

## TAIWAN GREATER CHINA FUND

www.taiwangreaterchinafund.com

### **Trustees and Officers:**

Pedro-Pablo Kuczynski, Chairman and Trustee

Frederick C. Copeland Jr., Vice Chairman and Trustee

David N. Laux, Trustee

Tsung-Ming Chung, Trustee and Audit Committee Member

Edward B. Collins, Trustee and Audit Committee Member

Robert P. Parker, Trustee and Audit Committee Member

Steven R. Champion, President, Chief Executive Officer and Portfolio Manager

Cheryl Chang, Chief Financial Officer, Treasurer and Secretary

### **Manager:**

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Tel: (617) 742-1818

### **Transfer Agent,**

### **Paying and Plan Agent:**

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Tel: (212) 681-9600

### **U.S. Legal Counsel:**

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For information on the Fund, including the NAV, please call toll free 1-800-343-9567.

Current and historical (from 2/27/2004) NAV information can be found on the Fund's website at [www.taiwangreaterchinafund.com](http://www.taiwangreaterchinafund.com)



## Quarterly Report

March 31, 2009

# Dear Stockholders

By the end of the first quarter, the overall Taiwan stock market had rallied strongly from its late 2008 lows, rising 31.7% from its intraday low of 3955 on November 21st and increasing 13.4% during the first quarter in local currency terms. Factoring in a 3.3% depreciation of the Taiwan dollar during the first quarter led to a US dollar total return of 9.8% for the period. The MSCI Taiwan index rose 8.3%, and the Taiwan China Strategy Index\* rose 11.5%, both in US dollar terms. These results made the Taiwan market one of the best performing world markets during the first quarter. Among major emerging markets, only China (+30.2%) and Brazil (+10.2%) performed better. The volatility of the Taiwan market based on a 30 day annualized rate calculated by Bloomberg declined to 26.0% from 36.0% at 2008 year-end. This compares to 47.1% for the S & P 500 index.

## Fund Performance

The Fund's shares on the New York Stock Exchange gained 8.2% during the first quarter, and its net asset value return was 8.9%, net of expenses of 88 basis points. This performance was quite positive compared to competing funds, including the Taiwan iShares which returned 6.3%.

The Fund's discount to net asset value averaged 9.1% during the first quarter, down from 9.8% in 2008 and 9.7% in 2007. The maximum discount during the quarter was 14.4% on March 9, 2009, and the minimum discount was 1.6% on January 2, 2009.

The Fund's first quarter mean and median trading volumes on the New York Stock Exchange dropped to 21,161 shares and 12,000 shares, respectively, from 37,037 shares and 25,800 shares, respectively, during 2008.

The Fund's net asset value performance is highly correlated with the performance of the broad Taiwan market indices with  $R^2$ 's\*\* of 0.94 and 0.96 relative to the TAIEX and the MSCI Taiwan indexes, respectively. The Fund's betas relative

to the two broad indexes are 0.99 and 0.98, respectively, and the Fund's alphas relative to those indexes are 0 basis points and -1.0 basis point per week, respectively. Alpha is a measure of "excess return" or returns which cannot be explained by the risk level of an asset. Relative to the S & P/Polaris China Play 50 Index, the Fund has an  $R^2$  of 0.93, a beta of 0.99, and a positive alpha of 6 basis points per week.

## Performance Attribution

Taiwan Greater China Fund has recently opted to use Bloomberg to provide attribution analysis for the Fund's portfolio. Similar to the MSCI Barra AEGIS platform that the Fund used in the past, the Bloomberg analysis compares the NT\$ total returns of the Fund's portfolio to the NT\$ total returns of the Benchmark. But, unlike the AEGIS platform, Bloomberg incorporates daily rather than monthly portfolio changes and also allows non-Taiwan stocks to be represented. The model, however, is somewhat simpler than AEGIS, incorporating only active returns attributed to sector allocation, stock selection and currency impacts due to non-NT\$ currency shares in the portfolio. Currently, the Bloomberg model only goes back through the end of 2006, although Bloomberg has indicated that they intend to incorporate five years of data in the future.

For the one year period ended March 31, 2009, the NT\$ return of the Fund's portfolio was a negative 38.78% while the return of MSCI Taiwan was a negative 37.89%. Therefore, the active return for the Fund was a negative 0.89%. Sector allocation contributed -1.14% to the active return while asset selection contributed 0.13%. There was also a contribution of 0.13% due to currency, a result of holding several Hong Kong shares. Telecommunications, semiconductors and flat panel displays were the main negative sector contributors while financials, leisure companies and food were the main positive contributors. For the three months ended March 31, 2009, the portfolio returned 13.98% compared to MSCI Taiwan's return of 11.89%, for an active return of

2.09%. Sector allocation contributed 3.15% while stock selection contributed -1.15%, interaction contributed 0.78% and currency contributed 0.09%. Financials, telecommunications and computer and systems hardware were the main positive sector contributors while semiconductors and food were the main negative contributors to active sector returns.

### **Portfolio Valuation Measures**

Corporate valuations in Taiwan remain at relatively low levels despite the market recovery and the aggressive downgrading of profit expectations. At March 31, 2009, the Fund's heavily tech-weighted portfolio was composed of companies with a weighted average price-earnings ratio of 15.1, a weighted average price-book ratio of 1.9, a weighted average cash dividend yield of 4.9%, and a weighted average return on equity of 14.9%.

### **Taiwan Political and Economic Developments**

The global recession continued to take a toll on Taiwan's economy. Taiwan's 4<sup>th</sup> quarter 2008 GDP fell by 8.36% YOY and the consensus forecast for all of 2009 is a negative 4.9%. The government is projecting negative 3.0% growth for 2009, with only the 4<sup>th</sup> quarter 2009 showing positive growth, but most private economists are more pessimistic. As over 68% of Taiwan's GDP for the past two years has come from exports, the huge decline in global trade has clearly been the major factor impacting growth. In the 4<sup>th</sup> quarter 2008, that percentage fell to 61.5%. Exports for the 1<sup>st</sup> quarter 2009 declined 36.6% YOY compared to a 24.7% YOY decline in the 4<sup>th</sup> quarter 2008. Exports to China declined 31.1% YOY in the 1<sup>st</sup> quarter 2009 compared to a 37.6% YOY decline in the 4<sup>th</sup> quarter 2008. Activity in China appeared to be one of the brighter spots in the 1<sup>st</sup> quarter 2009 as the impact of the China stimulus policy as well as a focus by the government to increase rural consumption seemed to be having some effect. China's 1<sup>st</sup> quarter 2009 GDP was up 6.1% YOY, compared to 6.8% YOY in the 4<sup>th</sup> quarter 2008. Looking forward, Taiwan's export order book, which tallies orders for the next 1-3 months, is down 24.3% YOY which is slightly worse than February's number of negative 22.3% but improved from January's negative 41.7%.


The Taiwan government has implemented a number of stimulus measures, including US\$4.4 billion this year in spending targeting infrastructure projects such as railway and highway improvements. These projects are projected to add between 190,000 and 220,000 jobs and 0.67% to the 2009 GDP. The government plans to spend a similar amount in 2010 with lesser amounts in 2011 and 2012. Taiwan also distributed US\$2.4 billion in shopping vouchers in January 2009, which helped boost spending although retail sales still declined by 4.7% in the first two months of the year. The Central Bank dropped interest rates twice during the quarter, by 0.50% in January 2009 and 0.25% in February 2009, leaving the discount rate at 1.25%. As rates dropped, the Taiwan dollar also weakened, dropping 6.8% by the beginning of March 2009, only to regain strength for the remainder of the month. The Central Bank has intervened to keep the NT\$ from appreciating too much. It closed at NT\$33.91, down 3.3% for the quarter and down 10.9% from its one year high.

On the political front, there has been much focus on the development of a China-Taiwan Economic Cooperation Framework Agreement (ECFA), which is in essence a free trade agreement done in the absence of formal diplomatic relations. There is concern in Taiwan that if Japan, Korea and China reach some type of agreement with ASEAN (ASEAN Plus Three framework) then Taiwan will be marginalized in the region. The ASEAN Plus Three framework would eliminate or sharply reduce trade tariffs among the signatories. A unilateral agreement with China would allow Taiwan access to the China market on a similar basis and mitigate the impact of the wider ASEAN agreements. The ECFA, however, was not specifically on the agenda for the third round of cross-strait talks which was held in Nanjing at the end of April. Instead, the parties agreed to more than double the number of weekly cross-strait flights to 270 and to change the status of the flights from charter to regular. They also agreed to set up a supervisory mechanism for financial services companies doing business across their markets and to set up a currency-clearance system. After the meeting, the Taiwan government announced

that, as of April 30, 2009, it would let qualified Chinese investors apply to directly invest in listed Taiwan shares and futures and that the government was in the process of drawing up the rules, which will likely bar investments in certain strategic industries and prohibit Chinese investors from gaining control or having a board seat. The Chinese government also said it would end a ban on investments in Taiwan beginning May 1, 2009. But the market was surprised with the announcement that China Mobile had reach an agreement with Far Eastone Telecommunications to invest in 12% of the company's shares, subject to approval from regulators and shareholders. As a result of the announcement, the TWSE gained 6.7% as the investment and the timing signaled a strong interest by the Chinese in investment in Taiwan's economy.

China's economic growth is likely to proceed at a relatively rapid pace, and Taiwan-related companies are likely to continue to enjoy competitive advantages there. Taiwan's governance, accounting standards, and legal system continue to reduce the risks of investment in China, and we believe that the Fund will continue to be a smart way to invest in China.

Yours truly,



Steven R. Champion  
President, CEO and Portfolio Manager

April 30, 2009

\* Source: MSCI. This information is for internal use only and may not be redistributed or used in connection with creating or offering any securities, financial products or indices. Neither MSCI nor any other third party involved in or related to compiling, computing or creating the MSCI data (the "MSCI Parties") makes any express or implied warranties or representations with respect to such data (or the results to be obtained by the use thereof), and the MSCI Parties hereby expressly disclaim all warranties of originality, accuracy, completeness, merchantability or fitness for a particular purpose with respect to such data. Without limiting any of the foregoing, in no event shall any of the MSCI Parties have any liability for any direct, indirect, special, punitive, consequential or any other damages (including lost profits) even if notified of the possibility of such damages.

The Taiwan China Strategy Index is a custom index calculated by MSCI for, and as requested by, Taiwan Greater China Fund. To calculate this Index MSCI starts with the MSCI Taiwan Index and then excludes those securities selected by Taiwan Greater China Fund on a quarterly basis based on Taiwan Greater China Fund's screening criteria. MSCI has no role in developing, reviewing or approving Taiwan Greater China Fund's investing criteria or the list of companies excluded from the MSCI Taiwan Index by Taiwan Greater China Fund to create the Taiwan China Strategy Index.

\*\*  $R^2$  is a measure of the correlation between the dependent and independent variables in a regression analysis. In this report, it measures the extent to which the Fund's movements can be explained by movements in a benchmark index. The measurement ranges from 0 to 1, where 1 indicates that all movements of the Fund can be explained by movements in the index.

# TAIWAN GREATER CHINA FUND

## PORTFOLIO HIGHLIGHTS

*(Unaudited) / March 31, 2009*

### Security Classifications

<u>Percent of Net Assets</u>		<u>Value (000)</u>
Common Stock	98.65 %	\$ 53,503
Short-Term Securities	0.16	84
Total Investments	98.81	53,587
Other Assets (Less Liabilities)	1.19	646
Net Assets	100.00 %	\$ 54,233

### Ten Largest Holdings

<u>Company</u>	<u>Percent of Net Assets</u>
Hon Hai Precision Industry Co., Ltd.	10.49
Taiwan Semiconductor Manufacturing Co., Ltd.	8.42
MediaTek Inc.	6.96
AU Optronics Corp.	5.52
Formosa Plastics Corp.	4.53
China Steel Corp.	4.46
Nan Ya Plastics Corp.	4.43
Asustek Computer Inc.	4.17
Delta Electronics Inc.	3.43
Uni-President Enterprise Corp.	2.71

### Industry Diversification

<u>Ten Largest Sectors</u>	<u>Percent of Net Assets</u>
Computer Systems & Hardware	21.32
Semiconductors	20.19
Plastics	11.61
Electronic Components	8.18
Flat-Panel Displays	8.16
Food	5.34
Steel	4.46
Cement	3.86
Computer Peripherals/ODM	3.85
Other	2.59

# TAIWAN GREATER CHINA FUND

Schedule of Investments / (Unaudited) March 31, 2009

## COMMON STOCK — 98.65%

		% of	U.S. Dollar
		Net Assets	Value
<b>Cement — 3.86%</b>			
838,615	shs. Asia Cement Corp.....	1.34	\$ 726,823
1,657,373	Taiwan Cement Corp.....	2.52	<u>1,365,591</u>
			2,092,414

## Communications Equipment — 0.43%

165,787	Gemtek Technology .....	0.43	234,590
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## Computer Peripherals/ODM — 3.85%

108,899	HTC Corp.....	2.47	1,338,685
1,111,433	Lite-on Technology Corp. ....	1.38	<u>750,304</u>
			2,088,989

## Computer Systems & Hardware — 21.32%

500,651	Acer Inc.....	1.39	752,703
90,980	Advantech Co., Ltd.....	0.23	126,324
2,151,154	Asustek Computer Inc.....	4.17	2,260,735
460,494	Compal Electronics Inc.....	0.61	329,875
2,515,531	Hon Hai Precision Industry Co., Ltd.....	10.49	5,687,790
426,242	Inventec Co., Ltd. ....	0.32	171,517
1,094,828	Quanta Computer Inc.....	2.55	1,382,978
787,075	Wistron Corp.....	1.56	<u>848,051</u>
			11,559,973

## Electrical & Machinery — 0.68%

465,000	Teco Electric & Machinery Co., Ltd.....	0.28	150,787
1,090,837	Walsin Lihwa Corp. ....	0.40	<u>218,669</u>
			369,456

## Electronic Components — 8.18%

218,676	Catcher Technology Co., Ltd. ....	0.89	480,260
1,011,129	Delta Electronics Inc. ....	3.43	1,859,986
150,979	Everlight Electronics Co. ....	0.51	277,728
275,557	Foxconn Technology Co., Ltd.....	1.35	730,281
25,695	Motech Industry Co., Ltd.....	0.13	71,202
65,000	Nan Ya Printed Circuit Board Corp.....	0.31	166,514
141,799	Shin Zu Shing Co., Ltd. ....	0.91	493,258
263,000	TXC Corp.....	0.41	224,839
221,378	Unimicron Technology Corp. ....	0.24	<u>131,827</u>
			4,435,895

## Electronics/Other — 1.85%

125,000	Lumax International Corp., Ltd.....	0.27	145,370
677,615	Synnex Technology International Corp. ....	1.58	<u>855,958</u>
			1,001,328

## Financial Services — 1.48%

932,000	Cathay Financial Holding Co., Ltd.....	1.48	800,890
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# TAIWAN GREATER CHINA FUND

Schedule of Investments (Continued) (Unaudited) / March 31, 2009

		% of Net Assets	U.S. Dollar Value
<b>Flat-Panel Displays — 8.16%</b>			
3,622,381	shs. AU Optronics Corp.....	5.52	\$ 2,995,336
2,028,847	Chi Mei Optoelectronics Corp.....	1.50	810,414
3,147,951	Chunghwa Picture Tubes, Ltd.....	0.70	381,407
246,983	Innolux Display Corp.....	0.44	240,634
			<u>4,427,791</u>
<b>Food — 5.34%</b>			
290,405	Great Wall Enterprises Co.....	0.41	221,301
662,000	* Tingyi (Cayman Islands) Holdings Corp. ....	1.42	768,759
1,815,638	Uni-President Enterprise Corp.....	2.71	1,471,907
938,000	Want Want China Holdings, Ltd.....	0.80	435,708
			<u>2,897,675</u>
<b>Glass, Paper &amp; Pulp — 0.60%</b>			
616,384	Taiwan Glass Ind. Corp.....	0.60	327,071
<b>Plastics — 11.61%</b>			
1,217,299	Formosa Chemicals & Fiber Corp.....	2.65	1,435,409
1,632,983	Formosa Plastics Corp.....	4.53	2,459,921
2,099,319	Nan Ya Plastics Corp. ....	4.43	2,401,202
			<u>6,296,532</u>
<b>Retailing — 0.56%</b>			
131,512	President Chain Store Corp. ....	0.56	301,235
<b>Rubber — 0.90%</b>			
504,777	Cheng Shin Rubber Ind. Co., Ltd.....	0.90	488,825
<b>Semiconductors — 20.19%</b>			
2,597,762	Advanced Semiconductor Engineering Inc.....	2.32	1,259,748
401,543	MediaTek Inc.....	6.96	3,776,081
112,525	Powertech Technology Inc. ....	0.38	203,011
543,193	Siliconware Precision Industries Co., Ltd.....	1.05	571,664
3,015,005	Taiwan Semiconductor Manufacturing Co., Ltd. ....	8.42	4,568,459
1,752,397	United Microelectronics Corp. ....	1.06	573,422
			<u>10,952,385</u>
<b>Steel — 4.46%</b>			
3,695,621	China Steel Corp. ....	4.46	2,418,572
<b>Textiles — 1.38%</b>			
963,093	Far Eastern Textile, Ltd.....	1.38	749,533
<b>Transportation — 1.21%</b>			
195,000	* China Airlines.....	0.09	48,575
235,000	U-Ming Marine Transport Corp.....	0.65	354,003
814,261	Yang Ming Marine Transport Corp. ....	0.47	255,642
			<u>658,220</u>

# TAIWAN GREATER CHINA FUND

Schedule of Investments (Continued) (Unaudited) / March 31, 2009

	% of Net Assets	U.S. Dollar Value
<b>Other — 2.59%</b>		
222,050 shs. Giant Manufacturing Co., Ltd. ....	0.84	456,904
481,000 Merida Industry Co., Ltd. ....	1.07	577,109
669,473 Pou Chen Corp. ....	0.68	368,070
		<u>1,402,083</u>
<b>TOTAL COMMON STOCK (COST \$70,923,715)</b>		<u>53,503,457</u>
<b>SHORT-TERM SECURITIES — 0.16%</b>		
<b>Time Deposit — 0.16%</b>		
Citibank - London, 0.10%, Due 04/01/09 .....	0.16	83,775
<b>TOTAL SHORT-TERM SECURITIES</b> (COST \$83,775)		<u>83,775</u>
<b>TOTAL INVESTMENTS IN SECURITIES AT FAIR VALUE</b> (COST \$71,007,490)	<u>98.81</u>	<u>53,587,232</u>
<b>OTHER ASSETS (LESS LIABILITIES)</b>	<u>1.19</u>	<u>645,985</u>
<b>NET ASSETS</b>	<u>100.00</u>	<u>\$54,233,217</u>

At March 31, 2009, the cost of investments, excluding short-term investments, for U.S. federal income tax purposes was approximately equal to the cost of such investments for financial reporting purposes. At March 31, 2009, the unrealized depreciation of \$17,420,258 for financial reporting purposes consisted of \$1,986,987 of gross unrealized appreciation and \$19,407,245 of gross unrealized depreciation.

\* Non-income producing: These stocks did not pay a cash dividend during the past year.

# TAIWAN GREATER CHINA FUND

(Unaudited) / March 31, 2009

– Fair Value Measurements – Effective January 1, 2008, the Trust adopted the provisions of Statement of Financial Accounting Standards No. 157 – Fair Value Measurements (“FAS 157” or the “Statement”). FAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurement. The changes to current practices resulting from the application of the Statement relate to the definition of fair value, the methods used to measure fair value, and expanded disclosures about fair value measurement. The Statement emphasizes that fair value is a market based measurement, not an entity specific measurement; as such, a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability. As a basis for considering market participant assumptions in fair value measurements, the Statement establishes a fair value hierarchy that distinguishes between (1) market participant assumptions developed based on market data obtained from sources independent of the Trust (observable inputs) and (2) the Trust’s own assumptions about market participant assumptions developed based on the best information available in the circumstances (unobservable inputs). The three levels defined by the FAS 157 hierarchy are as follows:

Level I – Quoted prices (unadjusted) in active markets for *identical* assets or liabilities that the reporting entity has the ability to access at the measurement date.

Level II – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level II assets include the following: quoted prices for *similar* assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, and inputs that are derived principally from or corroborated by observable market data by correlation or other means (market-corroborated inputs).

Level III – Unobservable pricing input at the measurement date for the asset or liability. Unobservable inputs shall be used to measure fair value to the extent that observable inputs are not available.

In some instances, the inputs used to measure fair value might fall in different levels of the fair value hierarchy. The level in the fair value hierarchy within which the fair value measurement in its entirety falls shall be determined based on the lowest input level that is significant to the fair value measurement in its entirety.

# TAIWAN GREATER CHINA FUND

*(Unaudited) / March 31, 2009*

The following table summarizes the valuation of the Trust's securities using the fair value hierarchy:

<u>At March 31, 2009</u>	<u>Total</u>	<u>Level I</u>	<u>Level II</u>	<u>Level III</u>
Investments	\$53,587,232	\$53,587,232	—	—

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The 2009 Annual Meeting of the Fund's shareholders will be held on September 10, 2009

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## TAIWAN GREATER CHINA FUND: PRIVACY NOTICE

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We are required to send you this privacy notice because you have obtained a financial product or service from the the Taiwan Greater China Fund (the “Fund”) for personal, family or household purposes by your purchase and retention of shares of the Fund. (As an investment company registered under the Investment Company Act of 1940, the Fund is required to comply with regulations that do not apply to the companies that issue most other stocks you may own.) Our privacy policies are as follows:

If you are shareholders of record in the Fund (i.e. you hold shares directly and not through a broker, bank or other financial institution), we may receive personally identifiable financial information from you, either directly or through agents, that is entitled to certain protections under the law. This information includes your name, address, taxpayer identification number, transaction and position information and other information you furnish upon becoming a shareholder or during the course of your relationship as a shareholder (“Shareholder Information”) that is necessary or proper to maintain and administer your shareholder relationship with the Fund.

The Fund safeguards all Shareholder Information according to strict standards of confidentiality and security and the requirements of applicable law, and requires any agents or third parties that it hires to provide support services to adhere to equivalent policies.

We use Shareholder Information only to the extent required to administer your relationship as a shareholder of the Fund and will permit only properly trained and authorized employees to access it.

Except for disclosures to agents and third-party administrators who meet the requirements noted above, we will not disclose Shareholder Information to anyone else, whether or not affiliated with us, unless (i) you have expressly authorized the disclosure or (ii) we are required to do so by law or regulations. Please note that the requirements of law and regulations may include disclosure of your name and other identifying information to other shareholders of the Fund who seek to communicate with you by using rights granted to them under Massachusetts law or rules of the United States Securities and Exchange Commission that apply to companies whose stock is publicly traded.

We will protect your Shareholder Information remaining with us in the same way if you cease to be a shareholder of the Fund

If you would like more information about this privacy policy, please call The Altman Group at 212-681-9600.

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