

## **FAIRHOLME FUNDS, INC.**

### **PROXY VOTING POLICY**

#### **A. INTRODUCTION**

Fairholme Funds, Inc. (the “Company”) is registered with the Securities and Exchange Commission (the “Commission”) as an open-end management investment company under the Investment Company Act of 1940 (“1940 Act”). The Company is a series company, meaning that it can offer an indefinite number of series of Company shares (each such series a “Fund” and together the “Funds”). The Company currently offers shares of three Funds, but may offer shares of additional Funds in the future. This policy applies equally with respect to the Company’s currently existing Funds and any future Funds that may be offered by the Company.

The Board of Directors of the Company is responsible for overseeing the management and operation of the Company. The Board, consistent with its fiduciary duties and pursuant to applicable rules and regulations promulgated under the 1940 Act, has designed this proxy voting policy (the “Policy”) to reflect its commitment to vote proxies received by a Fund in a manner consistent with the best interests of the Fund and its shareholders. The Board has delegated to the Proxy Voting Officers (as defined below) the authority for voting proxies received by the Funds with respect to securities held in their portfolios. The Board has adopted the following proxy voting guidelines to assist the Proxy Voting Officers in exercising their delegated authority in voting proxies on behalf of each Fund.

#### **B. PROXY VOTING GUIDELINES**

##### **1. General Policies**

All proxy solicitations should be reviewed on an issuer-by-issuer basis, and each item for which a vote is sought should be considered in the context of the issuer/portfolio company under review and the various economic impacts such item may have on a Fund’s stated investment objectives and strategies. The Proxy Voting Officers should give great weight to the views of the issuer’s management, and in most cases should vote for management’s recommendations *unless* it is apparent, after reasonable inquiry, that to vote in accordance with management recommendations would likely have a negative impact on a Fund’s shareholder value or conflict with the guidelines addressing management and corporate governance. In such cases, the Proxy Voting Officers may seek an independent analysis (e.g., from the Proxy Voting Committee or independent third party) of the impact that the proposed action will have on shareholder value and should vote such items in accordance with their good faith conclusions as to the course of action that will best benefit Fund shareholders. Proxy proposals presenting a conflict of interest between a Fund and certain individuals or entities identified below should be administered in accordance with the procedures set forth below under Section C.4.

## 2. Boards of Directors

Electing directors is one of the most important rights of stock ownership that portfolio company shareholders can exercise. The Board believes that directors of a portfolio company should act in the long-term interests of their shareholders and the company as a whole. Generally, when called upon by an issuer to vote for one or more directors, the Proxy Voting Officers should vote for director nominees that have expressed and/or demonstrated a commitment to the interest of the portfolio company's shareholders. The Proxy Voting Officers should consider the following factors in determining how to vote proxies relating to director elections:

- In re-electing incumbent directors, the long-term performance of the portfolio company relative to its peers shall be the key factor in determining the Proxy Voting Officers vote, on behalf of a Fund, to re-elect the director(s) of the portfolio company. The Proxy Voting Officers should vote against re-electing a director of a portfolio company if the company has had consistently poor performance relative to its peers in the industry *unless* the director(s) has/have taken or is/are attempting to take tangible steps to improve the company's performance.
- Whether the slate of director nominees promotes a majority of independent directors on the full board. The Board believes that it is in the best interest of all portfolio company shareholders to have, as a majority, directors that are independent of management.
- A director nominee's attendance at less than 75% of required meetings (frequent non-attendance at board meetings may be grounds for voting against re-election).
- Existence of any prior SEC violations and/or other criminal offenses. The Proxy Voting Officers should vote against a director nominee who, to their knowledge, is the subject of SEC or other criminal enforcement actions.

The Board believes that it is in the best interests of Fund shareholders to have knowledgeable and experienced directors serving on a portfolio company's board. To this end, the Board believes that portfolio companies should be allowed to establish director compensation packages that are designed to attract and retain such directors. When called upon to vote on director compensation proposals, the Proxy Voting Officers should consider whether such proposals are reasonable in relation to the portfolio company's performance and resources, and are designed to attract qualified personnel yet do not overburden the portfolio company or result in a "windfall" to the directors. The Proxy Voting Officers should carefully consider proposals that seek to impose reasonable limits on director compensation.

In all other issues that may arise relating to directors, the Proxy Voting Officers should vote against any proposal that clearly benefits directors at the expense of portfolio company shareholders (excepting reasonable compensation to directors), and for all proposals that do not unreasonably abrogate the rights of shareholders. As previously stated, each issue will be analyzed on an item-by-item basis.

### 3. Corporate Governance

Corporate governance issues may include, but are not limited to, the following: (i) corporate defenses, (ii) corporate restructuring proposals, (iii) proposals affecting the capital structure of a portfolio company, (iv) proposals regarding executive compensation, and (v) proposals regarding the independent auditors of the portfolio company. When called upon to vote on such items, the Proxy Voting Officers should consider, without limitation, the following factors:

i. Corporate Defenses. Although they should review each proposal on a case-by-case basis, the Proxy Voting Officers should generally vote against management proposals that (a) seek to insulate management from all threats of change in control, (b) provide the board with veto power against all takeover bids, (c) allow management or the board of the portfolio company to buy shares from particular shareholders at a premium at the expense of the majority of shareholders, or (d) allow management to increase or decrease the size of the board at its own discretion. The Proxy Voting Officers should only vote for proposals that do not unreasonably discriminate against a majority of shareholders, or greatly alter the balance of power between shareholders, on one side, and management and the board, on the other.

ii. Corporate Restructuring. These proposals may include mergers and acquisitions, spin-offs, asset sales, leveraged buy-outs and/or liquidations. In determining how to vote on these types of proposals, the Proxy Voting Officers should consider the following factors: (a) whether the proposed action represents the best means of enhancing shareholder value, (b) whether the portfolio company's long-term prospects will be positively affected by the proposal, (c) how the proposed action will impact corporate governance and/or shareholder rights, (d) how the proposed deal was negotiated, (e) whether all shareholders receive equal/fair treatment under the terms of the proposed action, and/or (f) whether shareholders could realize greater value through alternative means.

iii. Capital Structure. Proposals affecting the capital structure of a portfolio company may have significant impact on shareholder value, particularly when they involve the issuance of additional stock. As such, the Proxy Voting Officers should vote for proposals to increase the authorized or outstanding stock of the company only when management provides persuasive business justification for the increase, such as to fund acquisitions, recapitalization or debt restructuring. The Proxy Voting Officers should vote against proposals that unreasonably dilute shareholder value or create classes of stock with unequal voting rights if, over time, it is believed that such action may lead to a concentration of voting power in the hands of few insiders.

iv. Executive Compensation. The Board believes portfolio company executives should be compensated at a reasonable rate and that companies should be free to offer attractive compensation packages that encourage high performance in executives because, over time, it will increase shareholder values. The Board also believes however, that executive compensation should, to some extent, be tied to the performance of the portfolio company. Therefore, the Proxy Voting Officers should vote for proposals that provide challenging performance objectives to portfolio company executives and which serve to motivate executives to better performance.

The Proxy Voting Officers should vote against proposals that offer unreasonable benefits to portfolio company executives whose past performance has been less than satisfactory.

The Proxy Voting Officers should vote against shareholder proposals that summarily restrict executive compensation without regard to the portfolio company's performance, and should generally vote for shareholder proposals that seek additional disclosures on executive compensation.

v. Independent Registered Public Accounting Firm. The engagement, retention and termination of a portfolio company's independent auditors must be approved by the company's audit committee, which typically includes only those independent directors who are not affiliated with or compensated by the company, except for directors' fees. In reliance on the audit committee's recommendation, the Proxy Voting Officers should generally vote for ratifying the employment or retention of a portfolio company's independent auditors *unless* the Proxy Voting Officers are aware that the auditor is not independent or that the auditor has, in the past, rendered an opinion that was neither accurate nor indicative of the portfolio company's financial position.

#### **4. Shareholder Rights**

State law provides shareholders of a portfolio company with various rights, including cumulative voting, appraisal rights, the ability to call special meetings, the ability to vote by written consent and the ability to amend the charter or bylaws of the company. When called upon to vote on such items, the Proxy Voting Officers should carefully analyze all proposals relating to shareholder rights and should vote against proposals that seek to eliminate existing shareholder rights or restrict the ability of shareholders to act in a reasonable manner to protect their interest in the company. In all cases, the Proxy Voting Officers should vote for proposals that best represent the long-term financial interest of Fund shareholders.

#### **5. Social and Environmental Issues**

When called upon to vote on items relating to social and environmental issues, the Proxy Voting Officers should consider the following factors:

- Whether the proposal creates a stated position that could negatively affect the portfolio company's reputation and/or operations, or leave it vulnerable to boycotts and other negative consumer responses;
- The percentage of assets of the portfolio company that will be devoted to implementing the proposal;
- Whether the issue is more properly dealt with through other means, such as through governmental action;
- Whether the portfolio company has already dealt with the issue in some other appropriate way; and

- What other companies have done in response to the issue.

While the Board generally supports shareholder proposals that seek to create good corporate citizenship, the Proxy Voting Officers should vote against proposals that would tie up a large percentage of the assets of the portfolio company. The Board believes that such proposals are inconsistent with its duty to seek long-term value for Fund shareholders. The Proxy Voting Officers should also evaluate all proposals seeking to bring to an end certain corporate actions to determine whether the proposals adversely affect the ability of the portfolio company to remain profitable. The Proxy Voting Officers should generally vote for proposals that enhance or do not negatively impact long-term shareholder values.

## **C. PROXY VOTING PROCEDURES**

### **1. The Proxy Voting Officers**

The Board has designated the President and Vice President of the Company (the “Proxy Voting Officers”) as the persons responsible for voting all proxies relating to securities held in each series (each, a “Fund”) of Fairholme Funds, Inc. (“Company”), subject to the authority of the Proxy Voting Committee (as defined herein) set forth in Section C.2 below. Either Proxy Voting Officer may act on behalf of a Fund (i.e., there is no requirement that both Proxy Voting Officers vote together). The Proxy Voting Officers may divide or determine responsibility for acting under this Policy in any manner they see fit. The Proxy Voting Officers shall take all reasonable efforts to monitor corporate actions, obtain all information sufficient to allow an informed vote on a pending matter, and ensure that all proxy votes are cast in a timely fashion and in a manner consistent with this Policy.

If a Proxy Voting Officer reasonably believes that it is in the best interest of a Fund to cast a particular proxy vote that is contrary to the Guidelines or determined in a manner contrary to the Procedures, the Proxy Officer should submit to the Proxy Voting Committee (as defined below) a request for a waiver, providing sufficient information to support the waiver request. The Proxy Voting Officer shall proceed to vote the proxy in accordance with the decision of the Proxy Voting Committee.

In addition, if a Proxy Voting Officer reasonably believes that it is in the best interest of a Fund to abstain from voting on a particular proxy proposal, the Proxy Voting Officer shall make a record summarizing the reasons for such abstention and shall present such summary to the Board along with other reports required in Section C.4. below.

### **2. Proxy Voting Committee**

The Board has formed a proxy voting committee (the “Proxy Voting Committee”), which is composed solely of the independent directors of the Company, to evaluate and determine (i) requests for waivers of this Policy and (ii) proxies involving potential conflicts of interest, as discussed in Section C.3. below.

### **3. Conflicts of Interest**

The Proxy Voting Officers should monitor for any proxy presenting a potential conflict between the interests of a Fund, on the one hand, and the interests of a director or officer of the Company, the Fund's investment adviser or distributor, or any affiliated person of the Fund, adviser or distributor (each, an "Affiliated Entity"), on the other hand. Potential conflicts of interest include situations where:

- an Affiliated Entity promotes a proxy proposal or is deemed to be the beneficial owner of 10% or more of a class of the issuer's securities to which the proxy relates;
- an Affiliated Entity has a business or personal relationship with the participant of a proxy contest such as members of the issuer's management or the soliciting shareholder(s), when such relationship is of such closeness and intimacy that it would reasonably be construed to be of such nature that it would negatively affect the judgment of the Affiliated Entity;
- an Affiliated Entity provides brokerage, underwriting, insurance or banking or other services to the issuer whose management is soliciting proxies;
- an Affiliated Entity or officer or director of the Company has a personal or business relationship with a candidate for directorship; or
- an Affiliated Entity manages a pension plan or administers an employee benefit plan of the issuer, or intends to pursue an opportunity to do so.

If a proxy proposal involving a potential conflict of interest is addressed by a Guideline set forth above, the Proxy Voting Officers may vote the proposal in accordance with the Guideline or may seek from the Proxy Voting Committee a determination on how to vote the proposal.

If a proxy proposal involving a potential conflict of interest is not addressed by a Guideline, the Proxy Voting Officers should present the proposal to the Proxy Voting Committee for its analysis and determination on how to vote. In all such cases, the Proxy Voting Officers should submit to the Proxy Voting Committee information identifying the name of the Affiliated Entity whose interests are believed to conflict with the interests of the Fund, a brief description of the conflict, and any other information in their possession that would enable the Proxy Voting Committee to make an informed decision on the matter. The Proxy Voting Committee may seek the recommendation or views of an independent third party with respect to any such matter. The Proxy Voting Officers shall vote the conflict proposal in accordance with the direction of the Proxy Voting Committee.

### **4. Report to the Board of Directors**

The Proxy Voting Officers shall compile and present to the Board quarterly a report of all proxy solicitations received by each Fund, including for each proxy solicitation; (i) the name of

the issuer, (ii) the exchange ticker symbol for the security; (iii) the CUSIP number; (iv) the shareholder meeting date; (v) a brief identification of the matter voted; (vi) whether the matter was proposed by the management or by a security holder; (vii) whether the Proxy Voting Officer cast his/her vote on the matter and if not, an explanation of why no vote was cast; (viii) how the vote was cast (i.e., for or against the proposal); (ix) whether the vote was cast for or against management; and (x) whether the vote was consistent with this Policy, and if inconsistent, an explanation of why the vote was cast in such manner.

## **5. Responding to a Shareholder's Request for Proxy Voting Disclosure**

The Company shall file with the Securities and Exchange Commission on Form N-PX, no later than August 31 of each year, the complete proxy voting record of each Fund for the twelve-month period ending June 30<sup>th</sup> of such year. A Fund's proxy voting record is available (i) on the SEC's website at <http://www.sec.gov>, and (ii) without charge, to shareholders of the Fund by calling the Company's toll-free number as listed in its current Prospectus. The Company shall respond to all shareholder requests for records within three business days of such request by first-class mail or other means designed to ensure prompt delivery.

## **6. Record Keeping**

In connection with this Policy, the Proxy Voting Officers shall maintain a record of the following:

- Copies all proxy solicitations received by each Fund, including a brief summary of the name of the issuer, the exchange ticker symbol, the CUSIP number, and the shareholder meeting date;
- a reconciliation of the proxy solicitations received and number of shares held by each Fund in the soliciting issuer;
- the analysis undertaken to ensure that the vote cast is consistent with this Policy;
- copies, if any, of any waiver request submitted to the Proxy Voting Committee along with the Proxy Voting Committee's final determination relating thereto;
- copies, if any, of all documents submitted to the Proxy Voting Committee relating to conflict of interest situations along with the Proxy Voting Committee's final determinations relating thereto;
- copies of any other documents created or used by the Proxy Voting Officer in determining how to vote the proxy;
- copies of all votes cast;
- copies of all quarterly summaries presented to the Board; and

- copies of all shareholder requests for a Fund's proxy voting record and responses thereto.

All records required to be maintained under the Policy shall be maintained in the manner and for such period as is consistent with other records required to be maintained by the Company pursuant to applicable rules and regulations promulgated under the 1940 Act.