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STATE STREET BANK AND TRUST COMPANY
Boston, Massachusetts 02111

SHAREHOLDER SERVICING AGENT FOR STATE STREET BANK AND TRUST COMPANY

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

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Boston, MA 02266-8511

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CGM Mutual Fund

79th 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.

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Investment Adviser

Capital Growth Management
Limited Partnership

To Our Shareholders:

CGM Mutual Fund declined -17.6% during the fourth quarter of 2008 compared to the unmanaged Standard and Poor's 500 Index which fell -21.9% and the Merrill Lynch U.S. Corporate, Government and Mortgage Bond Index which returned 5.1%. For the year just ended, CGM Mutual Fund returned -28.2%, the S&P 500 Index, -37.0% and the Merrill Lynch U.S. Corporate, Government and Mortgage Bond Index, 6.2%.

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 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

CGM MUTUAL FUND

longer—to squeeze remaining toxic debt out of the system.

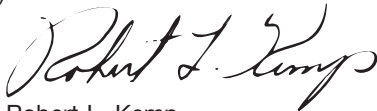
Portfolio Strategy

CGM Mutual Fund entered 2008 with substantial investments in companies benefiting from strong commodity prices driven by growth in emerging economies. The Fund had major holdings in agricultural, steel, oil service, oil and gas, and mining stocks. These stocks were sold as the global economy dove into recession during the second half of the year and proceeds were invested in financial and economically defensive companies, including biotech, medical supplies and consumer staples. We established a large position in bank stocks which we sold when better opportunities appeared elsewhere.

Almost all our holdings declined in price in 2008. The largest losses occurred in energy, agricultural, bank and automotive stocks.

The fixed income section of the portfolio, which averaged 26% of the Fund's assets throughout the year, was 100% invested in Treasury Bills during the first nine months of the year. In October, we moved all of the fixed income section into investment grade corporate bonds and most experienced significant appreciation over the remainder of the year.

On December 31, 2008, CGM Mutual Fund remained approximately 26% invested in corporate bonds. In the equity portion of the portfolio, the three largest positions at year end were in the drug, hospital supply and metals and mining industries. The Fund's three largest stock holdings were Agnico-Eagle Mines Limited, Teva Pharmaceutical Industries Limited ADR and C.R. Bard, Inc. (hospital supply).

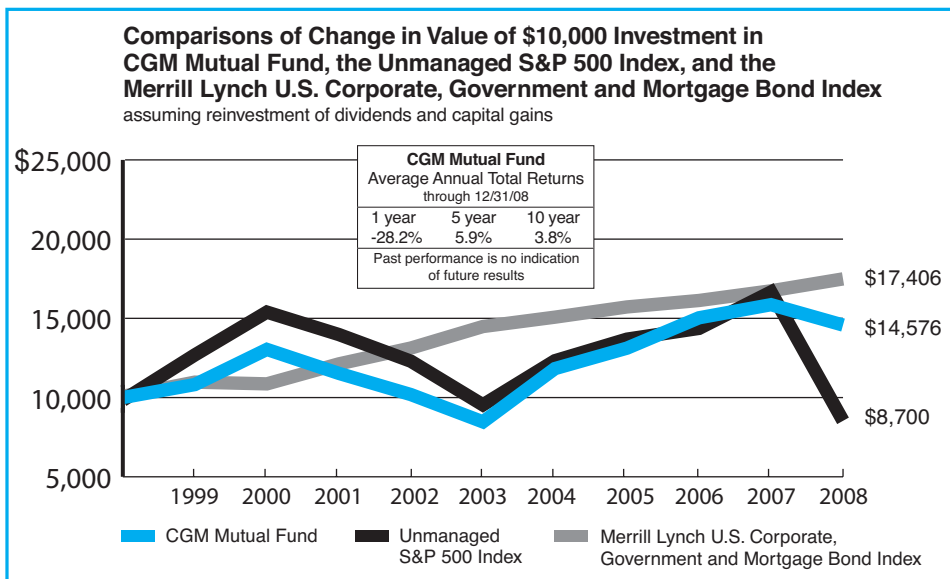


Robert L. Kemp
President



G. Kenneth Heebner
Portfolio Manager

January 2, 2009



CGM MUTUAL FUND
Portfolio Manager

G. Kenneth Heebner has managed CGM Mutual Fund since 1981. In 1990, Mr. Heebner founded Capital Growth Management Limited Partnership with Robert L. Kemp. Prior to establishing the new company, Mr. Heebner was at Loomis, Sayles and Company where he managed the Fund, then known as Loomis-Sayles Mutual Fund. In addition to CGM Mutual Fund, Mr. Heebner currently manages CGM Realty 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

	CGM Mutual Fund
10 Years	+45.8%
5 Years	+33.3
1 Year	-28.2
3 Months	-17.6

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.

Commencing July 1, 2003 and ending June 30, 2004, Capital Growth Management agreed to voluntarily waive a portion of the management fee, lowering the annual rate to 0.72% of the Fund's average daily net assets. Otherwise, the cumulative total return and the average annual total return for the 10- and 5-year periods ended December 31, 2008 would have been lower.

CGM MUTUAL FUND

INVESTMENTS as of December 31, 2008

COMMON STOCKS — 72.3% OF TOTAL NET ASSETS

	Shares	Value(a)
Banks – Money Center — 3.9%		
Morgan Stanley	1,200,000	\$ 19,248,000
Beverages and Tobacco — 4.9%		
Philip Morris International Inc.	550,000	23,930,500
Biotechnology — 5.1%		
Biogen Idec Inc. (b)	520,000	24,767,600
Consumer Staples — 4.7%		
CVS Caremark Corporation	800,000	22,992,000
Drugs — 18.2%		
Abbott Laboratories	480,000	25,617,600
Cephalon, Inc. (b)	330,000	25,423,200
Genzyme Corporation (b)	170,000	11,282,900
Teva Pharmaceutical Industries Limited ADR (c)	633,600	26,972,352
		89,296,052
Home Products and Cosmetic — 4.8%		
Colgate-Palmolive Company	340,000	23,303,600
Hospital Supply — 15.0%		
Baxter International Inc.	450,000	24,115,500
Becton, Dickinson and Company	340,000	23,252,600
C.R. Bard, Inc.	310,000	26,120,600
		73,488,700
Hotels and Restaurants — 5.3%		
McDonald's Corporation	420,000	26,119,800
Metals and Mining — 10.4%		
Agnico-Eagle Mines Limited (d)	540,000	27,718,200
Goldcorp Inc. (d)	740,000	23,332,200
		51,050,400
TOTAL COMMON STOCKS (Identified cost \$366,035,023)		354,196,652

See accompanying notes to financial statements.

CGM MUTUAL FUND

INVESTMENTS as of December 31, 2008 (continued)

BONDS — 26.0% OF TOTAL NET ASSETS

	Face Amount	Value(a)
Diversified Financial Services — 5.4%		
General Electric Company, 6.75%, 03/15/2032	\$25,000,000	\$ 26,580,650
Healthcare – Services — 0.4%		
UnitedHealth Group Incorporated, 6.875%, 02/15/2038	2,000,000	1,751,220
Media — 4.3%		
AOL Time Warner Inc., 7.700%, 5/01/2032	10,000,000	10,012,330
Comcast Corporation, 5.700%, 05/15/2018	10,000,000	9,378,080
Viacom Inc., 7.875%, 07/30/2030	3,000,000	1,880,529
		21,270,939
Oil Refining — 3.0%		
Valero Energy Corporation, 6.625%, 06/15/2037	20,000,000	14,710,060
Pharmaceuticals — 6.6%		
Bristol-Myers Squibb Company, 6.125%, 05/01/2038	9,000,000	9,883,431
GlaxoSmithKline plc, 6.375%, 05/15/2038	20,000,000	22,596,700
		32,480,131
Retail — 1.9%		
Target Corporation, 7.00%, 01/15/2038	10,000,000	9,267,950
Telecommunications — 4.4%		
AT&T Corp., 6.400%, 05/15/2038	20,000,000	21,423,620
TOTAL BONDS (Identified cost \$104,148,759)		127,484,570

SHORT-TERM INVESTMENT — 1.2% OF TOTAL NET ASSETS

American Express Credit Corporation, 0.01%, 01/02/09 (Cost \$5,925,000)	5,925,000	5,925,000
TOTAL INVESTMENTS — 99.5% (Identified cost \$476,108,782)		487,606,222
Cash and receivables		12,111,298
Liabilities		(9,830,165)
TOTAL NET ASSETS — 100.0%		\$489,887,355

(a) See notes 1A and 5.

(b) Non-income producing security.

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

(d) The Fund has approximately 10.4% of its net assets at December 31, 2008 invested in companies incorporated in Canada.

See accompanying notes to financial statements.

CGM MUTUAL FUND

STATEMENT OF ASSETS AND LIABILITIES

December 31, 2008

Assets

Investments at value (Identified cost — \$476,108,782)	\$487,606,222	
Cash	4,623	
Receivable for:		
Securities sold	\$7,585,977	
Shares of the Fund sold	1,785,701	
Dividends and interest	2,734,997	12,106,675
Total assets		<u>499,717,520</u>

Liabilities

Payable for:		
Securities purchased	7,471,263	
Shares of the Fund redeemed	1,419,268	
Tax withholding liability	104,530	
Distributions declared	301,390	9,296,451
Accrued expenses:		
Management fees	355,873	
Trustees' fees	13,610	
Accounting, administration and compliance expenses	9,019	
Transfer agent fees	90,058	
Other expenses	65,154	533,714
Total liabilities		<u>9,830,165</u>

Net Assets

Net Assets consist of:		
Capital paid-in	\$604,031,753	
Accumulated net realized losses on investments	(125,641,838)	
Net unrealized appreciation on investments	11,497,440	
Net Assets		<u>\$489,887,355</u>

Shares of beneficial interest outstanding, no par value	21,715,457
Net asset value per share*	<u>\$22.56</u>

*Shares of the Fund are sold and redeemed at net asset value (\$489,887,355 ÷ 21,715,457).

STATEMENT OF OPERATIONS

Year Ended December 31, 2008

Investment Income

Income:	
Dividends (net of withholding tax of \$390,753)	\$ 8,155,282
Interest	4,705,562
	<u>12,860,844</u>

Expenses:

Management fees	5,348,189
Trustees' fees	55,780
Accounting, administration and compliance expenses	108,231
Custodian fees and expenses	120,690
Transfer agent fees	520,744
Audit and tax services	41,150
Legal	18,191
Printing	79,374
Registration fees	47,836
Miscellaneous expenses	2,279
	<u>6,342,464</u>
Net investment income	<u>6,518,380</u>

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

Net realized losses on investments and foreign currency transactions ..	(121,834,635)
Net unrealized depreciation	<u>(80,610,010)</u>
Net realized and unrealized losses on investments and foreign currency transactions	<u>(202,444,645)</u>

Change in Net Assets from Operations

\$(195,926,265)

See accompanying notes to financial statements.

CGM MUTUAL FUND

STATEMENT OF CHANGES IN NET ASSETS

	Year Ended December 31,	
	2008	2007
From Operations		
Net investment income	\$ 6,518,380	\$ 5,676,497
Net realized gains (losses) on investments and foreign currency transactions	(121,834,635)	105,202,070
Net unrealized appreciation (depreciation)	(80,610,010)	72,232,962
Change in net assets from operations	(195,926,265)	183,111,529
From Distributions to Shareholders		
Net investment income	(6,501,796)	(5,654,129)
Net short-term realized capital gains on investments	—	(107,051,605)
Net long-term realized capital gains on investments	—	(1,480,849)
	(6,501,796)	(114,186,583)
From Capital Share Transactions		
Proceeds from sale of shares	130,222,450	35,748,635
Net asset value of shares issued in connection with reinvestment of:		
Dividends from net investment income	5,749,772	5,009,085
Distributions from net short-term realized capital gains on investments	—	97,226,898
Distributions from net long-term realized capital gains on investments	—	1,345,083
	135,972,222	139,329,701
Cost of shares redeemed	(91,779,247)	(64,706,440)
Change in net assets derived from capital share transactions	44,192,975	74,623,261
Total change in net assets	(158,235,086)	143,548,207
Net Assets		
Beginning of period	648,122,441	504,574,234
End of period	\$489,887,355	\$648,122,441
Number of shares of the Fund:		
Issued from sale of shares	4,444,761	1,056,385
Issued in connection with reinvestment of:		
Dividends from net investment income	223,864	155,722
Distributions from net short-term realized capital gains on investments	—	3,055,528
Distributions from net long-term realized capital gains on investments	—	42,272
	4,668,625	4,309,907
Redeemed	(3,337,513)	(2,088,140)
Net change	1,331,112	2,221,767

See accompanying notes to financial statements.

CGM MUTUAL FUND

FINANCIAL HIGHLIGHTS

	For the Year Ended December 31,				
	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
For a share of the Fund outstanding throughout each period:					
Net asset value at the beginning of period	<u>\$31.80</u>	<u>\$27.78</u>	<u>\$27.89</u>	<u>\$25.33</u>	<u>\$23.00</u>
Net investment income (a)(b)	0.31	0.32	0.45	0.30	0.16
Net realized and unrealized gains (losses) on investments and foreign currency transactions	<u>(9.25)</u>	<u>10.33</u>	<u>1.09</u>	<u>3.40</u>	<u>2.33</u>
Total from investment operations	<u>(8.94)</u>	<u>10.65</u>	<u>1.54</u>	<u>3.70</u>	<u>2.49</u>
Dividends from net investment income	(0.30)	(0.33)	(0.45)	(0.31)	(0.16)
Distribution from net short-term realized gains	0.00	(6.22)	(1.20)	—	—
Distribution from net long-term realized gains	<u>0.00</u>	<u>(0.08)</u>	<u>—</u>	<u>(0.83)</u>	<u>—</u>
Total distributions	<u>(0.30)</u>	<u>(6.63)</u>	<u>(1.65)</u>	<u>(1.14)</u>	<u>(0.16)</u>
Net increase (decrease) in net asset value	<u>(9.24)</u>	<u>4.02</u>	<u>(0.11)</u>	<u>2.56</u>	<u>2.33</u>
Net asset value at end of period	<u>\$22.56</u>	<u>\$31.80</u>	<u>\$27.78</u>	<u>\$27.89</u>	<u>\$25.33</u>
Total return (%)	(28.2)	38.5	5.5	14.6	10.9(c)
Ratios:					
Operating expenses to average net assets (%)	1.05	1.05	1.07	1.09	1.02
Operating expenses to average net assets before management fee waiver (%)	N/A	N/A	N/A	N/A	1.11
Net investment income to average net assets (%)	1.07	1.03	1.55	1.09	0.68
Portfolio turnover (%)	466	444	504	336	314
Net assets at end of period (in thousands) (\$)	489,887	648,122	504,574	514,612	481,443
(a) Net of management fee waiver which amounted to (\$) ..	N/A	N/A	N/A	N/A	0.02
(b) Per share net investment income has been calculated using the average shares outstanding during the period.					
(c) The total return would have been lower had the management fee not been reduced during the period.					

See accompanying notes to financial statements.

CGM MUTUAL 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 November 5, 1929. The Fund's objective is reasonable long-term capital appreciation with a prudent approach to protection of capital from undue risks. Current income is a consideration in the selection of the Fund's portfolio securities, but it is not a controlling factor.

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

- A. Security valuation** — Equity securities are valued on the basis of valuations furnished by a pricing service, authorized by the Board of Trustees. 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. Interest income is recorded on an accrual basis and includes amortization of premium and discount. Net gain or loss on securities sold is determined on the identified cost basis. Dividend payments received by the Fund from its investment in REITs may be comprised of ordinary income, capital gains, and return of capital and as such are recorded as dividend income, capital gains or a reduction to security cost, as appropriate.
- C. Federal income taxes** — It is the Fund's policy to comply with the requirements of the Internal Revenue Code applicable to regulated investment companies, and to distribute to its shareholders all of its taxable income and net realized capital gains, within the prescribed time period. Accordingly, no provision for federal income tax has been made. The Fund adopted the provisions of the Financial Accounting Standards Board ("FASB") Interpretation No. 48, Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement 109 ("FIN 48"), on January 1, 2007. FIN 48 prescribes a minimum threshold for financial statement recognition of the benefit of a tax position taken or expected to be taken in a tax return. The implementation of FIN 48, which included a review of the Fund's tax return of each of the three open tax years, did not result in any unrecognized tax benefits in the accompanying

CGM MUTUAL FUND

NOTES TO FINANCIAL STATEMENTS (continued)

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 carry overs of \$124,560,675 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>
\$—	\$—	\$10,416,277

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 Appreciation</u>
\$477,189,945	\$34,558,278	\$(24,142,001)	\$10,416,277

- 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. These differences are primarily related to 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, 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 periods 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	\$ 6,501,796	\$ —	\$ 6,501,796
2007	\$112,705,734	\$1,480,849	\$114,186,583

- E. Foreign currency translation** — All assets and liabilities initially expressed in terms of foreign currencies are translated into U.S. dollars. Transactions affecting statement of operations accounts and net realized gain/(loss) on investments are translated at the rates prevailing at the dates of the transactions. The Fund does not isolate that portion of the results of operations resulting from changes in foreign exchange rates on investments from the fluctuations arising from changes in market prices of securities held. Such fluctuations are included with the net realized and unrealized gain or loss from investments. Reported net realized foreign exchange gains or losses arise from sales of foreign currency, currency gains or losses realized between the trade and settlement dates on securities transactions and the difference between the amounts of dividends, interest, and foreign withholding taxes recorded on the

CGM MUTUAL FUND

NOTES TO FINANCIAL STATEMENTS (continued)

Fund's books and the U.S. dollar equivalent of the amounts actually received or paid. Net unrealized foreign exchange gains or losses arise from changes in the value of assets and liabilities other than investments in securities at the end of the period, resulting from changes in the exchange rate.

- F. Indemnities** — In the normal course of business, 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.

2. Risks and uncertainties

- A. Risks associated with focused investing** — The Fund, although diversified, may take a focused approach to investing within particular industries or sectors of the economy or 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, funds that invest more heavily in certain industries, sectors or individual holdings are particularly susceptible to the impact of market, economic, regulatory and other factors affecting those investments.
- 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 \$2,407,833,478 and \$2,185,940,428 respectively. There were no purchases or sales of long-term United States government obligations.

CGM MUTUAL FUND

NOTES TO FINANCIAL STATEMENTS (continued)

4. **A. Management fees** — During the period ended December 31, 2008, the Fund incurred management fees of \$5,348,189, 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 0.90% on the first \$500 million of the Fund's average daily net assets, 0.80% of the next \$500 million and 0.75% of such assets in excess of \$1 billion.
- B. Other expenses** — CGM performs certain administrative, accounting, compliance and other services for the Fund. The expenses of those services, which were paid to CGM by the Fund, include the following: (i) expenses for personnel performing bookkeeping, accounting and financial reporting functions and clerical functions relating to the Fund; (ii) expenses for services required in connection with the preparation of registration statements and prospectuses, shareholder reports and notices, proxy solicitation material furnished to shareholders of the Fund or regulatory authorities and reports and questionnaires for SEC compliance; (iii) registration, filing and other fees in connection with requirements of regulatory authorities and (iv) compliance in connection to the Investment Company Act of 1940 and the Sarbanes Oxley Act of 2002. The accounting, administration and compliance expense of \$108,231, 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 \$86,868 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. **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 dis-

CGM MUTUAL FUND

NOTES TO FINANCIAL STATEMENTS (continued)

closures, 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 the 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 Mutual Fund’s investments as of December 31, 2008:

Valuation Inputs	Investment in Securities	Other Financial Instruments
Level 1 – Quoted Prices	\$354,196,652	N/A
Level 2 – Other Significant Observable Inputs	133,409,570	N/A
Level 3 – Significant Unobservable Inputs	none	N/A
Total	\$487,606,222	N/A

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. The valuation procedures may result in a change to a particular security’s assigned level within the fair value hierarchy described above. The value of securities used for NAV calculation under these procedures may differ from published prices for the same securities.

CGM MUTUAL FUND

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Trustees of CGM Trust and Shareholders of CGM Mutual 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 Mutual 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 MUTUAL 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 MUTUAL FUND

FUND EXPENSES

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

The example is based on an investment of \$1,000 invested at the beginning of the period and held for the entire period 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	\$ 685.70	\$4.49
Hypothetical (5% return before expenses)	\$1,000.00	\$1,019.81	\$5.38

* Expenses are equal to the Fund's annualized expense ratio of 1.06%, multiplied by the average account value over the period, multiplied by 184/366 (to reflect the one-half year period).

CGM MUTUAL FUND

25 YEAR INVESTMENT RECORD DECEMBER 31, 1983 — DECEMBER 31, 2008 (unaudited)

IF YOU HAD PURCHASED ONE SHARE OF THE FUND ON DECEMBER 31, 1983

On December 31	— AND HAD TAKEN ALL DIVIDENDS AND DISTRIBUTIONS IN CASH			OR — HAD REINVESTED ALL DIVIDENDS AND CAPITAL GAINS DISTRIBUTIONS IN ADDITIONAL SHARES		
	The Net Asset Value of Your Shares Would Have Been	During the Year You Would Have Received		The Value of Your Original Investment At Each Year End Would Have Been	Which Would Represent	
		Per Share Capital Gains Distributions of	Per Share Income Distributions of		An Annual Total Return of	A Cumulative Change Expressed As An Index With December 31, 1983 = 100.0
1983	\$18.81					100.0
1984	17.01	\$ 1.86	\$ 0.95	\$20.00	+ 6.3%	106.3
1985	21.53	—	1.08	26.90	+ 34.5	143.0
1986	22.86	2.75	0.94	33.65	+ 25.1	178.9
1987	20.40	4.52	1.06	38.26	+ 13.7	203.4
1988	19.94	—	1.10	39.48	+ 3.2	209.9
1989	22.34	0.95	0.93	48.05	+ 21.7	255.4
1990	21.64	—	0.93*	48.58	+ 1.1	258.2
1991	26.80	2.64	0.97	68.45	+ 40.9	363.8
1992	26.02	1.42	0.93	72.63	+ 6.1	386.0
1993	28.88	1.93	0.86	88.46	+ 21.8	470.1
1994	25.05	—	1.04	79.88	— 9.7	424.5
1995	29.43	0.89	0.77	99.29	+ 24.3	527.7
1996	31.42	4.15	0.74	122.82	+ 23.7	652.8
1997	25.52	7.81	0.67	132.89	+ 8.2	706.3
1998	26.36	0.25	0.98	143.79	+ 8.2	764.2
1999	27.28	3.54	0.84	173.27	+ 20.5	920.9
2000	23.38	—	0.73	153.17	— 11.6	814.1
2001	20.47	—	0.20	135.40	— 11.6	719.7
2002	16.65	—	0.41	112.52	— 16.9	598.1
2003	23.00	—	0.23	157.19	+ 39.7	835.5
2004	25.33	—	0.16	174.32	+ 10.9	926.6
2005	27.89	0.83	0.31	199.77	+ 14.6	1061.9
2006	27.78	1.20	0.45	210.76	+ 5.5	1120.3
2007	31.80	6.30	0.33	291.90	+ 38.5	1551.6
2008	22.56	—	0.30	209.58	— 28.2	1114.0
Totals		\$41.04	\$17.91		+1014.0	

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

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

The performance data contained in this report represent past performance, which is no guarantee of future results. The table above does not reflect the deduction of taxes that a shareholder would pay on Fund distributions or the redemption of Fund shares. The investment return on, and the principal value of, an investment in the Fund fluctuate so that investors' shares, when redeemed, may be worth more or less than the original cost. Current performance may be lower or higher than the performance data quoted. The advisor waived \$0.02 and \$0.02 per share of management fee in 2003 and 2004, respectively. Otherwise, the annual total return for 2003 and 2004 and cumulative 25-year return would have been lower.

CGM MUTUAL 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 to 1990); Trustee, TT International U.S.A. Master and Feeder Trusts (four mutual funds) from 2000-2005	3

CGM MUTUAL 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; 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