

## 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 Focus Fund

14<sup>th</sup> Annual Report  
December 31, 2010

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

[www.cgmfunds.com](http://www.cgmfunds.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 Focus Fund increased 23.1% during the fourth quarter of 2010 compared to the Standard and Poor's 500 Index which rose 10.8% over the same period. For the twelve months just ended, CGM Focus Fund increased 17.0% while the S&P 500 Index grew 15.1%.

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

The new year 2010 dawned on a high note with news that fourth quarter 2009 Gross Domestic Product grew 5.6%. The celebration, however, was short-lived as data on new home sales early in the year and prices of existing homes weighed heavily on the stock market dragging the S&P 500 Index down 5.1% in the first five weeks of 2010. In February, the mid-Atlantic states were pounded by storms dubbed "Snowmageddon" which brought business activity to a standstill in many places for nearly a week. In March, new signs of economic life emerged with the release of encouraging consumer retail sales numbers and in April, sales figures from the housing market soared in the weeks prior to the expiration of a first-time home buyer tax credit at the end of that month. Bad news returned in May when new home sales plunged and the equity market as measured by the S&P 500 Index fell more in that month than in any other month of May for the past 48 years. The deteriorating financial situation in Europe, pending congressional financial reform legislation and a disastrous oil spill in the Gulf of Mexico added to the economic gloom. The most positive sector of the U.S. economy in the spring of 2010 was manufacturing as measured by the Institute of Supply Management's Purchasing Manager's Index (PMI) which slowed slightly from April to May and again in June but remained expansive at 56.2 at the end of the quarter (a reading above 50 percent generally indicates the manufacturing economy is growing).

Increased productivity is good news for corporate profits and the start of the third quarter witnessed a spate of strong earnings announcements which led to a brief stock market rally in the first weeks of July, though yet another weak jobs report

and slowing retail sales proved to be too much of a drag on the investor psyche to sustain the rise. On August 10, in an effort to stimulate the economy, the Federal Reserve Board announced it planned to re-invest proceeds from maturing mortgage debt in U.S. Treasury securities. The Fed's announcement, we believe along with a flight to safety driven by fears of a "double dip" or a re-emerging business slowdown after a short period of growth, pushed interest rates on 10-year Treasury bonds down to 2.42% on August 25, 2010.

Our confidence in the good news on the manufacturing front and rising corporate profits outweighed the "double dip" argument in our minds. The S&P 500 Index reinforced this view by jumping 8.9% in September, a month that more frequently ushers in down markets than up.

Third quarter 2010 Gross Domestic Product was announced in October clocking in at a disappointing 2.5% growth rate (later revised to 2.6%) which resurrected talk of a double dip. On November 3, the Fed announced an additional \$600 billion stimulus program designed to add new fuel to the economic recovery. The Fed's intent was to lower interest rates by purchasing government bonds thereby encouraging borrowing and spending and prompting companies to hire. A week later in Seoul, G20 Summit attendees voiced their disapproval of the \$600 billion Quantitative Easing Program to President Obama. But then, the European Union announced a loan price tag of perhaps \$110 billion to see Ireland through its financial difficulties in the coming year and international voices quieted as the dollar strengthened, an EU loan agreement was reached on November 21 and fears of a wider financial panic subsided.

Utilities, mines and factories in the United States increased output 0.3% in November as measured by the Federal Reserve Board's Industrial Production Index, up 5.6% from November of

## CGM FOCUS FUND

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one year earlier. Retail sales and exports both were up in November and December shopping statistics—though shy of expectations—were up 3.2% for same store sales. Despite an unexpected rally in the bond market (the ten-year Treasury note yielded 3.84% at the beginning of 2010, fell to 2.33% on October 8 and ended the year at 3.31%), interest rates remain extremely low which, combined with rising productivity, strong corporate profits and Federal Reserve Board stimulus, leads us to believe the recovery is indeed intact. We believe there is little risk of a double dip experience and we look forward to an increase in business activity and perhaps, equity valuations in the coming year.

### **Portfolio Strategy**

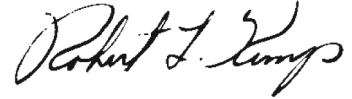
CGM Focus Fund was fully invested throughout 2010 in anticipation of a global and domestic economic recovery. Many emerging economies grew steadily throughout the year, but the U.S. economy continued to be constrained by the lingering impact of the 2008 financial crisis.

The largest contributors to Fund performance in 2010 were automotive stocks which generated sizable profits despite a depressed automobile market. Other major contributors to Fund performance were investments in global mining companies which benefited from growing demand in many economies for industrial commodities, specifically, copper and metallurgical coal.

We had significant losses in technology stocks as well as in steel companies.

We believe the U.S. economy strengthened in the fourth quarter of 2010 and anticipate a better domestic economic environment in the year ahead.

On December 31, 2010, CGM Focus Fund held significant positions in the vehicle assembly, auto parts and oil service industries. The Fund's three largest holdings were Ford Motor Company, BorgWarner Inc. (auto parts) and Freeport-McMoRan Copper & Gold Inc.



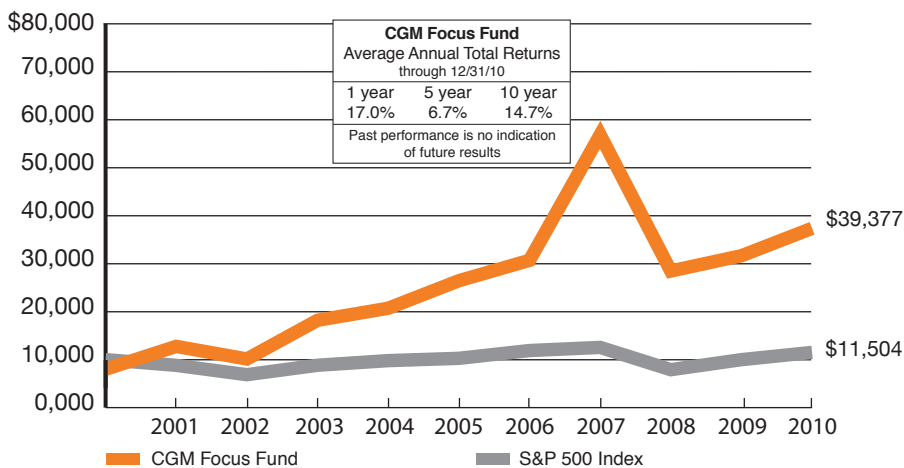
Robert L. Kemp  
President



G. Kenneth Heebner  
Portfolio Manager

January 3, 2011

**Comparison of the change in value of a \$10,000 investment in CGM Focus Fund and the S&P 500 Index**  
 assuming reinvestment of dividends and capital gains



**CGM FOCUS FUND**  
**Portfolio Manager**

G. Kenneth Heebner has managed CGM Focus Fund since its inception on September 3, 1997. 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 Focus Fund, he currently manages CGM Mutual Fund and CGM Realty Fund as well as other funds and accounts.

**INVESTMENT PERFORMANCE**  
 (unaudited)

Cumulative Total Return for Periods Ended December 31, 2010

	<b>CGM Focus Fund</b>
10 Years . . . . .	+293.8%
5 Years . . . . .	+ 38.4
1 Year . . . . .	+ 17.0
3 Months . . . . .	+ 23.1

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 higher or lower than the performance data quoted.

The adviser limited the Fund's total operating expenses to 1.20% of its average net assets exclusive of any dividend expense incurred on short sales through December 31, 2001. Otherwise, the Fund's cumulative total return and average annual total return for the ten year period would have been lower.

## CGM FOCUS FUND

### PORTFOLIO DIVERSIFICATION as of December 31, 2010

#### COMMON STOCKS

Industry	Percent of net assets
Vehicle Assembly	19.9%
Auto Parts	16.5
Oil Service	15.8
Metals and Mining	9.7
Services	7.7
Copper	6.2
Coal and Other Minerals and Ores	5.8
Electronic Components	5.0
Retail	5.0
Chemicals – Specialty	2.8
Heavy Capital Goods	2.3
Oil – Independent Production	1.4
Steel	1.4

### SCHEDULE OF INVESTMENTS as of December 31, 2010

#### COMMON STOCKS – 99.5% of TOTAL NET ASSETS

	Shares	Value(a)
<b>Auto Parts – 16.5%</b>		
Autoliv, Inc. . . . .	1,790,000	\$ 141,302,600
BorgWarner Inc. (b) . . . . .	2,850,000	206,226,000
Magna International Inc. (c) . . . . .	3,646,000	189,592,000
		<u>537,120,600</u>
<b>Chemicals - Specialty – 2.8%</b>		
Potash Corporation of Saskatchewan Inc. (c) . . . . .	585,000	<u>90,575,550</u>
<b>Coal and Other Minerals and Ores – 5.8%</b>		
Walter Energy, Inc. . . . .	1,490,000	<u>190,481,600</u>
<b>Copper – 6.2%</b>		
Freeport-McMoRan Copper & Gold Inc. . . . .	1,680,000	<u>201,751,200</u>
<b>Electronic Components – 5.0%</b>		
SanDisk Corporation (b) . . . . .	3,300,000	<u>164,538,000</u>
<b>Heavy Capital Goods – 2.3%</b>		
Whirlpool Corporation . . . . .	840,000	<u>74,617,200</u>
<b>Metals and Mining – 9.7%</b>		
Alpha Natural Resources, Inc. (b) . . . . .	2,020,000	121,260,600
Teck Resources Limited (c) . . . . .	3,180,000	<u>196,619,400</u>
		<u>317,880,000</u>

See accompanying notes to financial statements.

## CGM FOCUS FUND

### SCHEDULE OF INVESTMENTS as of December 31, 2010 (continued)

#### COMMON STOCKS (continued)

	Shares	Value(a)
<b>Oil - Independent Production – 1.4%</b>		
Occidental Petroleum Corporation . . . . .	450,000	\$ 44,145,000
<b>Oil Service – 15.8%</b>		
Halliburton Company . . . . .	4,050,000	165,361,500
National Oilwell Varco, Inc. . . . .	2,460,000	165,435,000
Schlumberger Limited . . . . .	2,200,000	183,700,000
		514,496,500
<b>Retail – 5.0%</b>		
Coach, Inc. . . . .	2,960,000	163,717,600
<b>Services – 7.7%</b>		
Ctrip.com International, Ltd. ADR (b)(d) . . . . .	2,030,000	82,113,500
Priceline.com Incorporated (b) . . . . .	420,000	167,811,000
		249,924,500
<b>Steel – 1.4%</b>		
Mechel OAO ADR (d) . . . . .	1,520,000	44,429,600
<b>Vehicle Assembly – 19.9%</b>		
Ford Motor Company (b) . . . . .	29,000,000	486,910,000
Tata Motors Limited ADR (d) . . . . .	5,600,000	164,304,000
		651,214,000
<b>TOTAL COMMON STOCKS</b> (Identified cost \$2,440,716,164) . . . . .		3,244,891,350

#### SHORT-TERM INVESTMENT – 0.4% OF TOTAL NET ASSETS

	Face Amount	
American Express Credit Corporation, 0.03%, 01/03/11 (Cost \$15,335,000) . . . . .	\$15,335,000	15,335,000
<b>TOTAL INVESTMENTS – 99.9%</b> (Identified cost \$2,456,051,164) . . . . .		3,260,226,350
Cash and receivables . . . . .		171,876,144
Liabilities . . . . .		(169,647,476)
<b>TOTAL NET ASSETS – 100.0%</b> . . . . .		\$3,262,455,018

(a) See note 2A.

(b) Non-income producing security.

(c) The Fund has approximately 14.6% of its net assets at December 31, 2010 invested in companies incorporated in Canada.

(d) 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.

See accompanying notes to financial statements.

## CGM FOCUS FUND

### STATEMENT OF ASSETS AND LIABILITIES

December 31, 2010

#### Assets

Investments at value (Identified cost — \$2,456,051,164) . . . . .		\$3,260,226,350
Cash . . . . .		2,329
Receivable for:		
Securities sold . . . . .	\$166,284,258	
Shares of the Fund sold . . . . .	3,701,961	
Dividends and interest . . . . .	1,887,596	171,873,815
Total assets . . . . .		<u>3,432,102,494</u>

#### Liabilities

Payable for:		
Securities purchased Shares of the Fund redeemed . . . . .	162,274,896	4,292,796
Tax withholding liability	142,438	166,710,130
Accrued expenses:		
Management fees . . . . .	2,515,942	
Trustees' fees . . . . .	43,131	
Accounting, administration and compliance expenses	59,352	
Transfer agent fees . . . . .	153,881	
Other expenses . . . . .	165,040	2,937,346
Total liabilities . . . . .		<u>169,647,476</u>
<b>Net Assets</b> . . . . .		<u><u>\$3,262,455,018</u></u>

Net assets consist of:		
Capital paid-in . . . . .	\$5,652,387,008	
Accumulated net realized losses on investments . . . . .	(3,194,115,250)	
Net unrealized appreciation on investments . . . . .	804,183,260	
<b>Net Assets</b> . . . . .		<u><u>\$3,262,455,018</u></u>

Shares of beneficial interest outstanding, no par value . . . . .	93,760,922
Net asset value per share* . . . . .	<u><u>\$34.80</u></u>

\* Shares of the Fund are sold and redeemed at net asset value (\$3,262,455,018/93,760,922).

### STATEMENT OF OPERATIONS

Year Ended December 31, 2010

#### Investment Income

Income:	
Dividends (net of withholding tax of \$707,678) . . . . .	\$ 20,830,631
Interest . . . . .	26,267
	<u>20,856,898</u>

Expenses:	
Management fees . . . . .	29,077,523
Trustees' fees . . . . .	173,985
Accounting, administration and compliance expenses . . . . .	712,220
Custodian fees and expenses . . . . .	330,089
Transfer agent fees . . . . .	1,362,502
Audit and tax services . . . . .	45,566
Legal . . . . .	209,730
Printing . . . . .	223,694
Registration fees . . . . .	61,742
Line of credit commitment fee . . . . .	58,749
Miscellaneous expenses . . . . .	19,159
	<u>32,274,959</u>
Net investment loss . . . . .	<u>(11,418,061)</u>

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

Net realized gains on investments . . . . .	423,654,029
Net unrealized appreciation on investments and foreign currency transactions . . . . .	21,382,088
Net realized and unrealized gains on investments and foreign currency transactions . . . . .	<u>445,036,117</u>

<b>Change in Net Assets from Operations</b> . . . . .	<u><u>\$ 433,618,056</u></u>
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See accompanying notes to financial statements.

## CGM FOCUS FUND

### STATEMENT OF CHANGES IN NET ASSETS

	<b>Year Ended December 31,</b>	
	<b>2010</b>	<b>2009</b>
<b>From Operations</b>		
Net investment loss. . . . .	\$ (11,418,061)	\$ (3,543,825)
Net realized gains (losses) on investments . . . . .	423,654,029	(757,034,698)
Net unrealized appreciation on investments and foreign currency transactions. . .	21,382,088	1,054,522,673
Change in net assets from operations. . . . .	433,618,056	293,944,150
<b>From Distributions to Shareholders</b>		
Net investment income . . . . .	—	(3,786,109)
	—	(3,786,109)
<b>From Capital Share Transactions</b>		
Proceeds from sale of shares . . . . .	358,042,998	584,998,963
Net asset value of shares issued in connection with reinvestment of:		
Dividends from net investment income . . . . .	—	3,137,127
	358,042,998	588,136,090
Cost of shares redeemed . . . . .	(1,169,502,832)	(1,416,896,710)
Change in net assets derived from capital share transactions . . . . .	(811,459,834)	(828,760,620)
Total change in net assets . . . . .	(377,841,778)	(538,602,579)
<b>Net Assets</b>		
Beginning of period. . . . .	3,640,296,796	4,178,899,375
End of period . . . . .	\$ 3,262,455,018	\$ 3,640,296,796
<b>Number of shares of the Fund</b>		
Issued from sale of shares . . . . .	11,968,845	22,865,681
Issued in connection with reinvestment of:		
Dividends from net investment income . . . . .	—	105,321
	11,968,845	22,971,002
Redeemed . . . . .	(40,554,759)	(55,651,850)
Net change . . . . .	(28,585,914)	(32,680,848)

See accompanying notes to financial statements.

# CGM FOCUS FUND

## FINANCIAL HIGHLIGHTS

	For the Year Ended December 31,				
	2010	2009	2008	2007	2006
For a share of the Fund outstanding throughout each period:					
Net asset value at beginning of period . . . . .	\$29.75	\$ 26.96	\$ 52.49	\$34.68	\$33.40
Net investment income(loss) (a)(b) . . . . .	(0.11)	(0.03)	0.20	0.06	0.82
Net realized and unrealized gains (losses) on investments and foreign currency transactions . . . . .	5.16	2.85	(25.51)	27.71	4.19
Total from investment operations . . . . .	5.05	2.82	(25.31)	27.77	5.01
Dividends from net investment income . . . . .	—	(0.03)	(0.22)	(0.05)	(0.81)
Distribution from net short-term realized gains . . . . .	—	—	—	(8.21)	—
Distribution from net long-term realized gains . . . . .	—	—	—	(1.70)	(2.92)
Total distributions . . . . .	—	(0.03)	(0.22)	(9.96)	(3.73)
Net increase (decrease) in net asset value . . . . .	5.05	2.79	(25.53)	17.81	1.28
Net asset value at end of period . . . . .	\$34.80	\$ 29.75	\$ 26.96	\$52.49	\$34.68
Total return (%) . . . . .	17.0	10.5	(48.2)	80.0	15.0 (c)
Ratios:					
Operating expenses to average net assets (%) . . . . .	1.03	1.02	0.97	0.99	1.02
Dividends and interest on short positions to average net assets (%) . . . . .	—	0.21	0.39	0.28	0.18
Total expenses to average net assets (%) . . . . .	1.03	1.23	1.36	1.27	1.20
Net investment income (loss) to average net assets (%) . . . . .	(0.36)	(0.10)	0.44	0.14	2.23
Portfolio turnover (%) . . . . .	363	464	504 (d)	384	333
Net assets at end of period (in thousands) (\$) . . . . .	3,262,455	3,640,297	4,178,899	5,536,114	2,272,039

- (a) Net investment income (loss) per share excluding all related short sale income and expenses (\$). . . . . (0.11) 0.03 0.32 (0.02) 0.36
- (b) Per share net investment income (loss) has been calculated using the average shares outstanding during the period.
- (c) In 2006, the Fund's total return includes a voluntary reimbursement by the adviser for a realized investment loss. Excluding this item, the total return would have been 0.01% less.
- (d) Portfolio turnover excludes the impact of assets resulting from a merger with CGM Capital Development Fund.

See accompanying notes to financial statements.

# CGM FOCUS FUND

## NOTES TO FINANCIAL STATEMENTS — December 31, 2010

**1. Organization** — CGM Focus Fund (the “Fund”) is a non-diversified series of CGM Trust (the “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 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.

**2. Significant accounting policies** — Management has evaluated the events and transactions from December 31, 2010 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 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.

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 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

## CGM FOCUS FUND

### NOTES TO FINANCIAL STATEMENTS (continued)

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 Focus Fund's investments as of December 31, 2010:

Classification	Valuation Inputs		
	Level 1 - Quoted Prices	Level 2 - Other Significant Observable Inputs	Level 3 - Significant Unobservable Inputs
Common Stocks*	\$3,244,891,350	\$ —	\$ —
Debt Securities			
Commercial Paper	—	15,335,000	—
Total	<u>\$3,244,891,350</u>	<u>\$ 15,335,000</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 plus one basis for daily NAV calculations. However, for financial reporting purposes, investment transactions are reported on trade date (date the order to buy or sell is executed). 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 and may include proceeds from litigations. 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 the Fund's tax positions for the open tax years ended December 31, 2010 and has concluded that no provision for federal income tax is required in the Fund's financial statements. Management of the Fund has determined that there are no uncertain tax positions that would require financial statement recognition,

## CGM FOCUS FUND

### NOTES TO FINANCIAL STATEMENTS (continued)

de-recognition or disclosure. Management's conclusions 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.

Capital accounts within the financial statements are adjusted for permanent book/tax differences. These adjustments have no impact on the Fund's net assets or results of operations. Temporary book/tax differences, if any, will reverse in a subsequent period. The difference between book basis and tax-basis unrealized appreciation is attributable primarily to the temporary book/tax difference of tax deferral of losses on wash sales.

As of December 31, 2010, the components of distributable earnings on a tax basis were as follows:

Undistributed Ordinary Income	Undistributed Long-Term Capital Gains	Net Unrealized Appreciation/ (Depreciation)
\$ —	\$ —	\$803,766,672

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, 2010 was as follows:

Identified Cost	Gross Unrealized Appreciation	Gross Unrealized Depreciation	Net Unrealized Appreciation
\$2,456,459,678	\$829,563,626	\$(25,796,954)	\$803,766,672

At December 31, 2010, the Fund had available for tax purposes, capital loss carryovers of \$1,572,159,776 expiring December 31, 2017 and \$1,621,546,960 expiring December 31, 2016.

- 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/tax differences relating to shareholder distributions may result in reclassifications to paid-in capital or accumulated realized gain/(loss). Permanent book/tax differences are primarily attributable to net operating losses. 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/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 characterization of distributions is determined on an annual basis. The tax character of distributions paid during the period ended December 31, 2010 and 2009, were as follows:

Year	Ordinary Income	Long-Term Capital Gains	Total
2010	\$ —	\$ —	\$ —
2009	\$3,786,109	\$ —	\$3,786,109

- 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

## CGM FOCUS FUND

### NOTES TO FINANCIAL STATEMENTS (continued)

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 the 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. Under certain market conditions, short sales can increase the volatility of the Fund and may lower the Fund's return or result in losses, which potentially may be unlimited. For the year ended December 31, 2010, there were no short sales.

- 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.
- G. Foreign currency translation** — All assets and liabilities initially expressed in terms of foreign currencies are translated into U.S. dollars each day at the prevailing exchange rate. 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.

### 3. Risks and uncertainties

- A. Non-diversification risk** — The Fund is non-diversified, meaning it may invest a significant portion of its investments within a single industry, sector of the economy or fewer individual holdings than a diversified fund. Therefore, the Fund may be subject to greater price volatility or be adversely affected by the performance of particular industries, sectors, or individual holdings compared to the performance of a diversified fund.
- 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,

## CGM FOCUS FUND

### NOTES TO FINANCIAL STATEMENTS (continued)

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, 2010, purchases and sales of securities other than United States government obligations and short-term investments aggregated \$11,245,513,428 and \$12,061,096,440, respectively.

#### **5. Fees and expenses**

**A. Management fees** — During the period ended December 31, 2010, the Fund incurred management fees of \$29,077,523, 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 1.00% on the first \$500 million of the Fund's average daily net assets, 0.95% of the next \$500 million of the Fund's average daily net assets and 0.90% on amounts in excess of \$1 billion of the Fund's average daily net assets.

**B. Other expenses** — The majority of expenses are directly attributable to the Fund. Expenses that are not readily attributable to the Fund are allocated among each of the three funds comprising the Trust in an equitable manner, taking into consideration, among other things, the nature and type of expense and the funds' respective net assets. 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 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 to Sarbanes Oxley Act of 2002. The accounting, administration and compliance expenses of \$712,220, for the period ended December 31, 2010, are shown separately in the Statement of Operations. 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 \$498,821 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, 2010, each disinterested trustee will be 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

## CGM FOCUS FUND

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### NOTES TO FINANCIAL STATEMENTS (continued)

is responsible for \$10,000 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.

**6. Line of credit** — The Fund has a \$40,000,000 committed, secured 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 0.15% per annum through October 18, 2010 and then incurs a commitment fee of 0.125% per annum on the unused portion of the line of credit, payable quarterly, through October 17, 2011. There were no borrowings under the line of credit during the period ended December 31, 2010.

**7. Guarantees and indemnifications** — Under the Trust's organizational documents, its officers and trustees are indemnified against certain liabilities arising out of the performance of their duties for the Fund. Additionally, in the normal course of business, the Fund may enter into contracts with service providers that contain general indemnification clauses. The Fund's maximum exposure under these arrangements is unknown, as this would involve future claims that may be made against the Fund that have not yet occurred. The risk of material loss from such claims is considered remote.

## CGM FOCUS FUND

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### REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Trustees of CGM Trust and Shareholders of CGM Focus 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 Focus Fund (the “Fund,” a series of CGM Trust) at December 31, 2010, 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, 2010 by correspondence with the custodian and brokers, provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP  
Boston, Massachusetts  
February 17, 2011

## CGM FOCUS 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, 2010 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 CGM Fund's website, [www.cgmfunds.com](http://www.cgmfunds.com), and the SEC's website, [www.sec.gov](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 [www.sec.gov](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 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 July 1, 2010 to December 31, 2010.

#### **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.

	Beginning Account Value 7/01/10	Ending Account Value 12/31/10	Expenses Paid During Period* 7/01/10 – 12/31/10
Actual	\$1,000.00	\$1,403.79	\$6.27
Hypothetical (5% return before expenses)	\$1,000.00	\$1,019.99	\$5.27

\* Expenses are equal to the Fund’s annualized expense ratio of 1.03%, multiplied by the average account value over the period multiplied by 184/365 (to reflect the one-half year period).

## CGM FOCUS FUND

### TAX INFORMATION FOR THE TAX YEAR ENDED December 31, 2010 (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, 2010, 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 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 70	Trustee since 1993	Co-founder and Employee, CGM; Controlling Owner, Kenbob, Inc. (general partner of CGM)	3
Robert L. Kemp* age 78	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 70	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 FOCUS 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>	<b>Number of Funds in the CGM Funds Complex Overseen</b>
Mark W. Holland age 61	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 62	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 64	Trustee since 1990	Member, Ledgewood, P.C. (law firm)	3
<b>Officers</b>			
G. Kenneth Heebner* age 70	Vice President since 1990	Co-founder and Employee, CGM; Controlling Owner, Kenbob, Inc. (general partner of CGM)	3
Robert L. Kemp* age 78	President since 1990	Co-founder and Employee, CGM; Non-voting Owner, Kenbob, Inc. (general partner of CGM)	3
David C. Fietze* age 41 address: 38 Newbury Street Boston, Massachusetts 02116	Chief Compliance Officer since 2004	Employee – Legal counsel, CGM	3
Kathleen S. Haughton* age 50 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 47	Treasurer since 2004	Employee – CGM	3
Leslie A. Lake* age 65	Vice President and Secretary since 1992	Employee – Office Administrator, CGM	3
Martha I. Maguire* age 55	Vice President since 1994	Employee – Funds Marketing, CGM	3
Mary L. Stone* age 66	Assistant Vice President since 1990	Employee – Portfolio Transactions, CGM	3