

Scudder Health Care Fund

Semiannual Report to Shareholders
November 30, 2005

Portfolio Management Review

In the following interview, Lead Portfolio Manager James Fenger and Portfolio Manager Leefin Lai discuss Scudder Health Care Fund's performance, strategy and market environment for the fund's most recent semiannual period ended November 30, 2005.

Q: How did Scudder Health Care Fund perform over the six-month period ended November 30?

A: In part because of the strong performance of managed-care stocks, Scudder Health Care Fund posted a 6.48% total return (Class A shares) for its most recent semiannual period ended November 30, 2005. (Returns are unadjusted for sales charges. If sales charges had been included, returns would have been lower. Past performance is no guarantee of future results. Please see pages 3 through 8 for the performance of other share classes and for more complete performance information.) The fund outperformed its benchmark, the Standard & Poor's 500 (S&P 500) Index, which posted a 5.88% return for the period. The fund also outperformed the 3.79% return of its secondary benchmark, the Goldman Sachs Healthcare Index. Largely owing to stock selection within the medical device and supply area and the fund's significant position in Pfizer, Inc. — both of which proved disappointing — the fund underperformed the 8.04% average return of its peers in the Lipper Health/ Biotechnology Funds category.¹

Q: Will you describe the most successful investment decisions during the period?

A: Two of the portfolio's best performers were Amgen, Inc., from the biotechnology area, and UnitedHealth Group, Inc., within managed care. In the case of Amgen, the company generated better-than-expected earning results

¹ Source: Lipper Inc. The Lipper Health/Biotechnology Funds category comprises portfolios that invest at least 65% of equity assets in shares of companies engaged in health care, medicine and biotechnology. It is not possible to invest directly in a Lipper category.

during the period. Earlier in 2005, there had been worries about the level of Medicare reimbursement for Amgen's oncology products, but these concerns eased later in the year when it became evident that they were overblown. We had significantly added to our position in the stock in 2004, which eventually paid off for the fund. Additionally, investors have become more positive about Amgen's pipeline of drugs in development and seem especially excited about the company's new product designed to treat osteoporosis.

UnitedHealth was the leader among several managed-care companies that performed well for the fund during the period. Managed-care companies benefited from several major trends. First, cost trends are down due to slower growth in drug and hospital expenditures. Second, managed-care companies have been successful in maintaining premium increases at or above the cost level. Finally, the nationwide managed-care companies, such as UnitedHealth, continue to gain market share and are able to leverage their increased enrollment base over various fixed operating costs.²

Q: What investment decisions proved disappointing during the period?

A: Two of the fund's most disappointing performers were Abbott Laboratories and Pfizer, Inc., both within major pharmaceuticals. Abbott, a large holding within the fund, was down sharply after receiving unfavorable clinical results over the past six months on several significant products under development. One of these drugs is designed to treat congestive heart failure, another is for cholesterol reduction and a third is meant for prostate cancer. Abbott also lost an important court battle during the period regarding generic drug competition. We expected positive outcomes for some

² *Market share is a brand's share of the total sales of a product within the product category in which the brand competes.*

of these milestones, but unfortunately each of them ended up hurting the company's prospects.

In the case of Pfizer, we had anticipated a positive court decision concerning whether the company could maintain its patent on Lipitor, a major participant in the cholesterol-lowering drug market. Instead, no court decision was announced during the period, but Pfizer's stock was hit hard after the company revised its fourth-quarter earnings forecast downward and withdrew its earnings forecasts for 2006 and 2007. The company is facing patent expirations on several important products and further competitive inroads from therapeutic substitution. (Therapeutic substitution is the use of a generic of one drug as a replacement for a branded version of a different drug that is similar in efficacy and safety.) Finally, Pfizer is a major player in the antidepressant and cardiovascular/cholesterol treatment markets, and growth in both of those markets has slowed. Earlier in the period, we had decreased the fund's position in Pfizer, but we added to it recently on price weakness given the possibility of a positive outcome on Lipitor's patent exclusivity. The fund's underweight in Pfizer helped performance earlier in the period, but our decision to increase the fund's position later was a significant detractor overall.³

Q: How did you position the fund within biotechnology stocks during the semiannual period?

A: Biotechnology was a strong area during the period, and we added positions in several smaller biotech firms. Among the large-cap biotechnology stocks held by the fund, one of the top performers was MedImmune, Inc. The company benefited from positive clinical results on a new

³ An "underweight" means that a fund holds a lower weighting in a given sector compared with its benchmark index. An "overweight" means that a fund holds a higher weighting in a given sector.

vaccine to prevent cervical cancer. MedImmune will receive royalties from both Merck and GlaxoSmithKline on two related products that are being jointly developed and marketed in this area.

Gilead Sciences, Inc. provided an attractive return, and the fund's holding in the stock boosted performance. The company's drugs for HIV treatment continued to gain market share. Gilead also benefited from positive news on Tamiflu, a drug to treat influenza. Given recent concern over a possible flu pandemic, many countries are contemplating the stockpiling of Tamiflu, one of the few drugs believed to be effective against avian flu.

In addition, Genentech, Inc. and Genzyme Corp. both posted strong gains for the period. Genentech recently obtained positive clinical results on Herceptin, a product for treating breast cancer. Recent data showed that Herceptin significantly increased disease-free survival for women with a specific form of early-stage breast cancer. Genentech also obtained positive clinical results for its product to treat age-related macular degeneration, a leading cause of blindness among elderly people. Genzyme posted strong earnings results during the period and continued to obtain encouraging test results on products it is developing to treat rare genetic disorders.

Within small-cap biotechnology, several holdings were up strongly. Among these was Amylin Pharmaceuticals, Inc., which recently launched a unique product for diabetes. Unlike most similar products, Amylin's drug promotes weight loss rather than weight gain, a much better outcome for diabetes sufferers. Celgene Corp. is anticipating Food and Drug Administration approval in 2006 of a new product to treat both multiple myeloma, a type of cancer, and MDS, a bone marrow disorder. Finally, Gen-Probe, Inc., continued to exceed expectations.

Gen-Probe is a diagnostic company that has developed nucleic acid tests that can be used to screen for viruses. The advantage of these tests is earlier detection, as they identify the virus itself rather than the antibodies that develop over time to fight the virus. The company is moving forward in bringing a number of new tests to market, including a test for the West Nile virus.

Detracting from performance among the fund's holdings in small-cap biotechnology were MGI Pharma, Inc., and Medicines Co. MGI Pharma reported disappointing earnings results. In addition, the company suffered a setback as its product to prevent nausea in cancer patients was hurt by changes in Medicare reimbursement. Medicines Co.'s cardiovascular product Angiomax posted disappointing sales in recent months. However, we are hopeful that future studies will broaden the appeal of this product, and we continue to hold the stock in the fund's portfolio.

Q: How was the fund positioned within health care services stocks during the period?

A: The fund's position in the health care services area — which includes pharmaceutical services and distribution, hospitals, and managed care — increased slightly over the six-month period due to strong stock performance.

The fund's holdings in pharmaceutical services and distribution performed well for the period. PSS World Medical, Inc., a distributor of medical products to physicians' offices and nursing homes, reported strong quarterly results. In addition, Caremark Rx, Inc. continued to post strong earnings gains. Caremark Rx, a pharmacy benefit manager (PBM), manages prescription benefit plans for corporate health plans, managed-care organizations and insurance companies. Caremark Rx continued to benefit from trends favoring mail-order prescriptions, generic drugs

and specially distributed products in areas such as biotechnology. All three areas are profitable for the company. Caremark Rx also continued to acquire major accounts among corporations and within the managed-care area.

As mentioned, managed-care companies performed well during the period. We have already discussed UnitedHealth's strong showing. Humana, Inc., Aetna, Inc. and WellPoint, Inc., also posted solid gains for the fund within this area. In addition to positive industry trends already cited, managed-care companies profited from the Medicare Advantage program (under which Medicare recipients receive their benefits through private health maintenance organizations, rather than directly from the government). In the past year, the federal government has authorized additional funding for Medicare Advantage, providing greater incentives for individuals to sign up for this program. The additional funding and incentives have had the desired effect so far, and managed-care companies are reaping the benefits. Additionally, in January 2006, Medicare's new prescription drug benefit takes effect. That benefit can be combined with the Medicare Advantage program, which should further accelerate the trend of individuals joining this program. We continue to look for strong growth from the managed-care sector.

Within medical facilities and services, dialysis stocks performed well for the fund over the six-month period as Fresenius Medical Care AG and DaVita, Inc. both delivered strong results. The dialysis area benefited from consolidation and continuing increases in demand. By contrast, hospital stocks were generally weak. Of the fund's two holdings within hospitals, Community Health Systems, Inc., a rural hospital chain, performed well, while Triad Hospitals, Inc., which manages hospitals in urban areas, was

down sharply. However, the fund benefited from avoiding additional holdings in hospitals during the period.

Q: How did you position the fund within medical devices and supplies during the period?

A: Medical devices and supplies proved to be a difficult area during the period, and the fund's weighting there was reduced. On the positive side, St. Jude Medical, Inc., a cardiovascular device company, and Cytoc Corp., which manufactures and markets medical diagnostics and devices, both performed well for the fund. St. Jude reported better-than-expected quarterly results, and Cytoc continued to make progress in marketing new products for breast cancer and women's health.

Unfortunately, the fund held a number of stocks in this sector that declined. In the orthopedic area, disappointing quarterly results and continued pressure from hospitals and HMOs to reduce prices of orthopedic devices negatively affected holdings such as Biomet, Inc., Stryker Corp. and Zimmer Holdings, Inc. However, we believe that the market's concerns over earnings are now fully reflected in the prices of orthopedic stocks and that the market is being overly pessimistic about the prospects for this subsector. We continue to foresee positive demographic trends and increased sales volume in the orthopedic area and are maintaining our positions there.

In addition, Cooper Companies, Inc. declined significantly. During the period, Cooper, a specialty medical products company for the vision care and women's surgical markets, disclosed that it is losing significant market share in the contact lens area because it has lagged behind its competitors in coming to market with silicone hydrogel contact lenses. This new lens material appears safer for the eye, as it allows a greater exchange of oxygen. Cooper's

offering in this area is not expected to reach the US market until June 2006.

Q: How did you position the fund within major pharmaceutical stocks during the period?

A: As mentioned, our decision to increase the fund's exposure within Pfizer and major pharmaceuticals in general detracted from overall performance, although an underweight in the sector overall helped performance versus the benchmark. Other detractors within major pharmaceuticals included Eli Lilly & Co. and Wyeth. Lilly's drug for schizophrenia, Zyprexa, continued to lose market share, while Wyeth's shares declined based on weaker sales of several major drug products.

On the positive side, the Swiss firm Roche Holding AG was up strongly. Roche is continuing to benefit from its relationship with Genentech. The company owns a majority interest in Genentech as well as the rights to Genentech's products in Europe. In addition, two other internationally based major pharmaceutical holdings, AstraZeneca PLC (UK/Sweden) and Novartis AG (Switzerland), outperformed other similar US stocks.

Q: How did you position the fund within specialty pharmaceutical stocks during the six-month period?

A: In general, specialty pharmaceuticals performed well during the semiannual period, and the fund's weighting in this area increased slightly. We took profits on IVAX Pharmaceuticals, Inc., a strong-performing generic drug company being acquired by Teva Pharmaceutical Industries Ltd., after the merger was announced.

Other top performers in this sector included Allergan, Inc., an ophthalmology company with a strong product franchise that includes Botox, used for both cosmetic and medical

conditions; Schwarz Pharma AG, a German company that has made progress with its new product pipeline; and Teva Pharmaceuticals Industries Ltd., a leading company in the generic area. Once Teva and IVAX have completed their merger, the combined company should be in an advantageous position with initial exclusive rights to new generic drugs that are expected to be launched in 2006 and beyond.

Q: How do you assess the market for health care stocks at the present time?

A: We continue to believe that health care stocks can outpace the overall stock market in the coming year. Some of the best opportunities look to be in the service areas such as managed-care companies, which we think will continue to show strength next year. We also favor the pharmacy benefit manager stocks (PBMs), which we believe will benefit from a number of significant patent expirations. These same patent expirations will present problems for major pharmaceutical companies. We think there are also exciting opportunities within the biotech area. With a host of new products, more and more biotech companies are reaching profitability and are in a favorable position to outlicense new products to large pharmaceutical companies that are hungry for new products to market. On a down note, major pharmaceuticals are facing patent expirations and are lacking new product potential. Thus, we are underweighting this sector for the fund.

We believe Scudder Health Care Fund is an appropriate vehicle for investors seeking to participate in the long-term growth of a diversified, but select, group of health care companies.

The views expressed in this report reflect those of the portfolio managers only through the end of the period of the report as stated on the cover. The managers' views are subject to change at any time based on market and other conditions and should not be construed as a recommendation.