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# EDITED TRANSCRIPT

NOAH - Q3 2019 Noah Holdings Ltd Earnings Call

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## PRESENTATION

### Operator

Good day, ladies and gentlemen. Welcome to Noah Holdings Limited Third Quarter 2019 Financial Results Conference Call. (Operator Instructions)  
As a reminder, this conference is being recorded.

After the U.S. market closed on Monday, Noah issued a press release announcing its third quarter 2019 financial results which is available on the company's IR website at [ir.noahgroup.com](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 materially differ 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 the 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 earnings press release posted on the company's website. Today's call will be hosted by Ms. Wang Jingbo, Chairlady and CEO; Mr. Zhao Yi, Group President; and Grant Pan, Group Deputy CFO.

With that, I would now like to hand the call over to Mr. Zhao Yi, Noah's Group President. Please go ahead.

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**Yi Zhao** - *Noah Holdings Limited - Group President*

[Interpreted] Thank you, operator. For today's agenda, I will first briefly summarize Noah's overall performance for the first 3 quarters as well as the development of our segment business. Chairlady Wang will then provide an overview of the macroeconomic environment and the company's product strategies and updates on the Camsing incident. Grant will then follow with a detailed discussion of Noah's third quarter financial performance. We will conclude the call with a Q&A session.

In the third quarter of 2019, Noah generated net revenues of RMB 840 million, up 0.4% year-over-year but down 3.4% quarter-over-quarter; non-GAAP net income of RMB 350 million, up 23.7% year-over-year and up 34.3% quarter-over-quarter. In the first 3 quarters, net revenues reached RMB 2.6 billion, up 5.5% year-over-year, and the non-GAAP net income reached RMB 920 million, up 17% year-over-year. We're encouraged to see the solid results achieved against the backdrop of challenging market conditions in third quarter.



In terms of wealth management, as part of our overall transformation strategy on our product offerings, we have stopped offering private credit products in the third quarter. As a result, we distributed a total of RMB 13 billion products during this quarter, representing a decrease of RMB 15 billion compared with the same period last year. If we compare the distributions during the 2 periods on an apple-to-apple basis, that is excluding the impact of private credit products, the distribution of other products increased by 119% year-over-year. As the alternative of private credit products, our bond fund and the mutual fund products, in particular, are continuously gaining trust and support from our clients. Consequently, distributions of our standardized products increased substantially by 74.3% compared to the previous quarters.

As of the end of the third quarter, the number of relationship managers was 1,368, demonstrating our efforts to proactively optimize and improve our RM roster. The number of the elite relationship managers remained stable with a turnover rate of only 3.7% in the first 3 quarters. Meanwhile, ultrahigh net worth clients are increasingly loyal to our service. The number of Black Card clients reached 875, up around 20% year-over-year. Their assets advised by us also increased by 53.2% year-over-year, while per capita AUA rose above RMB 90 million.

While high net worth individuals have a better understanding of risks from the evolving market dynamics, we also strengthened our investor education effort. In the third quarter, we organized 776 investor education activities, directly covering over 15,000 clients. As of the end of October, we have launched 141 video episodes of our investor education programs. With these new programs on our online platform, we recorded 4 million more views with an increase of 19,000 in program followers. At the same time, we continue to provide financial products and service that help high net worth clients mitigate risk, preserve wealth and inherent assets. This service not only ensured that we fulfilled their complex and diversified allocation needs but also enable us to benefit from increasing synergy effect with the sales system of our traditional financial products.

In terms of the asset management, the AUM by the end of the third quarter increased by 7.5% year-over-year but decreased by 2.4% quarter-over-quarter to RMB 176.5 billion. The quarter-over-quarter decrease is due to the accelerated maturity of 7.3 billion private credit products, which is an active choice by us to accelerate our product transformation.

Except for the credit asset category that is under our strategic transformation, all other asset categories have zoomed along their growth trajectories. It is worth mentioning that the total AUM of bond funds denominated in RMB and U.S. dollar sustained its growth momentum from the second quarter to reach RMB 5.49 billion in third quarter, which is up 42.8% quarter-over-quarter. This growth has demonstrated the benefit that we have started to reap from our product transformation.

Additionally, Gopher Asset Management product has been included in the wide list of multi-large-scale security dealers and banks. So far, we have complete the product adoption procedure for one of the security dealers. We believe that expansion of external distribution channels will drive Gopher's multidimensional growth. In the future, Gopher will keep focusing their strategy on asset allocation and better investment. We're confident that our commitment to our core values will help establish Gopher as a trustworthy asset management company.

Our overseas business maintained strong growth momentum. In the first 3 quarters, the total revenues of our overseas business increased by 33.7% year-over-year to RMB 710 million, accounting for 27.2% of the group's net revenues. As of the end of the third quarter, the overseas AUM reached RMB 25.6 billion, up 7.8% year-over-year, while remaining relatively stable on a sequential basis.

In September, our Canadian office successfully obtained license to operate as an investment fund manager issued by 2 Canadian provinces, which is the third license after obtaining our exempt dealer and portfolio manager license. In addition, the election of our Hong Kong office as a member of the Asia Pacific Committee of the Standards Board for Alternative Investments in October illustrated the global recognition of our standardized practice and integrity. We will leverage our new status to launch our fund operation into a new cycle of growth and create long-term excess returns for our investors.

Now I would like to briefly update what we have done to enhance our operational efficiency. Since the beginning of 2019, our efforts in optimizing management structure and establishing operating procedures have started to improve our operational efficiency. Building on what we have achieved in the last quarter, we further enhanced our efforts in the following areas during the third quarter.

Firstly, we upgraded our risk management system. We further beefed up our independent risk management and the compliance team to each individual business level now to not only strengthen our risk management capabilities but also ensure better compliance with regulatory requirements.



At the group level, we continuously improved our products' end-to-end risk management process. Now our systematic risk management process covers continuous optimization of risk management procedures, disposing risk projects and sorting underlying assets.

Secondly, we're putting in place more stringent cost control measures and optimized our organizational structure. The personnel-related expense were reduced by 9.7% quarter-over-quarter with improved oversight on major expenses. We're also seeing sequential reductions in nonpersonnel-related administrative costs. With that said, however, we are still committed in our investment and product-related researching capabilities and established an independent research center dedicated to providing timely and effective professional research for our investment teams.

Thirdly, we continue to drive the digitalization process for our core business procedures and scenarios. In the third quarter, we upgraded the dual recording system to support point-to-point review verification. We also launched our OCR-based contract validation system to further digitize our compliance procedures. With the newly launched mutual fund separate management account, realizing complete paperless product transactions, the electronic contract assigning will greatly improve the business development efficiency of relationship managers.

Going forward, we will remain devoted to building up a diversified high-quality open platform. In addition, we will also focus on expanding our presence in overseas market as well as developing a complete process of comprehensive financial service. Although we face challenges ahead, our determination to maintain market leadership and become a reliable platform for global Chinese high-net-worth clients will remain unchanged.

With that, I would like to turn the call over to Noah's Chairlady and CEO, Ms. Wang Jingbo.

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**Jingbo Wang** - Noah Holdings Limited - Co-Founder, Chairwoman & CEO

[Interpreted] Thank you, Zhao Yi. The year of 2019 will mark the beginning of the paradigm shift in China's wealth management industry. What I mean by paradigm shift, meaning the occurrence of the fundamental change in the industries' underlying dynamics following changes in the macroeconomic environment and the regulatory policies.

Take wealth management and asset management as an example. All industry players, including but not limited to asset management companies, distribution channels, trustee agencies, client relationship managers and others are embracing the paradigm shift that changed how value is created throughout the industry value chain in the face of new laws, regulations and macro policies. The introduction and the gradual implementation of the new asset management guidelines have truly broken the illusion of implicit guarantees of all participants and from the industrial consensus of supply-side finance reform by converting nonstandard to standard products. On October 12, the Central Bank issued rules for determining standardized debt assets on its website, fully launching the era of the NAV-based standardized products.

In terms of our wealth management business, we remain dedicated to providing comprehensive wealth management service to high-net-worth Chinese individuals all over the world. Our commitment to maintaining an open platform and cultivating industry-leading relationship managers enable us to transform from product sales driven to investment consultant-driven. In terms of product insurance, we're more focusing on distributions of products from major financial product suppliers and the selective top managers. For other comprehensive services, we continue to provide clients with multifaceted service, such as insurance, trust, credit and immigration-related service, so as to meet the diverse needs of high-net-worth clients.

Overall, our operational strategy has been well received by our teams and the market. In the third quarter, the total number of active clients in the group level was 9,961. In the third quarter, the total transaction value of our products was RMB 13 billion, down 46.8% quarter-over-quarter due to the termination of our private credit products. In the third quarter, 266 private credit funds in the amount of CNY 7.3 billion were distributed to our clients, among which consumer finance and auto finance accounted for nearly 80%. For the remaining similar products, we're also working with the counterparties to accelerate the maturities as contract permits until they are fully retaken by our clients.

For public security products, the total transaction value reached nearly RMB 7.4 billion in the third quarter, increasing fourfold year-over-year and 23.6% quarter-over-quarter. The transaction value of bond funds and the mutual funds accounted for nearly 92% of the total. Since the launch of our smartphone app, as of the end of the third quarter, total transaction value for mutual funds have reached RMB 9.56 million -- RMB 9.56 billion



for the first 3 quarters, and per capita value is CNY 152,000. The number of active clients for mutual fund in the third quarter has been up 40.9% year-over-year and 53.8% quarter-over-quarter.

For the asset management segment, we are reemphasizing that Gopher is dedicated to its comprehensive asset allocation strategy and creating absolute returns for clients. As of the third quarter of 2019, the AUM of Gopher's private equity funds reached RMB 105.9 billion, up 9.3% year-over-year and 1.4% quarter-over-quarter. In the third quarter, among all private equity funds managed by Gopher, 9 companies have gone public in domestic and overseas capital markets, including 5 listed on the sci-tech innovation board. Additionally, 3 companies have been approved by the CSRC and are making final preparation for their IPOs. As of the end of the third quarter of 2019, the total AUM of real estate funds increased to RMB 18.7 billion, up 12.7% year-over-year and down 2.1% quarter-over-quarter.

For our core real estate assets, the occupancy rates of Shanghai Gopher Center and Qibao T2 office building have both exceeded 95%. We have also completed the constructions for Shanghai Gopher Shanghai Plaza, which has then entered the rental stage. In terms of the Gopher overseas real estate funds, in the third quarter, the AUM of our U.S. New York real estate investment funds increased by over USD 30 million.

The AUM of Gopher's public security products exceeded RMB 9.5 billion, up 95.9% year-over-year and 17% quarter-over-quarter. For a portion of our clients, our bond fund effectively fulfilled their demand for fixed-income products. The AUM of our bond fund was about RMB 3.5 billion, as NAV-based products are gradually accepted by investors. Investment returns of Gopher-managed secondary market FOF and MoM flagship funds both exceeded 15%. Specifically, the flagship MoM fund achieved a positive return of 19.46%, while quantitative FOF yield a positive return of 8.23%. Since establishment, Gopher's public fund portfolio fund establishment has delivered an annual return of 17%. Moreover, the AUM of multistrategy fund reached RMB 8.9 billion, up 64.8% year-over-year and 4.7% quarter-over-quarter.

Next, I would like to provide a brief update on the progress of the Camsing incident. The Camsing incident is suspected to be a carefully planned and complex fraud with a longtime spend and a number of suspects. We continue to fully cooperate with the public securities and the judiciary investigations as they look into this matter. It is expected to take a long time to completely discover the truth and solve the issue. We engaged a group of top law firms with different specialties as well as a special task force led by senior management members that are responsible for this issue.

The Camsing incident was truly a wake-up call for everyone at Noah and reviewed the heavy concentration on the single products category. As omnipresent as the truth may be, the incident led to unanimous decision to move away from our dependency on private credit products. In addition, we are also determined to accelerate our transformation from private credit funds to more standardize the product, such as [funds of fund], from a product-driven strategy to a more comprehensive service-driven strategy, from product results-oriented to investment advisory-oriented, from tunnel visioning on the scale of transaction values to overall enhancing investment capabilities of active management. The incident has rejuvenated our vigilance about the market and helped us to realign our focus on common sense and our funding principles.

Meanwhile, it helped us to form a deeper understanding of the wealth management and asset management industry. In almost all other industries, client experience is the deciding factor for product quality. By contrast, in the wealth management and asset management industry, the vast majority of the clients cannot directly evaluate the quality of a product or service that they receive. This is not only the case for clients and the regulators, even practitioners may sometimes having a hard time evaluating the real quality of each financial product until the investment value has been fully realized. Therefore, practitioners of this industry must truly value their fiduciary duty.

On the other hand, investor education and the selection of qualified investors are also the cornerstones of the industry. We must pass our common sense and the knowledge of the industry to qualified investors and regard this as our moral responsibility. Investments are not deposits. It has risks. While we don't offer implicit guarantee, it does not mean that we're irresponsible. Finance industry is all about operating and managing risks, which is not some time -- which is not something one can completely eliminate but can only diverse and disperse. Every financial advisers, every client and every product developed needed to adhere to the principle of asset allocation.

2019 marks the 16th year since the establishment of Noah. In the past 16 years, we have made many mistakes, each bringing us memorable or even sometimes painful experience, but they also present opportunities to reflect on our practice and make continuous improvement. The lessons that we learned from our mistakes enabled us to make better business decision and understand the importance of preservation and the sacrifice.



Noah's survival throughout various cycles and the risks depended on our commitment to common sense by ensuring that all funds are independently managed in custodian accounts without any practice of fund pooling, cycle financing, [implicit] guarantees, term mismatch or utilization of leverage.

Our mission statement is enriching lives with wealth and wisdom. Meanwhile, we cherish the core values of integrity and professionalism, client satisfaction and the passionate service, willingness to adapt as well as high moral values. Our commitment to our principles and core values are what keeping us inspired and motivated. I firmly believe that, by dedicating to these core values and principles, time will prove the resilience of Noah and the wealth management industry.

Finally, with mixed feelings, I would like to announce that Shang is leaving the firm in pursuit of a different career path in a new industry as of this month. Our Deputy CFO, Grant Pan, will assume Shang's responsibilities as our CFO.

Grant was a former partner of Deloitte China, a member of Deloitte's National Accounting Research Expert Group. He has certified public accountant qualifications in the United States, Hong Kong SAR and Mainland China.

I would like to take this opportunity to express my gratitude for Shang's outstanding contributions to Noah. Since joining us in 2011, we all highly admire Shang's honest personalities, strong execution capabilities, unwavering dedication in the past 8 years and a firm determination to follow through on every task even after he decided to explore new opportunities in another industry. As professional and responsible as ever to leaving his duty only after helping us wrapping up on a few key issues and located a qualified CFO replacement. Everyone at Noah, including myself, deeply respect his professionalism, responsibility and the devotion to the company.

I would like to thank Shang again for his efforts and the devotion to Noah and wish him all the best in the future.

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#### **Shang Yan Chuang - Noah Holdings Limited - CFO**

Thank you, Madam Wang. It has been an honor to work with Noah the past 8-plus years. As mentioned, I'll be pursuing new endeavors outside of the financial services industry. I'm confident Grant will continue to strive for excellence in his new role, especially with the investor community. Lastly, I am proud to have been part of the Noah team, and I wish everyone the best.

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#### **Grant Pan;Deputy CFO**

Thank you, Shang, and hello, everyone. Before I dive in this quarter's results, I'd also like to express my gratitude, Shang, and it has been a great 3 years period working with him side by side. It's always hard to see a friend leave, but at the same time, I'm also already excited to see him succeed elsewhere with his talents and experiences. Thank you, and we wish you all the best, Shang.

In the past quarter, we did travel a stretch of a bumpy road, including the product transformation, the Camsing incident as well as global and regional turbulences. But I'm pleased to report a solid set of financial results for third quarter, which fairly demonstrated the resilience arising from the revenue structure and continuous improvement of operational efficiency.

For the third quarter, our total net revenues were RMB 842 million, up 0.4% year-over-year and down by 3.4% quarter-over-quarter. Non-GAAP net income was RMB 353.7 million, up 23.7% over the same period last year and 34.3% from the last quarter, showing earning power arising from business diversification.

And now let me take you through performances by revenue mixes, then by segment. If we look at the type of revenues, on the onetime commission revenue, due to the fact that we stopped offering private credit products in this quarter, onetime commission revenues of this quarter were RMB 150 million, down 35% comparing the same period last year. But keep in mind, in that period last year, 80% of the CNY 22.8 billion -- 80% or CNY 22.8 billion was private credit products.



Now if we do a comparison apple-to-apple, the transaction value this quarter actually increased by 119% from the same period. More than that, we distributed RMB 6.9 billion of standardized products with a 74.3% increase quarter-over-quarter. The transformation has started showing good momentum.

On the other hand, recurring service fees were RMB 521.6 million, up 9% year-over-year with the further proportional growth to total revenue. The key attributes of the growth were primarily incremental total AUM as well as fees arising from accelerated repayments of certain credit products. We're also delighted to report that this is the 22nd consecutive quarter that we have recorded performance-based income for RMB 42.7 million. In addition, revenues from other comprehensive financial services to our clients is also growing. This quarter, revenues from lending and other services for providing value-adding service to clients were RMB 132 million, grew almost 1/3, 33.5% year-over-year.

The temporary pressure on the onetime commission revenue caused by product strategy shift was alleviated by the growth in recurring revenues and comprehensive service revenues, which led to an overall slight increase in the overall revenue. From a segment standpoint, wealth management business, still the #1 revenue contributor, accounted for 64.4% of total revenue, recorded total revenue of RMB 542.3 million and down by 6% comparing with corresponding period in 2018.

Asset management business achieved revenues of RMB 240.4 million, recorded a strong growth of 21.1% year-over-year and accounted for 28.6% of total revenues. The continuing growth of asset management business and performance-based income also demonstrated our well-enhanced capabilities of active management of assets and investment capabilities and how having a steady case of AUM helps the business through a choppy cycle of economy.

Operating profit for the third quarter was RMB 234.3 million, down 7.0% year-over-year. Operating margin was 27.8% comparing to 32.3% year-over-year. The decrease can be mainly attributed to higher SG&A expenses of RMB 104.5 million, up 74% year-over-year. The majority of that increase were generated by litigation and legal expenses that we have incurred as an effort to preserve and recover assets from the Camsing incident. Meanwhile, we continue to focus on improving our operational efficiencies by limiting the number of nonperforming personnel, both in the front and back offices.

So in the third quarter, the number of total employees declined by 6%, and total compensation benefits expenses decreased almost 10% correspondingly on a quarterly basis. We also adopted stringent cost control, focusing on eliminating unnecessary business travels and internal meetings or conferences. Non-GAAP net income came to a single quarter historical high of CNY 354 million with the adjusting items of share-based compensation expenses CNY 21.3 million as well as CNY 140 million of gains realized upon the sales of our investments in equity securities.

Now with the efforts made to improve operational efficiencies, one of our finance-led strategic priority is also to improve the asset turnovers and liquidity. We sped up the collection of accounts receivables this quarter, which declined by 12.6% sequentially and with the proceeds received from sales securities. Cash and cash equivalents have risen about CNY 800 million. The debt asset ratio has been lowered to a historical low of 16.4% with no interest-bearing debt on our book.

We believe we have built a robust balance sheet that is ready to take us through the cycle of economy that's still with -- filled with unknown challenges. All in all, we're very happy with the results of third quarter and confident with the firm's future performance on the back of our comprehensive service offerings as well as diversified revenue stream.

We're confident about maintaining the previous guidance for the 1 to 1.1 -- from CNY 1 billion to CNY 1.1 billion non-GAAP net income for the year of 2019.

Now we're ready to take questions. Operator?



## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions) Your first question today comes from Kathy Lei with JPMorgan.

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**Katherine L. Lei** - *JP Morgan Chase & Co, Research Division - Research Analyst*

I have 2, mainly. The first one is on the Hong Kong business. I see the net revenue from Hong Kong drop in 3Q. So I'm wondering, like, first, is that related partially to the social unrest in Hong Kong? And what is the trends going forward? And then maybe what's the trend that you have seen in 4Q so far?

Second thing is on the credit products because we noted that there's a very sharp drop in credit products in 3Q and, as explained, is partly because of the withdrawn of the nonstandardized products. But I'm just wondering, like, are you going to totally exit all nonstandardized product as part of your strategy? Or you are going to retain some of the good quality ones in the asset mix going forward? And then after that, what is the trend in wealth management sales related to the key product and credit products so far in 4Q?

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**Grant Pan;Deputy CFO**

Thank you, Katherine. Let me translate the 2 questions to Madam Wang and Group President, then we'll get back to you shortly.

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**Jingbo Wang** - *Noah Holdings Limited - Co-Founder, Chairwoman & CEO*

(foreign language)

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**Grant Pan;Deputy CFO**

[Interpreted] So the first question, Madam Wang's comment is that, in association with the social unrest situation in Hong Kong, it did not have a lot of impact on the asset management side as, actually, our main business in Hong Kong is the raising and distribution of product. In terms of the insurance, as it actually requires a physical visit to Hong Kong to finish the physical check, so it does have a short-term impact on that. We do have backup plans, and we're actually undergoing the plans to actually establish and obtaining the licenses from Macao and Singapore, which we believe will provide a good alternative to our clients in terms of insurance products.

And on the credit product side, yes, we have made a strategic choice of completely moving away from the single counterparty credit product, as you could see this quarter. But obviously, we're not ruling out that, if there is a very good quality of similar products, we're looking to see if we have a different model that would actually help place that product for our clients.

And in terms of the PE product, we're actually seeing a very encouraging sign that, with the more stringent KYC requirements, lots of smaller key GPs are having sort of difficult days raising funds, and also the fund distributions are concentrated for the top GPs, which we happen to maintain very strong relationship with these top GPs. So we believe that, one, is that we're continuing to demonstrate our conventional strength in terms of distribution for the PE product. And we're actually seeing a growing trend in terms of distribution fees for the top GPs as the services we have to put in place to comply with the stringent KYC as well as the follow-up services for our clients. So we're seeing good signs in terms of PE distribution. I hope that answers your question, Katherine.

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**Katherine L. Lei** - *JP Morgan Chase & Co, Research Division - Research Analyst*

I have a follow-up question. So on the nonstandardized products, does this include like the consumer credit-related products. And also that, like, say, in Gopher, right, what is the sort of nonstandardized credit product still in Gopher?





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**Grant Pan;Deputy CFO**

Can you repeat that?

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**Katherine L. Lei** - *JP Morgan Chase & Co, Research Division - Research Analyst*

(inaudible) Okay. First is that on the nonstandardized credit, does it include the consumer credit that you have with (foreign language) that you cooperate with (foreign language), does it include it in the nonstandardized products?

So the second question is that, in your Gopher AUM, what is the stock of nonstandardized credit that is still there because I assume that those -- once they reach maturity, then you won't go over, right? So I just wanted to see what is the potential downside on the asset management business as well?

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**Grant Pan;Deputy CFO**

Thank you, Katherine. The answer to your first question is yes. On the nonstandardized, especially, we're strictly speaking about a single counterparty private credit product, includes consumer financing products like [JD and Mahjong] like we have mentioned. And the impact on the Gopher AUM is primarily, like we mentioned before, that the change in the AUM mix that is going to shift basically from, especially the single counterparty credit product to standardize products in that particular category. So the remaining duration for the private credit product is probably between 12 months to 16 months at the original terms. So for the remaining products, we're seeing hopefully completing -- coming down to a limited amount in the second half of next year. And at the same time, the distributions for the standardized products are climbing up, and we're hoping that growth in the particular standardized products will take up a little bit of space for that void sort of in the AUM for Gopher.

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**Jingbo Wang** - *Noah Holdings Limited - Co-Founder, Chairwoman & CEO*

(foreign language)

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**Grant Pan;Deputy CFO**

[Interpreted] So Chairlady Wang supplemented that during the transformation in the third quarter, we did realize that there's still very ample room in terms of standardized bond market. And with the strong counterparties that we have worked with in the past, for example, [JD and Mahjong], they also have been issuing public ABSes in the past. And we believe if we do look into that and are satisfied with the quality of those products. We believe on the public ABS side, we'll be able to partner with them from a standardized bond fund side.

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**Jingbo Wang** - *Noah Holdings Limited - Co-Founder, Chairwoman & CEO*

(foreign language)

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**Grant Pan;Deputy CFO**

[Interpreted] Yes, we have also added in-house credit rating team and -- since the beginning of this year and also adding the research teams to enable the researching ability for the standardized bond investing capabilities.

**Operator**

(Operator Instructions) The next question comes from Xue, Yuan with CICC.

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**Yuan Xue** - *China International Capital Corporation Limited, Research Division - Research Analyst*

(foreign language)

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**Grant Pan;Deputy CFO**

[Interpreted] Okay. For the benefit of the audience, I will translate Xue, Yuan's question from CICC. The first question is regarding the change in number of active clients in third quarter, and he was wondering what is the main reason for the change or decrease, especially in which tier, the lower tier or the higher tier of the client basis?

And secondly, he has a question specifically for Chairlady Wang about the macro environment, especially in the downward cycle of the economy. And what will be the competitive landscape in the next few quarters?

Xue, [I hope I recapped your question okay]?

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**Jingbo Wang** - *Noah Holdings Limited - Co-Founder, Chairwoman & CEO*

(foreign language)

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**Grant Pan;Deputy CFO**

[Interpreted] Okay. Let me translate the first question as well. For the previous sort of criteria to define the active clients who actually only included clients with transaction -- single transaction values over CNY 1 million. But now we're transforming to standardized products, including mutual funds. So sometimes, the transaction values may not be over CNY 1 million. But if we do include that particular group of clients, the total number of active clients is actually close to 10,000. It's 9,961. So that actually indicates a pretty good jump from the previous period. And also, if you look at our core group of clients or the higher tier of clients, which is the Black Card clients, take them as example, actually has increase of 7% from the same period last quarter. And their actual average AUM or AUA with us is over CNY 90 million. So if you look at the top tier clients or the total number of active clients, actually shows a pretty good trend of growth.

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**Jingbo Wang** - *Noah Holdings Limited - Co-Founder, Chairwoman & CEO*

(foreign language)

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**Grant Pan;Deputy CFO**

[Interpreted] Okay. So on the topic of macro environment as well as competitive landscape, we believe actually the situation or environment now is actually helping us in terms of competition. The first important reason is that investors are gaining deeper understanding of this financial service industry in the past, and they actually started to appreciate companies like us who continuously being transparent and disclose risks, or sometimes the things were probably not doing perfectly, but they are gaining more trust for this type of clients. And for example, after the Camsing incident, we have started sort of a group to initiate one-on-one discussions with our clients. And I believe we're pleasantly surprised that a lot of our clients are getting more and more matured in terms of -- with the knowledge of this market. And they understand especially the risks associated with the investment.

And secondly, in terms of competitors, especially from maybe some security brokers or some brokerage firms that we're seeing recently, they are being quite aggressive, to be honest. But we're pretty confident about remaining the competitive advantage from our size is that, one, we're obviously still having the first-mover advantage. And we're having pretty good customer loyalty and stickiness with us. And third is, we have a very stable group of elite RMs that will help us through this particular cycle. And 3 things we're doing are focusing on to maintaining that competitive advantage is, one, we're continuing focusing on the investor education; and two, is to train up our RMs, especially on our transformation of new products and IC capabilities as well as continuing to strengthen on the product strategy.

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#### Operator

This concludes our question-and-answer session. The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.

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#### Grant Pan;Deputy CFO

Thank you, everyone.

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#### Jingbo Wang - Noah Holdings Limited - Co-Founder, Chairwoman & CEO

Thank you.

[Portions of this transcript that are marked [Interpreted] were spoken by an interpreter present on the live call.]

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