Dodge & Cox Funds
555 California Street
San Francisco, California 94104

April 29, 2004

Jonathan G. Katz, Secretary
Securities and Exchange Commission
450 Fifth Street, N.W.
Washington, DC 20549-0609

Re: File No. S7-03-04
Investment Company Governance Proposals
(Investment Company Act Release No. 26323 (the "Release"))

Dear Mr. Katz:

The undersigned are all of the Trustees of Dodge & Cox Funds who are not "interested persons," within the meaning of the Investment Company Act of 1940 (the "Act"), of the Funds or their adviser. We write to oppose the Commission's proposal to require investment company boards, as a condition of their reliance on a number of exemptive rules under the Act, to appoint as board chairman a person who is not an "interested person."

By way of background, Dodge & Cox Funds is a Delaware business trust registered under the Act as an open-end management investment company. The trust has four portfolios (a Stock Fund, a Balanced Fund, an Income Fund and an International Stock Fund) which had aggregate net assets of approximately $59 billion as of March 31, 2004. The trust's Board of Trustees currently consists of four Trustees who are not "interested persons," and three Trustees who are members of the senior management of Dodge & Cox, the Funds' investment adviser. One of the management representatives serves as Chairman of the Board.

In our view, the determination of who should serve as the chairman of the board of any particular fund or fund group is best made by the members of the board, in light of the circumstances of the particular fund or fund group. The board members themselves are the persons best situated to assess the needs of the funds and to determine which board member is best equipped to carry out the functions of chairman.

The Release expresses concern that an "interested" person who occupies the role of chairman may dominate the boardroom or control the agenda for board meetings to an extent that inhibits discussion and precludes consideration of any business other than that proposed by the chairman. In our experience, having an "interested" person as chairman has never prevented the board from considering any issue that any board member has wished to raise. Nor has any of us felt inhibited from expressing our views, including views that may have been at odds with the views of management. We think the risk, if any, of inappropriate dominance of fund boards by "interested" chairmen is effectively addressed by other governance practices that are already common in the mutual fund industry or that are included in the Commission's pending fund governance proposals, such as a majority or supermajority of non-"interested" board members, separate meetings of the non-"interested" board members on a regular basis, independent legal counsel for the non-"interested" board members and periodic self-assessment by boards of their effectiveness.[1] These practices in effect put the non-"interested" board members, as a group, firmly in control in the boardroom. We doubt that adding the further requirement of a non-"interested" board chairman will do very much in practice to enhance the effectiveness of fund boards or of the non-"interested" members of those boards. Furthermore, in the absence of any clear definition of the role and powers of a board chairman, requiring a non-"interested" chairman could, in some instances, be contrary to the interests of investors. In particular, we are concerned that designating a non-"interested" board member as chairman might in some cases present a temptation for meddling by a relative amateur in the professional business of portfolio management.

We think our funds, which have always had an "interested" board chairman, have delivered excellent results to our shareholders. Our funds have superior long-term performance records and relatively low expense ratios. Our investment adviser has a strong sense of fiduciary duty to our shareholders, which if anything has been reinforced by the service of the adviser's most senior executives on the board of our funds and specifically in the role of board chairman. We think that the credibility of our funds' communications to our shareholders, in the form of detailed commentary from our board chairman and president in our quarterly shareholder reports, is significantly enhanced by the fact that our chairman and president write from the perspective not only of the fund boardroom, but also from the perspective of the senior management of the advisory organization that is responsible for, and accountable to our shareholders for, the

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[1] As an alternative to requiring that all boards appoint a non-"interested" chairman, the Commission might consider amending the proposed requirement for annual self-assessment by boards to add a requirement that the self-assessment include explicit consideration of whether the board should have a non-"interested" chairman. If the Commission deems it appropriate, this determination could be required to be made by the non-"interested" members of the board. We have ourselves, within the past several months, considered, on our own initiative, in a private session with our independent counsel, whether our funds would be best served by an "interested" or a non-"interested" chairman. It was our collective judgment, made without consultation with fund management, that, at least for the present, the interests of the funds and their shareholders continue to be best served by having the current, "interested" chairman remain in that role. We know that we are free to reconsider that decision at any time, and to reach a different conclusion if we deem it appropriate.

performance of the funds. No non-“interested” chairman would be in a position to comment so effectively on the results of the funds’ operations.[2]

We believe that effective corporate governance of mutual funds depends upon the active participation of non-“interested” board members who are diligent, independent-minded and well-informed and who understand the role and responsibilities of non-“interested” board members. We support the Commission’s efforts to promote such a culture and to enhance fund board members’ understanding of the responsibilities of non-“interested” board members. We think it unlikely, however, that this goal will be enhanced by a requirement that every fund that relies upon the Commission’s exemptive rules appoint a non-“interested” chairman. Rather, the goal of good corporate governance of mutual funds will be best served by requiring every board itself to make the important determination as to who can most effectively discharge the responsibilities of board chairman. In many instances, boards may determine that the chairman should be non-“interested.” In our view, however, it would be undesirable for the Commission to foreclose the possibility of an “interested” chairman serving in those instances where, in the judgment of a fund’s own board, an “interested” board member is the most appropriate person for that role.

Mutual funds are designed to provide effective, professional portfolio management to a broad investing public. The governance structure imposed by the Act is designed to provide effective oversight, in particular, oversight by the non-“interested” board members of matters involving a potential conflict of interest with the investment adviser or other “insiders” or fund affiliates. We think that requiring a non-“interested” board chairman does little to enhance the effectiveness of this oversight structure, while, as explained above, potentially undercutting funds’ ability to achieve their purpose of delivering effective, professional portfolio management to investors.

We thank you for the opportunity to express our views on this important issue.

Very truly yours,

William F. Ausfahl	Thomas A. Larsen
L. Dale Crandall	Will C. Wood

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[2] Copies of the commentary of the chairman and president from our most recent annual and quarterly reports are attached.

DODGE & COX

Stock Fund

www.dodgeandcox.com
For Fund literature, transactions and account information, please visit the Funds' web site.

or write or call:

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c/o Boston Financial Data Services
P.O. Box 8422
Boston, Massachusetts
02266-8422
(800) 621-3979

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35th Floor
San Francisco, California
94104-4443
(415) 981-1710

This report is submitted for the general information of the shareholders of the Fund. The report is not authorized for distribution to prospective investors in the Fund unless it is accompanied by a current prospectus.

This report reflects our views, opinions and portfolio holdings as of December 31, 2003, the end of the reporting period. The information provided is not a complete analysis of every aspect of any industry, security or the Fund. The Fund's portfolio composition may change depending on market and economic conditions. Although historical performance is no guarantee of future results, these insights may help you understand our investment management philosophy.

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DODGE & COX

Stock Fund

Established 1965

39th Annual Report

December 31, 2003

2003

To Our Shareholders

It was a good year for both the overall equity market and the Dodge & Cox Stock Fund—well beyond our expectations. The Fund had a total return of 32.4% for the year-ended December 31, 2003 compared to a 28.7% total return for the Standard & Poor's 500 Index (S&P 500). Total returns for longer periods are listed on the following page. Regular readers of our quarterly letters may remember that we did not think double-digit returns were likely one year ago. Instead, the Fund had its third best return in the last twenty years. Conclusion: Forecasting the market on a short-term basis has a large error rate.

At year-end the Fund had total assets of $29.4 billion and a cash position of 9%. The share price of the Fund rose from $88.05 at the end of 2002 to $113.78 on December 31, 2003. In addition, during the year, the Fund distributed income dividends of $1.615 per share, short-term capital gain of $0.39 per share and long-term capital gain of $0.45 per share.

Deconstructing the Stock Fund's Long-Term Performance

When explaining past performance, we believe it helps to look at longer time periods than the last twelve months. Since the stock market moves independently of the calendar year, we will discuss the Fund's ***annualized*** investment performance using three non-traditional time periods:

1) The Rise of the "New Economy" Bubble—
12/31/1996 through 6/30/2000 (annualized)

Stock Fund	S&P 500
14.3%	23.1%

As you can see, for the 3½-year period ended June 30, 2000, the Fund's results trailed the S&P 500. In 1997, 1998, 1999 and the first half of 2000, as stock market valuations rose to speculative levels, we sold or trimmed the few holdings the Fund had in the higher valuation areas of the S&P 500. During this period, most companies in the Technology, Media and Telecommunications sectors (the so-called "New Economy") enjoyed extremely high valuations and drove the returns of the broad market. By the first half of 2000, the New Economy portion of the S&P 500 had reached stratospheric valuations, and the Fund had very little exposure in this broad area.

2) The Bubble Deflates—
6/30/2000 through 6/30/2002 (annualized)

Stock Fund	S&P 500
13.0%	-16.4%

During the two years ended June 30, 2002, the air rapidly left the bubble, as New Economy and other highly valued stocks dropped dramatically in value while a number of the Fund's "Old Economy" stocks (those stocks *not* in the Technology/ Media/ Telecommunication sectors) appreciated significantly from relatively modest valuations. While the overall market declined, these two quite different segments within the S&P 500 achieved dramatically different returns, and the Fund's relative and absolute returns reflected our concentration in Old Economy stocks. The Fund's shareholders were rewarded for their patience. **Please note: This two-year period is the primary reason that the Fund's trailing five-year return is currently so far ahead of the S&P 500—relative results that will not be repeated.**

3) The Past Eighteen Months—
6/30/2002 through 12/31/2003 (annualized)

Stock Fund	S&P 500
13.2%	10.0%

During the past year and a half, we have witnessed the re-inflation of the S&P 500's valuation, the Fund has continued to outperform the S&P 500, though by a smaller margin than the prior period.

2003 Performance Review

The Fund's performance relative to the S&P 500 for 2003 should be considered in this longer-term context. Following the collapse of the bubble we identified a number of companies in the Technology, Media and Telecommunications sectors with attractive valuations, given our positive long-term outlook for their potential growth in profits and cash flow. Thus, we entered 2003 with a greater number of investments in companies that provide various technology products and services and are well positioned for long-term growth, such as Avaya (up 428% in 2003) and Corning (up 215% in 2003). While stocks in every sector, except for Telecommunications Services, contributed positively to the Fund's results in 2003, technology-related companies were the strongest contributors to the Fund's performance. Only a handful of companies declined. Eastman Kodak, one of the stock market's strongest performers in 2002, was the Fund's worst performer (down 24%) in 2003. AT&T and Schering-Plough also detracted from the Fund's return, each with declines of 19% for the year. Please refer to the Fund's third quarter letter for more detail on our view of the latter two stocks.

Closing the Stock Fund to New Investors

Throughout 2003, investors increasingly purchased new shares in the Stock Fund. In the fourth quarter, cash flowing into the Stock Fund accelerated rapidly. We have been able to accommodate these increased cash inflows in an orderly way, and importantly, we remain confident of our ability to find attractive investments with the assets that have been entrusted to us. However, we believe that accelerating cash flow into the Fund could eventually lead us to a different conclusion. As a result of our prospective caution, we decided to attempt to slow the pace and volume of assets coming into the Fund by closing the Stock Fund to new shareholders effective January 16, 2004. Existing shareholders may add to their holdings, including those that invest in the Fund via a retirement plan (and our other Funds remain open). If you have questions, please visit our web site at www.dodgeandcox.com.

Expected Returns

At the risk of looking like a stopped clock, we want to reiterate our caution about future equity returns. Over the next few years, we believe that there is a high probability

that total returns will be significantly lower (and possibly negative) than the past 20 years (13% annualized for the S&P 500). The S&P 500 is selling well above the average price-to-earnings ratio (P/E) in the postwar period, and net margins (a measure of profitability) are at historically high levels. The market is anticipating sustained economic growth in the U.S. At the same time, many economies outside the United States may be in the early stages of surprisingly strong economic expansion in terms of length and magnitude. In spite of these prospects for worldwide economic growth, these historically high valuations give us pause. A sign of our caution is that the Fund's cash position is historically high at 9%.

Our Fundamental Approach

We continue to invest the Fund today as we always have. Dodge & Cox manages your money out of a single location in San Francisco. We operate as a team and value proximity when we discuss what investment decisions to make in the Fund. Thirty-two people are directly involved in the equity decisions, analysis and trading. Today, Dodge & Cox is a major owner of many companies in which the Fund is invested. Our equity staff concentrates on understanding the long-term economic prospects of the companies we own. We have a strong price discipline and usually buy lower valuation, less popular companies which we believe have attractive long-term profit and cash-flow prospects. The Fund's turnover is low, typically less than 20% per year, and was only 8% in 2003. In future quarterly letters, we will continue to describe specific investments, as we have in the past. You may also review past shareholder letters at the Dodge & Cox Funds' website, www.dodgeandcox.com.

In Closing

To our long-term shareholders, we thank you for sticking with us through some periods (the late 1990's) when we didn't look that swift. To new shareholders who have joined us in 2003 and as late as January 16, 2004, we welcome you aboard. As we said at the start of this letter, twelve months ago thoughts of appreciation in excess of 30% for 2003 were non-existent. The global economic world will continue to unfold in unforeseen ways. In this environment of continual change, our team at Dodge & Cox will do our best to uncover attractive investment values for the shareholders of the Dodge & Cox Stock Fund.

Thank you for the continued confidence you have placed in our firm as a shareholder of the Stock Fund. As always, we welcome your comments and questions.

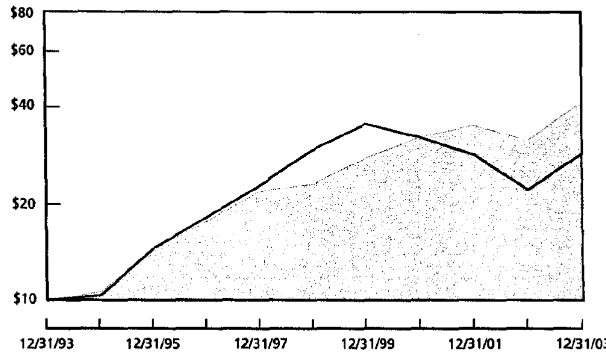
For the Board of Trustees,

Harry R. Hagey, Chairman — John A. Gunn, President

February 4, 2004

Ten Years of Investment Performance

through December 31, 2003 (in thousands)



Dodge & Cox Stock Fund $42,025
— S&P 500 $28,572

Average annual total return for periods ended December 31, 2003

	1 Year	5 Years	10 Years	20 Years
Dodge & Cox Stock Fund	32.35%	12.60%	15.43%	15.42%
S&P 500	28.67	(0.56)	11.07	12.98

Past performance does not guarantee future results. Investment return and share price will fluctuate with market conditions, and investors may have a gain or loss when shares are sold. Mutual fund performance changes over time and currently may be significantly lower than stated above. Performance is updated and published monthly. Visit the Fund's web site at www.dodgeandcox.com or call 800-621-3979 for current performance figures.

The Fund's total returns include the reinvestment of dividend and capital gain distributions, but have not been adjusted for any income taxes payable by shareholders on these distributions. The Standard & Poor's 500 (S&P 500) is a broad-based unmanaged measure of common stocks. Index returns include dividends and/or interest income and, unlike Fund returns, do not reflect fees or expenses.

DODGE & COX

Stock Fund

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or write or call:

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DODGE & COX

Stock Fund

Established 1965

Third Quarter Report
September 30, 2003

2003

To Our Shareholders

The Dodge & Cox Stock Fund had a total return of 5.2% for the third quarter of 2003, compared to a total return of 2.6% for the Standard & Poor's 500 Index (S&P 500). For the nine months ended September 30, 2003, the Fund had a total return of 16.2%, compared to a total return of 14.7% for the S&P 500. The Fund had total assets of approximately $22.8 billion at quarter-end and a cash position of 8%.

The stock market is at a relatively high valuation on a number of measures and, as always, we would caution investors that the return from investing in stocks at these levels may be low or possibly negative in the coming years.

Third Quarter Performance Review

The Stock Fund performed well in the third quarter, both on an absolute basis and relative to the S&P 500. Contributors to relative return in the third quarter included:

- Strong individual performers, such as Nordstrom (up 28%) and Sony (up 25%) in the Consumer Discretionary sector, combined with a higher relative weighting in this sector (about 20% versus 11% for the S&P 500). The Fund's holdings in this sector were up 7% in the aggregate, compared to the S&P 500's sector gain of approximately 2%.
- The Fund's overweight position in the Materials sector (10% versus 3%), as the Fund's holdings in this area (e.g., Akzo Nobel (up 17%) and Rio Tinto (up 16%)) were up 10%, versus 6% for those in the S&P 500.
- Strong individual contributors to return during the quarter included Avaya (up 69%), Corning (up 27%), HCA (up 15%) and AT&T (up 13%).

Weaker performance from the Fund's Information Technology stocks (e.g., Hewlett-Packard (down 9%) and Electronic Data Systems (down 5%)) was a drag on relative performance during the quarter. The Fund's holdings in this sector were up about 6% compared to the 11% sector return for the S&P 500. The Fund's short-term performance was also hurt by investments in Eastman Kodak (down 23%), Schering-Plough (down 17%) and Loews (down 14%).

Current Strategy

We have built a portfolio that is quite different in composition from the S&P 500. In our view, many companies in the S&P 500 have overly optimistic valuations. Notably, many of these are in the technology area, although there are still very wide disparities in the valuations among companies in that industry. While the Fund emphasizes lower valuation companies, 8.1% of the Fund is now invested in stocks, such as Comcast and Pfizer, in the most expensive one-third of the market, as measured by price-to-sales (P/S). On average the valuation of the portfolio is evidence of our price-disciplined approach: the portfolio's price-to-earnings (P/E) ratio is 16 and its P/S ratio is 0.7, compared to 19 and 1.4, respectively for the broad market.

We remain a persistent, low-turnover manager—reflecting our long-term investment horizon. Periodically, we review our reasons for owning some of the companies that have had disappointing performance. The list for this year would include Schering-Plough and AT&T.

Schering-Plough faces a number of challenges, the most notable being the anticipated earnings decline following the patent expiration of Claritin, which was the company's most important pharmaceutical. The company also faces increased competitive pressure in other key product areas, as well as government investigations into its manufacturing operations and sales and marketing practices. While these are all legitimate concerns, we believe the long-term investment thesis for the company remains intact. The primary grounds supporting our investment thesis are the strong market potential for Schering's drugs "in the pipeline" (e.g., Zetia for high cholesterol) and importantly, the lack of additional drug patent expirations over the next few years. We believe the company will benefit from a new management team led by Fred Hassan, who successfully turned around Pharmacia. Schering-Plough trades at a lower-than-average P/S ratio as compared to its peers.

AT&T's stock price declined sharply earlier this year due to a number of factors. Industry competition is increasing for consumer long-distance service (where AT&T has traditionally been dominant) due to local phone companies offering long-distance service, and wireless service providers offering "all-distance" calling plans. Additionally, the long-awaited upturn in business spending has been slow to materialize, and investors are now concerned about the potential for further telecom industry disruption as a newly recapitalized MCI (formerly Worldcom) emerges from bankruptcy. In response, AT&T management has continued to cut costs aggressively throughout the company in order to preserve profitability. The valuation of AT&T's stock appears to reflect low expectations for future profits and cash flow. The company's strong cash flow has enabled management to reinvest in technology to enhance operating efficiencies, to pay down significant amounts of debt, and to increase the dividend paid to shareholders. We believe AT&T's revenues, which are economically sensitive, may increase along with business spending.

In Conclusion

We have discussed the valuation of the broad market, which to us appears somewhat high, as well as the discounted valuations of many of the companies held in the Fund. Yet to be clear: while we are selecting, in general, from the lower-valuation companies within the equity market, we are attempting to invest in companies which have the potential for future earnings growth at or above that of the average company. In essence, "investment value" to us means finding companies with the opportunity to grow earnings and cash flow faster than average, and yet investing in them at reasonable prices. This opportunity exists when other investors are skeptical of the company's prospects and/or when there has been recent negative news, thereby depressing the price of the stock. Our goal is to have conducted detailed fundamental analysis on each prospective investment—allowing us to find opportunity in the face of investor pessimism and then to have the conviction to invest. While there are no guarantees, we believe that over the long term this disciplined methodology could continue to benefit our shareholders in different types of market and economic environments.

Statement on Dodge & Cox Funds' Trading Policies

As you may have heard, state and federal regulators have initiated investigations of several other mutual fund companies and broker-dealers. These investigations are for the most part nonpublic and it is impossible to predict whether regulators will discover illegal conduct at any particular firm under investigation. Regulators, however, have alleged in public actions that certain organizations knowingly allowed some investors to illegally purchase fund shares after the 4 p.m. market close (known as "late trading") at the same day's price and/or to engage in certain abusive market timing practices in exchange for fund business.

Dodge & Cox Funds have not been named in any of these actions. The Funds are presently not aware of any exceptions having been made with respect to their market timing or late trading policies and procedures. Dodge & Cox Funds are intended for long-term investment purposes only, and the Dodge & Cox Funds' prospectus specifically discourages market timing. For more details about the Dodge & Cox Funds' market timing policies, refer to the "Excessive Trading Policy" section of the Dodge & Cox Funds' current prospectus.

In response to events or trends or for its own investigatory purposes, from time to time the Securities and Exchange Commission ("SEC") conducts a broad-based examination of the mutual fund industry and its practices. The SEC recently requested information from about 80 of the largest fund groups in terms of assets under management, including the Dodge & Cox Funds. As part of this industry-wide examination, the Dodge & Cox Funds received requests from the SEC for information in connection with market timing procedures within the organization as a whole and practices with respect to pricing and valuation of portfolio securities that trade in non-U.S. markets. The Dodge & Cox Funds submitted responses to the SEC requests and, as always, is cooperating fully with regulatory authorities.

Thank you for the continued confidence you have placed in our firm as a shareholder of the Stock Fund. As always, we welcome your comments and questions.

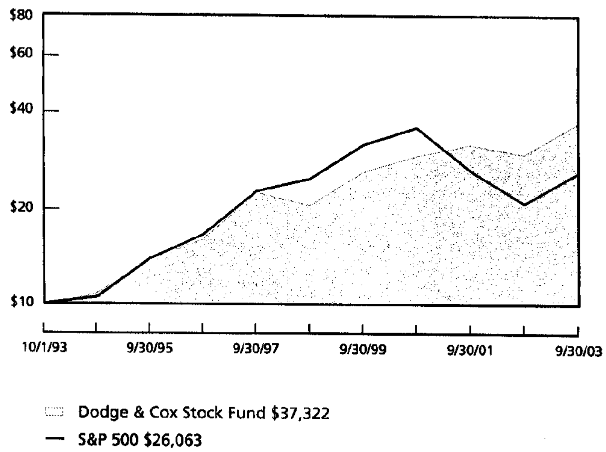
For the Board of Trustees,

Harry R. Hagey, Chairman
October 31, 2003

John A. Gunn, President

Ten Years of Investment Performance

through September 30, 2003 (in thousands)



Average annual total return for periods ended September 30, 2003

	1 Year	5 Years	10 Years	20 Years
Dodge & Cox Stock Fund	25.58%	12.47%	14.08%	14.69%
S&P 500	24.38	1.01	10.05	12.36

For updated performance figures see "Prices and Performance" at www.dodgeandcox.com, or call Dodge & Cox Funds at 1-800-621-3979.

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DODGE & COX

International Stock Fund

www.dodgeandcox.com
For Fund literature, transactions and account information, please visit the Funds' web site.

or write or call:

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DODGE & COX

International Stock Fund

Established 2001

3rd Annual Report

December 31, 2003

2003

To Our Shareholders

The Dodge & Cox International Stock Fund had a total return of 49.4%* for the year-ended December 31, 2003, compared to a total return of 38.6% for the Morgan Stanley Capital International Europe, Australasia, Far East Index (MSCI EAFE) benchmark. Since its inception on May 1, 2001, the Fund's total annualized return was 7.3%* compared to -0.3% for the MSCI EAFE.

At the year-end the Fund had total assets of $655 million and a cash position of 9%, reflecting strong cash inflows at the end of December. The share price of the Fund rose from $15.81 at the end of 2002 to $23.48 on December 31, 2003. In addition, during the year, the Fund distributed income dividends of $0.14 per share.

Performance Review

Most of the world's equity markets continued their upward move in the fourth quarter, culminating in the strongest year for the MSCI EAFE in U.S. dollar terms since 1986. The decline of the U.S. dollar was a meaningful contributor to these results (all else being equal, when the dollar declines, foreign securities increase in value in dollar terms), as the MSCI EAFE was up only 20% in local currency terms. Key factors in the International Stock Fund's 2003 results were:

- The Fund's investments in Latin America, which averaged about 10% of the portfolio during the year, were collectively up 154%, contributing to strong absolute and relative returns.
- The Fund's investments in the Insurance sector outperformed those in the MSCI EAFE. Examples include: Euler Hermes, a French-based credit insurer (up 114% in 2003); and Promina, an Australian property/casualty insurer (up 94% from its Initial Public Offering out of Royal Sun Alliance in May).
- Individual holdings such as Alstom and Hagemeyer, which were sold during the year, were down significantly and hurt results.

Persistence—The Flip Side

We have talked about our persistence as a long-term investor and why we believe it contributes to the Fund's long-term investment results. A key element of persistence is the ability to ignore past price performance in evaluating potential future investment merits of a company. It is devilishly difficult to do because of the natural human tendency to over-weight recent experience and extrapolate into the future based on that experience.

A recent example where we believe legitimate short-term concerns allowed for a successful long-term investment was in the aerospace industry. Worries about the state of the airline industry in light of possible bankruptcies of major carriers contributed to the precipitous decline of aircraft engine-maker Rolls Royce's share price in the first quarter of 2003. During this period, we added to the Fund's existing position in Rolls Royce. What enabled us to be persistent investors was our conviction based on our research. We continued to invest in Rolls Royce because we believed in the company's ability to finance its business through a protracted downturn; its strong market position in an industry critical to future global economic growth; and a very low valuation on depressed earnings. In this instance, persistence was rewarded as evidenced by a significant rise in Rolls Royce's share price during the year.

That said, persistence is not always rewarded. Sometimes, the potential investment risks materialize in the short term and undermine the potential longer-term rewards. We have made a few investments in the Fund—Alstom and Hagemeyer are examples—where this was the case. A common element of these two very different companies was a weakening balance sheet that left each company with few degrees of freedom with which to weather problems. Thus, faced with prolonged downturns in key end markets, as other operating issues materialized, significant dilution to existing shareowners was required to repair the capital structure and enable the company to address problems. We made the decision to sell both Alstom and Hagemeyer in 2003 after the erosion of the companies' fundamentals and stock prices. Fortunately, these were only two of over 50 positions in the Fund, highlighting the benefits of a diversified portfolio.

Strategy and Outlook

While we continue to find attractive investment ideas, valuations have risen meaningfully and the likelihood of the very high returns the Fund produced in 2003 continuing is remote. Since the Fund's inception, returns have been (and will likely remain) highly volatile. The International Fund's 7.3% average annualized return since its inception on May 1, 2001 includes a -7.1% return for the eight months (5/1 through 12/31) of 2001, a -13.1% return for 2002, followed by the 49.4% return for 2003.

As we take a step back and examine common threads where we are investing on a bottom-up basis, we see opportunities in companies serving the consumer in the developing world. Over the past decade, the U.S. economy was the engine of global economic growth, fueled by the American consumer. We believe that the stage has been set for the consumer outside of the U.S., and especially the consumer in the developing world, to become a bigger factor in global economic growth in the future. We are finding attractive investments in companies that serve the consumer in the developing world in areas such as personal credit (Kookmin Bank based in South Korea, and Standard Chartered Bank based in the United Kingdom), personal transportation (car and motorcycle-makers Honda and Suzuki based in Japan), home ownership (home-builder Consorcio Ara based in Mexico), consumer goods (food companies Nestle and Unilever based in Europe) and communications services (telephone company KT Corp. based in South Korea).

In Closing

Thank you for the continued confidence you have placed in our firm as a shareholder of the International Stock Fund. As always, we welcome your comments and questions.

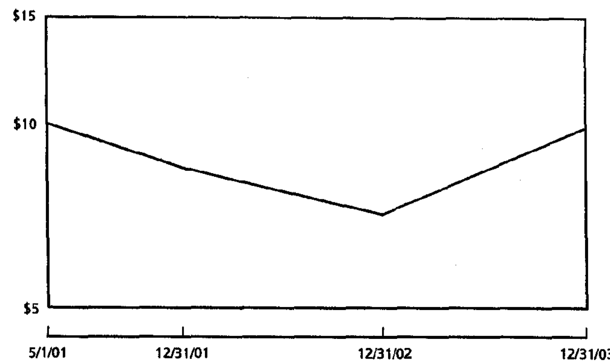
For the Board of Trustees,

Harry R. Hagey, Chairman   John A. Gunn, President

February 4, 2004

Investment Performance

Total return for periods ended December 31, 2003



Dodge & Cox International Stock Fund $12,065
— MSCI EAFE $9,888

	1 Year	Since Inception (5/1/01)
Dodge & Cox International Stock Fund*	49.42%	7.28%
MSCI EAFE	38.57	(0.32)

Past performance does not guarantee future results. Investment return and share price will fluctuate with market conditions, and investors may have a gain or loss when shares are sold. Mutual fund performance changes over time and currently may be significantly lower than stated above. Performance is updated and published monthly. Visit the Fund's web site at www.dodgeandcox.com or call 800-621-3979 for current performance figures.

* Expense reimbursements have been in effect for the International Stock Fund since its inception. Without the expense reimbursements, returns for the Fund would have been lower.

The Morgan Stanley Capital International Europe, Australasia, Far East Index (MSCI EAFE) is a widely recognized benchmark of the world's stock markets, excluding the United States. The Fund's total returns include the reinvestment of dividend and capital gain distributions, but have not been adjusted for any income taxes payable on these distributions. Index returns include dividends and, unlike Fund returns, do not reflect fees or expenses.

Morgan Stanley®, Morgan Stanley Capital International, and EAFE® are trademarks of Morgan Stanley.

Risks of International Investing: Foreign investing, especially in developing countries, has special risks such as currency and market volatility and political and social instability. These and other risk considerations are discussed in the Fund's prospectus.

DODGE & COX

International Stock Fund

www.dodgeandcox.com
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or write or call:

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P.O. Box 8422
Boston, Massachusetts
02266-8422
(800) 621-3979

Investment Manager
Dodge & Cox
One Sansome Street
35th Floor
San Francisco, California
94104-4443
(415) 981-1710

This report is submitted for the general information of the shareholders of the Fund. The report is not authorized for distribution to prospective investors in the Fund unless it is accompanied by a current prospectus.

This report reflects our views, opinions and portfolio holdings as of September 30, 2003, the end of the reporting period. The information provided is not a complete analysis of every aspect of any industry, security or the Fund. The Fund's portfolio composition may change depending on market and economic conditions. Although historical performance is no guarantee of future results, these insights may help you understand our investment management philosophy.

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DODGE & COX

International Stock Fund

Established 2001

Third Quarter Report

September 30, 2003

2003

To Our Shareholders

The Dodge & Cox International Stock Fund had a total return of 18.5%* for the third quarter of 2003, compared to a total return of 8.1% for the Morgan Stanley Capital International Europe, Australasia, Far East Index (MSCI EAFE) benchmark. For the nine months ended September 30, 2003 the Fund had a total return of 28.3%* compared to the total return of 18.4% for the MSCI EAFE. The Fund had total assets of approximately $313 million at quarter-end and a cash position of 4%.

Performance Review

Most of the world's equity markets were up for the quarter, with especially strong results in the emerging markets and Japan. The International Stock Fund continued the second quarter's strong absolute and relative performance in the third quarter. Strong stock selection was the primary driver of the Fund's results relative to the MSCI EAFE. Key contributors to the International Stock Fund's third quarter results were:

- Stock selection in the Financial Services sector, with portfolio holdings up 26% on average compared to 9% for the sector in the MSCI EAFE. Mitsubishi Tokyo Financial Group was a particular standout, up 41% for the quarter.
- Continued strength in Latin America with investments representing about 10% of the portfolio up 31% on average.
- Strong returns from selected investments in Media—SkyPerfect (up 77%) and Reuters (up 26%), and Consumer Electronics—Sony (up 25%).

A handful of individual investments declined during the quarter—e.g., Banco Santander (down 2%), and Scottish Power (down 1%).

Strategy and Outlook

Portfolio strategy did not change during the quarter. Our approach focuses on bottom-up stock selection, emphasizing individual company analysis. The portfolio remains invested primarily in companies with low expectations reflected in their current stock prices, where we think financial performance may improve over our three-to-five year investment horizon.

We typically find these companies in areas that other investors have shunned. Looking back at where we have found investment opportunity over the past several quarters illustrates this concept.

In the first quarter of 2003, we found opportunity largely in companies that investors avoided because the outlook was uncertain. The Fund invested in Reuters, a company where there were questions about duration and severity of the decline in its financial services end markets and the efficacy of an ambitious restructuring program. In our opinion, the valuation reflected a significant level of concern, though not the fact that the company was well financed and generating cash flow.

In the second quarter, we found opportunity in Japan. The country's long-lived economic decline and an incremental approach to solving problems left many investors cold. We identified a number of companies with strong competitive positions, favorable balance sheets and management teams taking active steps to improve profitability, yet with low valuations. For example, we added significantly to the Fund's holdings in Sony and Mitsubishi Tokyo Financial Group, among other investments.

In the most recent quarter, we found greater opportunity among the former "darlings" in the European market. These would include many of the largest European or "megacap" companies in the consumer, pharmaceutical and energy sectors where premium valuations had kept us from investing in many excellent companies. Tepid economic prospects for Europe have eroded the very high growth expectations embedded in these companies' premium valuations, with the result that the valuations of some declined to more appealing levels. In the most recent quarter, the Fund invested in one such company, Nestle, the Swiss food company.

As to the future, we remain enthusiastic about international investing and the long-term prospects for global economic growth. We are actively researching companies with exposure to global economic growth, especially those companies that serve the developing world, where we believe the potential exists for above-average growth.

Statement on Dodge & Cox Funds' Trading Policies

As you may have heard, state and federal regulators have initiated investigations of several other mutual fund companies and broker-dealers. These investigations are for the most part nonpublic and it is impossible to predict whether regulators will discover illegal conduct at any particular firm under investigation. Regulators, however, have alleged in public actions that certain organizations knowingly allowed some investors to illegally purchase fund shares after the 4 p.m. market close (known as "late trading") at the same day's price and/or to engage in certain abusive market timing practices in exchange for fund business.

Dodge & Cox Funds have not been named in any of these actions. The Funds are presently not aware of any exceptions having been made with respect to their market timing or late trading policies and procedures. Dodge & Cox Funds are intended for long-term investment purposes only, and the Dodge & Cox Funds' prospectus specifically discourages market timing. For more details about the Dodge & Cox Funds' market timing policies, refer to the "Excessive Trading Policy" section of the Dodge & Cox Funds' current prospectus.

In response to events or trends or for its own investigatory purposes, from time to time the Securities and Exchange Commission ("SEC") conducts a broad-based examination of the mutual fund industry and its practices. The SEC recently requested information from about 80 of the largest fund groups in terms of assets under management, including the Dodge & Cox Funds. As part of this industry-wide examination, the Dodge & Cox Funds received requests from the SEC for information in connection with market timing procedures within the organization as a whole and practices with respect to pricing and valuation of portfolio securities that trade in non-U.S. markets. The Dodge & Cox Funds submitted responses to the SEC requests and, as always, is cooperating fully with regulatory authorities.

Thank you for the continued confidence you have placed in our firm as a shareholder of the International Stock Fund. As always, we welcome your comments and questions.

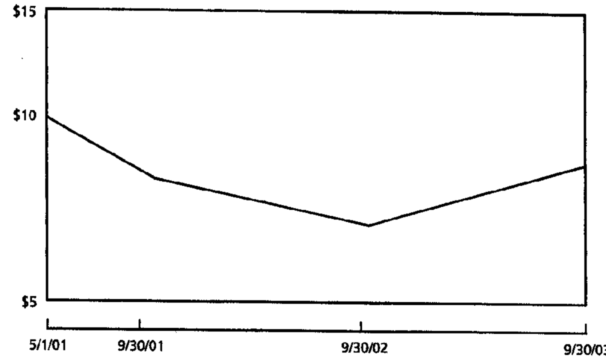
For the Board of Trustees,

Harry R. Hagey, Chairman — John A. Gunn, President

October 31, 2003

Investment Performance Since Inception

through September 30, 2003 (in thousands)



Dodge & Cox International Stock Fund $10,357

— MSCI EAFE $8,447

Average annual total return for periods ended September 30, 2003

	1 Year	Since Inception (5/1/01)
Dodge & Cox International Stock Fund*	41.10%	1.45%
MSCI EAFE	26.01	-6.64

For updated performance figures see "Prices and Performance" at www.dodgeandcox.com, or call Dodge & Cox Funds at 1-800-621-3979.

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Balanced Fund

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Dodge & Cox
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35th Floor
San Francisco, California
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DODGE & COX

Balanced Fund

Established 1931

73rd Annual Report

December 31, 2003

2003

To Our Shareholders

The Dodge & Cox Balanced Fund had a total return of 24.4% for the year ended December 31, 2003, compared to the 18.5% return for the Combined Index[1]. Total returns for longer periods are listed on the following page. At year-end 2003 the Fund's total net assets of $13.2 billion were invested in 64% stocks, 22% fixed-income securities and 14% cash equivalents.

The share price of the Fund rose from $60.75 at the end of 2002 to $73.04 on December 31, 2003. In addition, during the year, the Fund distributed income dividends of $1.66 per share, short-term capital gain of $0.31 per share, and long-term capital gain of $0.36 per share.

2003 Performance Review
Equity Portfolio

If asked in the beginning of the year, we would not have thought double-digit returns were likely for 2003. Instead, the equity portfolio had one of its best years in its history, and outperformed the S&P 500's 2003 total return of 28.7%. Conclusion: Anticipating the market on a short-term basis has a huge error rate. The equity portfolio's performance relative to the S&P 500 for 2003 should be considered in a longer-term context. Following the collapse of the technology bubble in second quarter of 2000, we identified a number of companies in the Technology, Media and Telecommunications sectors with attractive valuations, given our long-term outlook for their potential growth in profits and cash flow. Thus, we entered 2003 with a greater number of investments in companies that provide various technology products and services, well positioned for long-term growth, such as Avaya (up 428% in 2003) and Corning (up 215% in 2003). While stocks in every sector, except for Telecommunications Services, contributed to results in 2003, technology-related companies were the strongest contributors to the portfolio's performance. Only a handful of companies declined. Eastman Kodak, one of the stock market's strongest performers in 2002, was the portfolio's worst performer (down 24%) in 2003. AT&T and Schering-Plough also detracted from the Fund's return, each with declines of 19% for the year.

Fixed-Income Portfolio

Our fixed-income investment philosophy—focusing on identifying undervalued securities through in-depth, fundamental research and building a diversified portfolio with an eye to longer-term (three-to-five years) return potential—guides us year-in and year-out. The fixed-income portfolio's favorable relative performance this year (the portfolio outperformed the 4.1% return for the LBAG) came from a variety of sources. An overweight position in corporate securities made a significant contribution. Mirroring the corporate sector of the LBAG, the portfolio's best performers were from lower-rated issuers. For example, the bonds of Xerox Corp., UnumProvident, and Dillard's, Inc. each produced a total return of over 20%. National Energy & Gas Transmission, Inc. (formerly PG&E-National Energy Group), a Fund holding, filed for Chapter 11 bankruptcy protection in July. While the market price of this holding is still significantly below its cost, the security contributed positively to the Fund's performance in 2003 as its market value recovered from distressed levels following the company's interest payment default in November 2002.

The favorable relative performance—and resultant higher valuations—of many of the Fund's corporate holdings led us to selectively trim corporate exposure over the course of the year. Outright sales included Eastman Chemical, Dana Corporation and Disney. We also trimmed positions in CIT Group and Xerox, while adding new positions in the debt of Schering-Plough, Boston Properties, Comcast and Amerada Hess. The net effect of the transaction activity reduced the fixed-income portfolio's weighting in corporate bonds by 4.5% over the year. Importantly, we do not make these decisions on an aggregate, sector-wide basis. Rather, they are made on an individual, issuer-by-issuer basis, and trims or outright sales of specific corporate securities are made when the risk of owning the security, given our view of the company's credit outlook, is no longer reflected in its price.

Strategy & Expected Returns

At the risk of looking like a stopped clock, we want to reiterate our caution about future equity returns. Over the next few years, we believe that there is a high probability that total returns for equities will be significantly lower (and possibly negative) than the past 20 years (13% annualized for the S&P 500). The S&P 500 is selling well above the average price-to-earnings ratio (P/E) in the postwar period, and net margins (a measure of earnings profitability) are at historically high levels. The market is anticipating sustained economic growth in the U.S. At the same time, many economies outside the United States may be in the early stages of surprisingly strong economic expansion in terms of length and magnitude. In spite of these prospects for worldwide economic growth, these historically high valuations give us pause.

Furthermore, given the fixed-income portfolio's low starting yield, and the limited likelihood of substantial price gains to supplement earned income, our expectations for fixed-income returns in the coming years are substantially lower. The strong absolute and relative price appreciation from the corporate sector—which added substantially to fixed-income returns this year—is unlikely to continue at the same pace in 2004, given the higher valuations currently accorded corporate bonds. Given this outlook, we have lowered our allocation to fixed-income securities as a percentage of the total Balanced Fund (22%) due to the lower total return prospects for fixed-income securities. The Fund's cash position at 14% reflects our cautious outlook for future fixed-income and equity returns.

In the equity portfolio, we continue to invest today as we always have. We research well established companies where we believe the prospects for long-term profit and cash flow growth are favorable. We invest when those prospects are not reflected in the company's current price. Our team of 18 analysts uses a wide variety of resources, although we believe that no model or research service can replace meeting onsite with company management and conferring directly with their competitors, customers and suppliers. We buy each holding anticipating a three-to-five year investment.

The fixed-income strategy has remained constant as well. We continue to emphasize corporate and mortgage-backed securities in our efforts to maintain a well diversified, high average quality portfolio[2] with a higher yield-to-maturity than that of the LBAG. Mortgages continue to play a defensive role in the portfolio by providing a regular and relatively stable source of cash flow. Due to our concerns about inflation and the current low level of interest rates, we continue to position the portfolio with a shorter duration than that of the LBAG.

In Closing

As we said at the start of this letter, twelve months ago thoughts of appreciation in excess of 20% for the Fund in 2003 were non-existent. The global economic world will continue to unfold in unforeseen ways. In this environment of continual change, our team at Dodge & Cox will do our best to uncover attractive investment values for the shareholders of the Dodge & Cox Balanced Fund.

Thank you for the continued confidence you have placed in our firm as a shareholder of the Balanced Fund. As always, we welcome your comments and questions.

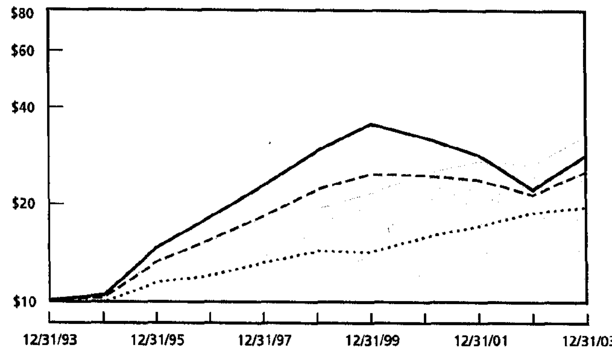
For the Board of Trustees,

Harry R. Hagey, Chairman　　John A. Gunn, President

February 4, 2004

Ten Years of Investment Performance

through December 31, 2003 (in thousands)



Dodge & Cox Balanced Fund $33,249
— S&P 500 $28,572
-- Combined Index $25,350
··· LBAG $19,581

Average annual total return for periods ended December 31, 2003

	1 Year	5 Years	10 Years	20 Years
Dodge & Cox Balanced Fund	24.44%	11.39%	12.76%	13.50%
Combined Index	18.45	2.67	9.75	11.86
S&P 500	28.67	(0.56)	11.07	12.98
Lehman Brothers Aggregate Bond Index (LBAG)	4.11	6.62	6.95	9.37

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The Fund's total returns include the reinvestment of dividend and capital gain distributions, but have not been adjusted for any income taxes payable by shareholders on these distributions. Index returns include dividends and/or interest income and, unlike Fund returns, do not reflect fees or expenses.

1 The Combined Index reflects an unmanaged portfolio of 60% of the Standard & Poor's 500 Index (S&P 500) and 40% of the Lehman Brothers Aggregate Bond Index (LBAG). The Fund may, however, invest up to 75% of its total assets in stocks.

2 The Fund may invest in securities rated below AA. As of December 31, 2003, 40% of the Fund's fixed-income portfolio was rated below AA. It is in the Fund's policy to invest in investment-grade debt securities. Securities that are downgraded below investment grade subsequent to purchase may continue to be held by the Fund, if Dodge & Cox believes it advantageous to do so. As of December 31, 2003, 1.3% of the Fund was invested in securities rated below investment grade.

DODGE & COX

Balanced Fund

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DODGE & COX

Balanced Fund

Established 1931

Third Quarter Report

September 30, 2003

2003

To Our Shareholders

The Dodge & Cox Balanced Fund had a total return of 3.8% for the third quarter of 2003, compared to the 1.6% return for the Combined Index[1]. For the nine months ended September 30, 2003 the Fund had a total return of 13.3%, compared to the total return of 10.4% for the Combined Index. At quarter-end, the Fund's total net assets of $10.9 billion were invested in 64% stocks, 23% fixed-income securities and 13% cash equivalents.

The stock market is at a relatively high valuation on a number of measures and, as always, we would caution investors that the return from investing in stocks at these levels may be low or possibly negative in the coming years. It is also important to note that we have lowered our allocation to fixed-income securities as a percentage of the total Balanced Fund (23%) due to the lower total return prospects for fixed-income securities given the low interest rate environment. The Fund's cash position at 13% reflects our cautious outlook for future fixed-income and equity returns.

Equity Performance Review

The equity portion of the Balanced Fund performed well in the third quarter, both on an absolute basis and relative to the S&P 500. Contributors to relative return in the third quarter included:

- Strong individual performers, such as Nordstrom (up 28%) and Sony (up 25%) in the Consumer Discretionary sector, combined with a higher relative weighting in this sector (23% of the equity portfolio versus 11% for the S&P 500). The Fund's holdings in this sector were up 7% in the aggregate, compared to the S&P 500's sector gain of approximately 2%.
- The equity portfolio's overweight position (11% versus 3%) in the Materials sector, as the Fund's holdings this area—e.g., Akzo Nobel (up 17%) and Rio Tinto (up 16%)—were up 10%, versus 6% for those in the S&P 500.
- Strong individual contributors to return during the quarter included Avaya (up 69%), Corning (up 27%), HCA (up 15%) and AT&T (up 13%).

Weaker performance from the Fund's Information Technology stocks (e.g., Hewlett-Packard (down 9%) and Electronic Data Systems (down 5%)) was a drag on relative performance during the quarter. The equity portfolio's holdings in this sector were up about 6% compared to the 11% sector return for the S&P 500. The Fund's short-term performance was also hurt by investments in Eastman Kodak (down 23%), Schering-Plough (down 17%) and Loews (down 14%).

Fixed-Income Performance Review

The fixed-income portion of the Fund returned +0.8% for the quarter compared to a -0.1% negative return for the Lehman Brothers Aggregate Bond Index (LBAG). The fixed-income portfolio performed better than the LBAG for three primary reasons. First, the portfolio had a shorter effective duration[2] than the LBAG throughout the quarter, which muted the negative impact of rising interest rates. Second, the portfolio's overweight position in corporate securities (43.5% at the beginning of the quarter vs. 27.5% for the LBAG) was a positive for relative performance as yield premiums, on average, narrowed relative to U.S. Treasuries. And third, good security selection within the mortgage and corporate sectors was a positive for relative returns. The third quarter was an extremely volatile period for interest rates. This volatility serves as a reminder that increases in interest rates, especially in very low interest rate environments, can lead to negative returns for fixed-income investors.

Equity Portfolio Strategy

We have built an equity portfolio for the Balanced Fund that is quite different in composition from the S&P 500. In our view, a significant number of companies in the S&P 500 have overly optimistic valuations. Notably, many of these are in the technology area, although there are still very wide disparities in the valuations among companies in that industry. While the Fund emphasizes lower valuation companies, 8.3% of the equity portfolio is now invested in stocks, such as Pfizer and Comcast, in the most expensive one-third of the market, as measured by price-to-sales (P/S). On average the valuation of the portfolio is evidence of our price-disciplined approach: the portfolio's price-to-earnings (P/E) ratio is 16 and its P/S ratio is 0.7, compared to 19 and 1.4, respectively for the broad market.

We remain a persistent, low-turnover manager—reflecting our long-term investment horizon. Periodically, we review our reasons for owning some of the companies that have had disappointing performance. One of the companies on the list for this year would be AT&T.

AT&T's stock price declined sharply earlier this year due to a number of factors. Industry competition is increasing for consumer long-distance service (where AT&T has traditionally been dominant) due to local phone companies offering long-distance service, and wireless service providers offering "all-distance" calling plans. Additionally, the long-awaited upturn in business spending has been slow to materialize, and investors are now concerned about the potential for further telecom industry disruption as a newly recapitalized MCI (formerly Worldcom) emerges from bankruptcy. In response, AT&T management has continued to cut costs aggressively throughout the company in order to preserve profitability. The valuation of AT&T's stock appears to reflect low expectations for future profits and cash flow. The company's strong cash flow has enabled management to reinvest in technology to enhance operating efficiencies, to pay down significant amounts of debt, and to increase the dividend paid to shareholders. We believe AT&T's revenues, which are economically sensitive, may increase along with business spending.

Fixed-Income Portfolio Strategy

With regards to the fixed-income portfolio, corporate exposure is lower than at year-end 2002, reflecting our belief that corporate spreads have narrowed to the point that some issues offer too little compensation for the risks assumed. Cash from those trades was invested primarily in mortgage-backed securities and in short-term U.S. Treasuries. In the mortgage area, we added to the portfolio's holdings of 15-year pass-throughs, re-performing mortgages, and multifamily pools. Mortgages continue to play a "defensive" role in the portfolio by providing a regular, and relatively stable, source of cash flow. Lastly, due to our concerns about inflation and the current low level of interest rates, we continue to position the portfolio with a shorter duration than that of the LBAG.

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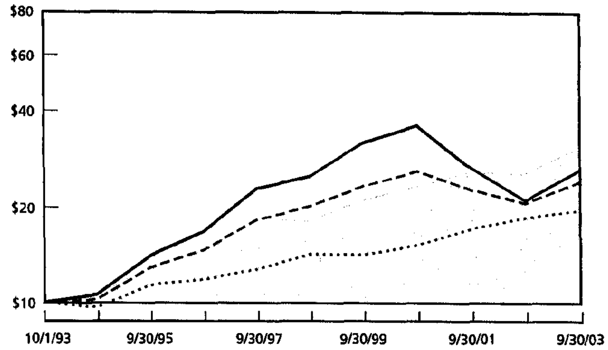
For the Board of Trustees,

Harry R. Hagey

Harry R. Hagey, Chairman
October 31, 2003

Ten Years of Investment Performance

through September 30, 2003 (in thousands)



Dodge & Cox Balanced Fund $30,630
— S&P 500 $26,063
-- Combined Index $23,957
··· LBAG $19,525

Average annual total return for periods ended September 30, 2003

	1 Year	5 Years	10 Years	20 Years
Dodge & Cox Balanced Fund	20.40%	11.11%	11.84%	13.05%
Combined Index	16.83	3.66	9.13	11.51
S&P 500	24.38	1.01	10.05	12.36
Lehman Brothers Aggregate Bond Index (LBAG)	5.40	6.62	6.92	9.45

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[1] The Combined Index reflects an unmanaged portfolio of 60% of the Standard & Poor's 500 Index (S&P 500), which is an unmanaged index of common stock prices, and 40% of the Lehman Brothers Aggregate Bond Index (LBAG), which is an unmanaged index of investment-grade fixed-income securities. The Balanced Fund may, however, invest up to 75% of its total assets in stocks.

[2] Duration is a measurement of price sensitivity to changes in interest rates.

DODGE & COX

Income Fund

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DODGE & COX

Income Fund

Established 1989

15th Annual Report

December 31, 2003

2003

To Our Shareholders

The Dodge and Cox Income Fund posted a total return of 6.0% in 2003, outpacing the 4.1% return of the Lehman Aggregate Bond Index (LBAG). Total returns for longer periods are listed on the following page.

At year-end the Fund had total assets of $5.7 billion and a cash position of 6%. The Fund's share price rose from $12.77 at the end of 2002 to $12.92 on December 31, 2003. During the year, the Fund distributed income dividends of $0.60 per share.

At this time last year we urged investors to temper their near-term return expectations for the Income Fund as the Fund was unlikely to match the double-digit annual returns of the 2000 to 2002 period. **We would echo that same sentiment today.** While interest rates are somewhat higher than a year ago, they remain quite low on an historical basis. Importantly, much of the uncertainty that clouded the economic outlook early last year—and drove bond prices higher—has cleared as economic growth has picked up amid contributions from both the consumer and business sectors.

2003 Recap—Strong Corporate Bond Performance amid a Whipsaw in Interest Rates

Two broad themes dominated fixed-income markets in 2003. The first was a whipsaw in interest rates. Over the first half of the year rates dropped to generational lows (10-year Treasuries at a 3.11% yield) as geopolitical events, unimpressive economic growth and the potential for a destabilizing bout of deflation consumed the bond market. Sparked by a Federal Reserve Board statement discounting the risk of deflation, market direction changed abruptly in mid-June. Rates rose sharply (10-year Treasuries to a 4.57% yield) and bond prices fell through the rest of the summer as data signaling renewed economic vigor, both here and abroad, spurred a reassessment of economic prospects, future inflation, and the appropriate level for interest rates. Year-over-year, interest rates were higher by 25 to 50 basis points (one basis point equals 1/100 of 1%) across the U.S. Treasury maturity spectrum, save the absolute shortest (one-year and under) maturities.

The about-face in the level of interest rates—both its magnitude and pace—was particularly challenging for mortgage-backed security (MBS) investors. The extraordinarily low interest rates of the spring and early summer led to a cascade of prepayments on existing MBS, even those with historically low (6% and below) mortgage rates. Assumptions about the *future* rate of prepayments were commensurately high as well, and investors expected them to be short-maturity investments. Reflecting this, the duration[1] of the mortgage-backed securities in the LBAG in May was calculated to be 0.6 years, an all-time low for the mortgage sector. When interest rates increased, expectations for future mortgage prepayments had to be quickly ratcheted back. This made the expected time to return of principal on many MBS significantly longer, leading to greater-than-anticipated price declines. By summer's end the duration of the LBAG's MBS had lengthened to over three years. This phenomenon is known as "extension risk."

The second major theme of 2003 was the corporate bond sector, which delivered one of its best years of *relative* performance ever. The corporate sector of the LBAG returned 8.2% in 2003, far surpassing the 2.2% return of the LBAG's Treasury sector. Lower-rated issuers led corporate securities higher: BBB-rated corporate issuers from the Index returned 11.8% while AAA-rated issuers returned only 3.6%. The strong performance of the sector could be attributed to historically attractive valuations at the start of the year, rising earnings, balance sheet de-leveraging and/or liquidity profile improvement, and growing investor confidence in the economic recovery.

Performance Commentary and Strategy

Our investment philosophy—focusing on identifying undervalued securities through in-depth, fundamental research and building a diversified portfolio with an eye to longer-term (three-to-five years) return potential—guides us year-in and year-out. The Fund's favorable relative performance this year came from a variety of sources. An overweight position (37% at the beginning of the year vs. 26% for the LBAG) in corporate securities made a significant contribution. Mirroring the corporate sector of the LBAG, the Fund's best performers were from lower-rated issuers; for example, the bonds of Xerox, UnumProvident, and Dillard's, Inc. each produced a total return of over 20%. National Energy & Gas Transmission, Inc. (formerly PG&E-National Energy Group), a Fund holding, filed for Chapter 11 bankruptcy protection in July. While the market price of this holding is still significantly below its cost, the security contributed positively to the Fund's performance in 2003 as its market value recovered from distressed levels following the company's interest payment default in November 2002.

The favorable relative performance—and resultant higher valuations—of many of the Fund's corporate holdings led us to selectively trim corporate exposure over the course of the year. Outright sales included the Fund's holdings of Eastman Chemical, Dana Corp. and Disney. We also trimmed positions in CIT Group and Xerox, while adding new positions in the debt of Schering-Plough, Boston Properties, Comcast and Amerada Hess. The net effect of the transaction activity reduced the Fund's weighting in corporate bonds by 5.3% over the year. Importantly, we do not make these decisions on an aggregate, sector-wide basis. Rather, they are made on an individual, issuer-by-issuer basis, and trims or outright sales of specific corporate securities are made when the risk of owning the security, given our research-intensive view of the company's credit outlook, is no longer reflected in its price.

Our selection of specific mortgage securities was a boost to relative performance as well, particularly in the volatile market environment of last summer. Many of these U.S. Government or Government Agency-guaranteed holdings are backed by seasoned, higher coupon 15-year loans, previously delinquent mortgage loans, or call-protected multi-family housing loans. In this challenging environment, our long-held strategy of emphasizing these relatively stable mortgage cash flows, coupled with a focus on specific mortgage securities that would perform relatively well in a bond market sell-off, served the Fund well.

The Fund's duration position positively impacted relative performance as well. We had been targeting a below-benchmark duration position for some time and, as rates fell to multi-decade lows in the spring and early summer, we reduced further the Fund's duration. The lower portfolio duration and emphasis on mortgage securities with less extension risk combined to cushion the Fund from some of the negative effect of the subsequent rise in interest rates. In July alone, despite falling 2.3%, the Fund outperformed the LBAG, which lost 3.4%, by 1.1%.

Looking Forward

Given the Fund's low starting yield, and the limited likelihood of substantial price gains to supplement earned income, our expectations for the Fund's returns over the next two-to-three years are substantially lower than recent years' performance. Further, the strong absolute and relative price appreciation from the corporate sector—which added substantially to fixed-income returns this year—is unlikely to continue at the same pace in 2004, given the higher valuations currently accorded corporate bonds. Given this outlook, we have positioned the Fund defensively and remain vigilant in seeking ways to add incremental return to Fund shareholders consistent with our investment philosophy and risk tolerance.

Thank you for the continued confidence you have placed in our firm as a shareholder of the Income Fund. As always, we welcome your comments and questions.

For the Board of Trustees,

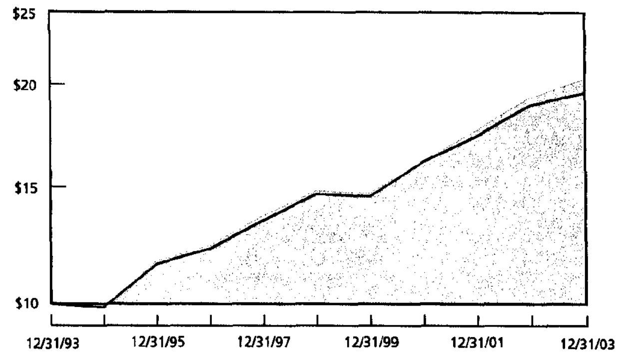
Harry R. Hagey, Chairman

A. Horton Shapiro, Executive Vice President

February 4, 2004

Ten Years of Investment Performance

through December 31, 2003 (in thousands)



Dodge & Cox Income Fund $20,467

— LBAG $19,581

Average annual total return for periods ended December 31, 2003

	1 Year	5 Years	10 Years
Dodge & Cox Income Fund	5.97%	7.29%	7.41%
Lehman Brothers Aggregate Bond Index (LBAG)	4.11	6.62	6.95

Past performance does not guarantee future results. Investment return and share price will fluctuate with market conditions, and investors may have a gain or loss when shares are sold. Mutual fund performance changes over time and currently may be significantly lower than stated above. Performance is updated and published monthly. Visit the Fund's web site at www.dodgeandcox.com or call 800-621-3979 for current performance figures.

The Fund's total returns include the reinvestment of dividend and capital gain distributions, but have not been adjusted for any income taxes payable by shareholders on these distributions. The Lehman Brothers Aggregate Bond Index is an unmanaged index of investment-grade fixed-income securities. Index returns include dividends and/or interest income and, unlike Fund returns, do not reflect fees or expenses.

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1 Duration is a measure of price sensitivity to changes in interest rates.

DODGE & COX

Income Fund

www.dodgeandcox.com
For Fund literature, transactions and account information, please visit the Funds' web site.

or write or call:

Dodge & Cox Funds
c/o Boston Financial Data Services
P.O. Box 8422
Boston, Massachusetts
02266-8422
(800) 621-3979

Investment Manager
Dodge & Cox
One Sansome Street
35th Floor
San Francisco, California
94104-4443
(415) 981-1710

This report is submitted for the general information of the shareholders of the Fund. The report is not authorized for distribution to prospective investors in the Fund unless it is accompanied by a current prospectus.

This report reflects our views, opinions and portfolio holdings as of September 30, 2003, the end of the reporting period. The information provided is not a complete analysis of every aspect of any industry, security or the Fund. The Fund's portfolio composition may change depending on market and economic conditions. Although historical performance is no guarantee of future results, these insights may help you understand our investment management philosophy.

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DODGE & COX

Income Fund

Established 1989

Third Quarter Report

September 30, 2003

2003

To Our Shareholders

The Dodge & Cox Income Fund produced a total return of +0.5% for the quarter ended September 30, 2003, exceeding the -0.1% total return of the Lehman Brothers Aggregate Bond Index (LBAG), a broad-based index composed of investment-grade bonds. For the nine months ended September 30, 2003, the Fund had a total return of 4.8%, compared to a total return of 3.8% for the LBAG. The Fund ended the quarter with total net assets of $5.1 billion and a cash position of 4.7%.

Mixed Economic Signals

U.S. Treasury prices fell sharply in July and August amid a spate of news (record-high homebuilding and other housing measures, improvement in the manufacturing and service sectors, and continued strong consumer spending) pointing to improving U.S. economic conditions. The bond market rebounded in September as the strength and sustainability of the recovery were called into question with persistent reports of weakness from the labor market. The net impact over the quarter was lower U.S. Treasury prices and higher yields. Yields on intermediate maturity U.S. Treasuries registered the largest increases, with 5-year and 10-year notes both higher by 0.42%, ending the quarter at 2.83% and 3.94%, respectively. The yield on the benchmark 30-year U.S. Treasury bond rose as well and ended the quarter at 4.88%. The Federal Reserve left the Federal Funds rate unchanged at 1.0%, a 45-year low.

Fund Performance Review

Price declines from the rise in interest rates dominated third quarter total returns, but a number of factors combined to generate good relative performance for the Fund, among them, our decision to target a shorter effective duration[1] than that of the LBAG. Another positive was the Fund's overweight position in corporate securities (33.5% at the beginning of the quarter vs. 27.5% for the LBAG), as corporate securities, on average, outpaced U.S. Treasuries. Corporate bond performance was generally tiered by ratings, with stronger returns generated by lower-rated issuers. Finally, good security selection within the mortgage and corporate sectors was a positive for relative return. The Fund's holdings of mortgage-backed securities, which are generally less prepayment-sensitive than their index counterparts, fared relatively well in the rising rate environment. Securities of several BBB-rated corporate issuers also did well, including AT&T, Ford, GMAC, and UnumProvident.

Mortgage Sector Volatility

The Lehman Mortgage-Backed Securities (MBS) Index, which represents 34% of the LBAG, fared particularly poorly amid July's sharp rise in interest rates; this contributed significantly to its 1.2% under-performance of comparable-duration Treasuries for the third quarter as a whole. Mortgage-backed securities tend to fare poorly in periods of interest rate volatility as significant changes in the level of interest rates lead to changes in the prepayment rate expectations on the underlying mortgage loans. A sharp rise in interest rates, of the type that occurred in July, can result in a significant price decline for a mortgage related security due to both the general increase in rates and the fact that the mortgage is priced as a longer security given a decrease in the assumed prepayment rate. The latter effect is referred to as "extension risk." The converse happens in periods of sharp, significant declines in interest rates.

Federal Agency mortgage securities offer incremental yield over comparable U.S. Treasury securities because of the uncertainty as to the timing of principal repayment and the resultant sustainability of the income stream. This uncertainty, particularly with respect to the newly created mortgage securities that dominate the Lehman MBS Index, can hinder the long-term total return prospects of mortgage-backed securities. To mitigate this risk, we seek mortgage securities with specific characteristics that may help reduce the inherent uncertainty of mortgage security cash flow timing, leading to a more reliable income stream and a more predictable total return over time. These characteristics can be, for example, low loan balances, previous borrower delinquencies, or shorter amortization schedules. Our mortgage strategy, based on individual security selection, contributed to favorable relative performance both in the third quarter and over longer time periods.

Investment Strategy

With the recovery in the corporate bond sector, we have trimmed the Fund's corporate holdings during the course of the year as we monitor the risk/reward relationship, on an ongoing basis, of each of the Fund's corporate issues. The Fund's corporate holdings comprised 34.0% of the Fund as of September 30, 2003, compared to 37.7% at the beginning of the year. The mortgage portion of the Fund continued to be positioned defensively, with an emphasis on mortgage-backed securities with less extension risk and generally more stable prepayment characteristics.

Going forward, we continue to position the portfolio with a shorter relative duration due to our concerns about the low absolute level of interest rates in relation to current and potential future inflation. The Fund's average effective duration was 3.6 years at quarter end, compared to 4.4 years for the LBAG. As described above, we also continue to look for specific investments that will aid us in our effort to build portfolio yield and total return potential, primarily in the corporate and mortgage sectors.

Individual security selection based on fundamental research continues to be the foundation on which we craft the Fund's long-term investment strategy.

Statement on Dodge & Cox Funds' Trading Policies

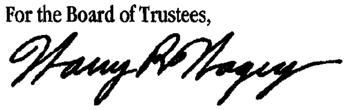
As you may have heard, state and federal regulators have initiated investigations of several other mutual fund companies and broker-dealers. These investigations are for the most part nonpublic and it is impossible to predict whether regulators will discover illegal conduct at any particular firm under investigation. Regulators, however, have alleged in public actions that certain organizations knowingly allowed some investors to illegally purchase fund shares after the 4 p.m. market close (known as "late trading") at the same day's price and/or to engage in certain abusive market timing practices in exchange for fund business.

Dodge & Cox Funds have not been named in any of these actions. The Funds are presently not aware of any exceptions having been made with respect to their market timing or late trading policies and procedures. Dodge & Cox Funds are intended for long-term investment purposes only, and the Dodge & Cox Funds' prospectus specifically discourages market timing. For more details about the Dodge & Cox Funds' market timing policies, refer to the "Excessive Trading Policy" section of the Dodge & Cox Funds' current prospectus.

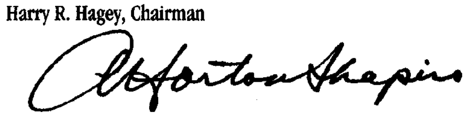
In response to events or trends or for its own investigatory purposes, from time to time the Securities and Exchange Commission ("SEC") conducts a broad-based examination of the mutual fund industry and its practices. The SEC recently requested information from about 80 of the largest fund groups in terms of assets under management, including the Dodge & Cox Funds. As part of this industry-wide examination, the Dodge & Cox Funds received requests from the SEC for information in connection with market timing procedures within the organization as a whole and practices with respect to pricing and valuation of portfolio securities that trade in non-U.S. markets. The Dodge & Cox Funds submitted responses to the SEC requests and, as always, is cooperating fully with regulatory authorities.

Thank you for the continued confidence you have placed in our firm as a shareholder of the Income Fund. As always, we welcome your comments and questions.

For the Board of Trustees,



Harry R. Hagey, Chairman

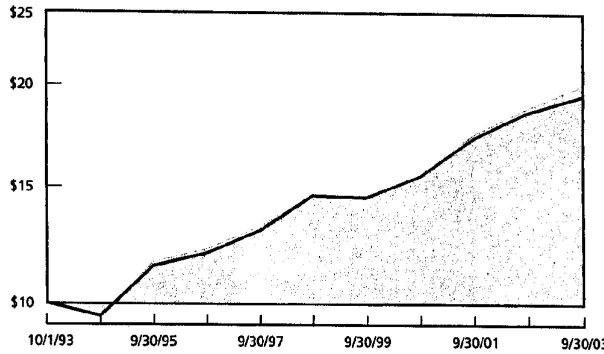


A. Horton Shapiro, Executive Vice President

October 31, 2003

Ten Years of Investment Performance

through September 30, 2003 (in thousands)



Average annual total return for periods ended September 30, 2003

	1 Year	5 Years	10 Years
Dodge & Cox Income Fund	7.41%	7.25%	7.28%
Lehman Brothers Aggregate Bond Index (LBAG)	5.40	6.62	6.92

For updated performance figures see "Prices and Performance" at www.dodgeandcox.com, or call Dodge & Cox Funds at 1-800-621-3979.

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1 Duration is a measure of price sensitivity to changes in interest rates.