

INVESTMENT ADVISER

CAPITAL GROWTH MANAGEMENT
LIMITED PARTNERSHIP
Boston, Massachusetts 02110

CGM Mutual Fund

313th Quarterly Report
June 30, 2008

A No-Load Fund

TELEPHONE NUMBERS

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Boston, MA 02266-8511

WEBSITE

<http://www.cgmfunds.com>

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.

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Investment Adviser
Capital Growth Management
Limited Partnership

To Our Shareholders:

CGM Mutual Fund increased 14.2% during the second quarter of 2008 compared to the unmanaged Standard and Poor's 500 Index which declined -2.7% and the Merrill Lynch U.S. Corporate, Government and Mortgage Bond Index which fell -1.1%. For the first six months of the year, CGM Mutual Fund returned 4.7%, the unmanaged S&P 500 Index, -11.9% and the Merrill Lynch U.S. Corporate, Government and Mortgage Bond Index, 1.3%.

The first quarter of 2008 was marked by a consumer slowdown, a collapse in housing sales and prices, financial losses in the banking industry as a result of the continuing subprime mortgage crisis and rising commodity prices. Fortunately, the bad news was somewhat offset by strength in trade, agriculture and the manufacturing and oil industries which resulted in net economic growth for the quarter, albeit modest growth. During the second quarter of the year, consumers continued to suffer as they spent more and more disposable income on transportation and many struggled to make ends meet without the mortgage equity cushion enjoyed in years past. (Mortgage equity withdrawals or "MEWs", which were running at an annualized rate of \$800 billion in early 2006, fell to \$200 billion annualized in June of this year.) So, it comes as no great surprise that the Consumer Confidence Index fell to 50.4 in June, down from 58.1 in May and the lowest reading since 1992.

In an effort to spur consumer spending, the Federal government earmarked a \$140 billion payout to lower and middle income wage earners. The first installment was released in May (\$50 billion), another \$50 billion in June, and the remainder is to be disbursed in the third quarter. These "stimulus checks" are intended to reinvigorate consumer purchasing power eroded by rising gasoline prices. The Federal Reserve Board has been doing its part to address the slowing economy by easing monetary policy and reducing the Federal Funds rate from 5.25% one year ago to 2.0% today. While we believe the combination of these efforts should help rev up the economy in the coming year, for now we seem to be stuck in neutral.

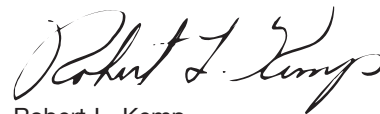
A sputtering domestic economy notwithstanding, it is to a large extent world market forces that determine rising

commodity prices, not solely U.S. consumer demand. Today, the industrial growth of countries such as Brazil, Russia, India and China is driving many commodity prices up and, as a consequence, the Fed's domestic policies have little influence on global commodity prices. Nonetheless, recent statements suggest that the Fed may be shifting from its more stimulative stance of the past year to thinking about containing inflation at least on the domestic front. On June 25, the Board indicated that "uncertainty about the inflation outlook remains high" and held the Federal Funds rate at 2.0% rather than easing further.

The 10-year Treasury bond was yielding 5.05% one year ago and on June 30, 2008, only 3.97%, an extremely low rate especially in light of the level of inflation as measured by the nominal Consumer Price Index. Financial journalists have resurrected the so-called "Misery Index" of 25 years ago, which is a combination of the inflation rate (4.2% year over year through May 31, 2008) and unemployment rate (5.5% today, July 1, 2008) for a total of 9.7%, still a far cry from the 1980 high of 21.8%.

We believe the worst of the current financial ordeal is behind us though it is still too early to expect a broad recovery in the economy. Fortunately, we believe there are bright spots in the economy, areas of strength to provide select investment opportunities in an otherwise difficult market.

On June 30, 2008, CGM Mutual Fund was approximately 27% invested in short-term government securities. In the equity portion of the portfolio, the Fund held significant positions in the oil service and independent oil production industries as well as in money center banks. The three largest holdings were Petróleo Brasileiro S.A.- Petrobras ADR (oil production), Schlumberger Limited (oil service) and Arch Coal, Inc.



Robert L. Kemp
President

July 1, 2008

CGM MUTUAL FUND

INVESTMENT PERFORMANCE

(unaudited)

Total Return for Periods Ended June 30, 2008

	<u>The Fund's Cumulative Total Return</u>	<u>The Fund's Average Annual Total Return</u>
10 Years	+118.9%	+ 8.1%
5 Years	+140.0	+19.1
1 Year	+ 26.1	+26.1
3 Months	+ 14.2	—

The performance data contained in the report represent past performance, which is no guarantee of future results. The table above does not reflect the deduction of taxes a shareholder would pay on Fund distributions or the redemption of Fund shares and assumes 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.

Commencing July 1, 2003 and ending June 30, 2004, Capital Growth Management agreed to voluntarily waive a portion of the management fee, lowering the annual rate to 0.72% of the Fund's average daily net assets. Otherwise, the Fund's cumulative total return and average annual total return for the 10- and 5-year periods ended June 30, 2008 would have been lower.

See the Schedule of Investments on the next page for the percentage of net assets of the Fund invested in particular industries as of June 30, 2008.

CGM MUTUAL FUND

INVESTMENTS as of June 30, 2008

(unaudited)

COMMON STOCKS — 73.1% OF TOTAL NET ASSETS

	Shares	Value(a)
Auto and Related — 3.8%		
Ford Motor Company (b)	5,650,000	\$ <u>27,176,500</u>
Banks – Money Center — 9.5%		
Banco Bradesco S.A. ADR (c)(d)	1,670,000	34,168,200
Banco Itaú Holding Financeira S.A. ADR (c)(d)	1,645,000	<u>33,409,950</u>
		<u>67,578,150</u>
Basic Materials — 5.8%		
Arch Coal, Inc.	550,000	<u>41,266,500</u>
Copper — 5.4%		
Freeport-McMoRan Copper & Gold Inc.	330,000	<u>38,672,700</u>
Electronic and Communication Equipment — 3.5%		
Apple Inc. (b)	150,000	<u>25,116,000</u>
Fertilizer — 5.0%		
The Mosaic Company (b)	250,000	<u>36,175,000</u>
Financial Services — 3.9%		
MasterCard Incorporated	105,000	<u>27,879,600</u>
Heavy Capital Goods — 5.1%		
Cummins Inc.	560,000	<u>36,691,200</u>
Oil – Independent Production — 10.3%		
Petróleo Brasileiro S.A. – Petrobras ADR (c)(d)	1,040,000	<u>73,663,200</u>
Oil Refining — 4.9%		
Hess Corporation	275,000	<u>34,702,250</u>
Oil Service — 11.8%		
Halliburton Company	720,000	38,210,400
Schlumberger Limited	430,000	<u>46,194,900</u>
		<u>84,405,300</u>
Steel — 4.1%		
United States Steel Corporation	160,000	<u>29,564,800</u>
TOTAL COMMON STOCKS (Identified cost \$425,345,054)		<u>522,891,200</u>

See accompanying notes to financial statements.

CGM MUTUAL FUND

INVESTMENTS as of June 30, 2008 (continued)

(unaudited)

BILLS — 26.8% OF TOTAL NET ASSETS

	Face Amount	Value(a)
United States Treasury — 26.8%		
United States Treasury Bills, 0.900%, 07/03/08	\$ 13,000,000	\$ 12,999,029
United States Treasury Bills, 1.074%, 07/17/08	10,000,000	9,994,933
United States Treasury Bills, 1.151%, 07/24/08	5,000,000	4,996,167
United States Treasury Bills, 1.532%, 08/07/08	8,000,000	7,987,091
United States Treasury Bills, 1.663%, 09/11/08	113,500,000	113,118,640
United States Treasury Bills, 1.712%, 09/25/08	2,000,000	1,991,758
United States Treasury Bills, 1.745%, 08/14/08	8,000,000	7,982,595
United States Treasury Bills, 1.834%, 08/28/08	29,400,000	29,311,898
United States Treasury Bills, 1.869%, 08/21/08	3,000,000	2,991,925
TOTAL BILLS (Identified cost \$191,321,946)		191,374,036

SHORT-TERM INVESTMENT — 1.0% OF TOTAL NET ASSETS

American Express Credit Corporation, 1.970%, 07/01/08 (Cost \$7,240,000)	7,240,000	7,240,000
TOTAL INVESTMENTS — 100.9% (Identified cost \$623,907,000)		721,505,236
Cash and receivables		1,340,259
Liabilities		(7,623,208)
TOTAL NET ASSETS — 100.0%		\$715,222,287

(a) See Note 1A.

(b) Non-income producing security.

(c) 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.

(d) The Fund has approximately 20% of its net assets at June 30, 2008 invested in companies incorporated in Brazil.

See accompanying notes to financial statements.

CGM MUTUAL FUND

STATEMENT OF ASSETS AND LIABILITIES

June 30, 2008
(unaudited)

Assets

Investments at value (Identified cost — \$623,907,000) . . .	\$721,505,236	
Cash	2,335	
Receivable for:		
Shares of the Fund sold	\$1,109,768	
Dividends and interest	228,156	1,337,924
Total assets		<u>722,845,495</u>

Liabilities

Payable for:		
Securities purchased . .	5,393,753	
Shares of the Fund redeemed	1,571,612	
Tax withholding liability	497	
Distributions declared	40	6,965,902
Accrued expenses:		
Management fees	512,606	
Trustees' fees	12,741	
Accounting, administration and compliance expenses	9,019	
Transfer agent fees . . .	87,670	
Other expenses	35,270	657,306
Total liabilities		<u>7,623,208</u>

Net Assets \$715,222,287

Net assets consist of:		
Capital paid-in	\$598,137,390	
Undistributed net investment income	1,330,204	
Accumulated net realized gains on investments	18,156,457	
Net unrealized appreciation on investments	97,598,236	

Net Assets \$715,222,287

Shares of beneficial interest outstanding, no par value	21,527,633
Net asset value per share*	<u><u>\$33.22</u></u>

*Shares of the Fund are sold and redeemed at net asset value (\$715,222,287 ÷ 21,527,633).

STATEMENT OF OPERATIONS

Six Months Ended June 30, 2008
(unaudited)

Investment Income

Income:	
Dividends (net of withholding tax of \$177,151)	\$ 4,258,164
Interest	1,860,836
	<u>6,119,000</u>

Expenses:	
Management fees	2,849,429
Trustees' fees	26,590
Accounting, administration and compliance expenses	54,116
Custodian fees and expenses	59,013
Transfer agent fees	253,413
Audit and tax services	18,650
Legal	14,659
Printing	39,864
Registration fees	26,200
Miscellaneous expenses	1,140
	<u>3,343,074</u>

Net investment income 2,775,926

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

Net realized gains on investments and foreign currency transactions	21,963,580
Net unrealized appreciation	5,490,786
Net realized and unrealized gains on investments and foreign currency transactions	<u>27,454,366</u>

**Change in Net Assets from
Operations** \$30,230,292

See accompanying notes to financial statements.

CGM MUTUAL FUND

STATEMENT OF CHANGES IN NET ASSETS

	<u>Six Months Ended June 30, 2008 (unaudited)</u>	<u>Year Ended December 31, 2007</u>
From Operations		
Net investment income	\$ 2,775,926	\$ 5,676,497
Net realized gains on investments and foreign currency transactions	21,963,580	105,202,070
Net unrealized appreciation	5,490,786	72,232,962
Change in net assets from operations	<u>30,230,292</u>	<u>183,111,529</u>
From Distributions to Shareholders		
Net investment income	(1,445,722)	(5,654,129)
Net short-term realized capital gains on investments	—	(107,051,605)
Net long-term realized capital gains on investments	—	(1,480,849)
	<u>(1,445,722)</u>	<u>(114,186,583)</u>
From Capital Share Transactions		
Proceeds from sale of shares	64,210,063	35,748,635
Net asset value of shares issued in connection with reinvestment of:		
Dividends from net investment income	1,298,635	5,009,085
Distributions from net short-term realized capital gains on investments	—	97,226,898
Distributions from net long-term realized capital gains on investments	—	1,345,083
	<u>65,508,698</u>	<u>139,329,701</u>
Cost of shares redeemed	(27,193,422)	(64,706,440)
Change in net assets derived from capital share transactions	<u>38,315,276</u>	<u>74,623,261</u>
Total change in net assets	<u>67,099,846</u>	<u>143,548,207</u>
Net Assets		
Beginning of period	<u>648,122,441</u>	<u>504,574,234</u>
End of period (including undistributed net investment income of \$1,330,204 and \$0 at June 30, 2008 and December 31, 2007, respectively)	<u>\$715,222,287</u>	<u>\$648,122,441</u>
Number of Shares of the Fund:		
Issued from sale of shares	1,967,085	1,056,385
Issued in connection with reinvestment of:		
Dividends from net investment income	39,979	155,722
Distributions from net short-term realized capital gains on investments	—	3,055,528
Distributions from net long-term realized capital gains on investments	—	42,272
	<u>2,007,064</u>	<u>4,309,907</u>
Redeemed	(863,776)	(2,088,140)
Net change	<u>1,143,288</u>	<u>2,221,767</u>

See accompanying notes to financial statements.

CGM MUTUAL FUND

FINANCIAL HIGHLIGHTS

	Six Months Ended June 30, 2008 (unaudited)	For the Year Ended December 31,				
		2007	2006	2005	2004	2003
For a share of the Fund outstanding throughout each period:						
Net asset value at beginning of period	\$31.80	\$27.78	\$27.89	\$25.33	\$23.00	\$16.65
Net investment income (a)(b)	0.13	0.32	0.45	0.30	0.16	0.23
Net realized and unrealized gains on investments and foreign currency transactions	1.36	10.33	1.09	3.40	2.33	6.35
Total from investment operations	1.49	10.65	1.54	3.70	2.49	6.58
Dividends from net investment income	(0.07)	(0.33)	(0.45)	(0.31)	(0.16)	(0.23)
Distribution from net short-term realized gains	—	(6.22)	(1.20)	—	—	—
Distribution from net long-term realized gains	—	(0.08)	—	(0.83)	—	—
Total distributions	(0.07)	(6.63)	(1.65)	(1.14)	(0.16)	(0.23)
Net increase (decrease) in net asset value	1.42	4.02	(0.11)	2.56	2.33	6.35
Net asset value at end of period	<u>\$33.22</u>	<u>\$31.80</u>	<u>\$27.78</u>	<u>\$27.89</u>	<u>\$25.33</u>	<u>\$23.00</u>
Total return (%)	4.7	38.5	5.5	14.6	10.9(c)	39.7(c)
Ratios:						
Operating expenses to average net assets (%)	1.03*	1.05	1.07	1.09	1.02	1.07
Operating expenses to average net assets before management fee waiver (%)	N/A	N/A	N/A	N/A	1.11	1.17
Net investment income to average net assets (%)	0.85*	1.03	1.55	1.09	0.68	1.23
Portfolio turnover (%)	404*	444	504	336	314	260
Net assets at end of period (in thousands) (\$)	715,222	648,122	504,574	514,612	481,443	477,147
(a) Net of management fee waiver which amounted to (\$)	N/A	N/A	N/A	N/A	0.02	0.02
(b) Per share net investment income has been calculated using the average shares outstanding during the period.						
(c) The total return would have been lower had the management fee not been reduced during the period.						
* Computed on an annualized basis.						

See accompanying notes to financial statements.

CGM MUTUAL FUND

NOTES TO FINANCIAL STATEMENTS — June 30, 2008

(unaudited)

1. The Fund is a diversified series of CGM Trust which is organized as a Massachusetts business trust under the laws of Massachusetts pursuant to an Agreement and Declaration of Trust. The Trust is registered under the Investment Company Act of 1940 as an open-end management investment company. The Trust has two other Funds whose financial statements are not presented herein. The Fund commenced operations on November 5, 1929. The Fund's objective is reasonable long-term capital appreciation with a prudent approach to protection of capital from undue risks. Current income is a consideration in the selection of the Fund's portfolio securities, but it is not a controlling factor.

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. Corporate debt securities are valued on the basis of valuations furnished by a pricing service, authorized by the Board of Trustees, which determines valuations for normal, institutional-size trading units of such securities using market information, transactions for comparable securities and various relationships between securities which are generally recognized by institutional traders. United States government debt securities are valued at the current closing bid, as last reported by a pricing service approved by the Board of Trustees. 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 an accrual basis and includes amortization of premium and discount. Net gain or loss on securities sold is determined on the identified cost basis. Dividend payments received by the Fund from its investment in REITs may be comprised of ordinary income, capital gains, and return of capital and as such are recorded as dividend income, capital gains or a reduction to security cost, as appropriate.
- 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. The Fund adopted the provisions of the Financial Accounting Standards Board (FASB) Interpretation No. 48, Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement 109 ("FIN 48"), on January 1, 2007. FIN 48 prescribes a minimum threshold for financial statement recognition of the benefit of a tax position taken or expected to be taken in a tax return. The implementation of FIN 48, which included a review of the Fund's tax return

CGM MUTUAL FUND

NOTES TO FINANCIAL STATEMENTS (continued)

(unaudited)

of each of the three open tax years, did not result in any unrecognized tax benefits in the accompanying financial statements. Management's conclusion regarding FIN 48 may be subject to review and adjustment at a later date based on factors including, but not limited to, further implementation guidance expected from FASB, and ongoing analysis of tax laws, regulations and interpretations thereof.

At December 31, 2007, there were no capital loss carryovers available to offset future realized gains.

As of December 31, 2007, 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>
\$ —	\$ —	\$88,300,327

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 June 30, 2008 was as follows:

<u>Identified Cost</u>	<u>Gross Unrealized Appreciation</u>	<u>Gross Unrealized Depreciation</u>	<u>Net Unrealized Appreciation</u>
\$628,771,179	\$117,754,874	\$(25,020,817)	\$92,734,057

- 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. 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, 2007 and 2006 were as follows:

<u>Year</u>	<u>Ordinary Income</u>	<u>Long-term Capital Gains</u>	<u>Total</u>
2007	\$112,705,734	\$1,480,849	\$114,186,583
2006	\$ 28,926,041	\$ —	\$ 28,926,041

- 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

CGM MUTUAL FUND

NOTES TO FINANCIAL STATEMENTS (continued)

(unaudited)

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 Mutual Fund may enter into contracts that provide indemnities to third parties for various potential losses and claims. CGM Mutual Fund's maximum exposure under these arrangements is unknown as this would depend on future claims that may be made against CGM Mutual 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 foreign securities markets are less liquid and at times more volatile than securities of comparable U.S. companies and U.S. securities markets.
- 3. Diversification** — The Fund, although diversified, takes a focused approach to investing within a single industry, sector of the economy or fewer individual holdings than more diversified funds. Therefore, the Fund may be subject to greater price volatility or be adversely affected by the performance of particular industries, sectors, or individual holdings compared to the performance of a more diversified fund.
- 4. Purchases and sales of securities** — For the period ended June 30, 2008, purchases and sales of securities other than United States government obligations and short-term investments aggregated \$992,409,815 and \$959,377,863, respectively. There were no purchases or sales of long-term United States government obligations.
- 5. A. Management fees** — During the period ended June 30, 2008, the Fund incurred management fees of \$2,849,429, 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 the Fund. The management agreement provides for a fee at the annual rate of 0.90% on the first \$500 million of the Fund's average daily net assets, 0.80% of the next \$500 million and 0.75% 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 were 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 \$54,116, for the period ended June 30, 2008, 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

CGM MUTUAL FUND

NOTES TO FINANCIAL STATEMENTS (continued)

(unaudited)

other services to the Fund, some of whom are officers of the Fund. Of the total expense reimbursement, \$43,434 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 ending December 31, 2008, each disinterested trustee will be compensated by the three CGM Funds with an annual fee of \$70,000 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 those functions who receives an additional \$30,000 annually. Of these amounts, CGM Mutual Fund is responsible for \$9,000 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.

6. FASB 157 — In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, (FAS 157) "Fair Value Measurements", effective for fiscal years beginning after November 15, 2007. The Fund adopted the provisions of FAS 157 on January 1, 2008. FAS 157 defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles and expands disclosure about fair value measurements.

In accordance with FAS 157, CGM Mutual Fund may use valuation techniques consistent with the market, income, and cost approach to measure fair value. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities. The income approach uses valuation techniques to convert future amounts (cash flows, earnings) to a single present amount. The cost approach is based on the amount that currently would be required to replace the service capacity of an asset. To increase consistency and comparability in fair value measurements and related disclosures, CGM Mutual Fund utilizes a fair value hierarchy which prioritizes the various inputs to valuation techniques used to measure fair value into three broad levels:

- Level 1 — Prices determined using: quoted prices in active markets for identical securities
- Level 2 — Prices determined using: other significant observable inputs (including quoted prices for similar securities, interest rates, prepayment spreads, credit risk, etc.)
- Level 3 — Prices determined using: significant unobservable inputs. In situations where quoted prices or observable inputs are unavailable (for example, when there is little or no market activity for an investment at the end of the period), unobservable inputs may be used. Unobservable inputs reflect CGM Mutual Fund's own assumptions about the factors market participants would use in pricing an investment, and would be based on the best information available in the circumstances.

CGM MUTUAL FUND

NOTES TO FINANCIAL STATEMENTS (continued)

(unaudited)

The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities. The following is a summary of the inputs used to value CGM Mutual Fund's investments as of June 30, 2008:

Valuation Inputs	Investments in Securities	Other Financial Instruments
Level 1 – Quoted Prices	\$638,001,598	N/A
Level 2 – Other Significant Observable Inputs	83,503,638	N/A
Level 3 – Significant Unobservable Inputs	none	N/A
Total	<u>\$721,505,236</u>	<u>N/A</u>

When current market prices or quotations are not readily available or do not accurately reflect fair value, valuations may be determined in accordance with procedures adopted by the Board of Trustees. For example, when developments occur between the close of a market and the close of the NYSE that may materially affect the value of some or all the securities, or when trading in a security is halted, these procedures may be used. The frequency with which these procedures are used is unpredictable. These valuation procedures may result in a change to a particular security's assigned level within the fair value hierarchy described above. The value of securities used for NAV calculation under these procedures may differ from published prices for the same securities.

CGM MUTUAL FUND

FUND EXPENSES

As a shareholder of CGM Mutual 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 January 1, 2008 to June 30, 2008.

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 1/01/08</i>	<i>Ending Account Value 6/30/08</i>	<i>Expenses Paid During Period* 1/01/08 – 6/30/08</i>
Actual	\$1,000.00	\$1,046.90	\$5.24
Hypothetical (5% return before expenses)	\$1,000.00	\$1,019.74	\$5.17

* Expenses are equal to the Fund's annualized expense ratio of 1.03%, multiplied by the average account value over the period, multiplied by 182/366 (to reflect the one-half year period).

CGM MUTUAL FUND

25 YEAR INVESTMENT RECORD DECEMBER 31, 1982 — JUNE 30, 2008 (unaudited)

IF YOU HAD PURCHASED ONE SHARE OF THE FUND ON DECEMBER 31, 1982

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 Shares 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, 1982 = 100.0
1982	\$18.16					100.0
1983	18.81	—	\$ 1.09	\$ 19.96	+ 9.9%	109.9
1984	17.01	\$ 1.86	0.95	21.22	+ 6.3	116.8
1985	21.53	—	1.08	28.54	+ 34.5	157.1
1986	22.86	2.75	0.94	35.70	+ 25.1	196.5
1987	20.40	4.52	1.06	40.59	+ 13.7	223.4
1988	19.94	—	1.10	41.89	+ 3.2	230.5
1989	22.34	0.95	0.93	50.98	+ 21.7	280.5
1990	21.64	—	0.93*	51.54	+ 1.1	283.6
1991	26.80	2.64	0.97	72.62	+ 40.9	399.6
1992	26.02	1.42	0.93	77.05	+ 6.1	424.0
1993	28.88	1.93	0.86	93.85	+ 21.8	516.4
1994	25.05	—	1.04	84.75	— 9.7	466.3
1995	29.43	0.89	0.77	105.34	+ 24.3	579.6
1996	31.42	4.15	0.74	130.31	+ 23.7	717.0
1997	25.52	7.81	0.67	141.00	+ 8.2	775.8
1998	26.36	0.25	0.98	152.56	+ 8.2	839.4
1999	27.28	3.54	0.84	183.83	+ 20.5	1011.5
2000	23.38	—	0.73	162.51	— 11.6	894.2
2001	20.47	—	0.20	143.66	— 11.6	790.5
2002	16.65	—	0.41	119.38	— 16.9	656.9
2003	23.00	—	0.23	166.77	+ 39.7	917.7
2004	25.33	—	0.16	184.95	+ 10.9	1017.7
2005	27.89	0.83	0.31	211.95	+ 14.6	1166.3
2006	27.78	1.20	0.45	223.61	+ 5.5	1230.4
2007	31.80	6.30	0.33	309.70	+ 38.5	1704.1
2008 (6/30)	33.22	—	0.07	324.26	+ 4.7	1784.2
Totals		\$41.04	\$18.77		+1684.2	

*Includes \$0.05 per share distributed from paid-in capital.

Shares were first offered on November 5, 1929; the net asset value per share, adjusted for stock splits and dividends, was \$8.33.

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. The adviser waived \$0.02 and \$0.02 per share of management fee in 2003 and 2004, respectively. Otherwise, the annual total return for 2003 and 2004 and the cumulative 25-year return would have been lower.

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, 2008 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 Fund's Form 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.

Advisory Agreement Approval:

In considering renewal of the advisory agreement, during meetings held in March and April 2008, the Board of Trustees of the Fund (the "Board") considered the following factors and came to the following conclusions:

- 1.** The Board considered the nature, extent, quality and scope of the investment advisory and administrative services provided by CGM to the Fund. The Board agreed that the nature, extent, quality and scope of the CGM professional team working on the Fund was very high, and was satisfied with the quality of CGM's advisory and administrative services.
- 2.** The Board considered the investment performance of the Fund and CGM and reviewed information regarding the performance of the Fund as compared to market indices and a peer group of other balanced funds selected and provided by Lipper, Inc., an independent provider of investment company data. The Board noted the strong performance of the Fund for the one-year, three-year, five-year and ten-year periods ended December 31, 2007 and that for such time period the Fund (a) exceeded the median performance for the other mutual funds included in the Lipper reports, and (b) outperformed the S&P 500 Index. The Board agreed that this performance reflected in large measure the focus of CGM on long-term performance in managing the Fund's assets, including taking advantage of strategic trends in the economy that might take some time to develop. The Board acknowledged that, while for some periods this focus on long-term performance might cause the Fund to lag other comparable mutual funds with a more short-term focus, over the longer term CGM's approach had proven its worth.
- 3.** The Board discussed the costs of the services provided and profits realized by CGM from the relationship with the mutual funds advised by CGM and each of the separate accounts managed by CGM, and found that the profit margins were reasonable and not excessive.
- 4.** The Board discussed with CGM whether economies of scale might be realized with growth in the Fund. Given the relatively small size of the Fund and CGM's investment style, the Board determined that it would not be advisable at this time to seek to make adjustments to the break point structure of the advisory fees paid by the Fund.
- 5.** The Board received and considered information comparing the advisory fees paid by the Fund and the overall expenses borne by the Fund with those of funds in the relevant expense universe as selected and

CGM MUTUAL FUND

ADDITIONAL INFORMATION (continued)

(unaudited)

provided by Lipper, Inc. The Board noted that the overall expense ratio of the Fund was above the median overall expense ratios of other mutual funds included in the Lipper reports, but concluded that this was reasonable due to the fact that the Fund maintained a higher percentage of equities in its portfolio and had a more active investment style than many other balanced mutual funds. The Board also reviewed information regarding fees charged by CGM to its other clients, including its separate account clients. CGM reviewed with the Board the significant differences in scope of services provided to the Fund and to those other clients, noting that the Fund required a greater allocation of management's time as a result of its differing investment mandate and the fact that it is a publicly offered investment vehicle. The Board discussed the fee comparisons in light of the differences required to manage these different types of accounts. Based on these comparisons, the Board concluded that the advisory fees paid by the Fund and the overall expenses borne by the Fund were reasonable and competitive.

In addition to the foregoing, in light of the fact that CGM could potentially benefit from soft dollar arrangements of the Fund, the Board of Trustees reviewed the brokerage commissions of the Fund and concluded that the brokerage commissions were reasonable, particularly given the Fund's relatively small size and focus on best execution.

CGM MUTUAL FUND

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Boston, Massachusetts 02110

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