

**Noah Holdings Limited [NOAH]  
Q3 2021 Results Conference Call  
November 23, 2021, 8:00 PM ET.**

Company Representatives

Jingbo Wang, Co-Founder, Chief Executive Officer

Grant Pan, Chief Financial Officer

Analysts

Ethan Wang, CLSA

Nick Chu, Credit Suisse

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**Presentation**

Operator: Good day, and welcome to the Noah Holdings Third Quarter 2021 Earnings Conference Call. (Operator Instructions). After today's presentation, there will be an opportunity to ask questions. (Operator Instructions). Please note this event is being recorded.

I would now like to turn the conference over to Mr. Grant Pan, Chief Financial Officer. Please go ahead.

Grant Pan: Thank you, operator. And for today's conference, I'll first introduce the quarterly financial results, then we'll hand back to Chairlady Wang, followed by a Q&A session.

Good morning, everybody, the investors and analysts. I'm happy to share with you the solid financial results for the third quarter of 2021, with continued growth achieved across revenues and client activities. We are excited to see continued growth in our black card and diamond card clients, demonstrating successful implementation and execution of the upgraded client servicing strategy, as well as record-high recurring service fees, thanks to the improved asset mix we allocate for our clients. We are also happy to report that we are ahead of the schedule to deliver the full year Non-GAAP net income guidance with RMB1.1 billion recorded in the first three quarters of 2021.

Net revenues in the third quarter was RMB908.9 million, up 1.1% QoQ and 5.8% YoY. One-time commissions were RMB215.1 million, down 12.9% amid market turbulence and increased prudence over policy outlook from the last quarter, but still up 10.4% YoY. Recurring service fees were RMB566.9 million, a record high since listing, up 13.7% QoQ and 1.2% YoY. The growth in recurring service fees was attributed to our growing assets

under advisory, or AUA. Performance based income was RMB82.1 million, down 32.6% QoQ and up 16.5% YoY, mainly contributed by profitable exits from our overseas PE products.

Income from operations was RMB228.9 million, down 31.8% QoQ and 34.1% YoY, with an operating margin of 25.2%. The decline in operating margin was mainly due to increased efforts in talent acquisitions and retentions, continued investments in IT infrastructure, increased marketing activities, increased depreciation and amortization expenses related to our newly acquired headquarter, as well as the pre-planned execution of our yearly strategic investment budget. Non-GAAP net income for the quarter was RMB284.2 million, and RMB1.08 billion for the first three quarters, giving us confidence to meet the RMB1.2 – 1.3 billion full year guidance.

It is also very encouraging for us to see sustained momentum in client activities and growth in our black card and diamond card clients. Despite the challenging market conditions, the number of active clients that transacted with us during the quarter was 21,269, up 4.8% QoQ and 3.7% YoY. The number of our black card and diamond card clients also increased by 16% since the end of 2020. This growth also makes us the fastest in the industry in the acquisition of core clients, compared to an industry average of ~10%. The strong growth in black card and diamond card client group is a reflection of the successful execution of the Diamond Black program, supported by our strategic investment budget, the implementation of Noah Triangle service model, as well as the upgraded client acquisition strategy. Enlarging this client group, which contributed to around 80% of our AUA, will continue to be one of the key strategic focuses in the long run.

Transaction value during the quarter was RMB24.1 billion, down 3.7% QoQ and 16.4% YoY, mainly due to the overall performance in the secondary markets and the seasonality nature of primary market fundraising activities. Notably, the amount of private secondary products we placed for our clients was RMB10.6 billion, up 36.8% QoQ and 22.6% YoY, as our clients seek long-duration products when facing market uncertainties, which demonstrates our clients' sophistication as a result of Noah's continued investor education efforts. Our historical data also shows that our onshore private secondary product clients who subscribed and exited for over three years tend to achieve higher returns in the double digit range than those who exited earlier. When looking at year-to-date figure, transaction value during the first three quarters of 2021 was RMB76.2 billion, up 3.7% YoY.

By segment, net revenues from the wealth management business were RMB653.6 million, up 4.5% QoQ and 4.1% YoY, which contributed to 72% of total net revenues. Net revenues from the asset management business amounted to RMB241.4 million, down 5.8% QoQ but up 8.5% YoY. Total AUM increased marginally from the previous quarter to RMB156.1 billion, as the growth in our PE AUM was partially offset by redemptions of real estate related investments. After the continuous efforts in exiting real estate related assets, we had exited majority of our onshore real estate assets with only office properties located in Shanghai actively managed by our own operations team, and U.S. rental apartment

assets managed by our investment team based in New York.

Net revenues derived from our overseas business were RMB250.4 million, up 10.1% QoQ and 58.5% YoY, mainly contributed by carry income realized from successful exits in the USD investment products we placed for our clients. We will continue to strengthen our international platform to meet with the growing overseas asset allocation demands from our clients.

On the balance sheet side, we are pleased to announce that our total assets have exceeded RMB10 billion mark for the first time, marking another remarkable milestone in Noah's 16-year history. We have a healthy cash balance of RMB2.8 billion by the end of the quarter, as well as an improved debt to asset ratio of 22% with no interest bearing debt.

Lastly, I would like to highlight our recent developments in ESG initiatives. Gopher's investment professionals are working diligently to develop ESG oriented fund products, and we hope to launch these products to our clients by as early as next year.

In conclusion, we have concluded the quarter with solid financial and operating results despite the challenging capital markets conditions, demonstrating the resilience in our business model. We are determined to invest in key areas where we can strengthen our competitiveness through our strategic investment budget, both in the fourth quarter and going forward.

And now, let me pass the speech to Chairlady Wang.

Jingbo Wang: CEO. (Speaking foreign language).

(Translated). Thank you Grant, I will first talk about my view on the macro situation, and then report on Noah's overall performance in the third quarter of 2021, the development of major business segments, the progress of Noah's "client-centric" comprehensive reform, as well as Noah's new positioning and future development strategy under the ever-changing market environment. We will then open the floor for questions.

In 2021, we gained a more immersive experience of China's economy changing from high-speed growth to high-quality development. China's economy has entered an era of "new certainty", and the only thing that can be expected is certainty. Incentive and restraint mechanisms go hand in hand. China not only attaches importance to the quantity, but also pays more attention to the quality of development, so as to realize the effective quantitative growth with substantial improvement of quality. The nation will achieve long-term economic development, transform into a high-income country, and is on track to achieve robust and sustainable growth.

Driven by the sustained economic growth, we are confident about the prospects of China's wealth management and asset management industry. Although the country's GDP growth is adjusting to a more sustainable level, it should still maintain an average annual growth of 4.5% to reach 29 trillion USD before 2030. Currently, China is moving

smoothly towards the per capita income target of 20,000 USD in 2030, and should be able to cross the high-income threshold.

Although wealth growth is not linearly related to income growth, we believe that when China becomes a high-income country in 2022, its wealth-to-GDP ratio will enter an inflection point, and thereafter, the compound growth rate of China's household wealth will exceed that of GDP. We think that China's financial industry is going to experience a stage of rapid growth and swift change. The wealth management and asset management industry will be able to take full advantage of these opportunities.

Like all other industries with Chinese characteristics, the development path of wealth management and asset management will be different from that of the West, especially the United States. For example, China's infrastructure-led economic growth model attached great importance to encouraging entrepreneurship and increasing residents' income. This model was highly dependent on credit support, so it created a large number of underlying assets for fixed income products. However, not all of these assets are suitable for the wealth management industry.

After two years of unswerving efforts in transformation, Noah took the lead in successfully clearing non-standardised assets in the first half of 2021, laying a solid foundation for our healthy development in the future. Today, we stand calmly at the historical turning point of the industry and deeply realised that to achieve future development and quality-guaranteed growth, we need to stay focused on the wealth and asset management industry more. Noah has also made a comprehensive transformation from a product-driven firm in the early establishment to a "client-centric and survival-as-the-bottom-line" company.

In the first three quarters of this year, with the adoption of the Noah Triangle service mode and the systematic business development from the headquarter to the front-line cities, Noah's diamond- and black-card clients continued to maintain a satisfactory growth, up 16% over the end of 2020, exceeding 8,000 people.

In the third quarter of 2021, Noah achieved net revenues of RMB 910 million, an increase of 5.8% year-on-year, of which the recurring service fees reached RMB 570 million due to the snowball effect of the scale of our Assets Under Advisory, setting a record high. As we released the group's strategic investment budget as planned, non-GAAP net income attributable to shareholders was RMB 280 million, a year-on-year decrease of 4.2%. As of September 30, the accumulated non-GAAP net income reached RMB 1.1 billion, completing 90.3% of the guidance ahead of schedule.

In terms of core business data, transaction value in the third quarter was RMB 24.1 billion; the total transaction value in the first three quarters continued to grow, reaching RMB 76.1 billion, a year-on-year increase of 3.7%. Among them, the transaction value of private secondary funds was RMB 10.6 billion, an increase of 22.7% year-on-year and 36.8% quarter-on-quarter; while the transaction value

of mutual funds was RMB 8.94 billion, which decreased both year-on-year and quarter-

on-quarter due to the overall market performance.

With the transformation, we reiterated our focus on serving high net worth and ultra-high net worth clients as our core client base. I am very glad to report that in the first three quarters this year, our diamond-card clients increased 14.6% and our black-card clients grew 22.3%. The Noah Triangle service mode has been recognized by our core client base. At the same time, our clients' activeness improved steadily: in the third quarter of 2021, the total number of active clients including mutual fund-only clients increased by 3.7% year-on-year and 4.8% quarter-on-quarter; the number of conventional active clients increased by 25.5% year-on-year.

Digital transformation has helped Noah reform from "product-driven" to "client-centric", and we have increased investment in technology in the past two years. The group's technology center has had 13% of new hires this year, reshaping the whole business flow system of client development, client operation, products and solutions, as well as operation management. With the continuous improvement of our KYC/KYP/KYA system labels, the group's management dashboard of Noah Triangle teams has been formed, connecting the 3K application scenarios; the marketing map integrates all kinds of labels into the business development process of relationship managers, making the client profiles more accurate, and the management of client-and-product matching increasingly refined; the upgraded CRM system also provides relationship managers with mobile management options throughout the life cycle of clients. Moreover, at the product screening end, we have also realised the digitalization of the whole-process, creating a full-pedigree, diversified and high-quality product shelf, as well as making the product launching process more standardized and systematic.

The wealth management market is constantly maturing, and clients are more rational. Noah has introduced the organizational reform, breaking the past incentive mechanism for relationship managers that was similar to insurance sales. The "client-centric" philosophy requires us to serve high net worth clients with top-notch personnel, and the talent density of our front-line relationship managers continues to increase. We have also reformed our business process, so that high net worth clients can enjoy the same services available to institutional investors. By taking clients as the center and meeting the multi-dimensional needs of clients with small service teams, the satisfaction rate of core clients has improved greatly.

As of September 30, 2021, thanks to the zero distribution of "non-standardized assets" and the redemption of all of these assets, Gopher's AUM reached RMB 156.1 billion. It can be seen that incremental public securities have supplemented the gap, thus achieving stability and recovery of the total AUM; the continued optimization of asset management structure and the snowball effect will be more obvious in the next few years. The public securities assets actively managed by Gopher kept stable in the third quarter at 11 billion renminbi, same as the end of last quarter; the AUM of private equity was RMB 130.4 billion, an increase of 2% over the end of the previous quarter.

Gopher's client-centric transformation is positioned to improve its active management capability, adhere to the research-driven investment performance, and further become

the preferred wealth management brand with “stabilizer” functions for clients. It is worth mentioning that, as of September 30, the investment team of Gopher’s Target Strategy product classified as public securities, has effectively reduced portfolio volatility and obtained relatively stable excess returns, with the positive, stable and balanced funds each achieved their target investment performance. On private equity side, Gopher’s award-winning S Fund series 5 has basically completed its investment process, and series 6 has been officially launched in November.

Gopher has built a blueprint for digital transformation. In 2021 and 2022, Gopher mainly focuses on the objectives of digitalising investment and research, data governance and structuralization, as well as continued client experience improvement. In the third quarter, Gopher launched the fund investment and research management system, which provides the multi-strategy investment team with a standardized evaluation and fund pool entry process combining quantitative analysis and qualitative evaluation.

Stricter regulation is a global phenomenon. Compliance is the lifeline and the barrier of competition. Noah respects common senses and reveres the market. From the first day of our establishment, there has been no capital pool, no implicit guarantee, no duration mismatch, no leverage allocation, and no cross-border capital operations. Noah operates fully compliant in the countries and regions where we hold licenses. After 16 years of development, we are increasingly clear about our market positioning and determined to be deeply rooted in the wealth management and asset management industry.

Noah’s core values are client-centric and survival-as-the-bottom-line. We connect with the world’s leading asset management companies, make continuous improvement and make friends with time.

In 2017, President Xi Jinping said at the Central Economic Work Conference: China’s high-quality development is that to meet the people’s growing needs for a better life, to reflect new development concepts, with innovation as the foremost driving force, coordination as an endogenous feature, green as a universal philosophy, openness as a requisite way, and sharing as the fundamental goal of development. We couldn’t agree more.

Noah has been releasing a Corporate Sustainability Report every year since 2014. During the China International Import Expo this month, at the International Forum on Corporate Social Responsibility co-sponsored by the Ministry of Industry and Information Technology and the United Nations Global Compact, the Ministry of Industry and Information Technology awarded Noah the highest AAA rating for excellent corporate social responsibility reporting, making Noah the only private financial enterprise awarded with this high rating. In 2021, we also won the “ESG Responsible Enterprise Award of the Year” granted by the Summit Forum on CSR in China.

Noah will adhere to high-quality development and keep contributing to the sustainable development and green GDP.

Now, let's open the floor for questions. Thank you.

## Questions and Answers

Operator: We will now begin the Question-and-Answer session. (Operator Instructions). The first question will come from Ethan Wang with CLSA.

Ethan Wang: (Speaking foreign language). I have three questions. The first one is around the investment advisory services. So China has been giving out investment advisories licenses to financial institutions. And we've seen brokers have rented out their services on their structures. Just wondering, they found that it's not going to change the competition landscape. And how does Noah see this new trend of investment advisory services?

And my second question is around the recent criticism from regulators on cross-border brokers. And we've seen a ramped-up interest on this different standards on the professional managers' overseas products from China's investors. So could management help us, give us more color on Noah's product offerings on this front?

Jingbo Wang: (Speaking foreign language).

Grant Pan: Thanks Ethan, I'll translate Chairlady Wang's answer, and also have a little bit of my own input.

(Translated). In terms of IC lines, we agree with you that it's probably going to be a pretty big market, and we're in the process of applying since last year. But I think our view is that for the independent wealth managers, probably will be in the next batch of the application after the water has been tested for a few months. And we do believe that it probably will have as much impact on us as one would imagine, as you can see that we actually break down the clients into 3 groups based on their investment preference.

Obviously, the first type is the product-driven; they basically just go after the right products they like. And the second one is that they just pretty much give you discretion in terms of investing. We believe that the IC lines is probably targeting the semi-discretionary clients. They want to have a little bit participation in the investment process, and at the same time, actually receiving professional advice from the ICs.

Noah is pretty good on the first 2 types into the private product-driven and discretionary management. Not saying that we're giving up on the last type, but we don't think honestly, the industry is ready to provide professional advice, plus the actual portfolio. As you know, that the regulators actually doesn't allow a virtual portfolio, so it has to be an actual portfolio of investments. So we believe it's probably still in the process of water testing, but obviously, we'll be very active in pursuing this license.

I think one of the things that I would like to mention that Gopher's target return product actually is, to some extent, actually helps the client with their purpose of having a

diversified portfolio, similar to what IC is doing.

So on the second question, we understand from the regulatory standpoint, the pressure actually comes from whether or not they're helping certain clients to move sort of assets overseas in little pieces. We think it's a probably dangerous move, and that's why we sort of understand why the regulators are getting nervous on that.

But in terms of Noah, when we have our first branch, overseas branch, in Hong Kong in 2012, we have been pretty much serving clients who already have assets overseas. And lots of the investment directions is actually they try to invest back into China's development opportunities. So we believe actually, we hold more advantage on that type of a product, so we don't think it's going to have too much impact on us.

Our ESOP plans and ESOP business is pretty much helping clients' basically pure trust service. We actually don't interfere with any of their fund transfers. Does that answer your question, Ethan?

Ethan Wang: Yes, thank you.

Operator: Nick Chu with Credit Suisse.

Nick Chu: My question is Noah is selling all the people's mutual funds in a big way, in a very good way. In the meantime, your asset management business in the private markets is also booming. And your targeted portfolio, in my view, is very much the deep end business.

My question to Mr. Pan is since you're doing basically everything that the large asset manager is doing, have you ever thought of converting Noah into a full-scale asset management company in China context, mutual fund company with a private market capability? (Speaking foreign language).

Jingbo Wang: (Speaking foreign language).

(Translated). Thank you, Nick. Yes, it's a great question. We actually think that probably you could help us communicate with the regulators, that the application process for mutual fund license in China is very stringent. So you either hold a sort of main license domestically already, or you have to basically apply in the name or in the identity of -- as an individual. So for example, maybe Chairlady Wang and Mr. [Yin], they could apply for that as individuals. But obviously, that's not going to serve the group well from the foreign company standpoint. So that's one of the strategic points that we have talked about in the past.

But we didn't believe that with this effort and everything that comes with -- probably are required to separate or spin off any privately-raised funds business if you do hold a mutual fund license. And considering what we have right now and as wealth management, asset management, and also Noah's global intelligence, by giving all these up, having only a mutual fund license, I think that's going to be a pretty major transformation, especially in the client segmentation from high-net worth to more or less

to the retail side.

So it's obviously one of the main licenses that probably will help boost business. But at the same time, I think that it changes our identity and also the segmentation of clients. So hopefully that answers your question.

Operator: [Yi Wan Li] with Gojian Securities.

Yi Wan Li: (Speaking foreign language). So my question is that we have a sharp increase in the management costs, and such as the competition selling advances. And we would like to ask how the management will integrate this in the press release? And what's the future plan for the incoming operation of service here?

Grant Pan: (Speaking foreign language).

Jingbo Wang: (Speaking foreign language).

(Translated). So Chairlady Wang actually wishes to supplement a little bit on this, as it's a very important point that the actual structural change actually comes as a result of the transformation that we're doing. As you might be familiar that in the past, although our relation managers are full-time employees of ours, but their pay structure actually has a lower base pay, but a higher commission component in the past scheme.

But after the -- since the third quarter of this year, we have increased the portion of the base pay up significantly. And their bonus actually now tied with not only with the sales and transaction, but also with the satisfaction from the clients, as well as the quality of operations and services. So we want to transfer -- basically, they are not being viewed as a salesperson, but rather a private banker or an investment consultant. So when they actually pull out their business card, they will gain the respect they deserve.

As you can see that the so-called the insurance agent model in the industry is actually deteriorating, as you will see, the cross-sale. And also everything is sale-first type of a compensation scheme that actually is not working; that the basic reasons that the interest of the salesperson with the client is actually not aligned. So it's going to be very difficult to last.

We have seen pretty obvious results in terms of talent acquisition since the transformation, as we are very happily to see that the fresh graduates now come from the top schools in China. And also the private bankers that we hire are now basically the senior or seasoned private bankers from the banks that we typically wouldn't be able to attract with the old compensation scheme. So this is something that we're going to insist on, and continue to invest on, to make sure that we actually win the first battle of a very important war is the talent.

Yi Wan Li: (Speaking foreign language).

Jingbo Wang: (Speaking foreign language).

Yi Wan Li: (Speaking foreign language).

Operator: [Yu Fan] with CICC.

Yu Fan: (Speaking foreign language). Okay. I will translate my questions. So the first question is regarding the AUA. Would you please show more data on AUA and breakdown by different types of products?

And for the second question, it seems we have plenty of cash on our balance sheet. So I just wonder do we have any plan for gathering payout?

Grant Pan: Okay. Thank you, [CC]. I'll respond to these 2 questions. First, in terms of AUA, probably over close to 60% AUA that we help our clients place in the private equity. And it's also the category that we see pretty consistent growth for the last few quarters. And also the next major category is obviously, the private securities, which accounts for about 30% of the total AUA. And we're seeing some fluctuations, but it's actually probably more or less related to the (indiscernible) of the total market and also their products. But that is also the main category that we see the clear attraction for our clients.

One category that we're seeing obviously is -- we'll continue to exit and help the client realize their returns, is obviously the assets relating to real estate. And happy to share with you that we have very, very limited exposure in this, which actually allows us to be able to have a pretty good asset mix for our clients. So the growth in private equity, actually also the growth in the private securities, is the direction we're seeing the clients are pretty interested in.

And the second question, in terms of cash balance, we do maintain very good cash balance, as well as operational and investing cash flows. In terms of dividend, we do plan to have more extended discussions and hopefully, we will have something for the market in the next few months.

Yu Fan: (Speaking foreign language). Thanks very much.

Operator: The next question will come from Ethan --

Grant Pan: (Inaudible) --

Operator: Go ahead, sir.

The next question will come from Ethan Wang with CLSA.

Ethan Wang: (Speaking foreign language). Just a very quick question on our status as a foreign-listed company because we understand there are still the mysteries surrounding China's ADRs. And since Hong Kong has just changed its listing rules to allow non-innovation-related companies to be listed through the statutory listing channel, just wondering if Noah has such kind of a [conservation] in the near future?

Grant Pan: Thanks, Ethan. We actually do pay attention to the development -- especially the holding foreign company (indiscernible) and we have had discussions with both our lawyers and our auditors. Obviously, it's something that we do keep a very close eye on. But the professional side, they believe there will be at least some solutions between the two governments. It's more political than actual market governance.

And considering the impact of having the whole group of foreign companies that to be exited, or actually delisted sort of violently from the market, we don't see that possibility as very high and imminent. But obviously, whatever they put together to comply with, especially I believe that recent requirements, our auditors actually communicated to us that it's very heightened disclosure requirements, especially around the BIE structure, blah, blah, blah. And all these, we believe that strictly along the line of having more information, more transparency.

In terms of having listing plan on the second market, it's obviously in the sort of plan Bs. We're not actively seeking to do so. We understand the new rules of the Hong Kong listing rules; we also understand the backlog in the application process. And considering especially for Noah, we believe that Hong Kong market probably doesn't provide additional meaningful liquidity for us, but remains interesting option.

Ethan Wang: (Speaking foreign language). Thank you.

Operator: This concludes our question-and-answer session. I would like to turn the conference back over to Mr. Grant Pan for any closing remarks. Please go ahead.

Grant Pan: Thank you, operator. I'm very happy to be able to communicate with our investors and analysts. And we're happy to deliver another quarter of solid results, especially seeing the good results in client activities. We will have separate calls later on, and if you have further questions, I'm very happy to speak to you. Thank you.

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