

# The Taiwan Fund, Inc.

## Manager's Commentary

### Market Review

The Taiwan Stock Exchange closed the month of February 2021 up 5.37% in Taiwan Dollar terms, with the technology sector up 4.21%, non-technology up 8.81%, financial sector up 5.29% and over-the-counter ("OTC") stocks up 8.65%. The top three outperforming sectors were thin-film-transistor liquid-crystal display panels, glass & ceramics, and golf. The bottom three underperforming sectors were transformer & uninterruptible power systems, casing, and electronics manufacturing services.

### Fund Review

The Taiwan Fund, Inc. (the "Fund") outperformed the Taiwan TAIEX Total Return Index (the "benchmark"), although sector allocation was negative while stock selection was positive. On the sector level, the Fund's overweight positions in technology hardware & equipment and health care equipment & services, as well as underweight positions in telecommunication services, food beverage & tobacco, and food & staples retailing helped the performance. The Fund's overweight positions in semiconductors & equipment and underweight positions in materials hurt performance. On the stock level, the best active contributors were Innolux Corp., Fitipower Integrated Technology, and Au Optronics Corp.; the worst active detractors were ASMedia Technology, Inc., Accton Technology Corp., and Largan Precision Co., Ltd.

### Key Transactions

After the lunar New Year, there was welcome news about the vaccine which seems to be enjoying rapid and successful deployment across many developed markets. The global equity markets at first reacted appropriately, as an end to the global lockdowns looked nearer. However, after the initial euphoria, questions began to be asked about when exactly the vaccination program will mitigate the impact from COVID-19 and how this will shape demand fundamentals into the expectations for the second half of 2021. For example, will there be a significant decline in work-from or study-from home demand? We tend to lean this way and do expect weaker demand in the second half of 2021; however, we also think that the path may be less bumpy than many expect. As a result, we still hold our broadly positive view on the technology sector.

Within the Fund, as usual, we are looking to add stocks with valuations that aren't too stretched while selling or trimming those names which have perhaps run too far, too fast. This month, we exited ASE Technology Holding Co., Visual Photonics Epitaxy Co., Ltd., FitTech Co. and Tong Hsing Electronic Industries Ltd. and we took some profits on Hiwin Technologies Corp., Novatek Microelectronics Corp. and Global PMX Co., Ltd. On the other hand, we added to or initiated new positions in Largan Precision Co., Ltd., Win Semiconductors Corp. and Pegavision Corp. all of which are relatively cheap.

### Outlook

Market sentiment has become increasingly risk-adverse since the U.S. 10-year bond yield edged over 1.5% recently. This coincided with the encouraging early results of vaccination programs, as mentioned above. More and more discussions are now focused on whether the "new normal" we came to accept in 2020 will be sustained beyond the coming year. From our perspective, the most important trends are work-from-home and study-from-home, both of which will impact notebook and PC demand. Based on our recent research, demand in the technology sector will remain strong at least until mid-2021 and is now characterized by chip shortages and rising prices for electronic components into 2Q21.

However, we cannot predict just how great the effects from changes in market sentiment may be when valuations in general look stretched in the near term. Looking ahead, we will continue our focus on structural growth trends, such as electric vehicles, high performance computing and 5G mobile network, and, as always, we will watch closely for potential changes in the fundamentals that may affect expectations for the second half of 2021.

## 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)	\$247.3
Median Market Cap (in billions)	\$3.1
Distribution Frequency	Annual
Management Firm	Allianz Global Investors U.S. LLC
Portfolio Management	Corrina Xiao Lead Portfolio Manager

### Performance (US\$ Returns) (as of 2/28/2021)<sup>1</sup>

	Fund	Benchmark <sup>2</sup>
One Month	6.98%	5.95%
Three Month	17.80%	19.15%
One Year	63.67%	58.99%
Three Year	23.24%	20.33%

### Net Asset Value / Market Price

NAV / Market Price (as of 2/28/2021)	\$33.09 / \$28.52
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### High / Low Ranges (52-Week)

High / Low NAV	\$34.28 / \$16.96
High / Low Market Price	\$29.55 / \$13.80
Premium/Discount to NAV (as of 2/28/2021)	-13.81%

### Fund Data (Common Shares)

Shares Outstanding	7,468,866
Average Daily Volume	9,443
Expense Ratio	1.70%

## 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	6.98%	17.80%	8.49%	63.67%	23.24%	22.35%	11.03%	10.00%
Market Price	6.22%	17.66%	11.19%	68.83%	22.44%	21.78%	10.39%	8.45%
Taiwan TAIEX Total Return Index	5.95%	19.15%	9.24%	58.99%	20.33%	22.51%	11.15%	—
MSCI Taiwan Total Return Index	4.60%	23.11%	11.42%	68.01%	23.19%	24.32%	11.78%	—
Taiwan TAIEX Price Index	5.95%	18.97%	9.24%	53.59%	15.64%	17.74%	7.08%	—

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

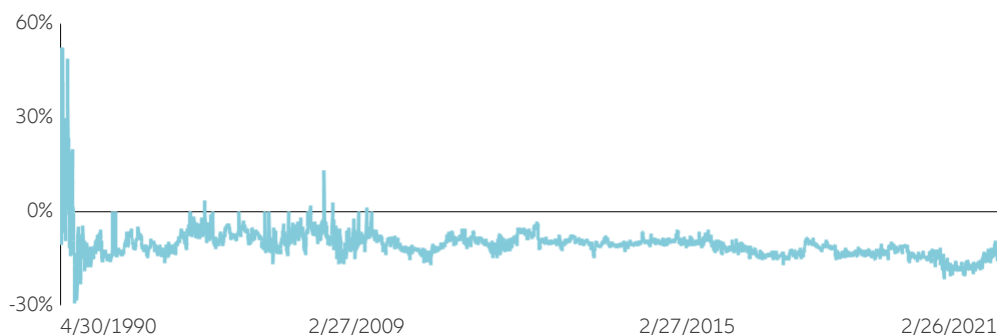
	2013	2014	2015	2016	2017	2018	2019	2020
NAV	19.34%	-2.25%	-6.43%	11.17%	28.44%	-14.96%	47.11%	41.97%
Market Price	18.24%	-1.28%	-10.52%	10.05%	33.61%	-19.11%	46.75%	39.81%
Taiwan TAIEX Total Return Index	12.19%	5.05%	-10.40%	17.81%	29.45%	-7.86%	32.19%	35.62%
MSCI Taiwan Total Return Index	9.06%	9.36%	-11.72%	18.54%	27.53%	-8.94%	36.37%	40.99%
Taiwan TAIEX Price Index	8.98%	1.93%	-13.81%	13.11%	24.56%	-11.51%	26.46%	31.01%

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	82.11%	62.27%
Consumer Discretionary	7.32%	5.65%
Industrials	2.97%	5.10%
Materials	2.05%	7.80%
Communication Services	0.59%	3.02%
Health Care	0.56%	0.39%
Financials	0.00%	10.35%
Consumer Staples	0.00%	2.17%
Energy	0.00%	1.98%
Real Estate	0.00%	1.15%
Utilities	0.00%	0.12%

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

### Top 10 Holdings

TAIWAN SEMICONDUCTOR MANUFAC (Taiwan)	22.91%
INNOLUX CORP (Taiwan)	5.09%
SILERGY CORP (Taiwan)	3.64%
UNITED MICROELECTRONICS CORP (Taiwan)	3.55%
HIWIN TECHNOLOGIES CORP (Taiwan)	2.97%
UNIMICRON TECHNOLOGY CORP (Taiwan)	2.72%
YAGEO CORPORATION (Taiwan)	2.63%
HON HAI PRECISION INDUSTRY (Taiwan)	2.61%
GLOBALWAFERS CO LTD (Taiwan)	2.40%
SENORTEK TECHNOLOGY CORP (Taiwan)	2.38%

### Portfolio Characteristics

	Fund	Benchmark <sup>2</sup>
P/E Ratio	17.91	18.56
P/B Ratio	3.33	2.39
Issues in Portfolio	45	910
Foreign Holdings (%)	95.59	100.00
Cash (%)	4.41	0.00
Yield (%)	1.74	2.65

### Risk Statistics (3 Year)

Beta	1.09
R <sup>2</sup>	0.90
Standard Deviation of NAV	22.90
Standard Deviation of Market Price	22.97

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
12/16/2011	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
12/17/2020	12/28/2020	12/29/2020	1/8/2021	\$3.31220	\$0.37590	\$0.61560	\$2.32070

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

### 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>82.11</b>	
	TAIWAN SEMICONDUCTOR MANUFAC	2330	606.00	2,586,000	56,264,824	22.91
	INNOLUX CORP	3481	17.00	20,500,000	12,512,342	5.09
	SILERGY CORP	6415	2,680.00	93,000	8,948,568	3.64
	UNITED MICROELECTRONICS CORP	2303	54.20	4,481,000	8,719,871	3.55
	UNIMICRON TECHNOLOGY CORP	3037	97.50	1,907,000	6,675,613	2.72
	YAGEO CORPORATION	2327	593.00	303,000	6,451,091	2.63
	HON HAI PRECISION INDUSTRY	2317	112.00	1,596,000	6,417,808	2.61
	GLOBALWAFERS CO LTD	6488	740.00	222,000	5,898,214	2.40
	SENSORTEK TECHNOLOGY CORP	6732	766.00	213,000	5,857,930	2.38
	ACCTON TECHNOLOGY CORP	2345	262.50	600,000	5,654,789	2.30
	ASMEDIA TECHNOLOGY INC	5269	1,700.00	88,000	5,371,152	2.19
	AU OPTRONICS CORP	2409	18.90	7,517,000	5,100,846	2.08
	MPI CORP	6223	118.00	1,151,000	4,876,331	1.99
	CHUNGHWA PRECISION TEST TECH	6510	900.00	149,000	4,814,649	1.96
	LARGAN PRECISION CO LTD	3008	3,295.00	40,000	4,732,071	1.93
	ITEQ CORP	6213	144.00	861,000	4,451,450	1.81
	MACRONIX INTERNATIONAL	2337	47.20	2,571,000	4,356,923	1.77
	SPEED TECH CORP	5457	95.00	1,173,000	4,000,898	1.63
	SINO AMERICAN SILICON PRODUC	5483	167.00	590,000	3,537,564	1.44
	FITIPower INTEGRATED TECH	4961	213.00	440,000	3,364,869	1.37
	GLOBAL UNICHIP CORP	3443	449.00	206,000	3,208,851	1.35
	NOVATEK MICROELECTRONICS COR	3034	474.00	195,000	3,318,553	1.35
	KINSUS INTERCONNECT TECH	3189	96.10	903,000	3,115,638	1.27
	PARADE TECHNOLOGIES LTD	4966	1,185.00	73,000	3,105,825	1.26
	GOLD CIRCUIT ELECTRONICS LTD	2368	54.20	1,275,000	2,481,106	1.01
	TAIFLEX SCIENTIFIC CO LTD	8039	52.10	1,313,000	2,456,056	1.00
	NANYA TECHNOLOGY CORP	2408	96.50	692,000	2,397,559	0.98
	FLEXIUM INTERCONNECT INC	6269	126.00	472,000	2,135,248	0.87
	CO TECH DEVELOPMENT CORP	8358	59.30	965,000	2,054,555	0.84
	SITRONIX TECHNOLOGY CORP	8016	193.50	273,000	1,896,616	0.77
	NAN YA PRINTED CIRCUIT BOARD	8046	299.00	166,000	1,782,030	0.73
	EMEMORY TECHNOLOGY INC	3529	815.00	57,000	1,667,893	0.68
	PEGATRON CORP	4938	74.60	583,000	1,561,504	0.64
	WIN SEMICONDUCTORS CORP	3105	380.50	88,000	1,202,190	0.49
	GRAND PLASTIC TECHNOLOGY COR	3131	356.00	91,000	1,163,127	0.47
<b>Consumer Discretionary</b>					<b>7.32</b>	
	TUNG THIH ELECTRONIC CO LTD	3552	330.00	369,000	4,371,959	1.78
	FULGENT SUN INTERNATIONAL	9802	113.00	929,877	3,772,591	1.54
	GIANT MANUFACTURING	9921	281.00	344,000	3,470,568	1.41
	GLOBAL PMX CO LTD	4551	188.00	379,000	2,558,190	1.04
	POYA INTERNATIONAL CO LTD	5904	626.00	86,000	1,932,897	0.79
	NIEN MADE ENTERPRISE CO LTD	8464	390.00	133,000	1,862,310	0.76
<b>Industrials</b>					<b>2.97</b>	
	HIWIN TECHNOLOGIES CORP	2049	399.00	509,000	7,291,661	2.97
<b>Materials</b>					<b>2.05</b>	
	TA CHEN STAINLESS PIPE CO	2027	31.20	4,496,000	5,036,359	2.05
<b>Communication Services</b>					<b>0.59</b>	
	CHIEF TELECOM INC	6561	300.50	135,000	1,456,512	0.59
<b>Health Care</b>					<b>0.56</b>	
	PEGAVISION CORP	6491	272.00	140,000	1,367,202	0.56

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. Yield% displayed is the "indicative dividend yield". This is calculated by taking the last paid dividend and multiplying it by the dividend frequency divided by the current price as of the date shown. 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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