

# THE TAIWAN FUND, INC. (NYSE: TWN)

## Manager's Commentary

### Market Review

The Taiwan Stock Exchange closed the month of January 2022 down 3.49% in US Dollar terms, with the technology sector down 2.97%, non-technology down 6.77%, the financial sector up 1.61% and over-the-counter ("OTC") stocks down 9.86%. The top three outperforming sectors were integrated circuit thoroughfare business, banking and financial holding. The bottom three underperforming sectors were smartphone manufacturing, shipping and optical lens.

### Fund Manager



Corrina Xiao  
Lead Portfolio Manager



### Fund Review (Attribution Reports)

The Taiwan Fund, Inc. (the "Fund") underperformed the Taiwan TAIEX Total Return Index (the "benchmark"). Although stock selection was negative, sector allocation was positive. On the sector level, the Fund's overweight positions in semiconductors & semiconductor equipment, as well as underweight positions in transportation, technology hardware & equipment and retailing helped performance. In contrast, the Fund's overweight positions in insurance and health care equipment & services hurt performance, as did underweight positions in banks, telecommunication services and energy. On the stock level, the best active contributors, versus the benchmark, were MediaTek Inc., Evergreen Marine Corp. Taiwan Ltd. and Momo Com Inc. We did not own these names. The worst active detractors were Silergy Corp., eMemory Technology, Inc. and Unimicron Technology Corp. Our underperformance resulted from their relative overweight position.

### Key Transactions

Performance was impacted by our tilt towards technology over non-technology sectors in January. The growth style in technology suffered from increasingly hawkish market expectations for United States Federal Reserve ("Fed") policy in 2022. Naturally, stocks with higher valuations pulled back substantially, including Silergy Corp., eMemory Technology, Inc., Alchip Technologies Ltd. and Faraday Technology Corp. We trimmed several of these positions in January to ensure that we have flexibility to allocate more capital to these core names in the near future, if they fall much further.

Another area that impacted performance was our overweight to silicon wafer stocks which were hurt by the break of the Globalwafers Co., Ltd/Siltronic deal and fears of future overcapacity. In this case, we continue to hold our positions and will look to buy more in this high-conviction space if prices continue to slide.

Elsewhere, we took some risk off the table by reducing our positions in Unimicron Technology Corp., Kinsus Interconnect Technology Corp. and Pan Jit International, Inc. Some of these investments have become a little crowded by local institutional investors and this has added to volatility and potential liquidity risks.

We also exited the marine shipping industry due to expectations that freight rates will decline after the Lunar New Year. We took small losses in Evergreen Marine Corp. Taiwan Ltd. and Wan Hai Lines Ltd., our two holdings in the space.

Over the month, we built up our holding in Cathay Financial Holding Co., Ltd. to give us more exposure to the financials sector. This takes our exposure to financials from 3.6% at the end of December to 6.2% as at the end of January.

At the end of the month, as the market sell-off accelerated, we added a few technology names. Two new small positions were initiated in Jentech Precision Industrial Co, Ltd. and Nuvoton Technology Corp. We also added slightly to our holdings in Nan Ya Printed Circuit Board Corp., Gigabyte Technology Co., Ltd. and Faraday Technology Corp. on price weakness.

### Outlook and Strategy

As discussed in last month's Outlook, the market did indeed experience an unpleasant start to 2022. We can find no other cause for the volatility except for fears over Fed policy. As there are no changes to our fundamental investment theses for key investments, such as those we hold in application-specific integrated circuit ("ASIC"), silicon wafer and the foundry industries, we have not taken as much risk off the table as might have been expected.

While we do not try to anticipate short-term policy changes, such as those likely to be taken by the Fed, we do take steps to try to protect the Fund from volatility. Our strategy here is to rebalance within technology away from growth names and into more value names. It will be helpful to clarify what is meant by a "value technology stock," which might seem like a contradiction in terms. In Taiwan, the market



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#### Outlook and Strategy (continued)

is heavily dominated by technology stocks and, within the space, the rule of thumb is that companies with dividend yields of at least 4% qualify as value stocks. We plan to diversify our technology positions more widely over the course of the coming weeks and months by expanding our holdings in such value technology names. We will maintain our holdings in growth technology stocks, based on our fundamental research into industrial trends and, of course, our stock-picking system.

We anticipate that the diversification and rebalancing of the technology holdings in the portfolio will provide some protection and flexibility to respond to any further market dislocations.

Apart from the changes to the technology holdings in the portfolio, we have also been building up our exposure in financials, which we believe will also offer some downside mitigation in case of a panic in growth stocks later in 2022.

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