

The Taiwan Fund, Inc.

Manager's Commentary

Market Review

The Taiwan Stock Exchange closed the month of December 2020 up 7.36% in Taiwan Dollar terms, with the technology sector up 8.57%, non-technology up 6.24%, financial sector up 3.01% and over-the-counter ("OTC") stocks up 4.24%. The top three outperforming sectors were integrated circuit manufacturing, freight transport and transformer & uninterruptible power systems. The bottom three underperforming sectors were golf, optical disc and construction.

Fund Review

The Taiwan Fund, Inc. (the "Fund") underperformed the Taiwan TAIEX Total Return Index (the "benchmark") during December 2020. On the sector level, the Fund's overweight position in technology hardware & equipment and underweight positions in materials, energy and retailing hurt the performance. Stock selection in the technology hardware & equipment and consumer durables & appliance sectors, hurt the most. On the stock level, the best active contributors were Accton Technology Corp., Evergreen Marine Corp. and Hiwin Technologies Corp.; the worst active detractors were Speed Tech Corp., Chilisin Electronics Co. and Unimicron Technology Corp.

Key Transactions

In anticipation of the substantial cash dividend paid by the Fund on January 8, 2021; during December we were positioning the Fund to enable this distribution. We disposed of some names in financials, materials and petrochemicals in order to fund the cash portion of the portfolio while retaining our positions in cyclical technology, such as panels (Innolux Corp. and AU Optronics Corp.), wafers (Global Wafer Corp.) and passive components (Yageo Corp.). Due to some major developments involving Semiconductor Manufacturing International Corp. ("SMIC") later in the month, we have not reduced our semiconductor investments. In fact, we have rebuilt a position in United Microelectronics Corp. ("UMC"), which is now placed for exceptional growth in our view. The reasons for this change of course will be outlined below, in the Outlook section.

Outlook

On December 18, 2020, the US Department of Commerce ("DoC") added SMIC and its subsidiaries to the Entity List. As a result, suppliers of any equipment or parts containing in excess of 25% US technologies will need to cease trading with SMIC until licenses are approved. For all technologies enabling the latest sub 10nm chips, there is a presumption that such licenses will be denied. Furthermore, US customers of SMIC will also need to apply for licenses from the DoC.

Beyond the severely negative impact on SMIC, we view this as an important development for the Taiwan semiconductor supply chain. Given the already tight foundry supply situation, this move by the DoC will be a catalyst for further deterioration. The immediate effects will include increased pricing power for foundries. Local media foresee UMC raising the 8-inch foundry price upwards in the first quarter of 2021. Not only UMC, but also some second-tier foundries will benefit from a spillover effect. For example, Vanguard's capacity shortage may now extend over the whole of 2021.

Given this event, we have revised our view on the outlook for the semiconductor sector in Taiwan. Previously, we had planned to move to an equal weight position in technology and to increase our holdings in more traditional sectors. Considering recent developments, we believe that this is no longer the optimal course of action and will now instead remain holding an overweight in technology into the first half of the new year.

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)	\$227.7
Median Market Cap (in billions)	\$1.6
Distribution Frequency	Annual
Management Firm	Allianz Global Investors U.S. LLC
Portfolio Management	Corrina Xiao Lead Portfolio Manager

Performance (US\$ Returns) (as of 12/31/2020)¹

	Fund	Benchmark ²
One Month	8.58%	9.07%
Three Month	20.51%	21.52%
One Year	41.97%	35.62%
Three Year	21.10%	18.21%

Net Asset Value / Market Price

NAV / Market Price (as of 12/31/2020)	\$30.50 / \$25.65
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High / Low Ranges (52-Week)

High / Low NAV	\$33.43 / \$16.96
High / Low Market Price	\$29.00 / \$13.80
Premium/Discount to NAV (as of 12/31/2020)	-15.90%

Fund Data (Common Shares)

Shares Outstanding	7,466,650
Average Daily Volume	10,331
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 Returns¹

	1 Month	3 Month	YTD	1 Year	3 Year	5 Year	10 Year	Inception
NAV	8.58%	20.51%	41.97%	41.97%	21.10%	20.46%	9.45%	9.79%
Market Price	5.82%	24.94%	39.81%	39.81%	18.40%	19.53%	8.44%	8.15%
Taiwan TAIEX Total Return Index	9.07%	21.52%	35.62%	35.62%	18.21%	20.30%	9.48%	—
MSCI Taiwan Total Return Index	10.49%	23.15%	40.99%	40.99%	20.53%	21.49%	9.91%	—
Taiwan TAIEX Price Index	8.90%	21.33%	31.01%	31.01%	13.60%	15.61%	5.47%	—

Calendar Year Returns¹

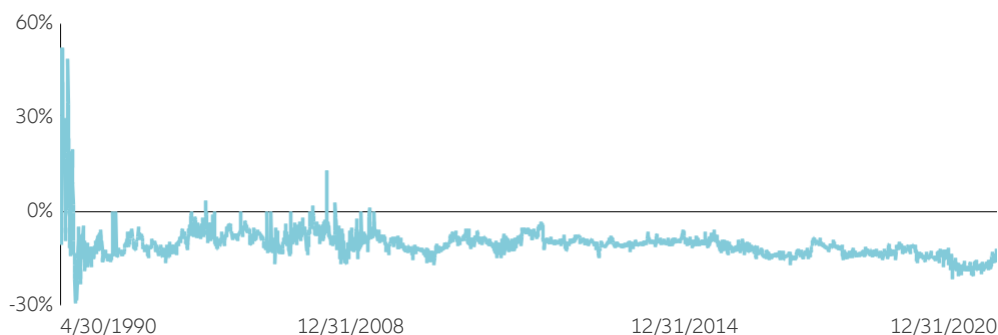
	2013	2014	2015	2016	2017	2018	2019	2020
NAV	19.34%	-2.25%	-6.43%	11.17%	28.44%	-14.96%	47.11%	41.97%
Market Price	18.24%	-1.28%	-10.52%	10.05%	33.61%	-19.11%	46.75%	39.81%
Taiwan TAIEX Total Return Index	12.19%	5.05%	-10.40%	17.81%	29.45%	-7.86%	32.19%	35.62%
MSCI Taiwan Total Return Index	9.06%	9.36%	-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 ²
Information Technology	69.28%	59.32%
Industrials	6.90%	5.38%
Consumer Discretionary	5.87%	6.01%
Materials	3.47%	8.45%
Communication Services	0.67%	3.27%
Financials	0.00%	11.19%
Consumer Staples	0.00%	2.38%
Energy	0.00%	2.14%
Real Estate	0.00%	1.30%
Health Care	0.00%	0.41%
Utilities	0.00%	0.14%

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

Top 10 Holdings

TAIWAN SEMIC CO LTD (Taiwan)	24.02%
INNOLUX CORP (Taiwan)	4.23%
AU OPTRONICS CORP (Taiwan)	4.14%
SILERGY CORP (Taiwan)	3.15%
MACRONIX INTERNATIONAL (Taiwan)	3.06%
HIWIN TECHNOLOGIES CORP (Taiwan)	2.96%
ACCTON TECHNOLOGY CORP (Taiwan)	2.67%
TA CHEN STAINLESS PIPE (Taiwan)	2.59%
UNIMICRON TECHNOLOGY CORP (Taiwan)	2.34%
YAGEO CORP (Taiwan)	2.21%

Portfolio Characteristics

	Fund	Benchmark ²
P/E Ratio	24.68	19.87
P/B Ratio	2.64	2.20
Issues in Portfolio	43	908
Foreign Holdings (%)	86.19	100.00
Cash (%)	13.81	0.00
Yield (%)	1.85	2.81

Risk Statistics (3 Year)

Beta	1.08
R ²	0.89
Standard Deviation of NAV	22.86
Standard Deviation of Market Price	23.06

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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
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	
Information Technology					69.28	
	TAIWAN SEMICONDUCTOR MANUFACTURING CO LTD	2330	530.00	3,224,000	60,812,869	24.02
	INNOLUX CORP	3481	14.10	21,325,000	10,701,206	4.23
	AU OPTRONICS CORP	2409	14.00	21,050,000	10,488,291	4.14
	SILERGY CORP	6415	2,410.00	93,000	7,976,724	3.15
	MACRONIX INTERNATIONAL	2337	42.30	5,140,000	7,737,988	3.06
	ACCTON TECHNOLOGY CORP	2345	316.00	600,000	6,747,811	2.67
	UNIMICRON TECHNOLOGY CORP	3037	87.40	1,907,000	5,931,803	2.34
	YAGEO CORP	2327	518.00	303,000	5,585,949	2.21
	SPEED TECH CORP	5457	93.70	1,510,000	5,035,483	1.99
	MPI CORP	6223	112.50	1,170,000	4,684,497	1.85
	MERRY ELECTRONICS CO LTD	2439	146.50	814,000	4,244,110	1.68
	ITEQ CORP	6213	138.00	861,000	4,228,700	1.67
	VISUAL PHOTONICS EPITAXY CO LTD	2455	112.00	1,053,000	4,197,309	1.66
	SINO-AMERICAN SILICON PRODUCTS	5483	177.50	590,000	3,727,134	1.47
	NOVATEK MICROELECTRONICS CORP	3034	369.00	266,000	3,493,274	1.38
	FITTECH CO LTD	6706	167.00	549,000	3,262,972	1.29
	CHILISIN ELECTRONICS CORP	2456	112.00	782,000	3,117,090	1.23
	TONG HSING ELECTRONIC INDUSTRIES LTD	6271	177.00	490,762	3,091,497	1.22
	TAIFLEX SCIENTIFIC CO LTD	8039	54.60	1,313,000	2,551,420	1.01
	UNITED MICROELECTRONICS CORP	2303	47.15	1,465,000	2,458,351	0.97
	GOLD CIRCUIT ELECTRONICS LTD	2368	50.50	1,275,000	2,291,533	0.91
	FLEXIUM INTERCONNECT INC	6269	121.00	472,000	2,032,600	0.80
	GRAND PLASTIC TECHNOLOGY CORP	3131	397.50	142,000	2,008,862	0.79
	CO-TECH DEVELOPMENT CORP	8358	53.30	965,000	1,830,540	0.72
	GLOBAL UNICHIP CORP	3443	339.00	145,000	1,749,413	0.69
	SENSORTEK TECHNOLOGY CORP	6732	680.00	65,000	1,573,066	0.62
	GLOBALWAFERS CO LTD	6488	708.00	52,000	1,310,271	0.52
	NAN YA PRINTED CIRCUIT BOARD CORP	8046	182.00	166,000	1,075,237	0.42
	ALLIED CIRCUIT CO LTD	8155	121.00	231,000	994,768	0.39
	EMEMORY TECHNOLOGY INC	3529	595.00	21,000	444,694	0.18
Industrials					6.90	
	HIWIN TECHNOLOGIES CORP	2049	384.50	548,000	7,498,968	2.96
	EVERGREEN MARINE CORP TAIWAN LTD	2603	40.70	3,023,000	4,378,821	1.73
	WAN HAI LINES LTD	2615	52.90	2,291,000	4,313,257	1.70
	AIRTAC INTERNATIONAL GROUP	1590	900.00	40,000	1,281,230	0.51
Consumer Discretionary					5.88	
	FULGENT SUN INTERNATIONAL HOLDING CO LTD	9802	112.00	929,877	3,706,535	1.46
	POU CHEN CORP	9904	31.40	3,168,000	3,540,295	1.40
	GLOBAL PMX CO LTD	4551	171.50	525,000	3,204,410	1.27
	POYA INTERNATIONAL CO LTD	5904	576.00	144,000	2,951,954	1.17
	GIANT MANUFACTURING CO LTD	9921	275.00	75,000	734,038	0.29
	KENDA RUBBER INDUSTRIAL CO LTD	2106	34.95	585,000	727,659	0.29
Materials					3.47	
	TA CHEN STAINLESS PIPE	2027	31.30	5,880,000	6,550,075	2.59
	CENTURY IRON & STEEL INDUSTRIAL CO LTD	9958	107.00	584,000	2,223,931	0.88
Communication Services					0.67	
	CHIEF TELECOM INC	6561	354.50	135,000	1,703,235	0.67

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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