

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

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P.O. Box 8511
Boston, MA 02266-8511

WEBSITE

<http://www.cgmfund.com>

CGM Realty Fund

15th Annual Report
December 31, 2008

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.

RAR 08

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Investment Adviser

Capital Growth Management
Limited Partnership

To Our Shareholders:

CGM Realty Fund declined -41.5% during the fourth quarter of 2008 compared to the unmanaged Standard and Poor's 500 Index which fell -21.9% and the FTSE NAREIT Equity REITs Index which fell -38.8%. For the year just ended, CGM Realty Fund returned -46.9%, the S&P 500 Index, -37.0% and the FTSE NAREIT Equity REITs Index, -37.7%.

The Year in Review and Economic Outlook

In December, the National Bureau of Economic Research announced the U.S. economy had, in fact, entered a recession twelve months earlier in December of 2007. To anyone in the homebuilding, banking, retail or investment banking businesses, this came as no surprise...

In the first quarter of 2008, Bear Stearns became the first victim of what was to become a rapidly unfolding financial meltdown. J.P. Morgan purchased the venerable investment house for a mere \$10 per share and the government absorbed some \$29 billion of its mortgage backed securities. Although the Federal Reserve Board had locked its sights on the housing market as early as August of 2007 when it began reducing the Federal Discount rate, in early 2008 the government ratcheted up its efforts to counter plummeting home prices and slowing consumer sales by proposing a \$150 billion stimulus program which was disbursed in May, June and July. By mid-year, the economy's prognosis was improving as promising trends in trade, agriculture, energy and commodities combined with fairly aggressive monetary policy and fiscal incentives pointed to recovery. But, in a case of too much of a good thing, the price of crude oil then skyrocketed to \$147 per barrel, up from \$70 one year earlier. Still, it looked as though the government stimulus package was helping consumers absorb the resulting \$4.00 per gallon cost of gasoline and though the Fed continued to mention inflation as an ongoing risk, the unemployment rate remained a relatively low 5.5% in June. July's durable goods orders were up 1.3% and the Consumer Confidence Index which had taken a hit the month before rebounded to 56.9 in August from 51.9 in July. September, however, was an altogether different story.

On September 7, the federal government seized Freddie Mac and Fannie Mae, the primary buyers of mortgages in the U.S. On September 10, Lehman Brothers announced a \$3.9 billion loss for the previous quarter. One week later, the government agreed to loan American International Group \$85 billion (later increased to \$150 billion) claiming AIG was "too big to fail." Lehman was left to fend for itself and unable to find a buyer, fell victim to the crisis. Other financial institutions sought

assistance and the few remaining large independent brokerage firms either merged with commercial banks or registered as bank holding companies. Grudgingly, Congress approved the Troubled Asset Relief Program (TARP) to the tune of \$700 billion dollars, the first \$350 billion of which largely went to shore up balance sheets throughout the banking system. In early November, General Motors announced sales figures for October were a full 45% lower than those of October 2007. GM principally blamed frozen credit markets and its CEO along with the head of the UAW and leaders of the other two major U.S. automobile firms took their case to Congress pleading for billions of dollars in government loans. Congress excoriated the CEOs for arriving from Detroit on separate private jets and seemed more interested in executive compensation than in company overhead and labor costs versus the competition. As the high drama was unfolding in Washington, the S&P 500 declined to 752.44 on November 20, 2008, down 52% from its all-time high reached a little more than a year earlier in October 2007. The auto executives were sent home empty-handed and told to return (via other transport) with detailed plans for survival in a new, leaner environment. Two weeks later, Detroit's CEOs made the return trip to the Capitol with plans in hand, but to no avail: Congress did not approve their loans. Then, on December 19, the White House intervened and allocated \$17 billion in TARP funds to Chrysler and General Motors in an effort to avert their bankruptcy. As a condition of the loans, the companies must demonstrate financial viability by March 31, 2009. Widespread doubt that loans to the auto companies will do anything more than just kick the problem further down the road along with other factors weighed heavily on the Consumer Confidence Index pushing it to 38 in December, the lowest point in its 41-year history (and down from 90 just one year ago).

The year 2008 will figure prominently in economic history books as a year of dramatic easing of monetary policy, starting with a Federal Funds rate of 4.25% on January 1 (down from 5.25% in August 2007) to a low of 0% announced on December 16, 2008 (described as a range of 0% to .25% given the difficulty of managing a zero cost of money). Announcement of the latest cut promptly sank the 10-year government bond to 2.12%, its lowest yield since 1951. Add to the Fed's efforts the recent plunge in the price of oil to \$40 per barrel which translates into gasoline at less than \$2.00 per gallon and money should make its way back into the consumer's pocket.

For nearly sixteen months, the Fed, the Treasury Department and Congress have done yeoman's duty in

CGM REALTY FUND

an effort to restore confidence, increase liquidity in the financial system and rejuvenate the economy. We believe we are headed in the right direction though it will take some time—possibly the better part of 2009 or longer—to squeeze remaining toxic debt out of the system.

Portfolio Strategy

During the first half of 2008, the CGM Realty Fund portfolio included substantial holdings in office and industrial REITs, mall (retail) REITs and mining companies. Mining stocks were eliminated in the second half of the year as the global economy weakened and proceeds were reinvested in apartment and mortgage REITs.

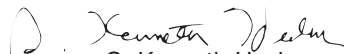
Almost all the Fund's REIT holdings experienced major declines. The largest loss occurred in General Growth Properties which was severely punished because of difficulty refinancing its debt as credit markets seized up in the latter half of the year. Only the mortgage REITs held their value in this hostile environment.

Although the mining stocks performed well before June 30, REIT losses in the final two quarters of the year more than offset those gains.

At year-end, CGM Realty Fund was approximately 34% invested in retail REITs, 23% in office and industrial REITs, 15% each in mortgage and apartment REITs and 9% in health care and miscellaneous REITs. On December 31, 2008, the Fund's three largest holdings were in the following REITs: Annaly Capital Management, Inc. (mortgage), Federal Realty Investment Trust (retail) and ProLogis (office and industrial).

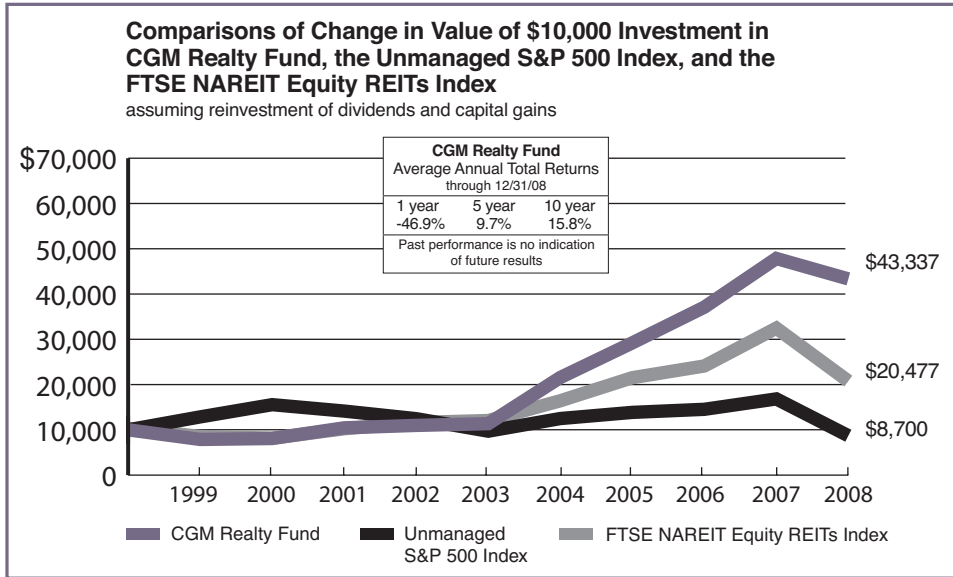


Robert L. Kemp
President



G. Kenneth Heebner
Portfolio Manager

January 2, 2009



**CGM REALTY FUND
Portfolio Manager**

G. Kenneth Heebner has managed CGM Realty Fund since its inception on May 13, 1994. In 1990, Mr. Heebner founded Capital Growth Management Limited Partnership with Robert L. Kemp. Prior to establishing the new company, Mr. Heebner managed mutual funds at Loomis, Sayles and Company. In addition to CGM Realty Fund, he currently manages CGM Mutual Fund and CGM Focus Fund.

See the Schedule of Investments on pages 4 and 5 for the percentage of net assets of the Fund invested in particular industries as of December 31, 2008.

INVESTMENT PERFORMANCE
(unaudited)

Cumulative Total Return for Periods
Ended December 31, 2008

	<u>CGM Realty Fund</u>
10 Years	+334.0%
5 Years	+ 58.6
1 Year	- 46.9
3 Months	- 41.5

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 REALTY FUND

INVESTMENTS as of December 31, 2008

REAL ESTATE INVESTMENT TRUSTS — 97.2% OF TOTAL NET ASSETS

	Shares	Value (a)
Apartments — 15.3%		
BRE Properties, Inc.	350,000	\$ 9,793,000
Essex Property Trust, Inc.	636,600	48,859,050
Home Properties, Inc. (b)	1,800,000	73,080,000
UDR, Inc.	2,000,000	27,580,000
		159,312,050
Healthcare — 4.5%		
Ventas, Inc.	1,395,000	46,830,150
Miscellaneous — 4.5%		
Entertainment Properties Trust	1,600,000	47,680,000
Mortgage — 15.5%		
Annaly Capital Management, Inc.	8,320,000	132,038,400
Chimera Investment Corporation	8,500,000	29,325,000
		161,363,400
Office and Industrial — 23.2%		
Alexandria Real Estate Equities, Inc.	1,087,400	65,613,716
Digital Realty Trust, Inc.	1,885,400	61,935,390
Douglas Emmett, Inc.	1,100,000	14,366,000
ProLogis	5,793,000	80,464,770
SL Green Realty Corp.	750,000	19,425,000
		241,804,876
Retail — 34.2%		
Developers Diversified Realty Corporation (b)	10,200,000	49,776,000
Federal Realty Investment Trust	1,505,000	93,430,400
Simon Property Group, Inc.	1,310,000	69,600,300
Tanger Factory Outlet Centers, Inc.	305,000	11,474,100
Taubman Centers, Inc.	2,420,000	61,613,200
The Macerich Company (b)	3,873,900	70,350,024
		356,244,024
TOTAL REAL ESTATE INVESTMENT TRUSTS (Identified cost \$1,382,681,093)		1,013,234,500

See accompanying notes to financial statements.

CGM REALTY FUND

INVESTMENTS as of December 31, 2008 (continued)

SHORT-TERM INVESTMENT — 1.5% OF TOTAL NET ASSETS

	Face Amount	Value(a)
American Express Credit Corporation, 0.01%, 01/02/09 (Cost \$15,220,000)	\$15,220,000	\$ 15,220,000
TOTAL INVESTMENTS — 98.7% (Identified cost \$1,397,901,093)		1,028,454,500
Cash and receivables		28,167,804
Liabilities		(14,559,731)
TOTAL NET ASSETS — 100.0%		\$1,042,062,573

(a) See notes 1A and 6.

(b) Non-controlled affiliate (See Note 7).

See accompanying notes to financial statements.

CGM REALTY FUND

STATEMENT OF ASSETS AND LIABILITIES

December 31, 2008

Assets

Investments at value:			
Unaffiliated issuers			
(Identified cost —			
\$1,079,374,413)	\$835,248,476		
Non-controlled affiliates			
(Identified cost —			
\$318,526,680)	<u>193,206,024</u>	\$1,028,454,500	
Cash			510
Receivable for:			
Securities sold	13,572,068		
Shares of the Fund			
sold	1,588,163		
Dividends and interest	<u>13,007,063</u>	<u>28,167,294</u>	
Total assets		<u>1,056,622,304</u>	

Liabilities

Payable for:			
Securities purchased	7,781,403		
Shares of the Fund			
redeemed	2,582,839		
Tax withholding liability	1,050		
Distributions declared	<u>3,277,814</u>	<u>13,643,106</u>	
Accrued expenses:			
Management fees	654,506		
Trustees' fees	20,071		
Accounting,			
administration and			
compliance expenses	20,522		
Transfer agent fees	124,787		
Other expenses	<u>96,739</u>	<u>916,625</u>	
Total liabilities		<u>14,559,731</u>	

Net Assets \$1,042,062,573

Net Assets consist of:			
Capital paid-in	\$1,704,555,209		
Accumulated net realized losses on			
investments	(293,046,043)		
Net unrealized depreciation on			
investments	<u>(369,446,593)</u>		

Net Assets \$1,042,062,573

Shares of beneficial interest			
outstanding, no par value	<u>64,230,727</u>		
Net asset value per share*		<u>\$16.22</u>	

*Shares of the Fund are sold and redeemed at net asset value (\$1,042,062,573 ÷ 64,230,727).

STATEMENT OF OPERATIONS

Year Ended December 31, 2008

Investment Income

Income:	
Dividends (net of withholding tax of	
\$220,443 and includes \$1,768,860	
from non-controlled affiliated	
issuers)	\$ 65,475,639
Interest	<u>823,086</u>
	<u>66,298,725</u>

Expenses:	
Management fees	14,799,499
Trustees' fees	81,623
Accounting, administration and	
compliance expenses	246,255
Custodian fees and expenses	240,643
Transfer agent fees	685,111
Audit and tax services	41,150
Legal	56,335
Printing	121,510
Registration fees	122,426
Line of credit commitment fee	20,335
Miscellaneous expenses	<u>6,030</u>
	<u>16,420,917</u>
Net investment income	<u>49,877,808</u>

Realized and Unrealized Gain (Loss) on Investments

Net realized losses on investments		
(including net realized loss of		
\$19,272,965 on sales of investments		
in non-controlled affiliated issuers)	(293,046,043)	
Net unrealized depreciation (including		
unrealized depreciation of		
\$117,141,155 in non-controlled		
affiliated issuers)	<u>(839,990,914)</u>	
Net realized and unrealized losses on		
investments	<u>(1,133,036,957)</u>	

Change in Net Assets from Operations \$(1,083,159,149)

See accompanying notes to financial statements.

CGM REALTY FUND

STATEMENT OF CHANGES IN NET ASSETS

	Year Ended December 31,	
	2008	2007
From Operations		
Net investment income	\$ 49,877,808	\$ 15,062,683
Net realized gains (losses) on investments	(293,046,043)	269,987,939
Net unrealized appreciation (depreciation)	(839,990,914)	216,018,781
Change in net assets from operations	(1,083,159,149)	501,069,403
From Distributions to Shareholders		
Net investment income	(41,077,152)	(13,939,899)
Net short-term realized capital gains on investments	—	(117,024,618)
Net long-term realized capital gains on investments	—	(147,041,038)
	(41,077,152)	(278,005,555)
From Capital Share Transactions		
Proceeds from sale of shares	794,360,696	574,783,411
Net asset value of shares issued in connection with reinvestment of:		
Dividends from net investment income	31,630,494	11,065,084
Distributions from net short-term realized capital gains on investments	—	94,353,620
Distributions from net long-term realized capital gains on investments	—	118,556,947
	825,991,190	798,759,062
Cost of shares redeemed	(658,153,090)	(498,107,852)
Change in net assets derived from capital share transactions	167,838,100	300,651,210
Total change in net assets	(956,398,201)	523,715,058
Net Assets		
Beginning of period	1,998,460,774	1,474,745,716
End of period	\$1,042,062,573	\$1,998,460,774
Number of Shares of the Fund:		
Issued from sale of shares	26,769,377	18,339,803
Issued in connection with reinvestment of:		
Dividends from net investment income	1,544,773	345,179
Distributions from net short-term realized capital gains on investments	—	2,981,157
Distributions from net long-term realized capital gains on investments	—	3,745,875
	28,314,150	25,412,014
Redeemed	(27,629,502)	(16,365,379)
Net change	684,648	9,046,635

See accompanying notes to financial statements.

CGM REALTY FUND

FINANCIAL HIGHLIGHTS

	For the Year Ended December 31,				
	2008	2007	2006	2005	2004
For a share of the Fund outstanding throughout each period:					
Net asset value at the beginning of period	\$31.45	\$27.06	\$27.19	\$29.56	\$24.75
Net investment income (a)	0.72	0.27	0.45	0.43	0.19
Net realized and unrealized gains (losses) on investments	(15.34)	9.06	7.37	7.51	8.55
Total from investment operations	<u>(14.62)</u>	<u>9.33</u>	<u>7.82</u>	<u>7.94</u>	<u>8.74</u>
Dividends from net investment income	(0.61)	(0.25)	(0.45)	(0.43)	(0.18)
Distribution from net short-term realized gains	—	(2.08)	(0.42)	—	(0.16)
Distribution from net long-term realized gains	—	(2.61)	(7.08)	(9.88)	(3.59)
Total distributions	<u>(0.61)</u>	<u>(4.94)</u>	<u>(7.95)</u>	<u>(10.31)</u>	<u>(3.93)</u>
Net increase (decrease) in net asset value	(15.23)	4.39	(0.13)	(2.37)	4.81
Net asset value at end of period	<u>\$16.22</u>	<u>\$31.45</u>	<u>\$27.06</u>	<u>\$27.19</u>	<u>\$29.56</u>
Total return (%)	(46.9)	34.4	29.0	27.0	35.5
Ratios:					
Operating expenses to average net assets (%)	0.86	0.86	0.88	0.92	0.96
Net investment income to average net assets (%)	2.62	0.86	1.49	1.34	0.73
Portfolio turnover (%)	218	200	160	136	43
Net assets at end of period (in thousands) (\$)	1,042,063	1,998,461	1,474,746	1,031,966	785,399

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

See accompanying notes to financial statements.

CGM REALTY FUND

NOTES TO FINANCIAL STATEMENTS — December 31, 2008

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 May 13, 1994. The Fund's investment objective is to provide a combination of income and long-term growth of capital. The Fund intends to pursue its objective by investing primarily in equity securities of companies in the real estate industry, including real estate investment trusts.

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. Equity securities listed or regularly traded on a securities exchange or in the over-the-counter (OTC) market are valued at the last quoted sale price or, for certain markets, the official closing price at the time the valuations are made. A security that is listed or traded on more than one exchange is valued at the quotation on the exchange determined to be the primary market for such security. For securities with no sale reported, 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, a portion of which may be recoverable. The Fund will accrue such taxes and recoveries as applicable based upon its current interpretations of the tax rules and regulations that exist in the markets in which it invests. Interest income is recorded on the 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 consist 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. Non-cash dividend payments, if any, are recorded at the fair market value of the securities received.
- 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

CGM REALTY FUND

NOTES TO FINANCIAL STATEMENTS (continued)

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 review of the Fund's tax return 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, ongoing analysis of tax laws, regulations and interpretations thereof.

At December 31, 2008, the Fund had available for tax purposes, capital loss carryovers of \$287,181,102 expiring December 31, 2016.

As of December 31, 2008, 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>
\$—	\$—	\$(375,311,534)

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, 2008 was as follows:

<u>Identified Cost</u>	<u>Gross Unrealized Appreciation</u>	<u>Gross Unrealized Depreciation</u>	<u>Net Unrealized Depreciation</u>
\$1,403,766,034	\$41,374,262	\$(416,685,796)	\$(375,311,534)

- 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 realized gain/loss. 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, 2008 and 2007 were as follows:

<u>Year</u>	<u>Ordinary Income</u>	<u>Long-term Capital Gains</u>	<u>Total</u>
2008	\$ 41,077,152	\$ —	\$ 41,077,152
2007	\$130,964,517	\$147,041,038	\$278,005,555

- E. Indemnities** — In the normal course of business, the Fund may enter into contracts that provide indemnities to third parties for various potential losses and claims. The Fund's maximum exposure under these arrangements is unknown as this would depend on future claims that may be made against the Fund. The risk of material loss from such claims is considered remote.

CGM REALTY FUND

NOTES TO FINANCIAL STATEMENTS (continued)

2. Risks and uncertainties

- A. Risks associated with focused investing** — The Fund, although diversified, takes a focused approach to investing within particular industries or sectors of the economy and may invest in a relatively small number of individual holdings. Therefore, the Fund may be subject to greater price volatility and may be more adversely affected by the performance of particular industries, sectors, or individual holdings than would a more diversified fund. In addition, the Fund invests primarily in companies in the real estate industry, including REITs. Funds with a concentration are particularly susceptible to the impact of market, economic, regulatory and other factors affecting the specific concentration.
- B. Risks associated with foreign investments** — The Fund may invest in securities issued by institutions, corporations and governments established by or located in foreign countries, which may be developed or undeveloped countries. Investing in foreign securities may involve significant risks. For example, there is generally less publicly available information about foreign companies, particularly those not subject to the disclosure and reporting requirements of the U.S. securities laws. Foreign issuers are generally not bound by uniform accounting, auditing, and financial reporting requirements and standards of practice comparable to those applicable to domestic issuers. Investments in foreign securities also involve the risk of possible adverse changes in investment or exchange control regulations, expropriation or confiscatory taxation, limitation on the removal of the Fund or other assets of the Fund, political or financial instability or diplomatic and other developments which could affect such investments. Foreign stock markets, while growing in volume and sophistication, are generally not as developed as those in the United States, and securities of some foreign issuers (particularly those located in developing countries) may be less liquid and more volatile than securities of comparable U.S. companies. In general, there is less overall governmental supervision and regulation of foreign securities markets, broker-dealers and issuers than in the United States. Additionally, because some foreign securities the Fund may acquire are purchased with and payable in foreign currencies, the value of these assets as measured in U.S. dollars may be affected favorably or unfavorably by changes in currency rates and exchange control regulations.

The Fund's Prospectus and Statement of Additional Information contain additional information on other risks and uncertainties relating to the Fund's investments.

- 3. Purchases and sales of securities** — For the period ended December 31, 2008, purchases and sales of securities other than United States government obligations and short-term investments aggregated \$4,283,561,143 and \$4,105,833,505, respectively. There were no purchases or sales of long-term United States government obligations.
- 4. A. Management fees** — During the period ended December 31, 2008, the Fund incurred management fees of \$14,799,499, paid or payable to the Fund's investment adviser, Capital Growth Management Limited Partnership (CGM), certain officers and employees of which are also officers and trustees of the Fund. The management agreement provides for a fee at the annual rate of 0.85% on the first \$500 million of the Fund's average daily net assets and 0.75% on amounts in excess of \$500 million.
- 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

CGM REALTY FUND

NOTES TO FINANCIAL STATEMENTS (continued)

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 \$246,255, for the period ended December 31, 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 other services to the Fund, including \$180,597 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 officers or employees of CGM, or any affiliate of CGM (other than registered investment companies). For the period ended December 31, 2008, each disinterested trustee was compensated by the Trust 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 Trust's Board and have designated a chairman to oversee those functions who receives an additional \$30,000 annually. Of these amounts, the Fund is responsible for \$9,000 per trustee annually, plus an annual variable fee calculated based on the proportion of the Fund's average net assets relative to the aggregate average net assets of the Trust.

5. Line of credit — The Fund had a \$20,000,000 committed unsecured line of credit with State Street Bank and Trust Company. Borrowings under the line will be charged interest at 0.75% over the current Overnight Federal Funds Rate. The Fund incurs a commitment fee of 0.10% per annum on the unused portion of the line of credit, payable quarterly, through June 17, 2009. There were no borrowings under the line of credit during the period ended December 31, 2008.

6. FASB 157 — In September 2006, 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, the 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 disclosure, the 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.)

CGM REALTY FUND

NOTES TO FINANCIAL STATEMENTS (continued)

- 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 the Fund's management'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.

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 Realty Fund's investments as of December 31, 2008:

Valuation Inputs	Investments in Securities	Other Financial Instruments
Level 1 – Quoted Prices	\$1,013,234,500	N/A
Level 2 – Other Significant Observable Inputs	15,220,000	N/A
Level 3 – Significant Unobservable Inputs	none	N/A
Total	<u>\$1,028,454,500</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.

7. 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, 2008:

Name of Issuer	Number of Shares Held December 31, 2007	Gross Purchases	Gross Sales	Number of Shares Held December 31, 2008	Dividend Income	Market Value December 31, 2008
Developers Diversified Realty Corporation . . .	—	10,200,000	—	10,200,000	\$ —	\$ 49,776,000
General Growth Properties, Inc.*	—	17,950,000	17,950,000	—	—	—
Home Properties, Inc.	—	1,800,000	—	1,800,000	616,487	73,080,000
Tanger Factory Outlet Centers, Inc.**	1,880,000	555,000	2,130,000	305,000	1,152,373	—
The Macerich Company	1,290,000	3,873,900	1,290,000	3,873,900	—	70,350,024
				Total	<u>\$1,768,860</u>	<u>\$193,206,024</u>

* Position in issuer liquidated during the preceding twelve months.

** As of May 23, 2008 this security is no longer considered an affiliated issuer.

CGM REALTY FUND

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Trustees of CGM Trust and Shareholders of CGM Realty 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 Realty Fund (the “Fund”, a series of CGM Trust) at December 31, 2008, 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, 2008 by correspondence with the custodian and brokers, provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP
Boston, Massachusetts
February 17, 2009

CGM REALTY 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, 2008 are available without charge, upon request by calling 1-800-345-3048. 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 REALTY FUND

FUND EXPENSES

As a shareholder of CGM Realty 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, 2008 to December 31, 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 7/01/08</i>	<i>Ending Account Value 12/31/08</i>	<i>Expenses Paid During Period* 7/01/08 – 12/31/08</i>
Actual	\$1,000.00	\$ 509.50	\$3.34
Hypothetical (5% return before expenses)	\$1,000.00	\$1,020.71	\$4.47

* Expenses are equal to the Fund’s annualized expense ratio of 0.88%, multiplied by the average account value over the period, multiplied by 184/366 (to reflect the one-half year period).

CGM REALTY FUND

TAX INFORMATION (unaudited) FOR THE TAX YEAR ENDED 12/31/2008

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, 2008, the Fund designated \$0 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 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 % 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 68	Trustee since 1993	Co-founder and Employee, CGM; Controlling Owner, Kenbob, Inc. (general partner of CGM)	3
Robert L. Kemp* age 76	Trustee since 1990	Co-founder and Employee, CGM; Non-voting Owner, Kenbob, Inc. (general partner of CGM)	3
Disinterested Trustees			
Peter O. Brown age 68	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 to 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	3

CGM REALTY 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 59	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 to 2002)	3
James Van Dyke Quereau, Jr. age 60	Trustee since 1993	Managing Partner and Director, Stratton Management Company (investment management); Director and Vice President, Semper Trust Co.	3
J. Baur Whittlesey age 62	Trustee since 1990	Member, Ledgewood, P.C. (law firm)	3
Officers			
G. Kenneth Heebner* age 68	Vice President since 1990	Co-founder and Employee, CGM; Controlling Owner, Kenbob, Inc. (general partner of CGM)	3
Robert L. Kemp* age 76	President since 1990	Co-founder and Employee, CGM; Non-voting Owner, Kenbob, Inc. (general partner of CGM)	3
David C. Fietze* age 39 address: 38 Newbury Street Boston, Massachusetts 02116	Chief Compliance Officer since 2004	Employee – Legal counsel, CGM; formerly counsel, Bartlett Hackett Feinberg, P.C.	3
Kathleen S. Haughton* age 48 address: 38 Newbury Street Boston, Massachusetts 02116	Vice President since 1992 and Anti-Money Laundering Compliance Officer since 2002	Employee – Investor Services Division, CGM	3
Jem A. Hudgins* age 45	Treasurer since 2004	Employee – CGM	3
Leslie A. Lake* age 63	Vice President and Secretary since 1992	Employee – Office Administrator, CGM	3
Martha I. Maguire* age 53	Vice President since 1994	Employee – Funds Marketing, CGM	3
Mary L. Stone* age 64	Assistant Vice President since 1990	Employee – Portfolio Transactions, CGM	3