

TAIWAN FUND INC  
Form N-CSRS  
May 02, 2014

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**

**FORM N-CSR**

**CERTIFIED SHAREHOLDER REPORT OF REGISTERED**  
**MANAGEMENT INVESTMENT COMPANIES**  
**Investment Company Act file number: 811-04893**

**THE TAIWAN FUND, INC.**

**(Exact name of registrant as specified in charter)**

**C/O STATE STREET BANK AND TRUST COMPANY,**  
**ONE LINCOLN STREET, P.O. BOX 5049,**  
**BOSTON, 02206**

**(Address of principal executive offices)(Zip code)**

**(Name and Address of Agent for Service)**

**State Street Bank and Trust Company  
Attention: Francine S. Hayes  
Secretary  
4 Copley Place, 5<sup>th</sup> Floor  
Boston, Massachusetts 02116**

**Copy to:**

**Leonard B. Mackey, Jr., Esq.  
Clifford Chance US LLP  
31 West 52nd Street  
New York, New York 10019-6131**

**Registrant's telephone number, including area code: 1 (877) 864-5056**

**Date of fiscal year end: August 31**

**Date of reporting period: February 28, 2014**

**Item 1. Report to Stockholders.**



## CHAIRMAN'S STATEMENT

Dear Stockholders,

During the period under review, global macroeconomic factors – in particular, speculation regarding the tapering of US quantitative easing (QE) – continued to have a significant impact on domestic market sentiment. The eventual announcement by the Federal Reserve in December of a reduction in QE from January 2014 was received more positively than many expected, and although emerging-market concerns dragged markets down in January, the Taiwan Stock Exchange Index (TAIEX) registered positive overall growth for the period, up by 6.0% in US dollar terms.

In this uncertain, and at times volatile, investment environment, I am delighted to report that the Taiwan Fund Inc. (the Fund) once again performed well in absolute terms and relative to its benchmark, delivering an increase of 8.8%<sup>1</sup> in the net asset value during the period.

In terms of the administration of the Fund during the period and going forward, it was announced on January 24, 2014 that the Board of Directors had selected Allianz Global Investors U.S. LLC (AllianzGI U.S.) as the Fund's new investment manager to replace the previous investment advisory arrangements with Martin Currie, Inc. (Martin Currie) and APS Asset Management PTE Ltd. (APS).

The proposed Investment Management Agreement between the Fund and AllianzGI U.S. is subject to approval at the Annual Meeting of Stockholders scheduled for April 22, 2014; however, AllianzGI U.S. has commenced serving as the Fund's investment manager under an Interim Investment Management Agreement following the termination of investment advisory arrangements with Martin Currie, Inc. At this time of transition, I would like to thank Martin Currie and APS for the investment advisory role that they have fulfilled for the Fund.

On behalf of the Board, I would like to thank you for your continuing support of The Taiwan Fund, Inc.

Sincerely,

Joe O. Rogers

Chairman

<sup>1</sup> The Fund's net asset value return for the six month period ending February 28, 2014 was 8.8%. Source: State Street Bank

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## REPORT OF THE INVESTMENT MANAGER

### Review

#### Review from October 1, 2013 to February 21, 2014<sup>1</sup>

Despite uncertain macroeconomic factors continuing to affect Taiwan's markets, this was ultimately a positive period for Taiwan equities. In November, third-quarter GDP data from the US outstripped expectations, paving the way for the US Federal Reserve's announcement in December of a reduction in quantitative easing (QE) from the start of this year. The Taiwan Stock Exchange Index (TAIEX) fell notably in January, dragged down, in part, by emerging-market concerns regarding the withdrawal of QE, but also as a result of HSBC's lower-than-expected flash PMI for China of 50.5 in December. Consequently, market sentiment towards Taiwan exporters, and companies with significant China exposure, was negatively impacted. Nevertheless Taiwan's markets bounced back at the end of the review period, as the sell-off by foreign funds over the Chinese New Year abated and local investors returned to the market; the TAIEX ended the period up by 6.0% in US dollar terms.

Against this backdrop the Fund outperformed the index, with the Fund's net asset value up by 8.8%. The top contributor was the Taiwan Tea Corporation which has benefitted from monetizing its sizable rural farmland into commercial and property development uses. Yungtay Engineering also did well. The company installed 4,700 elevators in the fourth quarter of 2013, which was more than expected up 25.1% quarter on quarter and has also guided a strong 19% growth in installations for 2014. On the other side, the biggest detractor from the Fund's return was Pacific Hospital Supply. Not holding Hon Hai Precision Industry Company was also a notable drag on relative performance.

During the period, the Fund initiated new holdings in Sinmag Equipment Corporation (a manufacturer of bakery and kitchen machinery), and Wowprime (a restaurant chain). On the sales side, the Fund sold its position in Makalot (a clothing manufacturer).

<sup>1</sup> Source: Martin Currie

<sup>2</sup> The Fund's net asset value return for the six month period ending February 28, 2014 was 8.8%. Source: State Street Bank

**Review from February 22, 2014 to February 28, 2014<sup>3</sup>**

AllianzGI US commenced as the Fund's Interim Investment Manager on February 22, 2014. AllianzGI US has begun the process of restructuring the Fund in a prudent and orderly manner. We will be providing updates on the transition via the Monthly Insights.

<sup>3</sup>Source: Allianz Global Investors

**Outlook**

The Taiwan stock market rebounded strongly after tumbling in late January. We believe that positive sentiment towards the stock market remains, especially after recent upbeat economic data releases. Still, smaller-caps are more actively traded than larger-caps. Despite potential increases in volatility due to the influence of global markets, we nevertheless believe the Taiwan stock market will stay on its uptrend, bolstered by a healthier economy, solid corporate earnings growth and recovery of exports. By sector, we reiterate our view that technology is likely to outperform versus non-tech after a gloomy 2013, based on more attractive valuations and the recovery of the global Information Technology sector. The non-tech sectors have a potential narrower upside as their valuations were largely lifted in the past two years. The financial sector is a sentiment play for a cross-strait breakthrough in trade negotiations and local elections at the end of the year. We favor stocks with a high growth outlook in 2014. Favorable industries and stocks include Light-emitting diode, cloud-related companies, industrial computers, low-end smartphone and cheap-valued PC/notebook names among the technology companies and for non-tech, we like tire makers, textiles, electronic/machinery, biotech/medical care, auto and housing related exporters and life insurers/securities firms among the financials.

Sincerely,

Weimin Chang

Portfolio Manager



**ABOUT THE PORTFOLIO MANAGERS** *(unaudited)*

**Weimin Chang Portfolio Manager of The Fund**

Mr. Chang is Chief Investment Officer Taiwan with Allianz Global Investors, which he joined in 2012. He is the portfolio manager for The Taiwan Fund, Inc. Mr. Chang has 17 years of investment-industry experience. Before joining the firm, he was CIO China with Franklin Templeton and CIO of BNP Paribas joint venture in Shanghai, where he managed the firm's flagship China fund. Before that, Mr. Chang was head of research at ING Barings and Merrill Lynch in Taiwan, and an analyst and portfolio manager with Martin Currie Investment Management in Edinburgh. He began his career as a financial journalist at one of the largest local press agencies in Taiwan. Mr. Chang has a B.A. in journalism from National Chengchi University, an M.A. in communication policy from City University, London, and an M.B.A. from the London Business School.

**Investment Adviser**

The Fund's investment adviser is Allianz Global Investors U.S. LLC

AllianzGI U.S. is a diversified active investment manager with a strong parent company and a culture of risk management. With 23 offices in 18 countries, we provide global investment and research capabilities with consultative local delivery. We have \$475 billion in assets under management for individuals, families and institutions worldwide, and employ over 500 investment professionals.\*

\* Combined worldwide AUM as of December 31, 2013

**PORTFOLIO SNAPSHOT\*****Top Ten Equity Holdings**

HOLDINGS AS OF FEBRUARY 28, 2014	%
WT Microelectronics Co., Ltd.	8.0
YungShin Global Holding Corp.	6.7
Taiwan Semiconductor Manufacturing Co., Ltd.	5.4
Advantech Co., Ltd.	4.9
Yungtay Engineering Co., Ltd.	4.6
PC Home Online	4.4
Aurora Corp.	4.2
Taiflex Scientific Co., Ltd.	3.8
Mercuries & Associates, Ltd.	3.8
Yem Chio Co., Ltd.	3.0

**Top Ten Industry Weightings**

WEIGHTINGS AS OF FEBRUARY 28, 2014	%
Building Material and Construction	11.3
Semiconductor	10.0
Trading and Consumers Goods	8.8
Biotechnology and Medical Care	8.7
Electronic Products Distribution	8.0
Electric Machinery	6.3
Electronic Parts/Components	5.7
Other Electronic	5.6
Computer and Peripheral Equipment	4.9
Information Service	4.4

**Top Ten Equity Holdings**

HOLDINGS AS OF AUGUST 31, 2013	%
WT Microelectronics Co., Ltd.	7.7
YungShin Global Holding Corp.	6.4
Taiwan Semiconductor Manufacturing Co., Ltd.	5.6
Aurora Corp.	4.8
Yungtay Engineering Co., Ltd.	4.6
Advantech Co., Ltd.	4.3
Mercuries & Associates, Ltd.	4.2
PC Home Online	3.8
Yem Chio Co., Ltd.	3.7
Taiflex Scientific Co., Ltd.	3.6

**Top Ten Industry Weightings**

WEIGHTINGS AS OF AUGUST 31, 2013	%
Building Material and Construction	12.7
Trading and Consumers Goods	10.4
Electronic Products Distribution	7.7
Semiconductor	7.2
Other Electronic	6.7
Textile	6.5
Healthcare	6.4
Electronic Parts/Components	5.1

Electric Machinery	4.6
Other	4.3

\* Percentages based on net assets.

## INDUSTRY ALLOCATION

### Industry Allocation (as a percentage of net assets)

Fund holdings are subject to change and percentages shown above are based on net assets as of February 28, 2014. The pie chart illustrates the allocation of the investments by industry. A complete list of holdings as of February 28, 2014 is contained in the Schedule of Investments included in this report. The most current available data regarding portfolio holdings and industry allocation can be found on our website, [www.thetaiwanfund.com](http://www.thetaiwanfund.com). You may also obtain updated holdings by calling 1-877-864-5056.

**SCHEDULE OF INVESTMENTS/FEBRUARY 28, 2014****(SHOWING PERCENTAGE OF NET ASSETS) (unaudited)**

	SHARES	US \$ VALUE (NOTE 2)
<b>COMMON STOCKS 90.8%</b>		
<b>CONSTRUCTION 11.3%</b>		
<b>Building Material and Construction Industry 11.3%</b>		
Acter Co., Ltd.	941,179	3,929,604
Goldsun Development & Construction Co., Ltd.	11,314,980	4,574,840
Good Friend International Holdings, Inc., TDR	6,990,000	2,053,304
Hung Poo Real Estate Development Corp.	2,180,873	2,055,051
King's Town Construction Co., Ltd.*	4,329,764	3,987,075
Taiwan Land Development Corp.*	7,931,129	2,958,009
<b>TOTAL CONSTRUCTION</b>		<b>19,557,883</b>
<b>CONSUMER DISCRETIONARY 0.3%</b>		
<b>Textile Industry 0.3%</b>		
Formosa Taffeta Co. Ltd.	400,000	432,372
<b>TOTAL CONSUMER DISCRETIONARY</b>		<b>432,372</b>
<b>ELECTRIC AND MACHINERY 6.3%</b>		
<b>Electric Machinery Industry 6.3%</b>		
Sinmag Equipment Corp.	430,000	2,490,759
Tatung Co., Ltd.*	1,270,897	418,207
Yungtay Engineering Co., Ltd.	2,825,000	8,000,033
<b>TOTAL ELECTRIC AND MACHINERY</b>		<b>10,908,999</b>
<b>ELECTRONICS 36.6%</b>		
<b>Computer and Peripheral Equipment Industry 4.9%</b>		
Advantech Co., Ltd.	1,335,100	8,438,565
<b>Electronic Parts/Components Industry 5.7%</b>		
King Slide Works Co., Ltd.	285,000	3,306,406
Taiflex Scientific Co., Ltd.	3,452,821	6,564,212
		<b>9,870,618</b>
<b>Electronic Products Distribution Industry 8.0%</b>		
WT Microelectronics Co., Ltd.	10,901,900	13,781,199
<b>Information Service Industry 4.4%</b>		
PC Home Online	1,048,128	7,524,188
<b>Other Electronic Industry 5.6%</b>		
Aurora Corp., Inc.	3,669,000	7,229,497
Lumax International Corp., Ltd.	985,000	2,513,054

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		9,742,551
<b>Semiconductor Industry 8.0%</b>		
MPI Corp.	1,448,000	4,444,650
Taiwan Semiconductor Manufacturing Co., Ltd.	2,626,000	9,360,618
		13,805,268
TOTAL ELECTRONICS		63,162,389
<b>FINANCE 3.5%</b>		
<b>Financial and Insurance Industry 3.5%</b>		
Union Bank of Taiwan*	7,793,207	2,790,821
Yuanta Financial Holding Co., Ltd.	6,321,000	3,317,179
TOTAL FINANCE		6,108,000
	<i>SHARES</i>	<i>US \$ VALUE (NOTE 2)</i>
<b>HEALTHCARE 8.7%</b>		
<b>Biotechnology and Medical Care Industry 8.7%</b>		
Pacific Hospital Supply Co., Ltd.	1,165,456	3,377,353
YungShin Global Holding Corp.	6,146,000	11,562,545
TOTAL HEALTHCARE		14,939,898
<b>INFORMATION TECHNOLOGY 2.0%</b>		
<b>Semiconductor Industry 2.0%</b>		
Epistar Corp.*	800,000	1,879,992
MediaTek, Inc.	100,000	1,468,744
TOTAL INFORMATION TECHNOLOGY		3,348,736
<b>OTHERS 2.2%</b>		
<b>Other Industry 2.2%</b>		
Taiwan Secom Co., Ltd.	728,000	1,852,558
Taiwan-Sogo Shinkong Security Corp.	1,378,000	1,996,640
TOTAL OTHERS		3,849,198
<b>PLASTICS 3.0%</b>		
<b>Plastic Industry 3.0%</b>		
Yem Chio Co., Ltd.	6,896,106	5,235,013
TOTAL PLASTICS		5,235,013
<b>TEXTILES 2.7%</b>		
<b>Textile Industry 2.7%</b>		
Far Eastern New Century Corp.	4,430,207	4,657,142
TOTAL TEXTILES		4,657,142
<b>TOURISM 1.9%</b>		
<b>Hotels, Restaurants and Leisure 1.9%</b>		
Wowprime Corp.	215,000	3,235,857
TOTAL TOURISM		3,235,857
<b>TRANSPORTATION 3.5%</b>		
<b>Shipping and Transportation Industry 3.5%</b>		
First Steamship Co., Ltd.	6,177,714	3,853,680
Taiwan High Speed Rail Corp.*	12,597,600	2,212,002

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TOTAL TRANSPORTATION		6,065,682
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**WHOLESALE AND RETAIL 8.8%**

**Trading and Consumers Goods Industry 8.8%**

Mercuries & Associates, Ltd.	9,912,429	6,559,648
Taiwan Tea Corp.*	4,731,000	4,122,331
Test-Rite International Co., Ltd.	6,075,260	4,551,733

TOTAL WHOLESALE AND RETAIL		15,233,712
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