

# The Taiwan Fund, Inc.

## Manager's Commentary

### Market Review

The Taiwan Stock Exchange closed the month of January 2020 down 4.2% in Taiwan Dollar terms, with the technology sector down 4.5%, non-technology down 4.7%, financial sector down 1.7% and over-the-counter ("OTC") stocks down 5.1%. The top three outperforming sectors were gaming, motherboards and dynamic random-access memory ("DRAM") sales. The bottom three underperforming sectors were handset makers, digital cameras and LCD-STN panels (A super-twisted nematic display ("STN") is a type of monochrome passive-matrix liquid crystal display ("LCD")).

### Fund Review

The Taiwan Fund, Inc. (the "Fund") outperformed the Taiwan TAIEX Total Return Index (the "benchmark") in January 2020 as stock selection was a positive contributor, but sector allocation was a negative contributor. On the sector level, the Fund's overweight position in the real estate sector and underweight in the energy, transportation and consumer services sectors both helped. Stock selection in semiconductors and capital goods helped the most. On the stock level, the best active contributors were Global Lighting Technologies, Inc., Silergy Corp. and Asmedia Technology, Inc. The worst active detractors on a stock level were LandMark Optoelectronics Corp., Chaun-Choung Technology Corp. and MediaTek, Inc.

### Key Transactions

Our expectation from December was that the market would become more volatile after the Lunar New Year. The trigger for this volatility on the other hand was quite unexpected. Before widespread media coverage of the novel coronavirus (COVID-19) outbreak, we had already started taking profits in certain stocks beginning in early January. In particular, we exited Wistron Corp., LARGAN Precision Co., Ltd., Genius Electronic Optical Co., Ltd. and Wiywynn Corp. due to lofty valuations. After Lunar New Year, however, the negative news flow coming out of China sparked a major revision in risk sentiment. We moved quickly to exit additional positions early on after trading resumed in Taiwan, including in Hon Hai Precision Industry Co., Ltd., Chipbond Technology Corp. and Epistar Corp. These names were especially exposed to uncertainties due to potential supply chain disruption. Taking advantage of the short-term uncertainty, we also accumulated more LandMark Optoelectronics Corp., Win Semiconductors Corp. and e-Laser Corp. All of these companies are linked to the rollout of 5G base station infrastructure in China, which we believe still offers a compelling investment case.

### Outlook

During the long Lunar New Year vacation, the impact from COVID-19 dented previously robust investor sentiment. Industries exposed to consumer discretionary spending, including obvious candidates such as travel and dining, have been hit hard. Furthermore, investors are increasingly concerned about the potential earnings downside risk for tech companies in Taiwan. These players may be subject to not only consumer retrenchment, but also to disrupted supply chains, in turn hitting production.

If we base our forecast on the most recent monthly or quarterly analyst consensus, earnings are facing significant downward revisions. However, if we look at earnings on a full year basis, the negative impact might be limited to -10%. Simultaneously, share prices have plunged dramatically, in many cases by more than 3 times as much. The key difference between our outlook now compared to our previous view is that the dominant seasonal effect will revert to normal, rather than the more positive case we were working from. Nonetheless, the fundamental investment theses remain unchanged which means therefore we will be looking for opportunities to accumulate positions in the portfolio.

Another thing we would like to point out this month is the volatility in Taiwan's equity market. Mainland China has been the most seriously affected area in terms of the coronavirus, but if we look at the China A-share index, we find it declined by 8% on February 3rd when it re-opened for trading. On the other hand, the TAIEX declined by almost 9% between January 30th and February 3rd. Taiwan is not the source of the outbreak, but share price performance has been weaker than in China, perhaps driven by hedging from overseas investors trying to cover long positions in A-shares during the market holiday by selling Taiwan exposure as a proxy for this risk. In my view, this is yet another opportunity for us to generate enhanced alpha as regional markets recalibrate into February.

## In Brief

Fund Data	
Description	Seeks long-term capital appreciation primarily through investments in equity securities listed in Taiwan.
Inception Date	December 23, 1986
Total Fund Assets (millions)	\$173.2
Median Market Cap (in billions)	\$1.7
Distribution Frequency	Annual
Management Firm	Allianz Global Investors U.S. LLC
Portfolio Management	Corrina Xiao Lead Portfolio Manager
Performance (US\$ Returns) (as of 1/31/2020) <sup>1</sup>	
	<b>Fund Benchmark<sup>2</sup></b>
One Month	-4.52% -4.92%
Three Month	4.25% 2.17%
One Year	34.97% 23.03%
Three Year	13.74% 12.61%
Net Asset Value / Market Price	
NAV / Market Price (as of 1/31/2020)	\$23.01 / \$19.45
High / Low Ranges (52-Week)	
High / Low NAV	\$25.70 / \$17.97
High / Low Market Price	\$22.37 / \$15.80
Premium/Discount to NAV (as of 1/31/2020)	-15.47%
Fund Data (Common Shares)	
Shares Outstanding	7,528,833
Average Daily Volume	8,364
Expense Ratio	1.73%

## Fund Manager



Corrina Xiao  
Lead Portfolio Manager

1. Allianz Global Investors U.S. LLC became the Investment Manager of the Fund on June 1, 2019

2. Taiwan TAIEX Total Return Index.

### Average Annual Returns<sup>1</sup>

	1 Month	3 Month	YTD	1 Year	3 Year	5 Year	10 Year	Inception
NAV	-4.52%	4.25%	-4.52%	34.97%	13.74%	9.62%	8.41%	8.76%
Market Price	-5.49%	3.47%	-5.49%	28.91%	13.08%	8.42%	8.13%	7.11%
Taiwan TAIEX Total Return Index	-4.92%	2.17%	-4.92%	23.03%	12.61%	9.42%	8.75%	—
MSCI Taiwan Total Return Index	-4.70%	3.94%	-4.70%	27.77%	12.88%	9.35%	8.52%	—
Taiwan TAIEX Price Index	-4.92%	1.98%	-4.92%	17.70%	8.08%	5.08%	4.75%	—

### Calendar Year Returns<sup>1</sup>

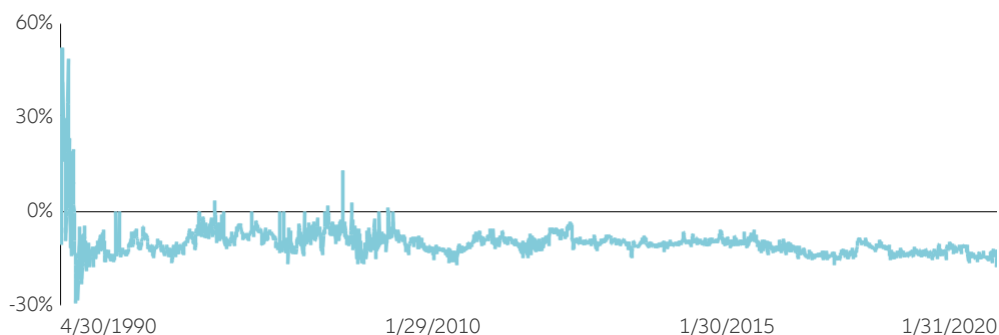
	2012	2013	2014	2015	2016	2017	2018	2019
NAV	12.23%	19.34%	-2.25%	-6.43%	11.17%	28.44%	-14.96%	47.11%
Market Price	12.77%	18.24%	-1.28%	-10.52%	10.05%	33.61%	-19.11%	46.75%
Taiwan TAIEX Total Return Index	17.76%	12.19%	5.05%	-10.40%	17.81%	29.45%	-7.86%	32.19%
MSCI Taiwan Total Return Index	16.68%	9.06%	9.36%	-11.72%	18.54%	27.53%	-8.94%	36.37%
Taiwan TAIEX Price Index	13.52%	8.98%	1.93%	-13.81%	13.11%	24.56%	-11.51%	26.46%

Past performance is not a guide to future returns.

Returns are expressed in US dollars and are annualized, except for periods of less than one year.

Source: IDS GmbH-Analysis and Reporting Services, a subsidiary of Allianz SE. Inception date is August 29, 1984. Returns for the fund are historical returns that reflect changes in net asset value and market price per share during each period and assume that dividends and capital gains, if any, were reinvested. Net asset value is total assets less total liabilities divided by the number of shares outstanding. NAV performance includes the deduction of management fees and other expenses. Market price performance does not include the deduction of expenses and would be lower had expenses been deducted. NAV and market price returns do not reflect broker sales charges or commissions, which would reduce returns. It is not possible to invest directly in an index.

### Premium/Discount



### Sector Breakdown

	Fund	Benchmark <sup>2</sup>
Information Technology	79.38%	51.75%
Consumer Discretionary	6.06%	6.73%
Industrials	3.86%	5.19%
Real Estate	1.63%	1.39%
Consumer Staples	1.25%	3.15%
Health Care	0.37%	0.49%
Financials	0.00%	14.61%
Materials	0.00%	9.77%
Communication Services	0.00%	4.27%
Energy	0.00%	2.49%
Utilities	0.00%	0.15%

Source: IDS GmbH - Analysis and Reporting Services, a subsidiary of Allianz SE.

### Top 10 Holdings

TAIWAN SEMIC CO LTD (Taiwan)	20.29%
MACRONIX INTERNATIONAL (Taiwan)	5.41%
GLOBAL LIGHTING TECHNOLOGIES (Taiwan)	5.08%
MEDIATEK INC (Taiwan)	3.58%
SILERGY CORP (Taiwan)	3.19%
UNIMICRON TECHNOLOGY CORP (Taiwan)	3.12%
ASE TECHNOLOGY HOLDING CO LTD (Taiwan)	3.06%
HIWIN TECHNOLOGIES CORP (Taiwan)	2.88%
ACCTON TECHNOLOGY CORP (Taiwan)	2.51%
CHILISIN ELECTRONICS CORP (Taiwan)	2.40%

### Portfolio Characteristics

	Fund	Benchmark <sup>2</sup>
P/E Ratio	21.08	15.83
P/B Ratio	2.59	1.76
Issues in Portfolio	45	906
Foreign Holdings (%)	92.55	100.00
Cash (%)	7.45	0.00
Yield (%)	2.85	3.83

### Risk Statistics (3 Year)

Beta	1.10
R <sup>2</sup>	0.85
Standard Deviation of NAV	15.92
Standard Deviation of Market Price	17.29

1. Allianz Global Investors U.S. LLC became the Investment Manager of the Fund on June 1, 2019

2. Taiwan TAIEX Total Return Index.

### Distribution History (10 Year)

Declaration Date	Ex-dividend Date	Record Date	Payable Date	Distribution/Share	Income	Long-term Capital Gain	Short-term Capital Gain
12/16/2010	12/28/2010	12/30/2010	1/6/2011	\$0.08148	\$0.08148	—	—
12/16/2011	12/28/2011	12/30/2011	1/9/2012	\$0.56052	—	\$0.56052	—
12/16/2014	12/26/2014	12/30/2014	1/9/2015	\$2.63320	—	\$2.63320	—
12/19/2017	12/28/2017	12/29/2017	1/9/2018	\$0.66000	\$0.66000	—	—
12/10/2018	12/20/2018	12/21/2018	1/4/2019	\$1.70780	—	\$1.70780	—
12/17/2019	12/27/2019	12/30/2019	1/10/2020	\$1.69910	\$1.46950	\$0.16450	\$0.06510

Distribution/Share includes Income, Long-term Capital gains and Short-term Capital gains.

### The Taiwan Fund NAV Performance of \$10,000 since inception (with dividends reinvested at NAV price)



Past performance is not a guide to future returns.

### Index Description

#### Taiwan TAIEX Total Return Index

The TAIEX (Taiwan Capitalization Weighted Stock Index) Total Return Index is a stock market index for companies traded on the Taiwan Stock Exchange (TWSE). The returns assume reinvestment of dividends (net of foreign withholding taxes).

#### MSCI Taiwan Total Return Index

The MSCI Taiwan Total Return Index is designed to measure the performance of the large and mid cap segments of the Taiwan market. The index covers approximately 85% of the free float-adjusted market capitalization in Taiwan.

#### Taiwan TAIEX Price Index

The TAIEX (Taiwan Capitalization Weighted Stock Index) Price Index is a stock market index for companies traded on the Taiwan Stock Exchange (TWSE). The returns, unlike Fund returns, do not reflect any fees or expenses.

It is not possible to invest directly in an index.

Portfolio in Full

Sector	Company (exchange ticker)	Price TWD	Holding	Value US\$	% of Market Value	
<b>Information Technology</b>					<b>79.39</b>	
	TAIWAN SEMICONDUCTOR MANUFACTURING CO LTD	2330	320.00	3,211,000	34,013,705	20.29
	MACRONIX INTERNATIONAL	2337	38.00	7,210,000	9,069,483	5.41
	GLOBAL LIGHTING TECHNOLOGIES	4935	139.00	1,850,000	8,512,364	5.08
	MEDIATEK INC	2454	388.00	467,000	5,998,080	3.58
	SILERGY CORP	6415	1,105.00	146,000	5,340,461	3.19
	UNIMICRON TECHNOLOGY CORP	3037	38.65	4,089,000	5,231,549	3.12
	ASE TECHNOLOGY HOLDING CO LTD	3711	74.60	2,074,000	5,121,666	3.06
	ACCTON TECHNOLOGY CORP	2345	163.00	779,000	4,203,284	2.51
	CHILISIN ELECTRONICS CORP	2456	118.00	1,029,000	4,019,398	2.40
	DELTA ELECTRONICS INC	2308	143.00	803,000	3,801,152	2.27
	SINO-AMERICAN SILICON PRODUCTS	5483	98.20	1,138,000	3,699,282	2.21
	LANDMARK OPTOELECTRONICS CORP	3081	260.50	421,000	3,630,392	2.17
	FLEXIUM INTERCONNECT INC	6269	106.00	1,026,000	3,600,119	2.15
	KINSUS INTERCONNECT TECHNOLOGY CORP	3189	47.00	2,253,000	3,505,280	2.09
	GLOBALWAFERS CO LTD	6488	400.00	232,000	3,071,932	1.83
	UNITED MICROELECTRONICS CORP	2303	14.90	6,176,000	3,046,192	1.82
	TONG HSING ELECTRONIC INDUSTRIES LTD	6271	151.50	582,000	2,918,766	1.74
	ASMEDIA TECHNOLOGY INC	5269	798.00	108,000	2,852,925	1.70
	PHISON ELECTRONICS CORP	8299	319.50	237,000	2,506,587	1.50
	ZHEN DING TECHNOLOGY HOLDING LTD	4958	119.50	625,000	2,472,359	1.47
	SPEED TECH CORP	5457	76.60	874,000	2,216,174	1.32
	WINBOND ELECTRONICS CORP	2344	16.95	3,861,000	2,166,373	1.29
	CHROMA ATE INC	2360	150.50	418,000	2,082,459	1.24
	KINGPAK TECHNOLOGY INC	6238	171.00	325,220	1,840,929	1.10
	CHAUN-CHOUNG TECHNOLOGY CORP	6230	209.00	254,000	1,757,291	1.05
	ELITE ADVANCED LASER CORP	3450	64.00	672,000	1,423,682	0.85
	ELAN MICROELECTRONICS CORP	2458	86.30	459,000	1,311,255	0.78
	ELITE MATERIAL CO LTD	2383	115.50	308,000	1,177,596	0.70
	WIN SEMICONDUCTORS CORP	3105	282.00	92,000	858,817	0.51
	ADVANCED CERAMIC X CORP	3152	306.00	48,000	486,213	0.29
	WALSIN TECHNOLOGY CORP	2492	210.50	67,000	466,864	0.28
	CHIPBOND TECHNOLOGY CORP	6147	60.60	195,000	391,175	0.23
	PARADE TECHNOLOGIES LTD	4966	637.00	13,000	274,124	0.16
<b>Consumer Discretionary</b>					<b>6.07</b>	
	HOTA INDUSTRIAL MANUFACTURING CO LTD	1536	120.00	714,000	2,836,241	1.69
	GIANT MANUFACTURING CO LTD	9921	180.00	325,000	1,936,509	1.16
	TAIWAN PAIHO LTD	9938	79.20	720,000	1,887,649	1.13
	POYA INTERNATIONAL CO LTD	5904	435.00	100,000	1,439,968	0.86
	ECLAT TEXTILE CO LTD	1476	390.00	100,000	1,291,006	0.77
	ACTRON TECHNOLOGY CORP	8255	100.50	233,000	775,150	0.46
<b>Industrials</b>					<b>3.86</b>	
	HIWIN TECHNOLOGIES CORP	2049	306.00	477,000	4,831,739	2.88
	AIRTAC INTERNATIONAL GROUP	1590	469.00	106,000	1,645,669	0.98
<b>Real Estate</b>					<b>1.63</b>	
	KINDOM DEVELOPMENT CO LTD	2520	28.20	2,926,000	2,731,411	1.63
<b>Consumer Staples</b>					<b>1.24</b>	
	UNI-PRESIDENT ENTERPRISES CORP	1216	72.60	537,995	1,292,940	0.77
	CHAROEN POKPHAND ENTERPRISE	1215	63.20	380,000	794,995	0.47
<b>Health Care</b>					<b>0.37</b>	
	GINKO INTERNATIONAL CO LTD	8406	185.50	100,000	614,055	0.37

Source: State Street Bank and Trust Company, IDS GmbH - Analysis and Reporting Services, a subsidiary of Allianz SE.

Note: Cash (including for these purposes cash equivalents) is not included.

**Important Information:**

The Fund Seeks long-term capital appreciation primarily through investments in equity securities listed in Taiwan. An investment in the Fund involves risk, including loss of principal. Investing in non-U.S. securities entails additional risks, including political and economic risk and the risk of currency fluctuations, as well as lower liquidity. These risks, which can result in greater price volatility, will generally be enhanced in less diversified funds that concentrate investments in a particular geographic region or sector.

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P/E is a ratio of security price to earnings per share. Typically, an undervalued security is characterized by a low P/E ratio, while an overvalued security is characterized by a high P/E ratio. P/B is a ratio of the current stock price to the book value. This is used to identify undervalued stocks. Beta measures the market related volatility of a portfolio, where the overall market is represented by the Taiwan TAIEX Total Return Index. The beta of the market is 1 by definition. A beta greater than 1 indicates that a portfolio's market risk is greater than the overall market's, while a beta less than 1 indicates a lower market risk. It is important to note that having a low market risk does not necessarily imply low volatility. A portfolio may have a low beta while experiencing volatility due to factors independent of the market. R-Squared measures the percentage of a portfolio's movements that are explained by movements in the overall market, represented by the Taiwan TAIEX Total Return Index. Standard deviation is an absolute measure of volatility measuring dispersion about an average which, for an index, depicts how widely the returns varied over a certain period of time. The greater the degree of dispersion, the greater the risk.

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FS-TWN-0120 | 1076472

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