

TAIWAN FUND INC  
Form N-CSR  
November 04, 2016

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

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THE TAIWAN FUND, INC.

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(Exact name of registrant as specified in charter)

C/O STATE STREET BANK AND TRUST COMPANY,  
ONE LINCOLN STREET, P.O. BOX 5049,  
BOSTON, MA 02111

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(Address of principal executive offices)(Zip code)

(Name and Address of Agent for Service) Copy to:

State Street Bank and Trust Company  
Attention: Brian F. Link  
Secretary  
100 Summer Street  
SUM0703  
Boston, MA 02111

Leonard B. Mackey, Jr., Esq.  
Clifford Chance US LLP  
31 West 52<sup>nd</sup> 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: August 31, 2016

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Item 1. Report to Stockholders.

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Chairman's Statement

Dear Stockholders,

Market concerns regarding the slowdown in China and its negative impact on global growth as referred to in the Company's Semi-Annual Report receded to some extent, with Taiwan equities gaining 18.5% in the year to August 31, 2016. The gains arose mainly as a result of an increase in confidence following a rise in the price of oil and growth in exports of goods and services, particularly electronics. In addition government measures throughout the period continued to support the market and buyers have returned to the emerging market sector. Domestically, the newly elected Democratic Progressive Party has so far provided a smooth transition into power with a stable approach taken to the cross-Straits relationship.

The Fund's net asset value increased by 18.3%, a slight underperformance of 0.2% when compared to its benchmark, the TAIEX Total Return Index, which increased by 18.5% over the same period. As detailed in the Investment Management Report, factors that attributed to the Fund's underperformance included an overweight position in the textiles sector.

There were some changes in the composition of the Board during the year with the resignation of Lawrence Kudlow and the addition of Prof. Shelley Rigger who was planned to replace Mr. M. Christopher Canavan, Jr., who retired as a director after 13 years of service. On behalf of the Board, I thank Chris for his dedicated service.

At the Company's Annual Stockholders Meeting on April 19, 2016 Mr. Chih T. Cheung and I were not re-elected as directors by stockholders. Mr. Cheung resigned following the board meeting that

Note

Total investment return at net asset value ("NAV") is based on changes in the NAV of Fund shares and assumes investment of dividends and distributions. Total investment return at market value is based on changes in the market price at which the Fund's shares traded on the stock exchange during the period and assumes reinvestment of dividends and distributions at actual prices pursuant to the Fund's dividend reinvestment program.

day. In order to assist in the transition it was agreed that I would remain as Chairman until the conclusion of the Board's meeting in October 2016 when Mr. William Kirby was appointed as my successor.

Over the year ended August 31, 2016, the Share Repurchase Program Committee has met on three occasions to discuss discount management. During the financial year the Fund's shares have traded at an average discount of 12.4%. The discount on August 31, 2016 was 14.4%. On occasions when the discount at which the Fund's shares trade has exceeded 9% for sustained periods of trading, the Board's Share Repurchase Program Committee has formally considered repurchasing shares under its Discount Management Policy (the 'Policy'). To date shares have not been repurchased due to the prevailing market conditions, in particular the extreme levels of volatility, leading to the conclusion that share repurchases would not have any material effect on the share price and would not enhance shareholder value.

The Board will review the effectiveness of the Fund's Policy and continue to monitor the Fund's share discount rate and consider repurchasing shares when thought appropriate.

I thank you for your support of the Fund over my 30 years as director and four years as chairman and wish the Fund and its stockholders great success in the future.

Sincerely,

Joe O. Rogers  
Chairman

## Report of the Investment Manager

Fiscal Year 2016

### Market Review

Taiwan equities were one of the best performing markets in Asia for the 12 months ended August 31, 2016. During that period the TAIEX Total Return Index (“TAIEX”) gained 18.5% in US Dollar terms. The semiconductor, oil, gas & electricity and electric & machinery sectors outperformed most, with only the textiles and shipping & transportation sectors delivering negative returns over the period.

During this period, the market was quite volatile, driven by external events such as sharp corrections in the China equity market at the beginning of 2016, potential Federal Reserve Bank (the “Fed”) rate hikes and Brexit, as well as domestically oriented developments such as the presidential election and an uncertain outlook for the technology sector. A challenging environment for exports stemming from weak global demand, as well as heavy competition from China and Korea for technology, have been headwinds for growth. However, after three consecutive quarters of decline in real Gross Domestic Product (“GDP”) growth, the economy grew 0.7% year-over-year in the June quarter. Taiwan’s Central Bank of China (“CBC”) has also cut the discount rate four times since September 2015 to 1.375% to maintain accommodative monetary conditions and to foster economic growth.

In July, the TAIEX closed above the 9,000 level for the first time since July 2015. It stayed above the level for the last month of the review period as investors anticipate the next Fed rate hike and with 2Q16 results generally meeting soft expectations. Taiwan’s latest dataflow has consistently pointed to some decent recovery in export and manufacturing activity around mid-year, reflecting a near term boost to tech production upon the upcoming new smartphone cycle, coupled with Apple, Inc.’s positive outlook for the third quarter of 2016.

### Portfolio activity

The Fund’s overweight positions in the electric & machinery and other electronic sectors were the biggest contributors to performance for the 12 months ended August 31, 2016. Auto part suppliers



were among the biggest contributors, thanks to their quality consistency, cost competitiveness and production flexibility. The Fund's positions in Tung Thih Electronic Co., Ltd. (supplier of sensing and camera systems), Hota Industrial Manufacturing Co., Ltd. (supplier of automotive drivetrain parts), Iron Force Industrial Co., Ltd. (supplier of metal parts for passive safety systems) and AirTAC International Group (supplier of pneumatic controls) all added to performance. We believe that the exposure to the Chinese market provides support for the growth prospects of these quality auto parts makers, benefitting from a cyclical lift there, as well as the secular trends towards Advanced Driver Assistance Systems (ADAS) and electrification adoption. Growth hardware technology names also helped returns during this period. Silicon Motion Technology continued to do well and raise guidance on better-than-expected solid state drive (SSD) adoption rates. Largan Precision Co., Ltd. also rose on improved outlook for increased adoption of dual lens camera in smartphones, especially in the Apple iPhone, which provides a big volume uplift for its largest lens supplier.

Meanwhile, the textile sector was the biggest detractor from returns, driven by the Fund's overweight holdings in Eclat Textile Co., Ltd., Makalot Industrial Co., Ltd. and Toung Loong Textile Manufacturing Co., Ltd. This sector is generally experiencing slow growth but also a transition to functional sportswear. Companies with sound growth strategy, including migrating production bases to low-cost countries, strengthening client relationship with services and R&D, and improving efficiency through automation and faster supply chain turnaround, should benefit in the long term. Retailers broadly, however, were impacted by tepid customer orders as global demand remained weak. Eclat Textile Co., Ltd. remains our preferred name among the textile manufacturers given better growth prospects and higher technology entry barriers to new innovations. The semiconductor sector also negatively impacted returns, attributable primarily to the Fund's underweight positions in Taiwan Semiconductor Manufacturing Co., Ltd. ("TSMC") and MediaTek, Inc., both chip manufacturing giants. Given TSMC's heavy benchmark weighting and the the Fund's 25% limit on investments in a single industry, the subsequent underweight position hurt performance as the company continued to execute and its share price pushed to all-time highs. We neutralized the previous underweight position in MediaTek, Inc. after a huge correction and

improving company outlook but the stock lagged the market over this period on potential margin pressure. We also trimmed back on Apple supply chain exposure by reducing positions in Catcher Technology Co., Ltd. and Delta Electronics Inc. given an uncertain outlook and pricing pressure on component names.

There is no change to the strategy, though we have made some stock specific trades over this period, and we continue to focus on quality companies with strong growth profiles. We prefer consumer discretionary growth names with sustainable franchises. These would include the sportswear and auto parts sector. Given the weak overall demand for personal computers (PC), note books (NB), televisions (TV) and handsets, the Fund's tech positions remain in cloud, internet of things (IOT), gaming and semi sector. We also continue to underweight telecommunications, basic materials and financials.

#### Market Outlook

The global macroeconomic environment remains the key market risk, following the Brexit vote. However, the Taiwan market could be relatively defensive, supported by companies' strong free cash flow and an average 3.9% potential dividend yield (as of end August). Earnings momentum should improve on a sequential basis in the next one to two quarters. The low interest rate environment should provide ample liquidity to Taiwan's equity market. Against the backdrop of stabilising corporate earnings downgrades, companies with long-term secular growth opportunities should come back into favor.

Taiwan's recent dataflow has generally pointed to some decent recovery in exports and manufacturing activity since May, reflecting a near term boost in tech production based on a new smartphone cycle. Meanwhile, according to past experiences, such near term boost to tech activities related to new product cycles tends to be rather short-lived, lasting for about three to four months in general. As such, it will be important to watch for signs for potential peaking in tech production activity in the coming months.



**About The Portfolio Manager** *(unaudited)*

JF International Management, Inc.

**Shumin Huang**

*Portfolio Manager, JPMAM Emerging Market & Asia Pacific Equities Team*

**Shumin Huang, Managing Director**, is an Investment Manager and the Head of Research for Greater China equities within the Emerging Markets and Asia Pacific Equities team. Based in Hong Kong, she joined the firm in 2006 after eight years at Goldman Sachs, where she was managing director and head of the Asia-Pacific Energy and Chemicals team. She began her career with UBS Taiwan in 1992 as a research analyst in steel and financials, after which she transferred to Hong Kong as director and head of Asia-Pacific chemicals research. Shumin obtained a B.S. in Business Administration from the National University of Taiwan and an M.B.A. from London Business School.

Investment Adviser

The Fund's investment adviser is JF International Management Inc.

JF International Management Inc. ("JFIMI") was incorporated in the British Virgin Islands in 1992 and has had a branch in Hong Kong since July 1992. It is registered as an investment adviser under the U.S. Investment Advisers Act of 1940, as amended and is licensed by the Securities and Futures Commission in Hong Kong to conduct Type 4 (advising on securities) and Type 9 (asset management) regulated activities. JFIMI's registered address is Palm Grove House, P.O. Box 438, Road Town, Tortola, British Virgin Islands and its principal address in Hong Kong is 19th Floor and 21st Floor, Chater House, 8 Connaught Road Central, Hong Kong. JFIMI belongs to a group of companies operating under the name of J.P. Morgan Asset Management ("JPMAM"), the brand name of the global group of asset management companies belonging to JPMorgan Chase & Co. JPMorgan Chase & Co. is the ultimate parent company of JFIMI. JPMAM has assets under management totalling US\$ 1.69 trillion (as at June 30, 2016).

Portfolio Snapshot\*

Top Ten Equity Holdings		Top Ten Equity Holdings	
Holdings as of August 31, 2016	%	Holdings as of August 31, 2015	%
Taiwan Semiconductor Manufacturing Co., Ltd.	9.7	Taiwan Semiconductor Manufacturing Co., Ltd.	8.9
Largan Precision Co., Ltd.	5.7	Hon Hai Precision Industry Co., Ltd.	5.9
Hon Hai Precision Industry Co., Ltd.	3.7	Largan Precision Co., Ltd.	4.3
Eclat Textile Co., Ltd.	3.3	Cathay Financial Holding Co., Ltd.	3.9
Ennoconn Corp.	3.3	Catcher Technology Co., Ltd.	3.6
Cathay Financial Holding Co., Ltd.	3.2	Fubon Financial Holding Co., Ltd.	3.5
Fubon Financial Holding Co., Ltd.	3.0	Pegatron Corp.	3.4
Delta Electronics, Inc.	2.9	Eclat Textile Co., Ltd.	3.2
Wistron NeWeb Corp.	2.8	Uni-President Enterprises Corp.	2.9
Uni-President Enterprises Corp.	2.5	Advanced Semiconductor Engineering, Inc.	2.9

Top Ten Industry Weightings		Top Ten Industry Weightings	
Weightings as of August 31, 2016	%	Weightings as of August 31, 2015	%
Semiconductor	22.3	Semiconductor	18.4
Financial and Insurance	9.4	Financial and Insurance	10.7
Textile	8.7	Textile	9.9
Technology Hardware	6.6	Electrical Components	9.4
Optoelectronics	5.7	Electronic Parts/Components	8.1
Electronic Parts/Components	5.1	Technology Hardware	5.7
Electrical Components	4.4	Optoelectronics	4.3
Machinery	4.2	Auto Components	4.3
Computer and Peripheral Equipment	3.9	Diversified Finance Services	3.6
Building Material and Construction	3.6	Plastic	3.2

\*Percentages based on net assets.



## Industry Allocation

Fund holdings are subject to change and percentages shown above are based on net assets as of August 31, 2016. The pie chart illustrates the allocation of the investments by industry. A complete list of holdings as of August 31, 2016 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.

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Schedule of Investments/August 31, 2016  
(Showing Percentage of Net Assets)

	Shares	US \$ Value (Note 2)
COMMON STOCKS – 98.4%		
CONSUMER DISCRETIONARY — 18.1%		
Auto Components Industry — 3.3%		
Hota Industrial Manufacturing Co., Ltd.	705,000	3,654,922
Macauto Industrial Co., Ltd.	279,000	1,675,029
		5,329,951
Auto Parts & Equipment Industry — 2.1%		
Tung Thih Electronic Co., Ltd.	221,000	3,371,015
Healthcare Industry — 1.0%		
Nan Liu Enterprise Co., Ltd.	360,000	1,718,851
Household Appliances Industry — 0.8%		
Basso Industry Corp.	369,000	1,308,284
Leisure Time Industry — 0.6%		
KMC Kuei Meng International, Inc.	273,298	960,361
Multiline Retail Industry — 1.6%		
Poya Co., Ltd.	154,352	2,308,190
Taiwan FamilyMart Co., Ltd.	43,000	306,944
		2,615,134
Textile Industry — 8.7%		
Eclat Textile Co., Ltd.	427,356	5,414,258
Feng TAY Enterprise Co., Ltd.	447,120	2,127,767
Taiwan Paiho Ltd.	1,385,000	3,985,141
Toung Loong Textile Manufacturing Co., Ltd.	819,000	2,684,357
		14,211,523
TOTAL CONSUMER DISCRETIONARY		29,515,119
ELECTRONICS — 22.9%		
Communications and Internet Industry — 2.8%		
Wistron NeWeb Corp.	1,511,090	4,547,962
Computer and Peripheral Equipment Industry — 2.9%		
Advantech Co., Ltd.	297,000	2,428,940
Inventec Co., Ltd.	3,034,000	2,251,799
		4,680,739
Electronic Parts/Components Industry — 1.4%		
King Slide Works Co., Ltd.	189,000	2,308,110
Optoelectronics Industry — 5.7%		
Largan Precision Co., Ltd.	83,000	9,312,176

**ELECTRONICS — (continued)**

Semiconductor Industry — 10.1%

Taiwan Semiconductor Manufacturing Co., Ltd.	2,828,000	15,686,107
Win Semiconductors Corp.	333,000	