PORTFOLIO MANAGER'S REPORT
For the Year Ended December 31, 2015

Mutual fund investing involves risks, including loss of principal. The charts below cover the period from inception of The Fairholme Allocation Fund (December 31, 2010) to December 31, 2015. Unless otherwise specified, all holdings information is shown as of December 31, 2015. Past performance information quoted below does not guarantee future results. The investment return and principal value of an investment in The Fairholme Allocation Fund will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the performance information quoted below. Performance figures assume reinvestment of dividends and capital gains, but do not reflect a 2.00% redemption fee on shares redeemed within 60 days of purchase. Most recent month-end performance and answers to any questions you may have can be obtained by calling Shareholder Services at 1.866.202.2263. The Fairholme Allocation Fund invests opportunistically in a focused portfolio of investments in a limited number of issuers and does not seek to diversify its investments. This exposes The Fairholme Allocation Fund to the risk of unanticipated industry conditions and risks particular to a single company or the securities of a single company. The Fairholme Allocation Fund's performance may differ markedly from the performance of the S&P 500 Index or the Barclays Capital U.S. Aggregate Bond Index in either up or down market trends. The S&P 500 Index is a broad-based measurement of changes in the stock market and the performance of the S&P 500 Index is shown with all dividends reinvested and does not reflect any reduction in performance for the effects of transaction costs or management fees. The Barclays Capital U.S. Aggregate Bond Index is an unmanaged market-weighted index comprised of investment-grade (rated Baa3/BBB-/BBB- or higher) taxable bonds, mortgage-backed securities, asset-backed securities, corporate securities, and government-related securities, including U.S. Treasury and government agency issues, with at least one year to maturity. The S&P 500 Index and the Barclays Capital U.S. Aggregate Bond Index are used for comparative purposes only, and are not meant to be indicative of The Fairholme Allocation Fund's performance, asset composition, or volatility. Because indices cannot be invested in directly, these index returns do not reflect a deduction for fees, expenses, or taxes. The Fairholme Allocation Fund's expense ratio reflected in its prospectus dated March 27, 2015, was 1.01%, which included acquired fund fees and expenses that were incurred indirectly by The Fairholme Allocation Fund as a result of investments in securities issued by one or more investment companies.

January 28, 2016

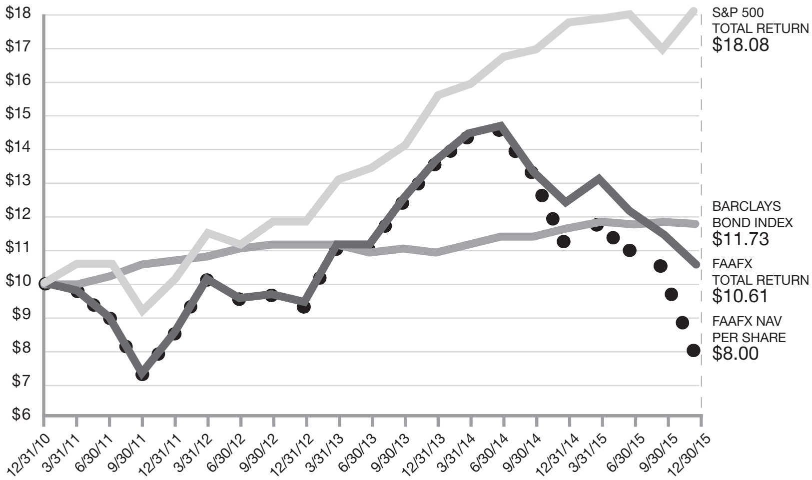
The Fairholme Allocation Fund vs. The Barclays Capital U.S. Aggregate Bond Index and The S&P 500 Index

TOTAL ANNUAL RETURN

Year	The Fairholme Allocation Fund	The Barclays Capital U.S. Aggregate Bond Index	The S&P 500 Index
2011	(14.0)%	7.8%	2.1%
2012	9.5%	4.2%	16.0%
2013	45.5%	(2.0)%	32.4%
2014	(9.0)%	6.0%	13.7%
2015	(14.9)%	0.6%	1.4%
Compounded Annual Gain	**1.2%**	**3.3%**	**12.6%**
Overall Gain	**6.1%**	**17.3%**	**80.8%**

To the Shareholders and Directors of The Fairholme Allocation Fund:

The Fairholme Allocation Fund (the "Fund" or "FAAFX") decreased 14.89% versus an increase of 0.55% for the Barclays Capital U.S. Aggregate Bond Index (the "Barclays Bond Index") and a 1.38% increase for the S&P 500 Index (the "S&P 500") in 2015. The following table compares the Fund's unaudited performance (after expenses) with that of the Barclays Bond Index and S&P 500, with dividends and distributions reinvested, for various periods ending December 31, 2015.



	ONE YEAR	THREE YEARS	SINCE INCEPTION (12/31/2010)
Cumulative			
FAAFX	(14.89)%	12.67%	6.14%
Barclays Bond Index	0.55%	4.39%	17.32%
S&P 500	1.38%	52.59%	80.75%
Annualized			
FAAFX	(14.89)%	4.06%	1.20%
Barclays Bond Index	0.55%	1.44%	3.25%
S&P 500	1.38%	15.13%	12.56%

The Fund's 30-Day SEC Yield at December 31, 2015, was 0.97%.

At December 31, 2015, the value of a $10.00 investment in the Fund at its inception was worth $10.61 (assumes reinvestment of distributions into additional Fund shares), compared to $11.73 and $18.08 for the Barclays Bond Index and the S&P 500, respectively.

Entering its sixth year, the Fund had 25.4% of its assets in cash and cash equivalents as investors remain fixated on a slowing China, freefalling commodity prices, and increased market volatility. We believe the portfolio is well positioned to weather today's jittery environment and ultimately outperform in the years ahead.

Sears Holdings Corporation ("Sears") common stock and warrants comprise 15.6% of the Fund's assets. Our ongoing valuation work of Sears' real estate, which has been independently corroborated by third party real estate professionals, reinforces our strong belief that this company is intrinsically worth multiples of its current market price – and we took advantage of price declines in the second half of the year to increase the Fund's stake. During 2015, Sears continued its retail transformation while also raising over $3 billion from the sale of 266 real estate properties. Sears used a portion of the proceeds to pay down $936 million of debt and also amended and extended its $3.25 billion credit facility, reducing its net debt to the lowest level this decade. The company must now accelerate its return to profitability in order to rebuild confidence with customers, creditors, vendors, employees, and other investors. Doing so should enable Sears to optimize the value of all its assets.

Seritage Growth Properties ("Seritage"), a newly formed public real estate investment trust (REIT) that purchased the aforementioned 266 properties from Sears, comprises 15.1% of Fund assets. Our detailed property-by-property analysis indicates that Seritage is significantly undervalued at current market prices. One can only speculate that Warren Buffett concurs with this assessment given his recent decision to personally acquire shares of Seritage. Seritage's real estate portfolio, which includes 235 properties and joint venture interests in 31 additional properties, has the opportunity to recycle existing leases into new leases commanding significantly higher rents. We anticipate that more than half of the company's 42 million square feet will be redeveloped and re-tenanted, which should ultimately boost cash flow and fuel meaningful dividend growth over time.

The preferred securities of Fannie Mae and Freddie Mac represent 11.1% of Fund assets. At their core, Fannie Mae and Freddie Mac are simple and straightforward insurance companies. They are *not* banks. There isn't a local Fannie Mae or Freddie Mac branch on the street corner. Unlike the big banks, Fannie Mae and Freddie Mac did not commit any consumer fraud in the run-up to the financial crisis. The two do not originate mortgages and they do not deal directly with individual homeowners. But when it comes to funding our nation's housing market, Fannie Mae and Freddie Mac are mission critical. Simply put, if you own a home, Fannie Mae and Freddie Mac have helped you. If you have a mortgage, Fannie Mae and Freddie Mac have helped you. If you rent a home, Fannie Mae and Freddie Mac have helped you. And Fannie Mae and Freddie Mac have helped millions of American families buy, rent, or refinance a home even during the toughest economic times when banks and other lenders shunned mortgage risk. They *are* the housing finance system in America, and earn a nominal amount (less than 40 basis points) for ensuring that the venerable 30-year fixed-rate mortgage remains widely accessible and affordable.

During the 2008 financial crisis, Fannie Mae and Freddie Mac helped *save* America's home mortgage system and resuscitated our national economy by continuing to provide liquidity when credit markets froze. In fact, according to a comprehensive analysis by Thomas Ferguson and Robert Johnson published in the *International Journal of Political Economy,* federal regulators explicitly directed Fannie Mae and Freddie Mac to initiate massive purchases of "home mortgages and mortgage bonds to stem declines in those markets and alleviate pressures on the balance sheets of private firms," particularly "overburdened banks." Then in 2012, Treasury's decision to usurp all of the profits from each company in perpetuity (the so-called "Net Worth Sweep") improved the federal budget deficit in an election year *and* avoided protracted debt ceiling negotiations with Congressional Republicans.

Today, taxpayers own 79.9% of Fannie Mae and Freddie Mac. Only those who oppose the dream of American homeownership would attempt to dismantle President Franklin Roosevelt's *New Deal* by eliminating two publicly traded, shareholder-owned companies that have single-handedly provided $7 trillion dollars – yes, *trillion* – in liquidity to support America's mortgage market since 2009.

Shareholders simply request that the Treasury Department respect the capital structure of each company, respect the economic bundle of rights associated with our securities, and respect the law setting forth the rules of a conservatorship as decreed by Congress. The economist Herbert Stein once famously said: "If something cannot go on forever, it will stop." Sooner rather than later, we believe the Net Worth Sweep will be halted and a common sense solution will prevail: Fannie Mae and Freddie Mac will transform into low-risk, public utilities with regulated rates of return, just like your local electric company.

Bank of America warrants comprise 9.4% of Fund assets. The warrants offer attractive upside given that the company trades under tangible book value per share of $15.62. CEO Brian Moynihan recently noted that Bank of America's 2015 results were the "company's highest earnings in nearly a decade," and much more improvement is possible. As the company reduces expenses and increases capital distributions, the double-ratchet feature of our warrants ensures that we are more than compensated for dividends paid to common equity shareholders.

American International Group ("AIG") warrants comprise 4.6% of Fund assets and are attractive for the very same reasons.

Imperial Metals Corporation ("Imperial"), whose securities comprise 4.9% of Fund assets, posted record production results in 2015: 88.1 million pounds of copper, 44.7 thousand ounces of gold, and 224.5 thousand ounces of silver. During the year, the company focused on ramping up its world-class Red Chris mine that is expected to produce copper at cash costs around $1.20 per pound for decades to come. While primarily known for its huge copper reserve, Red Chris also boasts the seventh largest gold deposit in the world. We anticipate that Imperial will prudently weather this commodity cycle while preparing for the next development phase at Red Chris.

The precipitous decline in oil and gas prices has roiled the energy sector. Industry participants in all parts of the production process are being forced to adjust to today's reality, characterized by oversupplied markets and irrational production dynamics. The Fund has purchased common shares in MRC Global and NOW Inc. that collectively comprise 2.5% of Fund assets. Both companies are essential to the North American energy distribution markets. In our view, each company possesses the financial wherewithal to survive this downturn and thrive once energy markets normalize. During the year, the Fund also purchased senior unsecured bonds of offshore driller Atwood Oceanics ("Atwood"), which comprises 1.8% of Fund assets, at a significant discount to par. Atwood owns 11 modernized drill rigs, and has manageable debt and solid contract coverage into 2018. At current bond prices, the market is ignoring Atwood's substantial asset value and conservative operating culture that dates back to 1968.

The Fund reopened to new investors in November 2015. Effective February 1, 2016, the initial subscription minimum is $10,000, and the subsequent subscription minimum is $1,000. We believe that opportunities abound, and the Fund is poised for future capital appreciation.

We are pleased to invite shareholders to join us for a public conference call in the near future, during which I will discuss the Fund's investments and address your questions. Details will be made available on www.fairholmefunds.com in the coming weeks, along with additional updated information on our investments.

Respectfully submitted,

Bruce R. Berkowitz
Chief Investment Officer
Fairholme Capital Management

For a copy of the top holdings for The Fairholme Allocation Fund, please *click here.* Portfolio holdings are subject to risk and may change at any time. Investors should consider the investment objectives, risks, charges, and expenses of the Fund carefully before investing. The Fund's prospectus contains this and other information about the Fund. To obtain a copy of the Fund's prospectus, please visit *www.fairholmefunds.com* or call *1-866-202-2263.* Please read the prospectus carefully before investing. The Portfolio Manager's Report is not part of The Fairholme Allocation Fund's Annual Report due to forward-looking statements that, by their nature, cannot be attested to, as required by regulation. The Portfolio Manager's Report is based on calendar-year performance and precedes a more formal Management Discussion and Analysis. Opinions of the Portfolio Manager are intended as such, and not as statements of fact requiring attestation.

Fairholme Distributors, LLC (01/16)