

**INVESTMENT ADVISER**  
CAPITAL GROWTH MANAGEMENT  
LIMITED PARTNERSHIP  
Boston, Massachusetts 02110

# CGM Focus Fund

35th Quarterly Report  
June 30, 2006

A No-Load Fund

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

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*Investment Adviser*

**Capital Growth Management**  
Limited Partnership

## To Our Shareholders:

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CGM Focus Fund returned 4.5% during the second quarter of 2006 compared to the unmanaged Standard and Poor's 500 Index which declined -1.4% over the same period. Year-to-date, CGM Focus Fund returned 15.3% and the unmanaged S&P 500 returned 2.7% as of June 30, 2006.

The market, as measured by the S&P 500, enjoyed a nice three year run until May of this year when investors began to suspect that inflation was accelerating at a more rapid pace than the newly-minted Fed chairman had suggested would be acceptable. In January, just about the time outgoing Chairman Greenspan passed the baton to new Chairman Bernanke, the core inflation rate (ex food and fuel) as measured by the Consumer Price Index (CPI) began to rise. Just a few months earlier, many investors expected the Fed would pause in its regular interest rate hikes at its June 2006 meeting and possibly put an end to the seemingly relentless increases in the Federal Funds rate. But, the CPI clocked in at a rising 3.8% rate (annualized) for the three months ended May 31 and on June 29, the Fed hiked the Federal Funds rate yet another quarter percent to 5.25% in an effort to flex its inflation fighting muscles. Investors are back to pondering when and at what level the rate increases will end.

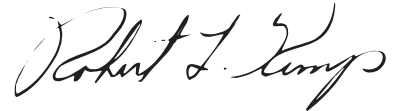
As the economy expanded over the past few years, debate centered on and around oil and whether rising energy prices would slow the economy or fuel inflation. Despite some softening in the retail sector and a dramatic drop off in housing sales, we believe inflation is the prevailing bogeyman. Corporate profits and margins are high and companies that produce capital goods for other businesses are thriving as productivity rises and the manufacturing sector booms. Despite ever higher prices at the pump, the consumer appetite for gasoline is proving insatiable and global business is robust with, for example, China announcing in May a nearly 18% increase in industrial production over 2005

notwithstanding efforts by its government to slow its economy.

Despite the steady and continuing rise in the Federal Funds rate from 1% to 5.25% over the past two years, long term bond rates have barely risen: the 10-year U.S. Government bond yield was 4.6% at the end of June '04 versus 5.1% at the end of June '06 and the 30-year bond now yields just 5.3% regardless of a climbing nominal CPI (food and fuel included), up 4.2% over the past year.

To say the prospect of much higher interest rates is unsettling to the market right now is an understatement. However, should consumer spending continue to slow and were inflationary forces to moderate, we believe the equity market could regain its footing based upon the strong gains in corporate earnings currently underway. On June 30, our emphasis in the portfolio was in the heavy goods sectors of the economy and in energy.

CGM Focus Fund held important long positions in the independent oil production, metals and mining and oil refining industries at quarter end. The Fund's three largest long holdings were Tenaris S.A. ADR, Hess Corporation and Baker Hughes Incorporated. The Fund was also approximately 12% (of total net assets) invested in securities sold short at quarter end. The short positions were in the retail and financial services industries, specifically, Amazon.com, Inc. and Countrywide Financial Corporation.



Robert L. Kemp  
President

July 1, 2006

# CGM FOCUS FUND

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## INVESTMENT PERFORMANCE

(unaudited)

Total Return for Periods Ended June 30, 2006

	<u>The Fund's Cumulative Total Return</u>	<u>The Fund's Average Annual Total Return</u>
5 Years .....	+160.5%	+21.1%
1 Year .....	+26.4	+26.4
3 Months .....	+4.5	—

The Fund's average annual total return since inception (September 3, 1997) through June 30, 2006 is +20.9%. The adviser agreed to limit the Fund's total operating expenses to 1.20% of its average net assets exclusive of any dividend expense incurred on short sales from inception through December 31, 2001. Otherwise, the Fund's average annual total return since inception and the Fund's cumulative total return and average annual total return for the five-year period ended June 30, 2006, would have been lower.

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

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See the Schedule of Investments beginning on the next page for the percentage of net assets of the Fund invested in particular industries or securities.

## CGM FOCUS FUND

### INVESTMENTS as of June 30, 2006

(unaudited)

#### COMMON STOCKS — 98.8% OF TOTAL NET ASSETS

	<u>Shares</u>	<u>Value(a)</u>
<b>Aerospace — 5.1%</b>		
Embraer-Empresa Brasileira de Aeronáutica S.A. ADR(b)(c)(d) .....	3,245,000	\$ <u>118,345,150</u>
<b>Copper — 10.9%</b>		
Phelps Dodge Corporation(c) .....	1,500,000	123,240,000
Southern Copper Corporation .....	1,450,000	<u>129,238,500</u>
		<u>252,478,500</u>
<b>Metals and Mining — 17.3%</b>		
Allegheny Technologies Incorporated .....	1,020,000	70,624,800
BHP Billiton Limited ADR(b)(c) .....	2,800,000	120,596,000
Freeport-McMoRan Copper & Gold Inc. ....	1,680,000	93,088,800
Rio Tinto Plc ADR(b) .....	550,000	<u>115,340,500</u>
		<u>399,650,100</u>
<b>Miscellaneous — 7.0%</b>		
Tenaris S.A. ADR(b)(c) .....	3,975,000	<u>160,947,750</u>
<b>Oil – Independent Production — 20.1%</b>		
Canadian Natural Resources Limited(c)(d) .....	2,200,400	121,858,152
CNOOC Limited ADR(b) .....	550,200	44,225,076
Occidental Petroleum Corporation(c) .....	1,130,000	115,881,500
Petro-Canada(c)(d) .....	1,150,000	54,521,500
Petróleo Brasileiro S.A. ADR(b)(d) .....	1,450,000	<u>129,499,500</u>
		<u>465,985,728</u>
<b>Oil Refining — 16.1%</b>		
ConocoPhillips .....	1,200,000	78,636,000
Hess Corporation(c) .....	2,628,000	138,889,800
Imperial Oil Limited(d) .....	825,000	30,120,750
Suncor Energy Inc.(c)(d) .....	1,541,200	<u>124,852,612</u>
		<u>372,499,162</u>
<b>Oil – Service — 11.0%</b>		
Baker Hughes Incorporated(c) .....	1,600,000	130,960,000
Schlumberger Limited(c) .....	1,890,000	<u>123,057,900</u>
		<u>254,017,900</u>
<b>Steel — 11.3%</b>		
Mittal Steel Company N.V.(c) .....	3,600,000	109,836,000
Nucor Corporation(c) .....	1,330,000	72,152,500
POSCO ADR(b) .....	680,000	45,492,000
United States Steel Corporation .....	480,000	<u>33,657,600</u>
		<u>261,138,100</u>
<b>TOTAL COMMON STOCKS</b> (Identified Cost \$1,849,205,239) .....		<u>2,285,062,390</u>

See accompanying notes to financial statements.

## CGM FOCUS FUND

### INVESTMENTS as of June 30, 2006 (continued)

(unaudited)

#### SHORT-TERM INVESTMENT — 0.8% OF TOTAL NET ASSETS

	<u>Face Amount</u>	<u>Value(a)</u>
American Express Credit Corporation, 5.10%, 7/03/06 (Cost \$18,525,000) . . . . .	\$18,525,000	\$ 18,525,000
<b>TOTAL INVESTMENTS — 99.6%</b> (Identified Cost \$1,867,730,239)(e) . . . . .		2,303,587,390
Cash and receivables . . . . .		443,522,181
Liabilities . . . . .		(433,233,449)
<b>TOTAL NET ASSETS — 100.0%</b> . . . . .		<u>\$2,313,876,122</u>

(a) See Note 1A.

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

(c) A portion of this security has been segregated as collateral in connection with short sale investments (see Note 1E).

(d) The Fund has approximately 11% and 14% of its net assets at June 30, 2006 invested in companies incorporated in Brazil and Canada, respectively.

(e) Federal Tax Information: At June 30, 2006 the net unrealized appreciation on investments based on cost of \$1,900,897,345 for Federal income tax purposes was as follows:

Aggregate gross unrealized appreciation for all investments in which there is an excess of value over tax cost . . . . .	\$483,056,808
Aggregate gross unrealized depreciation for all investments in which there is an excess of tax cost over value . . . . .	(80,366,763)
	<u>\$402,690,045</u>

#### SECURITIES SOLD SHORT (Proceeds \$251,016,874)

	<u>Shares</u>	<u>Value(a)</u>
Amazon.com, Inc. . . . .	4,000,000	\$154,720,000
Countrywide Financial Corporation . . . . .	3,035,000	115,572,800
		<u>\$270,292,800</u>

See accompanying notes to financial statements.

## CGM FOCUS FUND

### STATEMENT OF ASSETS AND LIABILITIES

June 30, 2006  
(unaudited)

#### Assets

Investments at value (Identified cost — \$1,867,730,239) .....	\$2,303,587,390	
Cash .....	1,961	
Restricted cash .....	282,368,586	
Receivable for:		
Securities sold .....	\$148,033,737	
Shares of the Fund sold .....	6,343,021	
Dividend tax reclaim .....	42,375	
Dividends and interest ..	<u>6,732,501</u>	161,151,634
		<u>2,747,109,571</u>

#### Liabilities

Securities sold short at current market value (Proceeds \$251,016,874) .....	270,292,800	
Payable for:		
Securities purchased .....	158,857,943	
Shares of the Fund redeemed .....	1,948,647	
Dividend on short sale ..	25,500	
Tax withholding liability .....	<u>180,746</u>	161,012,836
Accrued expenses:		
Management fees .....	1,666,178	
Trustees' fees .....	24,889	
Accounting, Administration and Compliance ..	25,108	
Transfer agent fees .....	68,564	
Other expenses .....	<u>143,074</u>	1,927,813
		<u>433,233,449</u>

#### Net Assets .....

Net Assets consist of:		
Capital paid-in .....	\$1,826,470,207	
Undistributed net investment income ..	34,386,350	
Accumulated net realized gain on investments and foreign currency .....	36,440,342	
Net unrealized appreciation (depreciation) on investments and foreign currency transactions:		
Long positions .....	435,855,149	
Short positions .....	<u>(19,275,926)</u>	

#### Net Assets .....

Shares of beneficial interest outstanding, no par value .....	<u>60,062,822</u>
Net asset value per share* .....	<u>\$38.52</u>

\*Shares of the Fund are sold and redeemed at net asset value (\$2,313,876,122 ÷ 60,062,822).

### STATEMENT OF OPERATIONS

Six Months Ended June 30, 2006  
(unaudited)

#### Investment Income

Income	
Dividends (net of withholding tax of \$392,809) .....	\$ 25,984,994
Interest on restricted cash .....	21,218,607
Interest .....	<u>453,432</u>
	<u>47,657,033</u>

#### Expenses

Management fees .....	9,789,026
Trustees' fees .....	51,151
Accounting, Administration and Compliance .....	150,650
Custodian .....	140,362
Transfer agent .....	328,430
Audit and tax services .....	17,575
Legal .....	99,779
Printing .....	50,376
Registration .....	125,301
Line of credit commitment fee .....	19,758
Dividend on short sale .....	2,495,675
Miscellaneous .....	<u>2,600</u>
	<u>13,270,683</u>
Net investment income .....	<u>34,386,350</u>

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

Net realized gain (loss) on investments and foreign currency transactions:	
Long transactions .....	102,132,496
Short transactions .....	(53,804,804)
Net unrealized appreciation on:	
Long transactions .....	123,531,817
Short transactions .....	<u>54,613,109</u>
Net gain on investments and foreign currency transactions .....	<u>226,472,618</u>

#### Net Change in Assets from Operations .....

\$260,858,968

See accompanying notes to financial statements.

# CGM FOCUS FUND

## STATEMENT OF CHANGES IN NET ASSETS

	<u>Six Months Ended June 30, 2006 (unaudited)</u>	<u>Year Ended December 31, 2005</u>
<b>From Operations</b>		
Net investment income .....	\$ 34,386,350	\$ 19,687,149
Net realized gain from investments and foreign currency transactions .....	48,327,692	137,961,949
Unrealized appreciation .....	178,144,926	94,717,654
Change in net assets from operations .....	<u>260,858,968</u>	<u>252,366,752</u>
<b>From Distributions to Shareholders</b>		
Net investment income .....	—	(19,764,129)
Net realized short-term capital gain on investments .....	—	(80,853,254)
Net realized long-term capital gain on investments .....	—	(59,292,387)
	<u>—</u>	<u>(159,909,770)</u>
<b>From Capital Share Transactions</b>		
Proceeds from sale of shares .....	656,071,212	781,861,059
Net asset value of shares issued in connection with reinvestment of:		
Dividends from net investment income .....	—	15,971,092
Distributions from net short-term capital realized gain .....	—	67,062,737
Distributions from net long-term capital realized gain .....	—	49,185,408
	<u>656,071,212</u>	<u>914,080,296</u>
Cost of shares redeemed .....	(244,197,110)	(284,231,272)
Change in net assets derived from capital share transactions .....	<u>411,874,102</u>	<u>629,849,024</u>
Total change in net assets .....	672,733,070	722,306,006
<b>Net Assets</b>		
Beginning of period .....	<u>1,641,143,052</u>	<u>918,837,046</u>
End of period (including undistributed net investment income of \$34,386,350 and \$0 at June 30, 2006 and December 31, 2005, respectively) .....	<u>\$2,313,876,122</u>	<u>\$1,641,143,052</u>
<b>Number of Shares of the Fund:</b>		
Issued from sale of shares .....	17,522,329	22,491,195
Issued in connection with reinvestment of:		
Dividends from net investment income .....	—	478,574
Distributions from net short-term capital realized gain .....	—	2,008,467
Distributions from net long-term capital realized gain .....	—	1,473,058
	<u>17,522,329</u>	<u>26,451,294</u>
Redeemed .....	<u>(6,591,929)</u>	<u>(8,458,557)</u>
Net change .....	<u>10,930,400</u>	<u>17,992,737</u>

See accompanying notes to financial statements.

# CGM FOCUS FUND

## STATEMENT OF CASH FLOWS

Six Months ended June 30, 2006  
(unaudited)

### Increase (Decrease) in Cash

#### Cash flows from operating activities:

Change in net assets resulting from operations	\$ 260,858,968
Adjustments to reconcile change in net assets resulting from operations to net cash provided by operating activities:	
Purchase of investment securities	(2,893,372,565)
Buy to cover of investment securities held short	(1,829,409,140)
Proceeds from disposition of investment securities	2,517,811,484
Proceeds from short sale investment securities	1,390,822,325
Sale of short-term investment securities, net	4,000,000
Decrease in deposits with brokers for short sales	356,625,847
Increase in dividends and interest receivable	(3,534,344)
Increase in receivables for securities sold	(80,455,707)
Increase in dividends and interest on short sales payable	25,500
Increase in tax withholding liability	77,140
Increase in payable for securities purchased	92,145,482
Increase in accrued expenses	396,862
Unrealized appreciation on securities and currencies	(178,144,926)
Net realized gain from investments and currencies	(48,327,692)
Net cash used in operating activities	<u>(410,480,766)</u>

#### Cash flows from financing activities:

Proceeds from shares sold	660,166,231
Payment on shares redeemed	(249,676,364)
Cash distributions paid	(8,456)
Net cash provided by financing activities	<u>410,481,411</u>

Net increase in cash 645

#### Cash:

Beginning balance	1,316
Ending balance	<u>\$ 1,961</u>

See accompanying notes to financial statements.

# CGM FOCUS FUND

## FINANCIAL HIGHLIGHTS

	Six Months Ended June 30, 2006 (unaudited)	Year Ended December 31,				
		2005	2004	2003	2002	2001
For a share of the Fund outstanding throughout the period:						
Net asset value at the beginning of period . . . . .	\$33.40	\$29.51	\$29.93	\$17.98	\$21.87	\$15.80
Net investment income (loss)(a) . . . . .	0.60(b)(c)	0.52(b)(c)	0.04(b)(c)	(0.21)(b)	(0.21)(b)	0.01
Net realized and unrealized gain (loss) on investments and foreign currency transactions	4.52	6.93	3.65	12.16	(3.68)	7.51
Total from investment operations . . . . .	5.12	7.45	3.69	11.95	(3.89)	7.52
Dividends from net investment income . . . . .	—	(0.44)	(0.04)	—	—	(0.01)
Distribution from net short-term realized gain . . . .	—	(1.80)	—	—	—	(1.34)
Distribution from net long-term realized gain . . . .	—	(1.32)	(4.07)	—	—	(0.10)
Total Distributions . . . . .	—	(3.56)	(4.11)	—	—	(1.45)
Net increase (decrease) in net asset value . . . . .	5.12	3.89	(0.42)	11.95	(3.89)	6.07
Net asset value at end of period . . . . .	<u>\$38.52</u>	<u>\$33.40</u>	<u>\$29.51</u>	<u>\$29.93</u>	<u>\$17.98</u>	<u>\$21.87</u>
Total Return (%) . . . . .	15.3	25.2	12.4	66.5	(17.8)	47.7(d)
Ratios:						
Operating expenses to average net assets (%) . .	1.03*	1.07	1.12	1.18	1.18	1.20
Dividends and interest on short positions to average net assets (%) . . . . .	0.24*	0.15	0.09	—	0.02	—
Total expenses to average net assets (%) . . . . .	<u>1.27*</u>	<u>1.22</u>	<u>1.21</u>	<u>1.18</u>	<u>1.20</u>	<u>1.20</u>
Operating expenses to average net assets before expense limitation (%) . . . . .	N/A	N/A	N/A	N/A	N/A	1.32
Dividends and interest on short positions to average net assets before expense limitation (%) . . . . .	N/A	N/A	N/A	N/A	N/A	—
Total expenses to average net assets before expense limitation (%) . . . . .	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>1.32</u>
Net investment income (loss) to average net assets (%) . . . . .	3.29*	1.55	0.14	(0.92)	(0.98)	0.11
Portfolio turnover (%) . . . . .	241*	282	327	204	155	254
Net assets at end of period (in thousands) (\$) . . .	2,313,876	1,641,143	918,837	775,499	383,983	249,562
(a) Net of reimbursement which amounted to (\$)	N/A	N/A	N/A	N/A	N/A	0.01

- (b) Per share net investment income (loss) has been calculated using the average shares outstanding during the period.
- (c) Net investment income (loss) per share excluding all related short sale income and expenses for the period ended December 31, 2004 was \$0.06, for the period ended December 31, 2005 was \$0.23 and for the period ended June 30, 2006 was \$0.27.
- (d) The total return would have been lower had certain expenses not been reduced during the period.
- \* Computed on an annualized basis.

See accompanying notes to financial statements.

# CGM FOCUS FUND

## NOTES TO FINANCIAL STATEMENTS — June 30, 2006

(unaudited)

1. The Fund is a non-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. Along with one other fund in a separate Trust, there are four CGM Funds. The Fund commenced operations on September 3, 1997. The Fund's investment objective is long-term growth of capital. The Fund intends to pursue its objective by investing in a smaller number of companies, and/or in a more limited number of sectors than diversified mutual funds. In addition, should the investment outlook of the Fund's investment manager so warrant, the Fund may engage in a variety of investment techniques, including short sales, designed to capitalize on declines in the market price of specific equity securities of one or more companies or declines in market indexes.

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

- A. Security valuation** — Equity securities are valued on the basis of valuations furnished by a pricing service, authorized by the Board of Trustees. The pricing service provides the last reported sale price for securities listed on a national securities exchange or, in the case of the NASDAQ national market system, the NASDAQ official closing price. For securities with no sale reported and in the case of over-the-counter securities not so listed, the last reported bid price is used for long positions and the last reported ask price for short positions. Short-term investments having a maturity of sixty days or less are stated at amortized cost, which approximates value. Other assets and securities which are not readily marketable will be valued in good faith at fair value using methods determined by the Board of Trustees.
- B. Security transactions and related investment income** — Security transactions are accounted for on the trade date (date the order to buy or sell is executed) and dividend income is recorded on the ex-dividend date net of applicable foreign taxes. Interest income is recorded on the accrual basis and includes amortization of premium and discount. Net gain or loss on securities sold is determined on the identified cost basis.
- C. Federal income taxes** — It is the Fund's policy to comply with the requirements of the Internal Revenue Code applicable to regulated investment companies, and to distribute to its shareholders all of its taxable income and net realized capital gains, within the prescribed time period. Accordingly, no provision for federal income tax has been made. At December 31, 2005, there were no capital loss carryovers available to offset future realized gains.

As of December 31, 2005, 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>
\$ —	\$ —	\$310,843,630

- 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 accumu-

# CGM FOCUS FUND

## NOTES TO FINANCIAL STATEMENTS (continued)

(unaudited)

lated realized gain/loss. These differences are primarily related to amortization on bonds held short, dividends on short positions which were held less than forty-five days and foreign exchange gains/losses. 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 and unrealized gain (loss) on futures contracts, 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 fiscal year ended December 31, 2005, were as follows:

<u>Ordinary Income</u>	<u>Long-term Capital Gains</u>	<u>Total</u>
\$100,617,383	\$59,292,387	\$159,909,770

- E. Short sales** — The Fund may sell securities short. A short sale is a transaction in which the Fund sells a security it does not own in anticipation that the market price of that security will decline. When the Fund makes a short sale, it must borrow the security sold short to make delivery to the buyer. The Fund then is obligated to replace the security borrowed by purchasing the security at the market price at the time of replacement. The Fund is liable for any dividends or interest paid on securities sold short. While the short sale is outstanding, the Fund is required to collateralize its obligations, which has the practical effect of limiting the extent to which the Fund may engage in short sales. The market value of securities held in a segregated account at June 30, 2006 was \$1,301,935,000 and the value of cash held in a segregated account was \$282,368,586.
- F. Indemnities** — In the normal course of business, CGM Focus Fund may enter into contracts that provide indemnities to third parties for various potential losses and claims. CGM Focus Fund's maximum exposure under these arrangements is unknown as this would depend on future claims that may be made against CGM Focus Fund. The risk of material loss from such claims is considered remote.
- G. Statement of cash flows** — Information on the Fund's financial transactions which have been settled through the receipt and disbursement of cash is presented in the financial statement entitled Statement of Cash Flows. The cash amount shown in the Statement of Cash Flows at June 30, 2006 represents cash maintained by the custodian.
- H. Foreign currency translation** — All assets and liabilities initially expressed in terms of foreign currencies are translated into U.S. dollars. Transactions affecting statement of operations accounts and net realized gain/(loss) on investments are translated at the rates prevailing at the dates of the transactions. The Fund does not isolate that portion of the results of operations resulting from changes in foreign exchange rates on investments from the fluctuations arising from changes in market prices of securities held. Such fluctuations are included with the net realized and unrealized gain or loss from investments. Reported net realized foreign exchange gains or losses arise from sales of foreign currency, currency gains or losses realized between the trade and settlement dates on securities transactions and the difference between the amounts of dividends, interest, and foreign withholding taxes recorded on the Fund's books and the U.S. dollar equivalent of the amounts actually received or paid. Net unrealized foreign exchange gains or losses arise from changes in the value of assets and liabilities other than investments in securities at the end of the period, resulting from changes in the exchange rate.
- 2. Investment risk** — There are certain additional risks involved in investing in foreign securities that are not inherent in investments in domestic securities. These risks may involve adverse political and economic

## CGM FOCUS FUND

### NOTES TO FINANCIAL STATEMENTS (continued)

(unaudited)

developments and the possible imposition of currency exchange blockages or other foreign governmental laws or restrictions. In addition, the securities of some foreign companies and securities markets are less liquid and at times more volatile than securities of comparable U.S. companies and U.S. securities markets.

**3. Purchases and sales of securities** — For the period ended June 30, 2006, purchases and sales of securities other than United States government obligations, shorting transactions and short-term investments aggregated \$2,893,372,565 and \$2,517,811,484, respectively. There were no purchases or sales of long-term United States government obligations for the period ended June 30, 2006.

**4. A. Management fees** — During the period ended June 30, 2006, the Fund incurred management fees of \$9,789,026, 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 1.00% on the first \$500 million of the Fund's average daily net assets, 0.95% of the next \$500 million and 0.90% on amounts in excess of \$1 billion.

**B. Other expenses** — CGM performs certain administrative, accounting, compliance and other services for the Fund. The expenses of those services, which are paid to CGM by the Fund, include the following: (i) expenses for personnel performing bookkeeping, accounting and financial reporting functions and clerical functions relating to the Fund; (ii) expenses for services required in connection with the preparation of registration statements and prospectuses, shareholder reports and notices, proxy 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 to Sarbanes Oxley Act of 2002. The Accounting, Administration and Compliance expense of \$150,650, for the period ended June 30, 2006, is shown separately in the financial statements. These expenses include the reimbursement of a portion of the compensation expenses incurred by CGM for its employees who provide these administrative, accounting, compliance, and other services to the Fund, some of whom are officers of the Fund. Of the total expense reimbursement, \$117,323 represented reimbursements by the Fund to CGM for a portion of the salaries of CGM employees who are officers of the Fund.

**C. Trustees fees and expenses** — The Fund does not pay any compensation directly to any trustees who are directors, officers or employees of CGM, or any affiliate of CGM (other than registered investment companies). For the period ending December 31, 2006, each disinterested trustee is compensated by the CGM Funds with an annual fee of \$50,000 plus travel expenses for each meeting attended. The disinterested trustees are responsible for the audit committee functions of the CGM Funds and have designated a chairman to oversee those functions who receives an additional \$30,000 annually. Of these amounts, each of the CGM Funds is responsible for \$7,000 per trustee annually, plus an annual variable fee calculated based on the proportion of each of the CGM Funds' average net assets relative to the aggregate average net assets of the CGM Funds.

**5. Line of credit** — The Fund had a \$20,000,000 committed, secured line of credit with State Street Bank and Trust Company through January 25, 2006. On January 26, 2006 the Fund increased the line of credit to \$40,000,000. Borrowings under the line will be charged interest at 0.75% over the current Overnight Federal Funds Rate. The Fund will incur a commitment fee of 0.125% per annum on the unused portion of the line of credit through January 25, 2006 and after that date the Fund will incur a commitment fee of 0.1% per annum on the unused portion of the line of credit, payable quarterly. There were no borrowings under the line of credit during the period ended June 30, 2006.

## CGM FOCUS FUND

### FUND EXPENSES

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

The Example is based on an investment of \$1,000 invested at the beginning of the period and held for the entire period January 1, 2006 to June 30, 2006.

#### **Actual Return and Expenses**

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

#### **Hypothetical Example for Comparison Purposes**

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

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

	<i>Beginning Account Value 1/01/06</i>	<i>Ending Account Value 6/30/06</i>	<i>Expenses Paid During Period* 1/01/06 – 6/30/06</i>
Actual	\$1,000.00	\$1,153.29	\$6.78
Hypothetical (5% return before expenses)	\$1,000.00	\$1,018.50	\$6.36

\* Expenses are equal to the Fund's annualized expense ratio of 1.27%, which includes expenses related to short sales activity, multiplied by the average account value over the period, multiplied by 181/365 (to reflect the one-half year period).

## ADDITIONAL INFORMATION

(unaudited)

### **Availability of Proxy Voting Information:**

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

### **Portfolio Holdings:**

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

### **Advisory Agreement Approval:**

In considering renewal of the advisory agreement, during meetings held in March and April, 2006, the Board of Trustees of the Fund (the "Board") considered the following factors and came to the following conclusions:

1. The Board considered the nature, extent, quality and scope of the investment advisory and administrative services provided by CGM to the Fund. The Board agreed that the nature, extent, quality and scope of the CGM professional team working on the Fund was very high, and was satisfied with the quality of CGM's advisory and administrative services.
2. The Board considered the investment performance of the Fund and CGM and determined that the Fund's performance compared favorably with other capital appreciation funds for the one-, three-, five- and eight-year periods ended December 31, 2005. The Board agreed that this performance reflected in large measure the focus of CGM on long-term performance rather than pursuing short-term market movements. The Board acknowledged that, while for some periods this focus on long-term performance might cause the Fund to lag other comparable mutual funds with a more short-term focus, over the longer term CGM's approach had proven its worth.
3. The Board discussed the costs of the services provided and profits realized by CGM from the relationship with the mutual funds advised by CGM and each of the separate accounts managed by CGM, and found that the profit margins were reasonable and not excessive.
4. The Board discussed with CGM whether economies of scale might be realized with growth in the Fund. The Board considered the Fund's ability to sell securities short and the increased efforts on the part of CGM required to carry out these activities as Fund assets increase. Given the Fund's investment style and the relatively small size of the Fund, the Board determined that it would not be advisable to seek incremental adjustments to the Fund's advisory fee.
5. The Board received and considered information comparing the advisory fees paid by the Fund and the overall expenses borne by the Fund with those of funds in the relevant expense universe as selected and provided by Lipper, Inc., an independent provider of investment company data. The Board noted that the overall expense ratio of the Fund was competitive compared to the expense ratios of other mutual funds included in the Lipper reports. The Board also reviewed information regarding fees charged by CGM to its

## CGM FOCUS FUND

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### ADDITIONAL INFORMATION (continued)

(unaudited)

other clients, including its separate account clients. CGM reviewed with the Board the significant differences in scope of services provided to the Fund and to those other clients, noting that the Fund required a greater allocation of management's time as a result of its differing investment mandate. The Board discussed the fee comparisons in light of the differences required to manage these different types of accounts. Based on these comparisons, the Board concluded that the advisory fees paid by the Fund and the overall expenses borne by the Fund were fair and reasonable.

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

# CGM FOCUS FUND

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## BOARD OF TRUSTEES

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LAURENS MACLURE  
JAMES VAN DYKE QUEREAU, JR.  
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## 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 02102

## SHAREHOLDER SERVICING AGENT FOR STATE STREET BANK AND TRUST COMPANY

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