

TAIWAN FUND INC
Form N-CSR
November 05, 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,
1 LINCOLN STREET, P.O. BOX 5049,
BOSTON, MA 02111

(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 Huntington Avenue
Boston, Massachusetts 02116

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: August 31, 2014

Item 1. Report to Stockholders.

Chairman's Statement

Dear Stockholders,

During the year ended August 31, 2014 Taiwan equities outperformed other regional markets in Asia as improving global market conditions, especially in the U.S. (a significant importer of Taiwan goods), translated into improved corporate earnings. Unsurprisingly, the technology sector was the greatest beneficiary as new product launches led to increased supply chain orders. It is against this backdrop that the Fund's net asset value increased by 16.3%, an underperformance of 5.1% when compared to its benchmark, the TAIEX Total Return Index, which increased by 21.4%* over the same period. The Fund's underperformance was primarily attributable to sector allocation differences and costs associated with portfolio repositioning following two changes in investment adviser during the financial year.

Allianz Global Investors U.S. LLC ('Allianz') became the Fund's investment adviser on an interim basis in February 2014 as the result of the resignation of Asset Management Ptd Ltd as the Fund's sub adviser to the Fund's investment adviser, Martin Currie, Inc. The Board's selection of Allianz as the Fund's investment adviser was submitted to the Fund's stockholders for approval; however, the stockholders did not approve Allianz. The Board then selected JF International Management Inc. ('JFIMI') as the Fund's investment adviser. JFIMI began managing the Fund, on an interim basis, in July 2014 and was approved by stockholders on September 22, 2014.

The Board thanks Allianz for the interim investment advisory role that they fulfilled for the Fund and welcomes JFIMI. Although it is clearly early in the tenure of JFIMI it is pleasing to report that in the one month to August 31, 2014 the Fund's net asset value increased by 2.7%, 0.2% ahead of its benchmark, which increased by 2.5% in the same period; this despite the costs of a portfolio repositioning exercise during the same period.

The Board also approved a Discount Management Policy on July 17, 2014 whereby the Board has authorized management to make open market purchases in an aggregate amount up to 10% of the Fund's currently outstanding shares when the Fund's shares trade at a discount of more than 9% of net asset value and management reasonably believes that such repurchases may enhance shareholder value. Any repurchases will be disclosed in future stockholder reports.

Lastly, Bing Shen, a director of the Fund since 2007, chose not to stand for reelection at the Fund's annual stockholders meeting. The Board thanks Mr. Shen for his contributions to the Board and we wish him well in his future endeavors.

On behalf of the Board, I thank you for your continuing support of the Fund.

Sincerely,

Joe O. Rogers

Chairman

*Returns for the Fund are historical total returns that reflect changes in net asset value per share during each period and assume that dividends and capital gains, if any, were reinvested. Returns for the TAIEX Index are not total returns and reflect only changes in share price but do not assume that cash dividends, if any, were reinvested, and thus are not strictly comparable to the Fund returns. Past performance is not indicative of future results of the Fund.

Report of the Investment Manager

Market Review

Taiwan equities continued to outperform regional markets in Asia for the 12 months ended August 31, 2014. During this period the Taiwan Stock Exchange Capitalization Weighted Stock Index rose 21.4% in US dollar terms. After shrugging off several market shocks in the beginning of 2014, including US Federal Reserve chair Janet Yellen's indication of a possible rate rise in six months and home-grown protests over a trade deal with China, the Taiwan Stock Exchange ("TWSE") Index hit new yearly highs. The improving global macro backdrop, especially in the United States, has been a key catalyst for Taiwan as exports still equate to 70% of its Gross Domestic Product ("GDP"). As a result earnings revisions at the corporate level continued to improve during the year, especially for the technology sector.

The TWSE Index finished the first half of the Fund's financial year (six months ended February 28, 2014) up 6.6% in US dollar terms. Technology shares led the performance on expectations of a synchronized global recovery in 2014. Meanwhile financials, materials and telecom subsectors lagged. Although the results season was generally in line, consensus earnings were downgraded ahead of results hence overall expectations were already set low.

During the second half of the Fund's financial year, the market was volatile as domestic issues dominated headlines. Although the Cross-Strait Service Trade Agreement with China was signed last June, the Sunflower Student Movement began in March and demanded withdrawal from the Agreement. The students finally ended their 24-day occupation of the Legislature in April, saying they had seen "critical progress" made in relation to their demands. Legislative speaker Wang Jin-Ping pledged to halt debate on the services trade pact with China until new oversight rules are passed. While the service pact will have less impact on the technology sector, it should meaningfully benefit Taiwanese financials.

On the macro front, Taiwan's consumer price index rose 1.8% year on year to 104 in July, while core inflation was up 1.55% year on year, hitting a 15-month high. The central bank left its key interest rates unchanged at its quarterly policymaking meeting and the Taiwan economic indicator hit a three year high of 29 in April. The government remains confident with 2014 GDP growth

at 3%. At the corporate level, the first quarter results season was encouraging and with positive guidance, liquidity in the market surged as foreign investors remained net buyers. The TWSE Index rallied 13.8% during the period and the technology sector outperformed as new product launches were expected to boost supply chain orders. The construction sector closed down for the period and the government announced expanded measures to control rocketing housing prices by reducing the amount of money banks can lend to home buyers.

Market Outlook

The risk/reward profile of the market continues to look favorable given strong second quarter of 2014 earnings and positive earnings revisions. While investors are likely to take profits on the Apple supply chain post the launch of the iPhone6, a sustained strong demand for the phone should see investors returning to the sector. A strong Apple pull-in demand, a decent corporate PC replacement cycle and a transition from 3G to 4G in China smart phones should all bode well for Taiwan technology in the fourth quarter of 2014. Aside from technology, with Taiwan financials delivering better than expected year-to-date earnings and an upward revision in Taiwan GDP growth forecast, the financial sector should be poised for a further pick up in performance. Taiwan will hold its 9-in-1 elections in November 2014. The elections are widely perceived as a popularity pulse check between the two major political parties and serve as an important preview of the 2016 presidential election.

JF International Management, Inc.

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About The Portfolio Managers (unaudited)

Shumin Huang
Portfolio Manager, JPMAM Pacific Region Group

Shumin Huang, Managing Director, is an Investment Manager and Head of Greater China Research for the Pacific Regional Group's Greater China Team. 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 established 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\$ 1.7 trillion (as at June 30, 2014).

Portfolio Snapshot*

Top Ten Equity Holdings		Top Ten Equity Holdings	
Holdings as of August 31, 2014	%	Holdings as of August 31, 2013	%
Taiwan Semiconductor Manufacturing Co., Ltd.	9.3	WT Microelectronics Co., Ltd.	7.7
Hon Hai Precision Industry Co., Ltd.	6.9	YungShin Global Holding Corp.	6.4
Delta Electronics Inc.	3.5	Taiwan Semiconductor Manufacturing Co., Ltd.	5.6
Fubon Financial Holding Co., Ltd.	3.5	Aurora Corp.	4.8
Cathay Financial Holding Co., Ltd.	3.4	Yungtay Engineering Co., Ltd.	4.6
MediaTek, Inc.	3.4	Advantech Co., Ltd.	4.3
Advanced Semiconductor Engineering, Inc.	2.9	Mercuries & Associates, Ltd.	4.2
President Chain Store Corp.	2.4	PC Home Online	3.8
Nan Ya Plastics Corp.	2.1	Yem Chio Co., Ltd.	3.7
Advantech Co., Ltd.	2.1	Taiflex Scientific Co., Ltd.	3.6
Top Ten Industry Weightings		Top Ten Industry Weightings	
Weightings as of August 31, 2014	%	Weightings as of August 31, 2013	%
Semiconductor	20.8	Building Material and Construction	12.7
Financial and Insurance	11.4	Trading and Consumers' Goods	10.4
Electronic Parts/Components	8.7	Electronic Products Distribution	7.7
Electrical Components	8.3	Semiconductor	7.2
Computer and Peripheral Equipment	7.1	Other Electronic	6.7
Diversified Finance Services	5.1	Textile	6.5
Machinery	4.0	Healthcare	6.4
Technology Hardware	4.0	Electronic Parts/Components	5.1
Communications and Internet	3.3	Electric Machinery	4.6
Food Products	2.6	Other	4.3

* 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, 2014. The pie chart illustrates the allocation of the investments by industry. A complete list of holdings as of August 31, 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. You may also obtain updated holdings by calling 1-877-864-5056.

Schedule of Investments/August 31, 2014
(Showing Percentage of Net Assets)

	Shares	US \$ Value (Note 2)
COMMON STOCKS – 98.7%		
CHEMICALS — 1.3%		
Chemical Industry — 1.3%		
China Steel Chemical Corp.	392,000	2,465,532
TOTAL CHEMICALS		2,465,532
CONSUMER DISCRETIONARY — 6.8%		
Auto Components Industry — 2.0%		
Cub Elecparts Inc.	177,804	1,838,090
Hota Industrial Manufacturing Co., Ltd.	1,036,000	1,888,961
		3,727,051
Hotels, Restaurants and Leisure Industry — 0.6%		
TTFB Co., Ltd.	112,000	1,120,356
Leisure Product Industry — 0.3%		
Topkey Corp.	94,000	471,722
Leisure Time Industry— 2.5%		
Johnson Health Tech Co., Ltd.	319,000	772,674
KMC Kuei Meng International Inc.	76,000	353,423
Merida Industry Co., Ltd.	475,000	3,496,094
		4,622,191
Multiline Retail Industry— 1.4%		
Poya Co., Ltd.	343,440	2,033,719
Taiwan FamilyMart Co., Ltd.	78,000	538,867
		2,572,586
TOTAL CONSUMER DISCRETIONARY		12,513,906
ELECTRONICS — 16.8%		
Communications and Internet Industry — 1.3%		
Wistron NeWeb Corp.	891,460	2,326,287