

## **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

# **CGM Realty Fund**

16<sup>th</sup> Annual Report  
December 31, 2009

A No-Load Fund

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## **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

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## **MAILING ADDRESS**

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

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## **WEBSITE**

<http://www.cgmfund.com>

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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.



*Investment Adviser*

**Capital Growth Management  
Limited Partnership**

## To Our Shareholders:

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CGM Realty Fund returned 6.3% during the fourth quarter of 2009 compared to the Standard and Poor's 500 Index which grew 6.0% and the FTSE NAREIT Equity REITs Index which increased 9.4%. For the year just ended, CGM Realty Fund rose 34.4%, the S&P 500 Index rose 26.5% and the FTSE NAREIT Equity REITs Index returned 28.0%.

### **The Year in Review and Economic Outlook**

We believe the economic outlook is decidedly brighter today than it was one year ago. Indeed, the first quarter of 2009 was disastrous. Credit lines for most major banking institutions were frozen or severely limited, unemployment in the United States was rapidly rising and the stock market plummeted 25% in the first nine weeks of 2009. At the end of February 2009, General Motors reported a \$30.9 billion loss for 2008 and shortly thereafter, the federal government seized control of the company and replaced its chairman.

In the bond market, the flight to quality drove the yield on the 10-year Treasury bond to a low of 2.2% on January 15, 2009. Interest rates remained exceptionally low throughout the first quarter of the year, barely skirting 3.0%, but helping to set the stage for a rise in equity prices.

On March 10, the equity market, as measured by the S&P 500 Index, started to climb once credit lines showed signs of thawing and investor confidence began to pick up. Economic news was still grim though earlier fears of a shutdown of the banking system never materialized. General Motors did file for bankruptcy adding thousands of workers to the unemployment rolls and helping to lift the percentage of out-of-work Americans to 9.4% of the labor force in May. Despite this staggering number, other tentative signs of economic strengthening began to emerge during the summer months: sales of single family homes jumped in July, the Consumer Confidence Index spiked to 54.5 in August from 47.4 in July and retail sales increased 2.4% in August as well. By

mid-September, Fed Chairman Ben Bernanke declared the worst recession since the 1930s “very likely over.”

Nonetheless, other less-than-rosy statistics seemed to dog the recovery generating some skepticism about its pace and questions as to whether the economy will relapse once large government stimulus programs are exhausted. New home sales fell 4.2% in September, the Consumer Confidence Index slid back to 48.7 in October and the Gross Domestic Product was revised downward for the third quarter of 2009 from 3.5% to 2.8% and finally, to a disappointing 2.2%. Even more troubling, the Federal Deposit Insurance Corporation reported a deficit of \$8.2 billion in the third quarter, its first shortfall since 1992, and the number of institutions the FDIC identified as “problem banks” rose from 416 on June 30 to 552 on September 30.

But then, new home sales picked up again, rising 4.3% in October, and a special \$8,000 tax credit for first time home buyers helped boost sales of existing homes up 9.9% in October—the biggest jump in ten years—and up again 7.4% in November. The unemployment rate in 2009 topped out at 10.2% in October and fell back to 10% in November, a very encouraging sign.

Estimates suggest that nearly one half of the 7.3 million jobs lost since December 2007 were in manufacturing and construction. Fifty years ago, manufacturing jobs accounted for 30% of our workforce whereas today, manufacturing represents only 9% and the number continues to decline. We suspect many of those who lost jobs in the manufacturing sector will need to be re-trained in other fields in order to re-enter the labor force. As a result, we anticipate the recovery in jobs will be slower than it has been in other recessions.

Given conflicting economic signals throughout the fall, the equity market traded within a narrow range

## CGM REALTY FUND

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from mid November through most of December though the S&P 500 Index did end the year at a new recovery high. We believe economic news will continue to improve with slow and lagging indicators picking up pace as we move into 2010. We also think the global economy seems similarly positioned to ours with China and India leading the upward charge. A cheaper dollar is providing an extra boost to the U.S. economy through exports to other countries. Admittedly, unemployment remains significant, which tempers prospects for a more robust recovery. At the same time, a high unemployment rate allows for additional growth in the economy before inflationary forces come into play. We believe such an environment is good for interest rates, business expansion and corporate profits. Add to the mix, ten year U.S. Treasury bond rates at 3.8% and 30-year yields at 4.6% on December 31 and conditions could be conducive to higher equity prices.

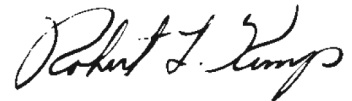
### **Portfolio Strategy**

CGM Realty Fund faced a challenging environment at the start of last year as most property types were adversely affected by the severe recession of 2008-2009. Mall and strip mall REITs were the largest property holdings throughout 2009, ranging from 17% to 40% of the Fund's assets. These retail properties benefit from long-term leases, most of which were written at lower rents and are slated to roll over at current higher levels. The Fund also invested in mortgage REITs which hold high quality mortgages as well as in other specialized property types which were somewhat insulated from impacts of the recession.

During the second half of the year, the Fund sold the mortgage REITs and built a significant position in hotel REITs in anticipation of recovery in this business in 2010.

The Fund's largest gains occurred in the Macerich Company, a retail REIT, though we no longer held it at year end. Other major contributors to Fund performance were Developers Diversified Realty Corporation and Simon Property Group, Inc., both retail REITs, as well as Digital Realty Trust, Inc. a specialty REIT. The Fund's largest losses were realized in ProLogis, an office and industrial REIT, Home Properties, Inc., a residential REIT and Entertainment Properties Trust, a specialty REIT, none of which the Fund held at year end.

CGM Realty Fund was approximately 67% invested in REITs on December 31, 2009, including 18.3% in lodging REITs, 17.4% in retail REITs, 12.1% in office and industrial REITs, 7.5% in specialty REITs and 11.2% in diversified, healthcare and self storage REITs combined. The Fund's largest holdings were in the REITs Digital Realty Trust, Inc. (specialty), Simon Property Group, Inc. (retail) and Alexandria Real Estate Equities, Inc. (office and industrial).

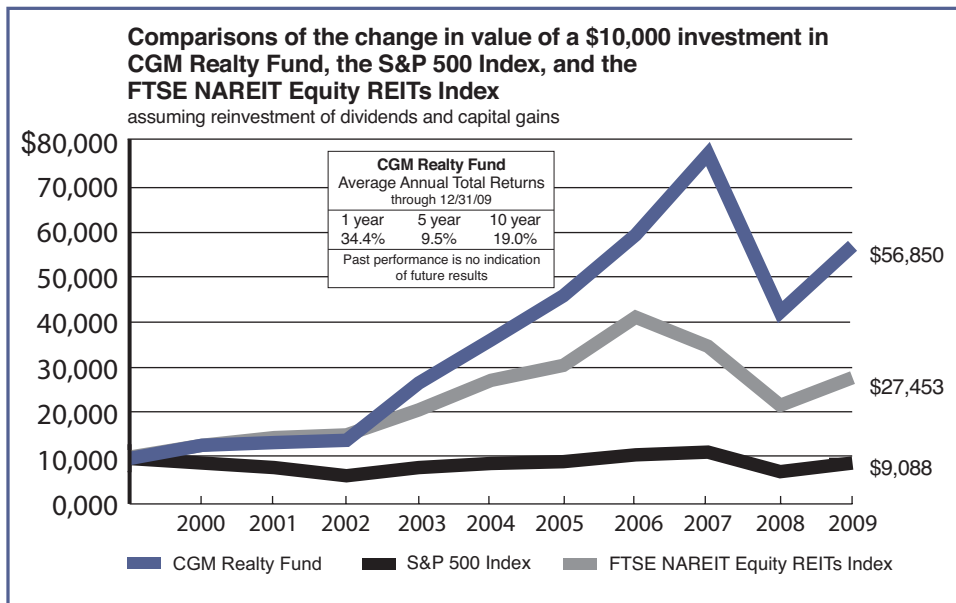


Robert L. Kemp  
President



G. Kenneth Heebner  
Portfolio Manager

January 4, 2010



## 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 as well as other funds and accounts.

## INVESTMENT PERFORMANCE

(unaudited)

Cumulative Total Return for Periods Ended  
December 31, 2009

	CGM Realty Fund
10 Years . . . . .	+468.5%
5 Years . . . . .	+ 57.3
1 Year . . . . .	+ 34.4
3 Months . . . . .	+ 6.3

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 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.

## CGM REALTY FUND

### PORTFOLIO DIVERSIFICATION as of December 31, 2009

#### COMMON STOCKS

Real Estate Investment Trusts	Percent of net assets
Lodging	18.3%
Retail	17.4
Office and Industrial	12.1
Specialty	7.5
Diversified	4.9
Healthcare	4.8
Self Storage	1.5
Other Common Stocks	Percent of net assets
Hotels and Restaurants	15.6%
Copper	11.3
Metals and Mining	5.7

### INVESTMENTS as of December 31, 2009

#### COMMON STOCKS—99.1% of TOTAL NET ASSETS

##### REAL ESTATE INVESTMENTS TRUSTS - 66.5%

	Shares	Value(a)
<b>Diversified — 4.9%</b>		
Vornado Realty Trust .....	880,000	\$ 61,547,200
<b>Healthcare — 4.8%</b>		
Ventas, Inc. ....	1,400,000	61,236,000
<b>Lodging — 18.3%</b>		
DiamondRock Hospitality Company (b) .....	7,560,000	64,033,200
FelCor Lodging Trust Incorporated (c) .....	1,920,000	6,912,000
Host Hotels & Resorts, Inc. ....	6,120,490	71,426,118
LaSalle Hotel Properties (b) .....	3,500,000	74,305,000
Sunstone Hotel Investors, Inc. (c) .....	1,740,000	15,451,200
		<u>232,127,518</u>
<b>Office and Industrial — 12.1%</b>		
Alexandria Real Estate Equities, Inc. ....	1,217,400	78,266,646
SL Green Realty Corp. ....	1,500,000	75,360,000
		<u>153,626,646</u>
<b>Retail — 17.4%</b>		
Developers Diversified Realty Corporation .....	7,057,685	65,354,163
Simon Property Group, Inc. ....	1,135,673	90,626,705
Tanger Factory Outlet Centers, Inc. ....	1,509,600	58,859,304
Taubman Centers, Inc. ....	145,000	5,206,950
		<u>220,047,122</u>
<b>Self Storage — 1.5%</b>		
Public Storage .....	230,000	18,733,500

See accompanying notes to financial statements.

## CGM REALTY FUND

### INVESTMENTS as of December 31, 2009 (continued)

	Shares	Value(a)
<b>Specialty — 7.5%</b>		
Digital Realty Trust, Inc. ....	1,885,400	\$ 94,797,912
<b>TOTAL REAL ESTATE INVESTMENT TRUSTS</b> (Identified cost \$753,269,148) ..		842,115,898
<b>OTHER COMMON STOCKS — 32.6%</b>		
<b>Copper — 11.3%</b>		
Freeport-McMoRan Copper & Gold Inc. (c).....	925,000	74,268,250
Southern Copper Corporation.....	2,100,000	69,111,000
		143,379,250
<b>Hotels and Restaurants — 15.6%</b>		
Marriott International, Inc. ....	2,454,262	66,878,640
Starwood Hotels & Resorts Worldwide, Inc. ....	1,970,000	72,042,900
Wyndham Worldwide Corporation.....	2,900,000	58,493,000
		197,414,540
<b>Metals and Mining — 5.7%</b>		
Teck Resources Limited (c) .....	2,050,000	71,688,500
		412,482,290
<b>TOTAL OTHER COMMON STOCKS</b> - (Identified cost \$362,232,559) .....		412,482,290
<b>TOTAL COMMON STOCKS</b> (Identified cost \$1,115,501,707) .....		1,254,598,188
	<b>Face</b>	
	<b>Amount</b>	
<b>SHORT-TERM INVESTMENT — 0.5% OF TOTAL NET ASSETS</b>		
American Express Credit Corporation, .03%, 1/04/10 (Cost \$7,155,000).....	\$7,155,000	7,155,000
<b>TOTAL INVESTMENTS — 99.6%</b> (Identified cost \$1,122,656,707).....		1,261,753,188
Cash and receivables.....		17,967,892
Liabilities .....		(13,527,904)
<b>TOTAL NET ASSETS — 100.0%</b> .....		\$1,266,193,176

(a) See note 2A.

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

(c) Non-income producing security.

See accompanying notes to financial statements.

## CGM REALTY FUND

### STATEMENT OF ASSETS AND LIABILITIES

December 31, 2009

<b>Assets</b>		
Investments at value:		
Unaffiliated issuers (Identified cost — \$1,014,224,433) . . . .	\$ 1,123,414,988	
Non-controlled affiliates (Identified cost — \$108,432,274) . . . . .	138,338,200	\$ 1,261,753,188
Cash . . . . .		2,175
Receivable for:		
Securities sold . . . . .	11,935,603	
Shares of the Fund sold . . . . .	1,517,434	
Dividends and interest . . . . .	4,512,680	17,965,717
Total assets . . . . .		<u>1,279,721,080</u>
<b>Liabilities</b>		
Payable for:		
Securities purchased Shares of the Fund redeemed . . . . .	9,836,388 1,286,748	
Tax withholding liability . . . . .	1,050	
Distributions declared . . . . .	1,322,733	12,446,919
Accrued expenses:		
Management fees . . . . .	842,592	
Trustees' fees . . . . .	20,234	
Accounting, administration and compliance expenses . . . . .	19,398	
Transfer agent fees . . . . .	98,900	
Other expenses . . . . .	99,861	1,080,985
Total liabilities . . . . .		<u>13,527,904</u>
<b>Net Assets</b> . . . . .		<u>\$ 1,266,193,176</u>
Net assets consist of:		
Capital paid-in . . . . .	\$ 1,657,105,675	
Accumulated net realized losses on investments . . . . .	(530,008,980)	
Net unrealized appreciation on investments . . . . .	139,096,481	
<b>Net Assets</b> . . . . .		<u>\$ 1,266,193,176</u>
Shares of beneficial interest outstanding, no par value . . . . .	60,654,261	
Net asset value per share* . . . . .	<u>\$20.88</u>	

\* Shares of the Fund are sold and redeemed at net asset value (\$1,266,193,176/60,654,261).

### STATEMENT OF OPERATIONS

Year Ended December 31, 2009

<b>Investment Income</b>	
Income:	
Dividends (net of withholding tax of \$56,780 and includes \$5,300,605 from non-controlled affiliated issuers) . . . . .	\$ 46,203,961
Interest . . . . .	14,194
	<u>46,218,155</u>
Expenses:	
Management fees . . . . .	7,934,971
Trustees' fees . . . . .	82,569
Accounting, administration and compliance expenses . . . . .	232,775
Custodian fees and expenses . . . . .	148,362
Transfer agent fees . . . . .	571,855
Audit and tax services . . . . .	39,900
Legal . . . . .	58,380
Printing . . . . .	110,761
Registration fees . . . . .	11,639
Line of credit commitment fee . . . . .	25,778
Miscellaneous expenses . . . . .	6,559
	<u>9,223,549</u>
Net investment income . . . . .	<u>36,994,606</u>
<b>Realized and Unrealized Gain (Loss) on Investments</b>	
Net realized losses on investments (including net realized loss of \$62,111,305 on sales of investments in non-controlled affiliated issuers) . . . . .	(236,962,937)
Net unrealized appreciation (including unrealized appreciation of \$155,226,582 in non- controlled affiliated issuers). . . . .	508,543,074
Net realized and unrealized gains on investments . . . . .	<u>271,580,137</u>
<b>Change in Net Assets from Operations</b> . . . . .	<u>\$ 308,574,743</u>

See accompanying notes to financial statements.

# CGM REALTY FUND

## STATEMENT OF CHANGES IN NET ASSETS

	<b>Year Ended December 31,</b>	
	<b>2009</b>	<b>2008</b>
<b>From Operations</b>		
Net investment income . . . . .	\$ 36,994,606	\$ 49,877,808
Net realized losses on investments . . . . .	(236,962,937)	(293,046,043)
Net unrealized appreciation (depreciation) . . . . .	508,543,074	(839,990,914)
Change in net assets from operations . . . . .	308,574,743	(1,083,159,149)
<b>From Distributions to Shareholders</b>		
Net investment income . . . . .	(36,994,606)	(41,077,152)
Tax return of capital . . . . .	(7,362,440)	—
	(44,357,046)	(41,077,152)
<b>From Capital Share Transactions</b>		
Proceeds from sale of shares . . . . .	164,300,742	794,360,696
Net asset value of shares issued in connection with reinvestment of:		
Dividends from net investment income . . . . .	29,699,660	31,630,494
Distributions from tax return of capital . . . . .	5,910,645	—
	199,911,047	825,991,190
Cost of shares redeemed . . . . .	(239,998,141)	(658,153,090)
Change in net assets derived from capital share transactions . . . . .	(40,087,094)	167,838,100
Total change in net assets . . . . .	224,130,603	(956,398,201)
<b>Net Assets</b>		
Beginning of period . . . . .	1,042,062,573	1,998,460,774
End of period . . . . .	\$ 1,266,193,176	\$ 1,042,062,573
<b>Number of shares of the Fund:</b>		
Issued from sale of shares . . . . .	10,045,920	26,769,377
Issued in connection with reinvestment of:		
Dividends from net investment income . . . . .	1,745,112	1,544,773
Distributions from tax return of capital . . . . .	347,301	—
	12,138,333	28,314,150
Redeemed . . . . .	(15,714,799)	(27,629,502)
Net change . . . . .	(3,576,466)	684,648

See accompanying notes to financial statements.

# CGM REALTY FUND

## FINANCIAL HIGHLIGHTS

	<b>For the Year Ended December 31,</b>				
	<b>2009</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>
For a share of the Fund outstanding throughout each period:					
Net asset value at beginning of period . . . . .	\$ 16.22	\$ 31.45	\$ 27.06	\$ 27.19	\$ 29.56
Net investment income (a). . . . .	0.61	0.72	0.27	0.45	0.43
Net realized and unrealized gains(losses) on investments . . . . .	4.79	(15.34)	9.06	7.37	7.51
Total from investment operations . . . . .	<u>5.40</u>	<u>(14.62)</u>	<u>9.33</u>	<u>7.82</u>	<u>7.94</u>
Dividends from net investment income . . . . .	(0.62)	(0.61)	(0.25)	(0.45)	(0.43)
Distribution from net short-term realized gains . . . . .	—	—	(2.08)	(0.42)	—
Distribution from net long-term realized gains . . . . .	—	—	(2.61)	(7.08)	(9.88)
Distribution from tax return of capital . . . . .	<u>(0.12)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Total distributions . . . . .	<u>(0.74)</u>	<u>(0.61)</u>	<u>(4.94)</u>	<u>(7.95)</u>	<u>(10.31)</u>
Net increase (decrease) in net asset value . . . . .	<u>4.66</u>	<u>(15.23)</u>	<u>4.39</u>	<u>(0.13)</u>	<u>(2.37)</u>
Net asset value at end of period . . . . .	<u>\$ 20.88</u>	<u>\$ 16.22</u>	<u>\$ 31.45</u>	<u>\$ 27.06</u>	<u>\$ 27.19</u>
Total return (%) . . . . .	34.4	(46.9)	34.4	29.0	27.0
Ratios:					
Operating expenses to average net assets (%) . . . . .	0.93	0.86	0.86	0.88	0.92
Net investment income to average net assets (%) . . . . .	3.73	2.62	0.86	1.49	1.34
Portfolio turnover (%) . . . . .	170	218	200	160	136
Net assets at end of period (in thousands) (\$). . . . .	1,266,193	1,042,063	1,998,461	1,474,746	1,031,966

(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

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## NOTES TO FINANCIAL STATEMENTS – December 31, 2009

**1. Organization** — 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 ("REITs").

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.

**2. Significant accounting policies** — Management has evaluated the events and transactions from December 31, 2009 through the date of issuance of the Fund's financial statements. For the Fund, there were no material subsequent events that required disclosure in the financial statements or footnotes.

**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.

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 below. The value of securities used for Net Asset Value ("NAV") calculation under these procedures may differ from published prices for the same securities.

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

# CGM REALTY FUND

## NOTES TO FINANCIAL STATEMENTS (continued)

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.)
- 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 Fund's management's 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, 2009:

<u>Classification</u>	<u>Valuation Inputs</u>		
	<u>Level 1 - Quoted Prices</u>	<u>Level 2 - Other Significant Observable Inputs</u>	<u>Level 3 - Significant Unobservable Inputs</u>
Common Stocks*	\$1,254,598,188	\$ —	\$ —
Debt Securities			
Commercial Paper	—	7,155,000	—
Total	<u>\$1,254,598,188</u>	<u>\$7,155,000</u>	<u>\$ —</u>

\* All common stocks held in the Fund are Level 1 securities. For a detailed break-out of common stocks by major industry classification, please refer to the Schedule of Investments.

**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. Management has analyzed

# CGM REALTY FUND

## NOTES TO FINANCIAL STATEMENTS (continued)

the Fund's tax positions for the open tax years ended December 31, 2009 and has concluded that no provisions for federal income tax is required in the Fund's financial statements. Management's conclusion may be subject to review and adjustment at a later date based on factors including, but not limited to, ongoing analysis of tax laws, regulations and interpretations thereof.

At December 31, 2009, the Fund had available for tax purposes, capital loss carryovers of \$229,541,228 expiring December 31, 2017 and \$287,181,102 expiring December 31, 2016.

As of December 31, 2009, the components of distributable earnings on a tax basis were as follows:

Undistributed Ordinary Income	Undistributed Long-Term Capital Gains	Net Unrealized Appreciation/ (Depreciation)
\$ —	\$ —	\$125,809,832

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, 2009 was as follows:

Identified Cost	Gross Unrealized Appreciation	Gross Unrealized Depreciation	Net Unrealized Appreciation
\$1,135,943,356	\$186,394,741	\$(60,584,909)	\$125,809,832

- 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 may utilize 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, 2009 and 2008 were as follows:

Year	Ordinary Income	Long-Term Capital Gains	Tax Return of Capital	Total
2009	\$36,994,606	\$ —	\$7,362,440	\$44,357,046
2008	\$41,077,152	\$ —	\$ —	\$41,077,152

- 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.

### 3. 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

# CGM REALTY FUND

## NOTES TO FINANCIAL STATEMENTS (continued)

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, corporation 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 the 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.

**4. Purchases and sales of securities** — For the period ended December 31, 2009, purchases and sales of securities other than United States government obligations and short-term investments aggregated \$1,670,703,630 and \$1,689,557,323, respectively.

### 5. Fees and expenses

- A. Management fees** — During the period ended December 31, 2009, the Fund incurred management fees of \$7,934,971, 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 0.85% 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 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,

## CGM REALTY FUND

### NOTES TO FINANCIAL STATEMENTS (continued)

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 \$232,775, for the period ended December 31, 2009, 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 \$184,382 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 year ended December 31, 2009, 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 \$10,000 per trustee annually, plus an annual variable fee calculated based on the proportion of the Funds' average net assets relative to the aggregate average net assets of the Trust.

**6. 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 1.25% over the higher of the Federal Funds Rate and the Overnight LIBOR Rate. The Fund incurred a commitment fee of 0.10% per annum through June 17, 2009 and then incurs a commitment fee of 0.15% per annum on the unused portion of the line of credit, payable quarterly, through June 16, 2010. There were no borrowings under the line of credit during the period ended December 31, 2009.

**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, 2009:

Name of Issuer	Number of Shares Held December 31, 2008	Gross Purchases*	Gross Sales	Number of Shares Held December 31, 2009	Dividend Income	Market Value December 31, 2009
Developers Diversified Realty Corporation**	10,200,000	12,572,685	15,715,000	7,057,685	\$ 2,533,420	\$ —
DiamondRock Hospitality Company	—	7,560,000	—	7,560,000	2,494,800	64,033,200
Home Properties, Inc.***	1,800,000	—	1,800,000	—	—	—
LaSalle Hotel Properties	—	3,500,000	—	3,500,000	70,000	74,305,000
The Macerich Company***	3,873,900	1,334,050	5,207,950	—	202,385	—
				Total	<u>\$ 5,300,605</u>	<u>\$138,338,200</u>

\* Includes stock dividends.

\*\* Position is no longer considered an affiliated issuer.

\*\*\* Position in issuer liquidated during the preceding twelve months.

## CGM REALTY FUND

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### 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, 2009, 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, 2009 by correspondence with the custodian and brokers, provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP  
Boston, Massachusetts  
February 17, 2010

# CGM REALTY FUND

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## 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, 2009 are available without charge, upon request by calling 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 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, 2009 to December 31, 2009.

### **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 7/01/09</i>	<i>Ending Account Value 12/31/09</i>	<i>Expenses Paid During Period* 7/01/09 – 12/31/09</i>
Actual	\$1,000.00	\$1,439.56	\$5.54
Hypothetical (5% return before expenses)	\$1,000.00	\$1,020.66	\$4.59

\* Expenses are equal to the Fund's annualized expense ratio of 0.90%, multiplied by the average account value over the period, multiplied by 184/365 (to reflect the one-half year period).

## CGM REALTY FUND

### TAX INFORMATION FOR THE TAX YEAR ENDED December 31, 2009 (unaudited)

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, 2009, the Fund designated \$0 as long-term capital dividends and \$7,362,440 as return of capital.

### 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 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>
<b>Interested Trustees</b>			
G. Kenneth Heebner* age 69	Trustee since 1993	Co-founder and Employee, CGM; Controlling Owner, Kenbob, Inc. (general partner of CGM)	3
Robert L. Kemp* age 77	Trustee since 1990	Co-founder and Employee, CGM; Non-voting Owner, Kenbob, Inc. (general partner of CGM)	3
<b>Disinterested Trustees</b>			
Peter O. Brown age 69	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 to 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 60	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 61	Trustee since 1993	Managing Partner and Director, Stratton Management Company (investment management); Director and Vice President, Semper Trust Co. (until 2006)	3
J. Baur Whittlesey age 63	Trustee since 1990	Member, Ledgewood, P.C. (law firm)	3
<b>Officers</b>			
G. Kenneth Heebner* age 69	Vice President since 1990	Co-founder and Employee, CGM; Controlling Owner, Kenbob, Inc. (general partner of CGM)	3
Robert L. Kemp* age 77	President since 1990	Co-founder and Employee, CGM; Non-voting Owner, Kenbob, Inc. (general partner of CGM)	3
David C. Fietze* age 40 address: 38 Newbury Street Boston, Massachusetts 02116	Chief Compliance Officer since 2004	Employee – Legal counsel, CGM	3
Kathleen S. Haughton* age 49 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 46	Treasurer since 2004	Employee – CGM	3
Leslie A. Lake* age 64	Vice President and Secretary since 1992	Employee – Office Administrator, CGM	3
Martha I. Maguire* age 54	Vice President since 1994	Employee – Funds Marketing, CGM	3
Mary L. Stone* age 65	Assistant Vice President since 1990	Employee – Portfolio Transactions, CGM	3