

The Taiwan Fund, Inc.

Manager's Commentary

Market Review

The Taiwan Stock Exchange closed the month of May 2020 down 0.45% in Taiwan Dollar terms, with the technology sector down 1.01%, non-technology up 0.59%, financial sector down 0.31% and over-the-counter ("OTC") stocks up 7.02%. The top three outperforming sectors were biotechnology & healthcare, optical lens and networking. The bottom three underperforming sectors were dynamic random-access memory ("DRAM") manufacturers, equipment engineering and connectors.

Fund Review

The Taiwan Fund, Inc. (the "Fund") outperformed the Taiwan TAIEX Total Return Index (the "benchmark") in May 2020, as stock selection was a positive contributor, but sector allocation was a negative contributor. On the sector level, the Fund's overweight positions in the retailing and real estate sectors and underweights in the materials, food & staples retailing all helped. Stock selection in semiconductors and technology hardware helped the most. On the stock level, the best active contributors were Silergy Corp., Taiwan Surface Mounting Technology and Global Lighting Technology; the worst active detractors were Epistar Corp., Unimicron Technology and Taiwan Union Technology.

Key Transactions

In May 2020, portfolio activity was quite high as the Fund took advantage of a couple of different effects lifting the market. The first of these has been driven by demand, both domestic and global. The resilience of the Taiwan economy has in part been due to the fact that we were spared the worst of the pandemic. Economic activity slowed here, much like elsewhere in the world, as consumers became more cautious and restaurants, hotels and consumption in general sagged. Nonetheless, given there have been only four deaths in Taiwan and around 450 cases of COVID-19 in total, we never experienced the degree of disruption seen in other economies and the reopening is expected to drive a brisk recovery in demand. Furthermore, the rest of the world is also recovering, and Taiwan's position as a major exporter means we benefit from this improving demand dynamic also. What this has meant for the portfolio is that we have widened the number of names in which we are invested as a broad-based rally driven both by domestic demand and export demand takes hold. On the other hand, there have been major developments involving Taiwan Semiconductor Manufacturing Co., Ltd ("TSMC") which, given its position as the most liquid large cap name in Taiwan, has in turn driven large Foreign Institutional Investors ("FINI") to flow out of and then back into the island. The initially gloomy outlook for TSMC proved to be overdone, and FINIs who reduced their positions in the face of the new US trade restrictions have been returning to the market in recent days. This in turn is lifting the large cap end of the market in general.

Outlook

As more and more cities in the United States return to work, the economy seems to be on track to normalize soon. Importantly for Taiwan's technology sector, Apple's new product launch may not be delayed any further than it already has been. We foresee a healthy rotation into the smartphone space as it catches up with these recent positive developments. Supported by positive surprises in demand, we expect the market will continue to rally through 3Q20. After that point, we will review just how strong the real demand is likely to be into year-end. Until then, we intend to join the party.

As mentioned earlier, TSMC has had an eventful month. On May 15th, the US Department of Commerce released an interim final rule targeting companies which supply Huawei with the latest chips, if those chips are manufactured using US technology. This effectively locks TSMC out of supplying Huawei with advanced chips which, via HiSilicon, is their second largest source of revenue accounting for roughly 15% of sales. The question is whether or not there will be genuine follow-through on this latest threat from the Trump administration. A strict reading of the new ruling from the Commerce Department would indeed spell trouble, not only for TSMC but also for a host of other firms. Nonetheless, there is ambiguity in the text itself and precedent for this administration softening its stance after initially talking tough on China.

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)	\$174.8
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 5/31/2020) ¹	
	Fund Benchmark ²
One Month	4.23% -1.41%
Three Month	3.26% -2.01%
One Year	40.89% 15.02%
Three Year	10.39% 7.38%
Net Asset Value / Market Price	
NAV / Market Price (as of 5/31/2020)	\$23.42 / \$19.25
High / Low Ranges (52-Week)	
High / Low NAV	\$25.70 / \$16.96
High / Low Market Price	\$22.37 / \$13.80
Premium/Discount to NAV (as of 5/31/2020)	-17.81%
Fund Data (Common Shares)	
Shares Outstanding	7,466,650
Average Daily Volume	9,123
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.

Of course, we must also acknowledge that this is an election year in a bitterly divided America, where a hard line against China could play well to the President's base. If Trump wishes to challenge China, a strong relationship with Taiwan is an essential tool in his arsenal. He could hardly cripple TSMC, the backbone of Taiwanese industry and of the stock market here, without damaging relations with the Taiwanese people. Hence, we believe that although there may be stronger words and actions from the Americans ahead, any move that threatens the viability of TSMC would be counter productive to America's long term strategic goals in the Asian region. Therefore, despite the short-term headwind, we believe that resulting downside risk to TSMC in 4Q20-2021 will be manageable and lost revenues will ultimately be made up for by other clients (including Xilinx, Altera and Mediatek). This in turn will lift FINI flows into Taiwan and the technology sector in general going forward.

Average Annual Returns¹

	1 Month	3 Month	YTD	1 Year	3 Year	5 Year	10 Year	Inception
NAV	4.23%	3.26%	-2.82%	40.89%	10.39%	7.69%	9.04%	8.73%
Market Price	2.39%	1.58%	-6.46%	30.88%	7.16%	6.09%	8.56%	7.01%
Taiwan TAIEX Total Return Index	-1.41%	-2.01%	-8.68%	15.02%	7.38%	7.20%	8.70%	—
MSCI Taiwan Total Return Index	-2.52%	-3.72%	-9.97%	17.49%	6.86%	6.59%	8.45%	—
Taiwan TAIEX Price Index	-1.41%	-2.28%	-8.94%	9.74%	2.97%	2.89%	4.68%	—

Calendar Year Returns¹

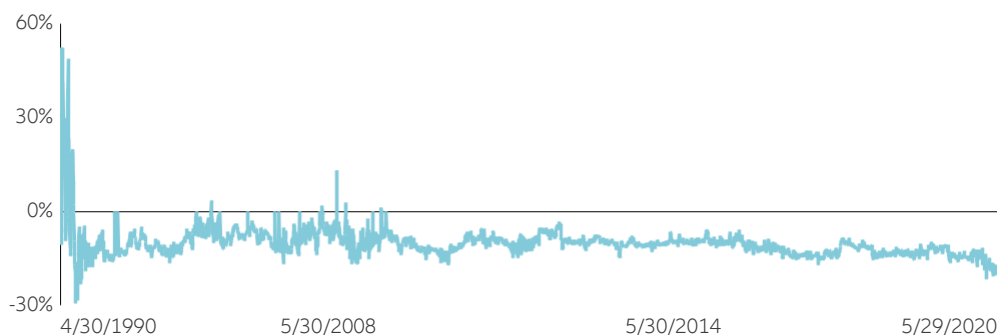
	2012	2013	2014	2015	2016	2017	2018	2019
NAV	12.23%	19.34%	-2.25%	-6.43%	11.17%	28.44%	-14.96%	47.11%
Market Price	12.77%	18.24%	-1.28%	-10.52%	10.05%	33.61%	-19.11%	46.75%
Taiwan TAIEX Total Return Index	17.76%	12.19%	5.05%	-10.40%	17.81%	29.45%	-7.86%	32.19%
MSCI Taiwan Total Return Index	16.68%	9.06%	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 ²
Information Technology	73.25%	51.68%
Consumer Discretionary	8.14%	6.77%
Materials	3.03%	9.31%
Real Estate	1.63%	1.48%
Industrials	1.24%	5.30%
Consumer Staples	1.24%	3.31%
Financials	1.05%	14.30%
Energy	0.79%	2.54%
Communication Services	0.00%	4.55%
Health Care	0.00%	0.58%
Utilities	0.00%	0.17%

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

Top 10 Holdings

TAIWAN SEMIC CO LTD (Taiwan)	16.98%
SILERGY CORP (Taiwan)	4.95%
GLOBAL LIGHTING TECHNOLOGIES (Taiwan)	3.91%
MEDIATEK INC (Taiwan)	3.58%
ACCTON TECHNOLOGY CORP (Taiwan)	3.22%
TAIWAN SURFACE MOUNTING TECHNOLOGY CORP (Taiwan)	3.08%
ZHEN DING TECHNOLOGY HOLDING LTD (Taiwan)	2.68%
LARGAN PRECISION CO LTD (Taiwan)	2.62%
UNIMICRON TECHNOLOGY CORP (Taiwan)	2.58%
EPISTAR CORP (Taiwan)	2.52%

Portfolio Characteristics

	Fund	Benchmark ²
P/E Ratio	18.08	16.15
P/B Ratio	2.41	1.63
Issues in Portfolio	51	917
Foreign Holdings (%)	90.35	100.00
Cash (%)	9.65	0.00
Yield (%)	2.74	3.79

Risk Statistics (3 Year)

Beta	1.08
R ²	0.91
Standard Deviation of NAV	20.12
Standard Deviation of Market Price	20.23

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	
Information Technology					73.27	
	TAIWAN SEMICONDUCTOR MANUFACTURING CO LTD	2330	292.00	3,066,000	29,817,552	16.98
	SILERGY CORP	6415	1,620.00	161,000	8,686,761	4.95
	GLOBAL LIGHTING TECHNOLOGIES	4935	143.50	1,436,000	6,863,147	3.91
	MEDIATEK INC	2454	463.00	408,000	6,291,557	3.58
	ACCTON TECHNOLOGY CORP	2345	241.50	702,000	5,646,395	3.22
	TAIWAN SURFACE MOUNTING TECHNOLOGY CORP	6278	114.50	1,419,000	5,411,341	3.08
	ZHEN DING TECHNOLOGY HOLDING LTD	4958	119.50	1,183,000	4,708,360	2.68
	LARGAN PRECISION CO LTD	3008	3,835.00	36,000	4,598,168	2.62
	UNIMICRON TECHNOLOGY CORP	3037	40.10	3,391,000	4,528,863	2.58
	EPISTAR CORP	2448	36.00	3,687,000	4,420,716	2.52
	PARADE TECHNOLOGIES LTD	4966	860.00	149,000	4,267,777	2.43
	ASMEDIA TECHNOLOGY INC	5269	1,135.00	87,000	3,288,759	1.87
	DELTA ELECTRONICS INC	2308	138.00	714,000	3,281,665	1.87
	UNITED MICROELECTRONICS CORP	2303	15.45	6,176,000	3,177,992	1.81
	BRAVE C&H SUPPLY CO LTD	6538	284.50	314,000	2,975,287	1.69
	CHAUN-CHOUNG TECHNOLOGY CORP	6230	247.00	337,000	2,772,323	1.58
	ELITE MATERIAL CO LTD	2383	147.50	514,000	2,525,062	1.44
	TXC CORP	3042	58.70	1,101,000	2,152,496	1.23
	YAGEO CORP	2327	370.50	169,000	2,085,412	1.19
	NANYA TECHNOLOGY CORP	2408	59.80	1,026,000	2,043,457	1.16
	SINO-AMERICAN SILICON PRODUCTS	5483	87.80	635,000	1,856,886	1.06
	GENERAL INTERFACE SOLUTION HOLDING LTD	6456	113.50	478,000	1,806,928	1.03
	SPEED TECH CORP	5457	81.80	653,000	1,779,031	1.01
	KINGPAK TECHNOLOGY INC	6238	163.00	325,220	1,765,557	1.01
	JENTECH PRECISION INDUSTRIAL CO LTD	3653	249.50	203,000	1,686,878	0.96
	CASETEK HOLDINGS LTD	5264	45.00	1,019,000	1,527,227	0.87
	AU OPTRONICS CORP	2409	7.58	5,902,000	1,489,997	0.85
	FLEXIUM INTERCONNECT INC	6269	108.50	397,000	1,434,621	0.82
	KINSUS INTERCONNECT TECHNOLOGY CORP	3189	48.15	736,000	1,180,296	0.67
	FITTECH CO LTD	6706	153.50	198,000	1,012,256	0.58
	ALCHIP TECHNOLOGIES LTD	3661	300.00	88,000	879,267	0.50
	MICRO-STAR INTERNATIONAL CO LTD	2377	101.00	253,000	851,057	0.48
	M31 TECHNOLOGY CORP	6643	305.00	81,000	822,814	0.47
	SIMPLO TECHNOLOGY CO LTD	6121	320.00	48,000	511,574	0.29
	ADVANCED CERAMIC X CORP	3152	312.50	48,000	499,584	0.28
Consumer Discretionary					8.14	
	POYA INTERNATIONAL CO LTD	5904	578.00	218,000	4,196,636	2.39
	FENG TAY ENTERPRISE CO LTD	9910	181.00	383,000	2,308,843	1.31
	MAKALOT INDUSTRIAL CO LTD	1477	144.00	373,000	1,788,909	1.02
	GIANT MANUFACTURING CO LTD	9921	235.00	199,000	1,557,535	0.89
	GLOBAL PMX CO LTD	4551	150.00	283,000	1,413,822	0.81
	YULON MOTOR CO LTD	2201	19.80	1,790,000	1,180,416	0.67
	FULGENT SUN INTERNATIONAL HOLDING CO LTD	9802	99.90	311,000	1,034,768	0.59
	ACTRON TECHNOLOGY CORP	8255	84.10	289,000	809,489	0.46
Materials					3.03	
	TAIWAN CEMENT CORP	1101	42.55	1,732,000	2,454,508	1.40
	FORMOSA PLASTICS CORP	1301	83.00	669,000	1,849,359	1.05
	NAN YA PLASTICS CORP	1303	62.90	489,000	1,024,416	0.58
Real Estate					1.63	
	KINDOM DEVELOPMENT CO LTD	2520	29.50	2,906,000	2,855,187	1.63
Consumer Staples					1.24	
	UNI-PRESIDENT ENTERPRISES CORP	1216	72.80	894,995	2,170,046	1.24
Industrials					1.24	
	SHIN ZU SHING CO LTD	3376	135.50	481,000	2,170,708	1.24
Financials					1.05	

Sector	Company (exchange ticker)	Price TWD	Holding	Value US\$	% of Market Value
MEGA FINANCIAL HOLDING CO LTD	2886	30.75	1,793,000	1,836,295	1.05
Energy					0.79
FORMOSA PETROCHEMICAL CORP	6505	87.70	472,000	1,378,664	0.79

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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