

# THE TAIWAN FUND, INC. REVIEW

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## Portfolio Review

### Market Review:

In February, the Taiwan Stock Exchange Index ("TAIEX") decreased by 3.06% in U.S. Dollar terms. Local institutions bought a net of NT\$ 0.34 billion, while foreign investors and proprietary traders sold a net of NT\$ 90.26 billion and NT\$ 4.50 billion, respectively. The plastic and glass sectors outperformed the TAIEX with respective gains of 4.30% and 5.61% month-over-month ("MoM") in NT dollar terms. On the other hand, the construction and tourism sectors underperformed the TAIEX this month with decreases of 5.24% and 5.94%, respectively, MoM in NT dollar terms. On the economic front, Taiwan's Consumer Price Index ("CPI") increased 0.29% year-over-year ("YoY") in January. The seasonally adjusted unemployment rate was 5.73% year-over-year ("YoY") in January, 0.04% lower than the previous month. According to Customs' records, Taiwan's exports increased by 75.8% YoY in January, mainly due to a low base point. Further, exports increased by 8.6% MoM to US\$ 21.75 billion, the highest for the past 16 months. Seasonally adjusted export orders increased by 71.81% YoY in January. This is also because of the low base effect and Chinese New Year in January last year; nevertheless, the order amount reached US\$30.37 billion.

### Fund Performance Review:

The Taiwan Fund, Inc. (the "Fund") outperformed its benchmark by 0.09% in February. Overweight positions in the food & beverage sector and an underweight position in the PCB substrate sector contributed positively to the Fund's performance. However, an overweight position in the TFT-LCD sector and underweight position in the petrochemical sector had a negative impact on the Fund's performance.

### Investment Strategy:

The TAIEX dropped by 2.7% in February (or 9.2% year to date), and we attribute the poor TAIEX performance to the decline in the growth of domestic liquidity (i.e. M1B). In addition, profit growth (especially in the tech space) could decelerate on the back of rising costs (driven by RMB appreciation and wage increasing). We note that the TAIEX has already entered into the earning upgrade cycle for the year, and hence we are concerned that the breadth and pace of earning revisions will likely narrow or at least decelerate. Investors switched into China-based non-tech space, whereas China-concept names with high RMB exposure were the main outperformers in February. This will make stock selection more important than market direction. In terms of sector allocation, the Fund holds a slightly overweight position in defensive technology, while it is underweight in the financial and petrochemical sectors.

### Total Portfolio Sector Allocation

| As of 2/28/10                   | % of MV + Cash | % of TAIEX   |
|---------------------------------|----------------|--------------|
| Computer Service and Software   | 0.5            | 0.2          |
| Electronic Components           | 0.0            | 4.7          |
| Electronics Distribution        | 5.4            | 1.2          |
| IC Design                       | 10.4           | 4.8          |
| PC & Peripherals                | 6.1            | 8.4          |
| Optoelectronics                 | 7.2            | 7.2          |
| Other Electronics               | 6.1            | 7.5          |
| Semiconductor Manufacturing     | 9.4            | 13.7         |
| Telecommunications              | 9.8            | 7.4          |
| Construction/Cement/Glass       | 1.3            | 3.3          |
| Food                            | 4.3            | 1.3          |
| Chemicals/Biotech               | 1.5            | 1.8          |
| Textiles/Paper                  | 1.2            | 2.1          |
| Electric Machinery/Appliances   | 0.7            | 1.3          |
| Iron & Steel                    | 3.2            | 3.3          |
| Automobiles/Rubber              | 2.7            | 1.9          |
| Transportation/Tourism          | 1.1            | 2.5          |
| Wholesale & Retail              | 2.4            | 1.0          |
| Miscellaneous (Footwear/Others) | 1.2            | 1.6          |
| Plastics/Petroleum Services     | 10.5           | 12.0         |
| Financial Services              | 9.1            | 12.8         |
| <b>Total</b>                    | <b>94.1</b>    | <b>100.0</b> |
| Cash (% in liquid investments)  | -              | -            |
| Cash (% in bank)                | 5.9            | -            |
| <b>Technology</b>               | 54.9           | 55.1         |
| <b>Non-Technology</b>           | 30.1           | 32.1         |
| <b>Financial</b>                | 9.1            | 12.8         |

### Top 10 Holdings of Total Fund Portfolio

| As of 2/28/10                                | % of Total Portfolio |
|--|----------------------|
| Taiwan Semiconductor Manufacturing Co., Ltd. | 7.35                 |
| Hon Hai Precision Industry Co., Ltd.         | 6.09                 |
| MediaTek, Inc.                               | 3.95                 |
| Chunghwa Telecom Co., Ltd.                   | 3.64                 |
| Nan Ya Plastics Corp.                        | 3.54                 |
| Synnex Technology International Corp.        | 3.39                 |
| China Steel Corp.                            | 3.23                 |
| Taiwan Mobile Co., Ltd.                      | 3.22                 |
| Cathay Financial Holding Co., Ltd.           | 3.17                 |
| FarEastone Telecommunications Co., Ltd.      | 2.98                 |
| <b>Total</b>                                 | <b>40.56</b>         |

Total Net Assets: US\$279.09 Million

NAV: US\$15.03 Price: US\$13.22 Discount: 12.04%  
No. of Shares: 18.58 Million

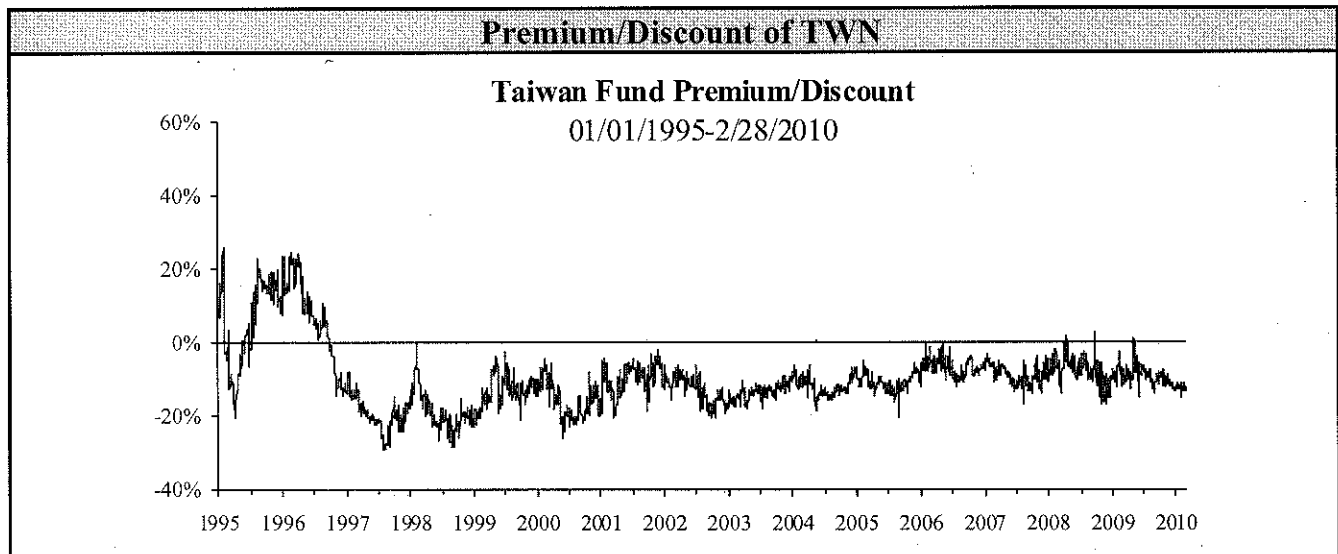
| Returns in US\$ (%) (a) |                       |              |                             |                   |
|-------------------------|-----------------------|--------------|-----------------------------|-------------------|
|                         | The Taiwan Fund, Inc. | TSE Index(b) | TAIEX Total Return Index(d) | MSCI Taiwan Index |
| One Month               | -2.97%                | -3.06%       | -3.06%                      | -3.67%            |
| Fiscal Year to Date (c) | 9.12%                 | 11.81%       | 11.88%                      | 9.72%             |
| One Year                | 59.31%                | 77.72%       | 82.80%                      | 88.70%            |
| Three Years             | -2.17%                | -1.12%       | 2.75%                       | -4.82%            |
| Five years              | 4.20%                 | 3.02%        | 7.12%                       | -0.04%            |
| Ten Years               | -3.09%                | -2.76%       | -0.31%                      | -4.84%            |
| Since Inception         | 8.76%                 | 9.34%        | N/A                         | N/A               |

(a) Returns for the Fund are historical total returns that reflect changes in net asset value per share during each period and assume that dividends and capital gains, if any, were reinvested. Past performance is not indicative of future results of the Fund. Returns are annualized, except for periods of less than one year, which are not annualized.

(b) Returns for the TSE Index are not total returns and reflect only changes in share price but do not assume that cash dividends, if any, were reinvested, and thus are not strictly comparable to the Fund returns.

(c) The Fund's fiscal year commences on September 1.

(d) The TAIEX Total Return Index commenced 1/1/2003.



| Market Data                                 |               |               |
|---|---------------|---------------|
|   | As of 1/31/10 | As of 2/28/10 |
| TAIEX                                       | 7640.44       | 7436.10       |
| % change in NTD terms                       | -6.69         | -2.67         |
| % change in USD terms                       | -6.57         | -3.06         |
| NTD Daily avg. trading volume (In Billions) | 118.52        | 81.87         |
| USD Daily avg. trading volume (In Billions) | 3.71          | 2.55          |
| NTD Market Capitalization (In Billions)     | 19864.30      | 19304.70      |
| USD Market Capitalization (In Billions)     | 621.81        | 601.91        |
| FX Rate: (NT\$/US\$)                        | 31.9460       | 32.0725       |

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**Fund Manager: Shirley Yang**