of Noah]

So that wraps up our earnings call and thank you again, analysts and investors. Thank you very much.

[Operator]

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