

INVESTMENT ADVISER

CAPITAL GROWTH MANAGEMENT
LIMITED PARTNERSHIP
Boston, Massachusetts 02110

TRANSFER AND DIVIDEND PAYING AGENT AND CUSTODIAN OF ASSETS

STATE STREET BANK AND TRUST COMPANY
Boston, Massachusetts 02111

SHAREHOLDER SERVICING AGENT FOR STATE STREET BANK AND TRUST COMPANY

BOSTON FINANCIAL DATA SERVICES, INC.
P.O. Box 8511
Boston, Massachusetts 02266-8511

TELEPHONE NUMBERS

For information about:

- Account Procedures and Status
- Redemptions
- Exchanges
Call 800-343-5678
- New Account Procedures
- Prospectuses
- Performance
- Proxy Voting Policies and Voting Records
- Complete Schedule of Portfolio Holdings
for the 1st & 3rd Quarters (as filed on Form N-Q)
Call 800-345-4048

MAILING ADDRESS

CGM Shareholder Services
c/o Boston Financial Data Services
P.O. Box 8511
Boston, MA 02266-8511

CGM Capital Development Fund

46th Annual Report
December 31, 2006

A No-Load Fund

This report has been prepared for the shareholders of the Fund and is not authorized for distribution to current or prospective investors in the Fund unless it is accompanied or preceded by a prospectus.

CAR 06

Printed in U.S.A.



Investment Adviser

Capital Growth Management
Limited Partnership

To Our Shareholders:

CGM Capital Development Fund increased 2.9% during the fourth quarter of 2006 compared to the unmanaged Standard and Poor's 500 Index which returned 6.7%. For the year just ended, CGM Capital Development Fund returned 6.3% and the unmanaged S&P 500 Index increased 15.8%.

The Year in Review and Economic Outlook

2006 was another year of economic expansion with November marking the fifth anniversary of the start of the current growth cycle. The year took off with a bang with real Gross Domestic Product jumping by 5.6% (annualized) in the first quarter, but GDP growth slowed significantly to a 2.0% rate (annualized) by the third quarter. Two sectors were largely responsible for putting on the economic brakes: First, the American auto industry continues to lose market share and is increasingly forced to cut back in order to compete with foreign brands. Second, after four years of booming business and unsustainably spiraling prices, in our view, the homebuilding industry is feeling the pinch, curiously though, in spite of low unemployment and relatively low interest rates. Downturns in these two major industries notwithstanding, the US economy added 140,000 jobs per month in 2006 with the largest gains coming in the health and service sectors.

The Federal Reserve Board ratcheted up the Federal Funds rate from 1% in June of 2004 to 5.25% in June of 2006 in an attempt to slow the economy and ward off inflation. We believe the Fed's plan seems to be working since core inflation (ex food and energy) clocked in at a growth rate of 2.2% (annualized) over the past three months, down from 3.5% (annualized) in July. Four consecutive meetings of the Fed have come and gone since its last rate hike and the long term (ten-year) treasury yield has declined from 5.1% in June 2006 to 4.7% at year end. We are still experiencing the "inverted yield curve," we described in our last report and, though this state of affairs when short-term interest rates exceed long-term interest rates is often considered a harbinger of recession, we believe otherwise. Vital signs, most notably the strength of employment numbers, a recovery in Consumer Confidence and the fact that weakness in the housing industry hasn't spread to other businesses, in our opinion, point to continued growth at a modest rate.

From January 3, 2006 until early May of 2006, the US equity market as measured by the S&P 500 Index rose 6% from 1,248 to 1,325. The S&P dropped 7.5% to 1,225 in mid-June and then, gradually climbed 16% exclusive of dividends over the remaining months to 1,418 at year end. Given year-end profit levels, the S&P 500 Index was priced about 16 times earnings of the

Index at the end of 2006, which seems to us quite reasonable in light of current inflation and long term interest rates.

Portfolio Strategy

CGM Capital Development Fund remained fully invested throughout 2006, which reflected our belief in continued global economic growth.

We maintained a significant position in energy and related industries that reached 36.2% of portfolio net assets as of June 30, 2006 in anticipation of rising energy prices. The price of oil, which was \$60 a barrel in January of 2006, rose to \$78 per barrel in July, but fell abruptly to less than \$60 at the end of September. The value of the portfolio's energy-related stocks declined significantly along with the cost of oil and the position was reduced to 4% of the portfolio at the end of September. As a consequence, CGM Capital Development Fund underperformed the unmanaged Standard and Poor's 500 Index by 12.9% for the third quarter which had a sizeable negative impact on total 2006 performance.

The Fund also invested in a variety of special situations during the year. Securities in an energy drink producer and Mexican homebuilder generated sizeable appreciation. At the other end of the scale, investments in securities of a convenience-store-operator and diet-foods-marketer were sold at considerable losses.

At the end of the year, CGM Capital Development Fund owned 23 stocks in a variety of industries. The Fund held important positions in the airline, housing and building materials and financial services industries on December 31 and the largest holdings were Desarrolladora Homex, S.A.B. de C.V. ADR, Sotheby's and LAN Airlines, S.A., ADR.



Robert L. Kemp
President

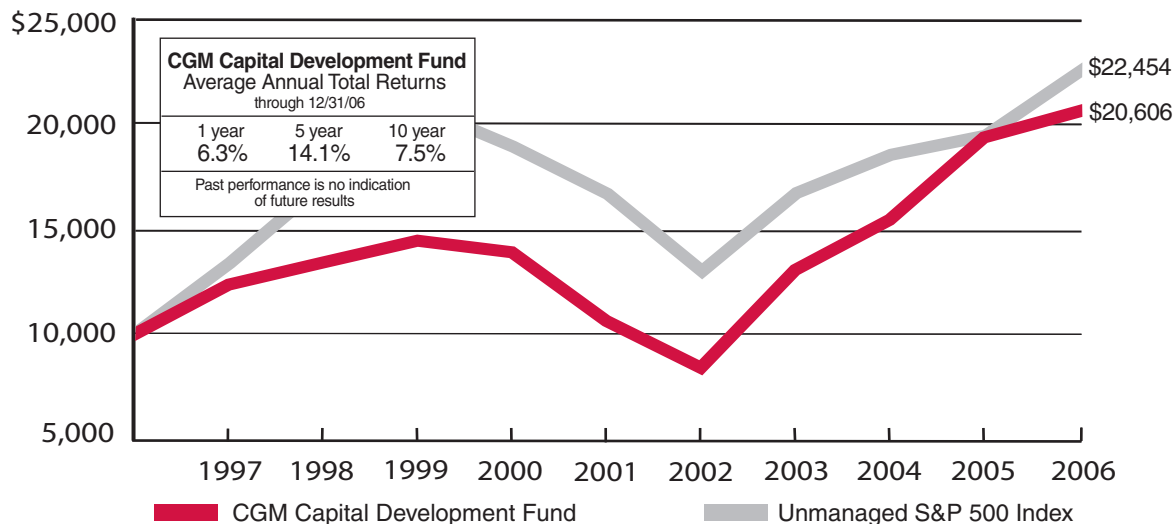


G. Kenneth Heebner
Portfolio Manager

January 3, 2007

Comparison of Change in Value of \$10,000 Investment in CGM Capital Development Fund and the Unmanaged S&P 500 Index

assuming reinvestment of dividends and capital gains



CGM CAPITAL DEVELOPMENT FUND Portfolio Manager

G. Kenneth Heebner has managed CGM Capital Development Fund since 1976. In 1990, Mr. Heebner founded Capital Growth Management Limited Partnership with Robert L. Kemp. Prior to establishing the new company, Mr. Heebner was at Loomis, Sayles and Company where he managed the Fund, then known as Loomis-Sayles Capital Development Fund. In addition to CGM Capital Development Fund, Mr. Heebner currently manages CGM Mutual Fund, CGM Realty Fund and CGM Focus Fund.

See the Schedule of Investments on pages 3 and 4 for the percentage of net assets of the Fund invested in particular industries or securities as of December 31, 2006.

INVESTMENT PERFORMANCE

(unaudited)

Cumulative Total Return for Periods Ended
December 31, 2006

	CGM Capital Development Fund
10 Years	+106.1%
5 Years	+ 93.3
1 Year	+ 6.3
3 Months	+ 2.9

The performance data contained in the report represent past performance, which is no guarantee of future results. The graph and table above do not reflect the deduction of taxes a shareholder would pay on Fund distributions or the redemption of Fund shares and assume the reinvestment of all Fund distributions. The investment return and the principal value of an investment in the Fund will fluctuate so that investors' shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted.

CGM CAPITAL DEVELOPMENT FUND

INVESTMENTS as of December 31, 2006

COMMON STOCKS — 99.3% OF TOTAL NET ASSETS

	<u>Shares</u>	<u>Value(a)</u>
Airlines — 11.6%		
Lan Airlines S.A. ADR (b)	534,000	\$ 29,311,260
TAM S.A. ADR (b)(c)	780,000	23,407,800
		<u>52,719,060</u>
Beverages and Tobacco — 5.1%		
Hansen Natural Corporation (c)	685,000	<u>23,070,800</u>
Business Services — 5.2%		
Anixter International Inc. (c)	434,800	<u>23,609,640</u>
Chemicals – Specialty — 5.5%		
Albemarle Corporation	345,000	<u>24,771,000</u>
Financial Services — 8.8%		
Affiliated Managers Group, Inc. (c)	230,000	24,179,900
Eaton Vance Corp.	470,000	15,514,700
		<u>39,694,600</u>
Housing and Building Material — 9.6%		
Desarrolladora Homex, S.A.B. de C.V. ADR (b)(c)	740,000	<u>43,711,800</u>
Insurance — 2.6%		
RenaissanceRe Holdings Ltd.	197,900	<u>11,874,000</u>
Light Capital Goods — 5.3%		
The Middleby Corporation (c)	230,000	<u>24,074,100</u>
Machinery — 4.9%		
AGCO Corporation (c)	725,000	<u>22,431,500</u>
Metals and Mining — 5.0%		
RTI International Metals, Inc. (c)	290,000	<u>22,683,800</u>
Miscellaneous — 12.5%		
Corrections Corporation of America (c)	585,000	26,459,550
Sotheby's	975,000	30,244,500
		<u>56,704,050</u>
Oil — Independent Production – 4.0%		
Arena Resources, Inc. (c)	220,000	9,396,200
Whiting Petroleum Corporation (c)	185,000	8,621,000
		<u>18,017,200</u>

See accompanying notes to financial statements.

CGM CAPITAL DEVELOPMENT FUND

INVESTMENTS as of December 31, 2006 (continued)

COMMON STOCKS (continued)

	<u>Shares</u>	<u>Value(a)</u>
Oil Service — 7.3%		
Core Laboratories N.V. (c)	266,100	\$ 21,554,100
Helix Energy Solutions Group, Inc. (c)	200,000	6,274,000
Hydril Company (c)	20,000	1,503,800
Oil States International, Inc. (c)	120,000	<u>3,867,600</u>
		<u>33,199,500</u>
Retail — 6.7%		
The Gymboree Corporation (c)	480,000	18,316,800
The Wet Seal, Inc. (c)	1,780,000	<u>11,872,600</u>
		<u>30,189,400</u>
Steel — 5.2%		
Carpenter Technology Corporation	230,000	<u>23,579,600</u>
TOTAL COMMON STOCKS (Identified Cost \$411,610,083)		<u>450,330,050</u>
SHORT-TERM INVESTMENT — 1.0% OF TOTAL NET ASSETS		
American Express Credit Corporation, 5.26%, 01/02/07 (Cost \$4,350,000)	<u>Face Amount</u> \$4,350,000	<u>4,350,000</u>
TOTAL INVESTMENTS — 100.3% (Identified Cost \$415,960,083)		454,680,050
Cash and receivables		5,061,861
Liabilities		<u>(6,226,629)</u>
TOTAL NET ASSETS — 100.0%		<u><u>\$453,515,282</u></u>

(a) See Note 1A.

(b) An American Depositary Receipt (ADR) is a certificate issued by a U.S. bank representing the right to receive securities of the foreign issuer described. The values of ADRs are significantly influenced by trading on exchanges not located in the United States or Canada.

(c) Non-income producing security.

See accompanying notes to financial statements.

CGM CAPITAL DEVELOPMENT FUND

STATEMENT OF ASSETS AND LIABILITIES

December 31, 2006

Assets		
Investments at value (Identified cost \$415,960,083)		\$454,680,050
Cash		1,858
Receivable for:		
Securities sold	\$4,995,113	
Shares of the Fund sold	882	
Dividends and interest	64,008	5,060,003
Total assets		<u>459,741,911</u>
Liabilities		
Payable for:		
Securities purchased	5,113,753	
Shares of the Fund redeemed	622,003	
Distributions declared	42	5,735,798
Accrued expenses:		
Management fees	390,833	
Trustees' fees	11,855	
Accounting, Administration and Compliance expenses	7,051	
Transfer agent fees	22,890	
Other expenses	58,202	490,831
Total liabilities		<u>6,226,629</u>
Net Assets		<u><u>\$453,515,282</u></u>
Net Assets consist of:		
Capital paid-in		\$416,181,093
Accumulated net realized loss on investments		(1,385,778)
Net unrealized appreciation on investments		38,719,967
Net Assets		<u><u>\$453,515,282</u></u>
Shares of beneficial interest outstanding, no par value		<u>17,382,241</u>
Net asset value per share*		<u><u>\$26.09</u></u>

*Shares of the Fund are sold and redeemed at net asset value ($\$453,515,282 \div 17,382,241$).

See accompanying notes to financial statements.

CGM CAPITAL DEVELOPMENT FUND

STATEMENT OF OPERATIONS

Year Ended December 31, 2006

Investment Income

Income:

Dividends (net of withholding tax of \$20,227)	\$ 1,922,917
Interest	260,008
	<u>2,182,925</u>

Expenses:

Management fees	4,753,467
Trustees' fees	55,473
Accounting, Administration and Compliance expenses	84,606
Custodian fees and expenses	107,543
Transfer agent fees	137,302
Audit and tax services	35,800
Legal	22,819
Printing	38,061
Registration fees	26,622
Miscellaneous expenses	2,530
	<u>5,264,223</u>
Net investment loss	<u>(3,081,298)</u>

Realized and Unrealized Gain (Loss) on Investments and Foreign Currency Transactions

Net realized gains on investments and foreign currency transactions (including net realized loss of \$840,836 on sales of investments in non-controlled affiliated issuers)	67,208,466
Net unrealized depreciation	<u>(34,882,718)</u>
Net realized and unrealized gains on investments and foreign currency transactions	<u>32,325,748</u>
Change in Net Assets from Operations	<u>\$ 29,244,450</u>

See accompanying notes to financial statements.

CGM CAPITAL DEVELOPMENT FUND

STATEMENT OF CHANGES IN NET ASSETS

	Year Ended December 31,	
	2006	2005
From Operations		
Net investment loss	\$ (3,081,298)	\$ (2,270,485)
Net realized gains from investments and foreign currency transactions	67,208,466	92,382,493
Unrealized appreciation (depreciation)	<u>(34,882,718)</u>	<u>8,106,228</u>
Change in net assets from operations	<u>29,244,450</u>	<u>98,218,236</u>
Distributions to Shareholders		
Net short-term realized capital gains on investments	(51,867,597)	(57,886,555)
Net long-term realized capital gains on investments	<u>(13,096,951)</u>	<u>(29,553,609)</u>
	<u>(64,964,548)</u>	<u>(87,440,164)</u>
From Capital Share Transactions		
Proceeds from sale of shares	3,675,833	2,803,858
Net asset value of shares issued in connection with reinvestment of:		
Distributions from net short-term realized capital gains on investments	44,224,486	49,431,710
Distributions from net long-term realized capital gains on investments	<u>11,167,178</u>	<u>25,237,888</u>
	59,067,497	77,473,456
Cost of shares redeemed	<u>(30,658,918)</u>	<u>(27,773,482)</u>
Change in net assets derived from capital share transactions	<u>28,408,579</u>	<u>49,699,974</u>
Total change in net assets	<u>(7,311,519)</u>	<u>60,478,046</u>
Net Assets		
Beginning of period	<u>460,826,801</u>	<u>400,348,755</u>
End of period	<u>\$453,515,282</u>	<u>\$460,826,801</u>
Number of Shares of the Fund:		
Issued from sale of shares	120,293	90,624
Net asset value of shares issued in connection with reinvestment of:		
Distributions from net short-term realized capital gains on investments	1,681,551	1,729,591
Distributions from net long-term realized capital gains on investments	<u>424,614</u>	<u>883,061</u>
	2,226,458	2,703,276
Redeemed	<u>(1,006,308)</u>	<u>(894,776)</u>
Net change	<u>1,220,150</u>	<u>1,808,500</u>

See accompanying notes to financial statements.

CGM CAPITAL DEVELOPMENT FUND

FINANCIAL HIGHLIGHTS

	Year Ended December 31,				
	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
For a share of the Fund outstanding throughout each period:					
Net asset value at the beginning of period	<u>\$28.51</u>	<u>\$27.89</u>	<u>\$23.60</u>	<u>\$15.22</u>	<u>\$19.21</u>
Net investment loss (a)	(0.19)	(0.16)	(0.01)	(0.10)	(0.12)
Net realized and unrealized gain (loss) on investments and foreign currency transactions	<u>2.02</u>	<u>7.23</u>	<u>4.30</u>	<u>8.48</u>	<u>(3.87)</u>
Total from investment operations	<u>1.83</u>	<u>7.07</u>	<u>4.29</u>	<u>8.38</u>	<u>(3.99)</u>
Distribution from net short-term realized gains	(3.39)	(4.27)	—	—	—
Distribution from net long-term realized gains	<u>(0.86)</u>	<u>(2.18)</u>	—	—	—
Total distributions	<u>(4.25)</u>	<u>(6.45)</u>	—	—	—
Net increase (decrease) in net asset value	<u>(2.42)</u>	<u>0.62</u>	<u>4.29</u>	<u>8.38</u>	<u>(3.99)</u>
Net asset value at end of period	<u>\$26.09</u>	<u>\$28.51</u>	<u>\$27.89</u>	<u>\$23.60</u>	<u>\$15.22</u>
Total Return (%)	6.3	25.3	18.2	55.1	(20.8)
Ratios:					
Operating expenses to average net assets (%)	1.11	1.12	1.14	1.17	1.15
Net investment loss to average net assets (%)	(0.65)	(0.52)	(0.06)	(0.56)	(0.67)
Portfolio turnover (%)	300	211	263	305	209
Net assets at end of period (in thousands) (\$).	453,515	460,827	400,349	369,021	259,818

(a) Per share net investment loss has been calculated using the average shares outstanding during the period.

See accompanying notes to financial statements.

CGM CAPITAL DEVELOPMENT FUND

NOTES TO FINANCIAL STATEMENTS — December 31, 2006

1. The Fund is organized as a Massachusetts business trust under the laws of Massachusetts pursuant to an Agreement and Declaration of Trust. The Fund is registered under the Investment Company Act of 1940 as a diversified, open-end management investment company. Along with three other funds in a separate Trust, there are four CGM Funds. The Fund commenced operations on August 14, 1961. The Fund's objective is long-term capital appreciation. The Fund seeks to attain its objective by investing in the equity securities of a relatively small but diverse group of companies and industries.

The following is a summary of significant accounting policies consistently followed by the Fund in the preparation of its financial statements. The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts and disclosures in the financial statements. Actual results could differ from those estimates.

- A. Security valuation** — Equity securities are valued on the basis of valuations furnished by a pricing service, authorized by the Board of Trustees. The pricing service provides the last reported sale price for securities listed on a national securities exchange or, in the case of the NASDAQ national market system, the NASDAQ official closing price. For securities with no sale reported and in the case of over-the-counter securities not so listed, the last reported bid price is used. Short-term investments having a maturity of sixty days or less are stated at amortized cost, which approximates value. Other assets and securities which are not readily marketable will be valued in good faith at fair value using methods determined by the Board of Trustees.
- B. Security transactions and related investment income** — Security transactions are accounted for on the trade date (date the order to buy or sell is executed) and dividend income is recorded on the ex-dividend date net of applicable foreign taxes. Interest income is recorded on the accrual basis. Net gain or loss on securities sold is determined on the identified cost basis.
- C. Federal income taxes** — It is the Fund's policy to comply with the requirements of the Internal Revenue Code applicable to regulated investment companies, and to distribute to its shareholders all of its taxable income and net realized capital gains, within the prescribed time period. Accordingly, no provision for federal income tax has been made. At December 31, 2006, there were no capital loss carryovers available to offset future realized gains.

As of December 31, 2006, the components of distributable earnings on a tax basis were as follows:

<u>Undistributed Ordinary Income</u>	<u>Undistributed Long-term Capital Gains</u>	<u>Net Unrealized Appreciation/(Depreciation)</u>
\$ —	\$ —	\$37,334,189

The identified cost of investments in securities owned by the Fund for federal income tax purposes, and their respective gross unrealized appreciation and depreciation at December 31, 2006 was as follows:

<u>Identified Cost</u>	<u>Gross Unrealized Appreciation</u>	<u>Gross Unrealized Depreciation</u>	<u>Net Unrealized Appreciation</u>
\$417,345,861	\$47,543,072	\$(10,208,883)	\$37,334,189

- D. Dividends and distributions to shareholders** — Dividends and distributions are recorded by the Fund on the ex-dividend date. The classification of income and capital gains distributions is determined in accordance with income tax regulations. Distributions from net investment income and short-term capital gains are treated as ordinary income for income tax purposes. Permanent book and tax differences relating to shareholder distributions may result in reclassifications to paid-in capital or accumulated

CGM CAPITAL DEVELOPMENT FUND

NOTES TO FINANCIAL STATEMENTS (continued)

realized gain/loss. These differences are primarily related to foreign exchange gains/losses and netting net operating loss with net short-term gains. The Fund also utilized earnings and profits distributed to shareholders on redemption of shares as a part of the dividend deduction for income tax purposes. Undistributed net investment income or accumulated net investment loss may include temporary book and tax differences such as tax deferral of losses on wash sales, which will reverse in a subsequent period. Any taxable income or gain remaining at fiscal year end is distributed in the following year.

The tax character of distributions paid during the period ended December 31, 2006, were as follows:

<u>Ordinary Income</u>	<u>Long-term Capital Gains</u>	<u>Total</u>
\$51,867,597	\$13,096,951	\$64,964,548

- E. Foreign currency translation** — All assets and liabilities initially expressed in terms of foreign currencies are translated into U.S. dollars. Transactions affecting statement of operations accounts and net realized gain/(loss) on investments are translated at the rates prevailing at the dates of the transactions. The Fund does not isolate that portion of the results of operations resulting from changes in foreign exchange rates on investments from the fluctuations arising from changes in market prices of securities held. Such fluctuations are included with the net realized and unrealized gain or loss from investments. Reported net realized foreign exchange gains or losses arise from sales of foreign currency, currency gains or losses realized between the trade and settlement dates on securities transactions and the difference between the amounts of dividends, interest, and foreign withholding taxes recorded on the Fund's books and the U.S. dollar equivalent of the amounts actually received or paid. Net unrealized foreign exchange gains or losses arise from changes in the value of assets and liabilities other than investments in securities at the end of the period, resulting from changes in the exchange rate.
- F. Indemnities** — In the normal course of business, CGM Capital Development Fund may enter into contracts that provide indemnities to third parties for various potential losses and claims. CGM Capital Development Fund's maximum exposure under these arrangements is unknown as this would depend on future claims that may be made against CGM Capital Development Fund. The risk of material loss from such claims is considered remote.
- 2. Foreign investment risk** — There are certain additional risks involved in investing in foreign securities that are not inherent in investments in domestic securities. These risks may involve adverse political and economic developments and the possible imposition of currency exchange blockages or other foreign governmental laws or restrictions. In addition, the securities of some foreign companies and securities markets are less liquid and at times more volatile than securities of comparable U.S. companies and U.S. securities markets.
- 3. Purchases and sales of securities** — For the period ended December 31, 2006, purchases and sales of securities other than United States government obligations and short-term investments aggregated \$1,415,927,524 and \$1,457,210,460, respectively. There were no purchases or sales of United States government obligations.
- 4. A. Management fees** — During the period ended December 31, 2006, the Fund incurred management fees of \$4,753,467 paid or payable to the Fund's investment adviser, Capital Growth Management Limited Partnership (CGM), certain officers and directors of which are also officers and trustees of

CGM CAPITAL DEVELOPMENT FUND

NOTES TO FINANCIAL STATEMENTS (continued)

the Fund. The management agreement provides for a fee at the annual rate of 1.00% on the first \$500 million of the Fund's average daily net assets, 0.95% of the next \$500 million and 0.80% of such assets in excess of \$1 billion.

- B. Other expenses** — CGM performs certain administrative, accounting, compliance and other services for the Fund. The expenses of those services, which are paid to CGM by the Fund, include the following: (i) expenses for personnel performing bookkeeping, accounting, and financial reporting functions and clerical functions relating to the Fund; (ii) expenses for services required in connection with the preparation of registration statements and prospectuses, shareholder reports and notices, proxy solicitation material furnished to shareholders of the Fund or regulatory authorities and reports and questionnaires for SEC compliance; (iii) registration, filing and other fees in connection with requirements of regulatory authorities; and (iv) compliance in connection to the Investment Company Act of 1940 and the Sarbanes Oxley Act of 2002. The Accounting, Administration and Compliance expense of \$84,606, for the period ended December 31, 2006, is shown separately in the financial statements. These expenses include the reimbursement of a portion of the compensation expenses incurred by CGM for its employees who provide these administrative, accounting, compliance, and other services to the Fund, some of whom are officers of the Fund. Of the total expense reimbursement, \$65,890 represented reimbursements by the Fund to CGM for a portion of the salaries of CGM employees who are officers of the Fund.
- C. Trustees fees and expenses** — The Fund does not pay any compensation directly to any trustees who are directors, officers or employees of CGM, or any affiliate of CGM (other than registered investment companies). For the period ended December 31, 2006, each disinterested trustee was compensated by the CGM Funds with an annual fee of \$50,000 plus travel expenses for each meeting attended. The disinterested trustees are responsible for the audit committee functions of the CGM Funds and have designated a chairman to oversee these functions who receives an additional \$30,000 annually. Of these amounts, each of the CGM Funds is responsible for \$7,000 per trustee annually, plus an annual variable fee calculated based on the proportion of each of the CGM Funds' average net assets relative to the aggregate average net assets of the CGM Funds.

5. Affiliated issuers — Affiliated issuers, as defined under the Investment Company Act of 1940, are those in which the Fund's holdings of an issuer represent 5% or more of the outstanding voting securities of the issuer. The following summarizes transactions with affiliates of the Fund during the period ended December 31, 2006:

Name of Issuer	Number of Shares Held December 31, 2005	Number of Shares Purchased	Number of Shares Sold	Number of Shares Held December 31, 2006	Dividend Income	Market Value December 31, 2006
Hartmarx Corporation†*	2,098,800	100,000	2,198,800	0	\$0	\$ 0

† Non-income producing security.

* Position in issuer liquidated during the preceding twelve months.

6. Other — On July 13, 2006 the Financial Accounting Standards Board (FASB) released FASB Interpretation No. 48 "Accounting for Uncertainty in Income Taxes" (FIN48). FIN 48 provides guidance for how uncertain tax positions should be recognized, measured, presented and disclosed in the financial statements. FIN 48 requires the evaluation of tax positions taken or expected to be taken in the course of preparing the fund's tax returns to determine whether the tax positions are "more likely than not" of being

CGM CAPITAL DEVELOPMENT FUND

NOTES TO FINANCIAL STATEMENTS (continued)

sustained by the applicable tax authority. Tax positions not deemed to meet the more likely than not threshold would be recorded as a tax benefit or expense in the current year. Adoption of FIN 48 is required for the first financial statement reporting period after June 29, 2007 and is to be applied to all open tax years as of the effective date. At this time, management is evaluating the implications of FIN 48 and its impact on the financial statements, if any, has not yet been determined.

CGM CAPITAL DEVELOPMENT FUND

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Trustees and Shareholders of CGM Capital Development Fund:

In our opinion, the accompanying statement of assets and liabilities, including the schedule of investments, and the related statements of operations and of changes in net assets and the financial highlights present fairly, in all material respects, the financial position of CGM Capital Development Fund (the “Fund”) at December 31, 2006, the results of its operations, the changes in its net assets and the financial highlights for the periods indicated, in conformity with accounting principles generally accepted in the United States of America. These financial statements and financial highlights (hereafter referred to as “financial statements”) are the responsibility of the Fund’s management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits, which included confirmation of securities at December 31, 2006 by correspondence with the custodian and brokers, provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP
Boston, Massachusetts
February 14, 2007

CGM CAPITAL DEVELOPMENT FUND

ADDITIONAL INFORMATION

(unaudited)

Availability of Proxy Voting Information:

Proxy voting policies and information regarding how the Fund voted proxies relating to portfolio securities during the twelve month period ended June 30, 2006 are available without charge, upon request by calling 1-800-345-4048. The policies also appear in the Fund's Statement of Additional Information, which can be found on the SEC's website, <http://www.sec.gov>. The voting records can also be found on the SEC's website on the N-PX filing.

Portfolio Holdings:

The Fund files its complete schedule of portfolio holdings with the SEC for the first and third quarters of each fiscal year on Form N-Q. The Fund's Forms N-Q are available on the SEC's website at <http://www.sec.gov> and may be reviewed and copied at the SEC's Public Reference Room in Washington, D.C. Information on the operation of the Public Reference Room may be obtained by calling 1-800-SEC-0330.

CGM CAPITAL DEVELOPMENT FUND

FUND EXPENSES

As a shareholder of CGM Capital Development Fund, you incur two types of costs: (1) transaction costs, which could include, among other charges, wire fees and custodial maintenance fees for certain types of accounts and (2) ongoing costs, including management fees and other Fund expenses. This Example is intended to help you understand your ongoing costs (in dollars) of investing in the Fund and to compare these costs with the ongoing costs of investing in other mutual funds.

The Example is based on an investment of \$1,000 invested at the beginning of the period and held for the entire period July 1, 2006 to December 31, 2006.

Actual Return and Expenses

The first line of the table below provides information about actual account values and actual expenses. You may use the information in this line, together with the amount you invested, to estimate the expenses that you paid over the period. Simply divide your account value by \$1,000 (for example, an \$8,600 account value divided by \$1,000 = 8.6), then multiply the result by the number in the first line under the heading entitled "Expenses Paid During Period" to estimate the expenses you paid on your account during this period.

Hypothetical Example for Comparison Purposes

The second line of the table below provides information about hypothetical account values and hypothetical expenses based on the Fund's actual expense ratio and an assumed rate of return of 5% per year before expenses, which is not the Fund's actual return. The hypothetical account values and expenses may not be used to estimate the actual ending account balance or expenses you paid for the period. You may use this information to compare the ongoing costs of investing in the Fund and other funds. To do so, compare this 5% hypothetical example with the 5% hypothetical examples that appear in the shareholder reports of the other funds.

Please note that the expenses shown in the table are meant to highlight your ongoing costs only and do not reflect any transactional costs such as any wire fees or custodial maintenance fees that may be payable. Therefore, the second line of the table is useful in comparing ongoing costs only, and will not help you determine the relative total costs of owning different funds. In addition, if these transactional costs were included, your costs would have been higher.

	<i>Beginning Account Value 7/01/06</i>	<i>Ending Account Value 12/31/06</i>	<i>Expenses Paid During Period* 7/01/06 – 12/31/06</i>
Actual	\$1,000.00	\$954.40	\$5.47
Hypothetical (5% return before expenses)	\$1,000.00	\$1,019.61	\$5.65

* Expenses are equal to the Fund's annualized expense ratio of 1.11%, multiplied by the average account value over the period, multiplied by 184/365 (to reflect the one-half year period).

CGM CAPITAL DEVELOPMENT FUND

25 YEAR INVESTMENT RECORD DECEMBER 31, 1981 — DECEMBER 31, 2006 (unaudited)

IF YOU HAD PURCHASED ONE SHARE OF THE FUND ON DECEMBER 31, 1981

On December 31	— AND HAD TAKEN ALL DIVIDENDS AND DISTRIBUTIONS IN CASH			OR — HAD REINVESTED ALL DIVIDENDS AND CAPITAL GAINS DISTRIBUTIONS IN ADDITIONAL SHARES		
	The Net Asset Value of Your Share Would Have Been	During the Year You Would Have Received		The Value of Your Original Investment At Each Year End Would Have Been	Which Would Represent	
		Per Share Capital Gains Distributions of	Per Share Income Distributions of		An Annual Total Return of	A Cumulative Change Expressed As An Index With December 31, 1981 = 100.0
1981	\$17.34					100.0
1982	24.88	\$ 2.88	\$0.41	\$ 31.02	+ 78.9%	178.9
1983	25.21	2.50	0.47	35.86	+ 15.6	206.8
1984	17.28	6.15	0.11	32.92	- 8.2	189.8
1985	25.02	—	0.18	48.13	+ 46.2	277.5
1986	23.12	7.46	0.16	61.80	+ 28.4	356.3
1987	16.56	10.09	0.14	71.63	+ 15.9	413.0
1988	15.87	0.02	0.62	71.42	- 0.3	411.8
1989	18.37	—	0.34	84.20	+ 17.9	485.5
1990	18.53	—	0.10	85.38	+ 1.4	492.3
1991	25.80	11.07*	0.06	169.99	+ 99.1	980.2
1992	27.43	2.68*	0.20	199.74	+ 17.5	1151.7
1993	27.71	7.51	0.07	257.07	+ 28.7	1482.2
1994	20.58	0.71	0.07	198.20	- 22.9	1142.8
1995	27.33	1.68	0.02	279.66	+ 41.1	1612.5
1996	29.08	5.87	0.07	358.24	+ 28.1	2065.6
1997	26.96	9.08	—	443.86	+ 23.9	2559.3
1998	24.95	4.19	0.11	481.59	+ 8.5	2776.8
1999	26.20	0.56	0.11	518.67	+ 7.7	2990.6
2000	25.12	—	0.10	498.96	- 3.8	2877.0
2001	19.21	—	—	381.70	- 23.5	2200.9
2002	15.22	—	—	302.31	- 20.8	1743.1
2003	23.60	—	—	468.88	+ 55.1	2703.5
2004	27.89	—	—	554.22	+ 18.2	3195.5
2005	28.51	6.45	—	694.44	+ 25.3	4004.0
2006	26.09	4.25	—	738.19	+ 6.3	4256.3
Totals		\$83.15	\$3.34		+ 4156.3	

*Includes \$0.02 and \$0.02 per share distributed from paid-in capital.

The performance data contained in this report represent past performance, which is no guarantee of future results. The table above does not reflect the deduction of taxes that a shareholder would pay on Fund distributions or the redemption of Fund shares. The investment return on, and the principal value of, an investment in the Fund will fluctuate so that investors' shares, when redeemed, may be worth more or less than the original cost. Current performance may be lower or higher than the performance data quoted.

CGM CAPITAL DEVELOPMENT FUND

TAX INFORMATION (unaudited) FOR THE TAX YEAR ENDED 12/31/2006

We are providing this information as required by the Internal Revenue Code. The amounts shown may differ from those elsewhere in this report because of differences between tax and financial reporting requirements.

For the year ended December 31, 2006, the Fund designated \$13,179,033 as long-term capital dividends.

TRUSTEES AND OFFICERS

The Fund is supervised by the board of trustees (the “Board”) of the Trust. The Board is responsible for the general oversight of the Fund, including general supervision and review of the Fund’s investment activities. The Board, in turn, elects the officers who are responsible for administering the Fund’s day-to-day operations.

An asterisk in the table below identifies those trustees and officers who are “interested persons” of the Trust as defined in the Investment Company Act of 1940. Each trustee and officer of the Trust noted as an interested person is interested by virtue of that individual’s position with Capital Growth Management Limited Partnership (“CGM”), the Fund’s investment adviser, as described in the table below. Each trustee serves during the continued lifetime of the Trust or until he earlier dies, resigns or is removed, or if sooner, until the election and qualification of his successor. Each officer serves until his or her successor is elected or qualified or until the officer sooner dies, resigns, or is removed or becomes disqualified.

The trustees and officers of the Trust, their ages, their principal occupations during the past five years, the number of CGM Funds they oversee, and other directorships they hold are set forth below. Unless otherwise noted below, the address of each interested trustee and officer is One International Place, Boston, Massachusetts 02110. Correspondence intended for the trustees who are not “interested persons” of the Trust may be sent c/o Capital Growth Management, One International Place, Boston, Massachusetts 02110.

The Statement of Additional Information for the Fund includes additional information about Fund trustees and is available, without charge, upon request by calling the CGM Marketing Department, toll free, at 800-345-4048.

<u>Name, Address and Age</u>	<u>Position Held and Length of Time Served</u>	<u>Principal Occupation During Past 5 Years and Other Directorships Held</u>	<u>Number of Funds in the CGM Funds Complex Overseen</u>
Interested Trustees			
G. Kenneth Heebner* age 66	Trustee since 1993	Co-founder and Employee, CGM; Controlling Owner, Kenbob, Inc. (general partner of CGM)	4
Robert L. Kemp* age 74	Trustee since 1990	Co-founder and Employee, CGM; Non- voting Owner, Kenbob, Inc. (general partner of CGM)	4
Disinterested Trustees			
Peter O. Brown age 66	Trustee since 1993	Counsel (formerly, Partner), Harter, Secrest & Emery LLP (law firm); formerly Executive Vice President and Chief Operating Officer, The Glenmeade Trust Company (from 1990- 1993); formerly Senior Vice President, J.P. Morgan Chase Bank (from 1981-1990); Trustee, TT International U.S.A. Master and Feeder Trusts (four mutual funds) from 2000-2005	4

CGM CAPITAL DEVELOPMENT FUND

<u>Name, Address and Age</u>	<u>Position Held and Length of Time Served</u>	<u>Principal Occupation During Past 5 Years and Other Directorships Held</u>	<u>Number of Funds in the CGM Funds Complex Overseen</u>
Mark W. Holland age 57	Trustee since 2004	President, Wellesley Financial Advisors, LLC (since 2003); formerly Vice President and Chief Operating Officer, Fixed Income Management, Loomis, Sayles & Company, L.P.; formerly Director, Loomis, Sayles & Company, L.P. (from 1999-2002)	4
James Van Dyke Quereau, Jr. age 58	Trustee since 1993	Managing Partner and Director, Stratton Management Company (investment management); Director and Vice President, Semper Trust Co.	4
J. Baur Whittlesey age 60	Trustee since 1990	Member, Ledgewood, P.C. (law firm)	4
Officers			
G. Kenneth Heebner* age 66	Vice President since 1990	Co-founder and Employee, CGM; Controlling Owner, Kenbob, Inc. (general partner of CGM)	4
Robert L. Kemp* age 74	President since 1990	Co-founder and Employee, CGM; Non-voting Owner, Kenbob, Inc. (general partner of CGM)	4
David C. Fietze* age 37 address: 38 Newbury Street Boston, Massachusetts 02116	Chief Compliance Officer since 2004	Employee – Legal counsel, CGM; formerly counsel, Bartlett Hackett Feinberg, P.C.	4
Kathleen S. Haughton* age 46 address: 38 Newbury Street Boston, Massachusetts 02116	Vice President since 1992 and Anti-Money Laundering Compliance Officer since 2002	Employee – Investor Services Division, CGM	4
Jem A. Hudgins* age 43	Treasurer since 2004	Employee – CGM	4
Leslie A. Lake* age 61	Vice President and Secretary since 1992	Employee – Office Administrator, CGM	4
Martha I. Maguire* age 51	Vice President since 1994	Employee – Funds Marketing, CGM	4
Mary L. Stone* age 62	Assistant Vice President since 1990	Employee – Portfolio Transactions, CGM	4