

Scudder Technology Fund

Semiannual Report to Shareholders
April 30, 2005

Portfolio Management Review

In the following interview, Portfolio Managers Ian Link and Anne Meisner discuss Scudder Technology Fund's performance, strategy and the market environment during the six-month period ended April 30, 2005. (Effective May 31, 2005, Anne Meisner is no longer a portfolio manager for the fund. Kelly P. Davis and Brian S. Peters joined the team as portfolio managers.)

Q: How did technology stocks perform during the semiannual period?

A: Technology stocks produced a negative absolute return and underperformed the broader market during the past six months. Although the semiannual period began on a strong note, with tech stocks rallying in November and December, the start of calendar year 2005 marked the beginning of a protracted sell-off. Stocks in the sector trended lower through January, stabilized for about a month, and then resumed their decline with two rapid downturns in March and April.

Technology stocks were hurt by growing fears about the health of the global economy. In the wake of the tech collapse in 2001 through 2003, the group is viewed as being highly sensitive to economic trends. It therefore underperformed, as evidence emerged that the global economy is slowing, causing investors to question how strong the growth of tech industry sales will be in the year ahead. Additionally, the perception that rising inflation will cause the US Federal Reserve to raise interest rates at a faster-than-expected pace caused investors to become more skittish. The outcome was that asset classes perceived to be higher-risk, such as technology stocks, underperformed. In addition, the sector was hurt by fears that the new rules requiring companies to expense stock options — meaning the cost will be reflected in their earnings rather than their balance sheets — would lead to a large drop in earnings.¹

¹ *Stock options are used as an incentive to motivate employee productivity, so the company succeeds, and its stock price goes up. Options traditionally have been an expense that is not reflected in companies' earnings statements, but this is set to change. Technology companies are among the heaviest issuers of options to employees.*

Taken together, these factors weighed on the Goldman Sachs Technology Index (the fund's benchmark), which returned -5.57% for the six months ended April 30, 2005.. In comparison, the broader S&P 500 Index returned 3.28% for the same period.

Q: How did the fund perform relative to its benchmark and peers?

A: The total return of the fund's Class A shares for the six months ended April 30, 2005, was -4.34%. (The returns are unadjusted for sales charges. If sales charges had been included, the returns would have been lower. Past performance is no guarantee of future results. Please see pages 3 through 5 for complete performance information.) The fund outperformed the -5.57% return of the benchmark as well as the -4.60% average return of the 295 funds in the Lipper Science & Technology Funds category.

On the individual-company level, the largest contribution came from an underweight in International Business Machines Corp. (IBM), which fell sharply after missing its first-quarter earnings estimates.² Overweights in the outperforming stocks National Semiconductor Corp., Corning, Inc. and EMC Corp. were also beneficial to performance. On the negative side, fund returns were hurt by our decision to maintain an underweight in Apple Computer, Inc. The stock outperformed during the period, albeit by a smaller margin than it did in 2004, when it also took a large bite out of our performance. Although the underweight in Apple cost the fund in its relative performance a full half point during the period, we continue to believe the stock is too richly valued. The fund was also

² An underweight is a weighting in a stock or security lower than that of the benchmark. An overweight is a weighting in a stock or industry greater than that of the benchmark.

hurt by not owning a large enough position in Intel Corp., which outperformed. An underweight in Hewlett-Packard worked for most of the period but became a negative once CEO Carly Fiorina stepped down and investors reacted by driving the stock up 15% in a single day. Positions in Avocent Corp., a hardware company that missed its first-quarter earnings estimates, and Syniverse Holdings, Inc., an initial public offering that declined due to the broadly negative environment for tech stocks, also weighed on relative performance. (As of April 30, 2005 the positions in Hewlett-Packard and Intel were sold.)

Q: How is the fund positioned within each of the major technology subsectors?

A: It is important to note that the fund's industry weightings are largely the result of our bottom-up, research-driven investment process. With that in mind, we will look at each in turn.

Semiconductors: The fund is slightly overweight in this group, with about 23% of assets, compared with 22% for the benchmark. Computer chip makers represent a broad group of companies whose products have a wide range of applications. Accordingly, we do not try to make broad predictions about the semiconductor cycle; instead, we look for companies whose products we believe have the best potential to fuel strong revenue and earnings growth. Some of the fund's top performers in this area were National Semiconductor Corp., Broadcom Corp. and Samsung Electronics Co., Ltd. We were also able to add value through well-timed reductions of Altera Corp. and ASM Lithography shortly before each stock declined, as well as through our decision to not own the underperforming stock ST Microelectronics NV.

Software: The fund is also overweight in this industry, with about 22% of assets, versus 20% in the benchmark. The portfolio held an overweight in Microsoft Corp. early in the period, and this positioning paid off as the stock outperformed. We have since reduced this overweight for two reasons: first, our belief that the stock could underperform in the latter half of the year, and second, the emergence of what we believe are opportunities with higher return potential elsewhere in the sector. For instance, we used proceeds from our sales of Microsoft to buy Symantec Corp. and TIBCO Software, Inc. Although Symantec makes software for Internet security — an area that continues to experience rapid growth — the stock nonetheless declined to what we believed was an attractive valuation level.³ TIBCO contributed significantly to fund performance in 2004. We locked in profits by selling a large amount of our holdings. Since then TIBCO's price has dropped to an attractive price, so we are now buying more of the stock. Overall, we are comfortable with both the fund's overweight in software and our decision to adopt a slightly more aggressive positioning in the subsector.

Communications Equipment: The portfolio holds approximately 19% in this group, which is several percentage points more than the benchmark. We favor stocks in the cellular telephony business, where growth, while down from its rapid levels of five years ago, is still strong. Although penetration is already high, people are replacing their old phones with new ones that have more functions, such as cameras and Internet capabilities. We continue to like Corning, which has performed well recently, as the rollout of broadband to residential customers has increased the demand

³ "Valuation" refers to the price investors pay for a given security. An asset can be undervalued, meaning that it trades for less than its true worth, or overvalued, which means that it trades at a more expensive price than its underlying worth.

for the company's fiber-optic cables. The company has also benefited from strong sales of its high-profit-margin specialty glass used in flat-panel televisions. Scientific-Atlanta, Inc., which makes set-top cable boxes, has also benefited as cable customers upgrade to digital service.

Computers and Peripherals: The fund is neutrally weighted in this group at about 16%. A notable development was our decision to begin reducing the size of the fund's significant underweight in IBM. After the company missed its first-quarter earnings estimates, the stock fell to its lowest valuation in approximately five years at about 15 times 2005 earnings estimates and 14 times the consensus estimate for 2006. We believe IBM is inexpensive both on an absolute basis and relative to the peer group, especially in light of the fact that it has missed expectations only three times in the past 40 quarters. And after each of the first two misses, the company sought to cut costs to get its results back on track. Based on our conversations with senior management, we believe this process is at work once again. Our analysis shows that the stock is underpriced, so we continue to take advantage of weakness to add to the fund's position. Elsewhere in the group, our position in the outperforming storage hardware stock EMC was additive to performance during the period. We elected to lock in some of the profit we generated in this position and used the proceeds to purchase shares of IBM. We also added to the fund's positions in Dell, Inc. and Sun Microsystems, Inc., both of which fell to what we believe are attractive valuation levels following their first-quarter sell-offs.

Internet: Now that the Internet search company Google, Inc. is publicly traded, this sector represents a larger portion of the benchmark than it has in some time: about 8.5%. We remain underweight in the group, however (about 8.0%), based on our belief that there are still a number of smaller

companies whose valuations are too rich. As has been the case in the past, our holdings in the Internet sector remain concentrated in what we believe are the industry's strongest companies: Google, Inc., eBay, Inc., Yahoo!, Inc. and Verisign, Inc.

IT Consulting and Services: This group is seen as being the most stable within the tech area. Given our generally optimistic view on the tech sector overall, we are underweight in IT services — about 6.7% of assets, versus 8.5% in the benchmark — as we have found more compelling opportunities elsewhere. Within this group, the fund is invested in what we believe are solid long-term growers, such as Paychex, Inc., Affiliated Computer Services, Inc. and Accenture Ltd.

Electronic Equipment and Instruments: This is the smallest sector at just 2.7% of the benchmark, and we hold an underweight, with investments in stocks such as AU Optronics Corp. and Tektronix, Inc.

Q: What is your broad view on the tech sector as we move into the second half of the year?

A: “Tech” is still a four-letter word for many investors, but much has changed in the years since the bubble burst. Companies are much healthier financially and have much more cash on their balance sheets than was the case in 2001. Sun Microsystems, for example, closed the period at \$3.62 but had approximately \$2 per share in cash. Apple Computer, at \$36.06, had about \$8 per share in cash. Microsoft, even after its special dividend last year, still has a huge amount of cash on its balance sheet. The result, in our view, is a group with lower risk than it had in the past.

Of course, the sector is not growing as fast as it once did. In the late 1990s and 2000, many companies were growing at

40% to 50% a year. Today, the growth rate of the average tech company is about 15%. We believe too many investors are looking at this fall-off in growth, rather than concentrating on the fact that the tech sector is still growing much faster than the 8% to 9% rate of the market as a whole. Further, it appears likely that growth will pick up in the second half of the year, a time when companies will have easier year-over-year earnings comparisons than they do in the first half. Despite this, many US companies can be bought for reasonable price-to-earnings (P/E) ratios, while some international firms — such as Samsung Electronics Co., Ltd. and LG Electronics, Inc. — are trading at single-digit P/Es.⁴

In light of these considerations, we believe technology has the ability to recover from its underperformance during the past year. Naturally, we do not expect the type of returns we witnessed in the boom years of the late 1990s. However, the potential is in place for technology stocks to surprise investors by outperforming the broader market in the months ahead.

⁴ *The P/E ratio is the price an investor must pay for a dollar of earnings. For example, a company with a \$10 stock price and \$1 of earnings per share has a P/E of 10. A lower P/E is seen as an indication of value, compared with a higher P/E.*

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.