

# The Taiwan Fund, Inc.

## Manager's Commentary

### Market Review

The Taiwan Stock Exchange closed the month of August 2020 down 0.57% in Taiwan Dollar terms, with the technology sector down 2.10%, non-technology up 3.59%, financial sector down 1.48% and over-the-counter ("OTC") stocks up 1.73%. The top three outperforming sectors were networking, equipment engineering and security monitoring. The bottom three underperforming sectors were handset, Notebook and securities.

### Fund Review

The Taiwan Fund, Inc. (the "Fund") underperformed the Taiwan TAIEX Total Return Index (the "benchmark"), as sector allocation and stock selection were both detractors from performance. On the sector level, the Fund's overweight positions in the household & personal products and automobiles & components sectors, and underweight positions in the telecommunication services, banks, communication & professional services and food beverage & tobacco sectors all helped. Stock selection in automobiles & components, materials and healthcare equipment & services helped the most. On the stock level, the best active contributors were Unimicron Technology, Speed Tech and Silergy Corp.; the worst active detractors were Epistar Corp., Kinsus Interconnect Technology Corp. and Flexium Interconnect, Inc.

### Key Transactions

This month the Fund significantly reduced its holding in Mediatek just before the United States announced more severe restrictions on the ability of China's Huawei to use third party developers to manufacture their chipsets. Previously, Mediatek had enjoyed soaring demand from Huawei as a substitute for HiSilicon (Huawei's semiconductor company) and the stock was priced quite aggressively as a result. The Fund's caution protected it from the worst of the sell-off that followed. Going forward, the Fund may still retain a smaller holding in Mediatek for reasons the outlook section below will cover.

### Outlook

In light of several risks on the horizon, we have taken preventative measures for the portfolio. On the one hand, we have slightly increased our cash holding and, on the other hand, we have rotated some of the portfolio from higher beta names into lower beta names. The reasons for this cautious approach include several industry specific dynamics as well as geopolitical considerations. However, we still see future volatility as a buying opportunity given the fundamental strength of the underlying themes that we have built our portfolio upon and the ongoing favorable liquidity environment.

In terms of industry specific events, Huawei's continuing troubles are likely to introduce greater volatility across not only the IC design space, but also across other related component manufacturers as well. First of all the inventory build-up may or may not be complete at Huawei, however there is now a deadline of September 15th after which they can no longer acquire chips from Mediatek without securing permission from US authorities. Whether the outcome of the US elections changes the position of the Commerce Department is now the crucial factor. In addition, there is uncertainty around how well Huawei's smartphones will sell in any case, with this cloud hanging over the future of the firm.

Another source of uncertainty in the tech space concerns 5G base station demand in China. It seems that the supply chain has experienced a steep contraction in demand from Mainland 5G base station providers ZTE and Huawei. Some say that this is driven by an imminent change in design specifications, however our research indicates that there may be a more serious issue at play. There are signals from within China that Q4 demand from local telecom firms for 5G infrastructure may be scaled back substantially.

## 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)	\$214.9
Median Market Cap (in billions)	\$1.5
Distribution Frequency	Annual
Management Firm	Allianz Global Investors U.S. LLC
Portfolio Management	Corrina Xiao Lead Portfolio Manager

### Performance (US\$ Returns) (as of 8/31/2020)<sup>1</sup>

	Fund	Benchmark <sup>2</sup>
One Month	-2.70%	-0.20%
Three Month	22.93%	21.05%
One Year	49.63%	31.44%
Three Year	14.00%	11.18%

### Net Asset Value / Market Price

NAV / Market Price (as of 8/31/2020)	\$28.79 / \$23.65
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### High / Low Ranges (52-Week)

High / Low NAV	\$30.37 / \$16.96
High / Low Market Price	\$25.00 / \$13.80
Premium/Discount to NAV (as of 8/31/2020)	-17.85%

### Fund Data (Common Shares)

Shares Outstanding	7,466,650
Average Daily Volume	9,945
Expense Ratio	1.63%

## 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.

Additionally, the US election is driving great uncertainty regarding the likely path of foreign policy, as well as future patterns of trade and commerce, across the Asia-Pacific region as a whole. Lastly, we see valuations as stretched, although some stocks have begun to pull back.

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

	1 Month	3 Month	YTD	1 Year	3 Year	5 Year	10 Year	Inception
NAV	-2.70%	22.93%	19.46%	49.63%	14.00%	16.37%	10.28%	9.33%
Market Price	0.60%	22.86%	14.92%	43.31%	11.15%	14.79%	9.30%	7.61%
Taiwan TAIEX Total Return Index	-0.20%	21.05%	10.54%	31.44%	11.18%	15.79%	10.08%	—
MSCI Taiwan Total Return Index	-1.78%	24.63%	12.20%	37.91%	11.89%	15.73%	10.28%	—
Taiwan TAIEX Price Index	-0.74%	17.75%	7.23%	26.95%	6.95%	11.30%	6.08%	—

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

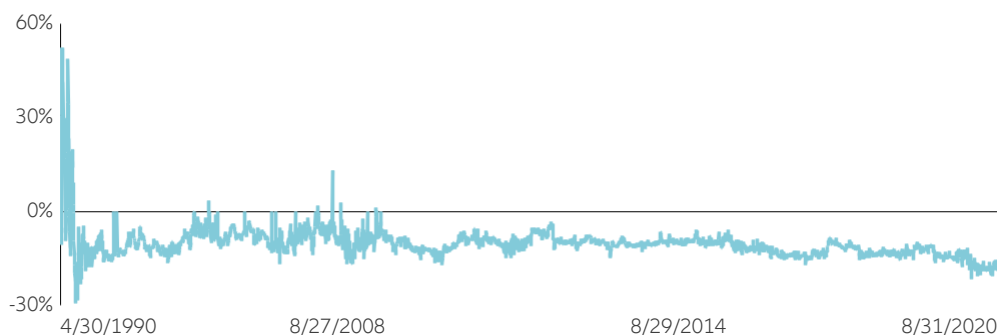
	2012	2013	2014	2015	2016	2017	2018	2019
NAV	12.23%	19.34%	-2.25%	-6.43%	11.17%	28.44%	-14.96%	47.11%
Market Price	12.77%	18.24%	-1.28%	-10.52%	10.05%	33.61%	-19.11%	46.75%
Taiwan TAIEX Total Return Index	17.76%	12.19%	5.05%	-10.40%	17.81%	29.45%	-7.86%	32.19%
MSCI Taiwan Total Return Index	16.68%	9.06%	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	71.73%	56.73%
Consumer Discretionary	8.22%	6.51%
Materials	6.55%	8.31%
Consumer Staples	2.95%	2.74%
Industrials	1.37%	5.13%
Health Care	1.01%	0.51%
Communication Services	0.83%	3.83%
Financials	0.83%	12.56%
Energy	0.00%	2.07%
Real Estate	0.00%	1.44%
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)	21.72%
TAIWAN CEMENT CORP (Taiwan)	4.49%
SILERGY CORP (Taiwan)	4.21%
EPISTAR CORP (Taiwan)	3.51%
ACCTON TECHNOLOGY CORP (Taiwan)	3.26%
UNIMICRON TECHNOLOGY CORP (Taiwan)	2.84%
FLEXIUM INTERCONNECT INC (Taiwan)	2.43%
SPEED TECH CORP (Taiwan)	2.37%
ZHEN DING TECHNOLOGY HOLDING LTD (Taiwan)	2.03%
TCI CO LTD (Taiwan)	2.01%

### Portfolio Characteristics

	Fund	Benchmark <sup>2</sup>
P/E Ratio	18.65	17.86
P/B Ratio	2.65	1.88
Issues in Portfolio	53	915
Foreign Holdings (%)	93.50	100.00
Cash (%)	6.50	0.00
Yield (%)	2.69	3.28

### Risk Statistics (3 Year)

Beta	1.09
R <sup>2</sup>	0.90
Standard Deviation of NAV	22.13
Standard Deviation of Market Price	21.51

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>71.73</b>	
	TAIWAN SEMICONDUCTOR MANUFACTURING CO LTD	2330	426.50	3,223,000	46,848,644	21.72
	SILERGY CORP	6415	1,865.00	143,000	9,089,344	4.21
	EPISTAR CORP	2448	39.90	5,562,000	7,563,478	3.51
	ACCTON TECHNOLOGY CORP	2345	234.00	883,000	7,041,971	3.26
	UNIMICRON TECHNOLOGY CORP	3037	73.60	2,440,000	6,120,478	2.84
	FLEXIUM INTERCONNECT INC	6269	126.00	1,223,000	5,251,879	2.43
	SPEED TECH CORP	5457	123.00	1,222,000	5,122,642	2.37
	ZHEN DING TECHNOLOGY HOLDING LTD	4958	123.00	1,047,000	4,389,039	2.03
	SENORTEK TECHNOLOGY CORP	6732	874.00	145,000	4,319,138	2.00
	ELITE MATERIAL CO LTD	2383	170.00	721,000	4,177,360	1.94
	MEDIATEK INC	2454	556.00	205,000	3,884,600	1.80
	RADIANT OPTO-ELECTRONICS CORP	6176	108.00	989,000	3,640,305	1.69
	KINSUS INTERCONNECT TECHNOLOGY CORP	3189	63.80	1,475,000	3,207,232	1.49
	ASIA VITAL COMPONENTS CO LTD	3017	70.20	1,324,000	3,167,691	1.47
	WIWYNN CORP	6669	782.00	115,000	3,064,942	1.42
	TONG HSING ELECTRONIC INDUSTRIES LTD	6271	132.50	649,573	2,933,334	1.36
	ITEQ CORP	6213	119.50	711,000	2,895,711	1.34
	FITTECH CO LTD	6706	153.00	549,000	2,862,737	1.33
	MPI CORP	6223	113.00	679,000	2,614,965	1.21
	UNITED MICROELECTRONICS CORP	2303	21.20	3,613,000	2,610,487	1.21
	TAIFLEX SCIENTIFIC CO LTD	8039	51.60	1,313,000	2,309,044	1.07
	PRIMAX ELECTRONICS LTD	4915	44.70	1,482,000	2,257,737	1.05
	NOVATEK MICROELECTRONICS CORP	3034	240.00	264,000	2,159,399	1.00
	JENTECH PRECISION INDUSTRIAL CO LTD	3653	306.00	195,000	2,033,638	0.94
	LOTES CO LTD	3533	428.00	134,000	1,954,638	0.91
	TPK HOLDING CO LTD	3673	49.20	1,103,000	1,849,517	0.86
	AURAS TECHNOLOGY CO LTD	3324	222.00	244,000	1,846,122	0.86
	WIN SEMICONDUCTORS CORP	3105	286.00	138,000	1,345,126	0.62
	HANNSTAR BOARD CORP	5469	43.55	883,000	1,310,589	0.61
	PARADE TECHNOLOGIES LTD	4966	1,040.00	35,000	1,240,564	0.58
	PEGATRON CORP	4938	62.50	524,000	1,116,167	0.52
	ASUSTEK COMPUTER INC	2357	243.00	128,000	1,060,069	0.49
	CHUNGHWA PRECISION TEST TECH CO LTD	6510	704.00	44,000	1,055,706	0.49
	WISTRON CORP	3231	31.90	941,000	1,023,053	0.47
	EMEMORY TECHNOLOGY INC	3529	519.00	45,000	795,972	0.37
	NAN YA PRINTED CIRCUIT BOARD CORP	8046	120.50	138,000	566,740	0.26
<b>Consumer Discretionary</b>					<b>8.22</b>	
	POYA INTERNATIONAL CO LTD	5904	575.00	218,000	4,272,106	1.98
	FULGENT SUN INTERNATIONAL HOLDING CO LTD	9802	126.00	734,000	3,151,986	1.46
	MAKALOT INDUSTRIAL CO LTD	1477	197.50	446,000	3,002,062	1.39
	YULON MOTOR CO LTD	2201	25.30	3,290,000	2,836,835	1.32
	CUB ELECPARTS INC	2231	167.50	417,000	2,380,502	1.10
	GLOBAL PMX CO LTD	4551	207.50	295,000	2,086,209	0.97
<b>Materials</b>					<b>6.55</b>	
	TAIWAN CEMENT CORP	1101	42.90	6,621,065	9,680,612	4.49
	ASIA CEMENT CORP	1102	42.50	2,148,000	3,111,293	1.44
	LONG CHEN PAPER + PACKAGING	1909	17.45	1,200,000	713,665	0.33
	TAIMIDE TECH INC	3645	69.80	264,000	628,025	0.29
<b>Consumer Staples</b>					<b>2.95</b>	
	TCI CO LTD	8436	320.50	397,000	4,336,469	2.01
	UNI-PRESIDENT ENTERPRISES CORP	1216	66.60	894,995	2,031,480	0.94
<b>Industrials</b>					<b>1.38</b>	
	REXON INDUSTRIAL CORP LTD	1515	100.50	501,000	1,716,017	0.80
	SHIN ZU SHING CO LTD	3376	151.00	242,435	1,247,642	0.58

Sector	Company (exchange ticker)	Price TWD	Holding	Value US\$	% of Market Value	
<b>Health Care</b>					<b>1.01</b>	
	PEGAVISION CORP	6491	192.50	333,000	2,184,704	1.01
<b>Communication Services</b>					<b>0.83</b>	
	CHIEF TELECOM INC	6561	391.00	135,000	1,798,988	0.83
<b>Financials</b>					<b>0.83</b>	
	MEGA FINANCIAL HOLDING CO LTD	2886	29.25	1,793,000	1,787,409	0.83

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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