Mutual fund investing involves risks, including possible loss of principal. Unless otherwise specified, all information is shown as of June 30, 2018. Past performance information quoted below does not guarantee future results. The investment return and principal value of an investment in The Fairholme Allocation Fund ("The Allocation Fund" or the "Fund") will fluctuate so that the value of 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 reflect the deduction of expenses and assume reinvestment of dividends and capital gains but do not reflect a 2.00% redemption fee imposed by the Fund on shares redeemed or exchanged within 60 calendar days of their purchase. Most recent month-end performance and answers to any questions you may have can be obtained by calling Shareholder Services at (866) 202-2263. The Fund maintains a focused portfolio of investments in a limited number of issuers and does not seek to diversify its investments. This exposes the Fund to the risk of unanticipated industry conditions and risks particular to a single company or the securities of a single company within its portfolio. Current and future portfolio holdings are subject to change and risk. The S&P 500 Index (the "S&P 500") is a widely recognized, unmanaged index of 500 of the largest companies in the United States as measured by market capitalization and the performance of the S&P 500 assumes the reinvestment of all dividends and distributions. The Bloomberg Barclays U.S. Aggregate Bond Index (the "Bloomberg Barclays Bond Index") is a broad-based flagship benchmark that measures the investment grade, U.S. dollar denominated, fixed-rate taxable bond market, and includes Treasuries, government-related and corporate securities, mortgage-backed securities (agency fixed rate and hybrid adjustable-rate mortgage pass-throughs), asset-backed securities and commercial mortgage backed securities (agency and non-agency). The S&P 500 and the Bloomberg Barclays Bond Index are used for comparative purposes only, and are not meant to be indicative of the Fund's performance, asset composition, or volatility. The Fund's performance may differ markedly from the performance of the S&P 500 or the Bloomberg Barclays Bond Index in either up or down market trends. Because indices cannot be invested in directly, these index returns do not reflect a deduction for fees, expenses, or taxes. The expense ratio for the Fund reflected in the current prospectus dated March 29, 2018, is 1.00%, and may differ from the actual expenses incurred by the Fund for the period covered by the Fund's Semi-Annual Report.

Effective January 1, 2018, the Manager agreed to waive, on a voluntary basis, a portion of the management fee of the Fund to the extent necessary to limit the management fee paid to the Manager by the Fund to an annual rate of 0.80% of the Fund's daily average net asset value. This undertaking may be terminated by the Manager upon 60 days' written notice to the Fund.

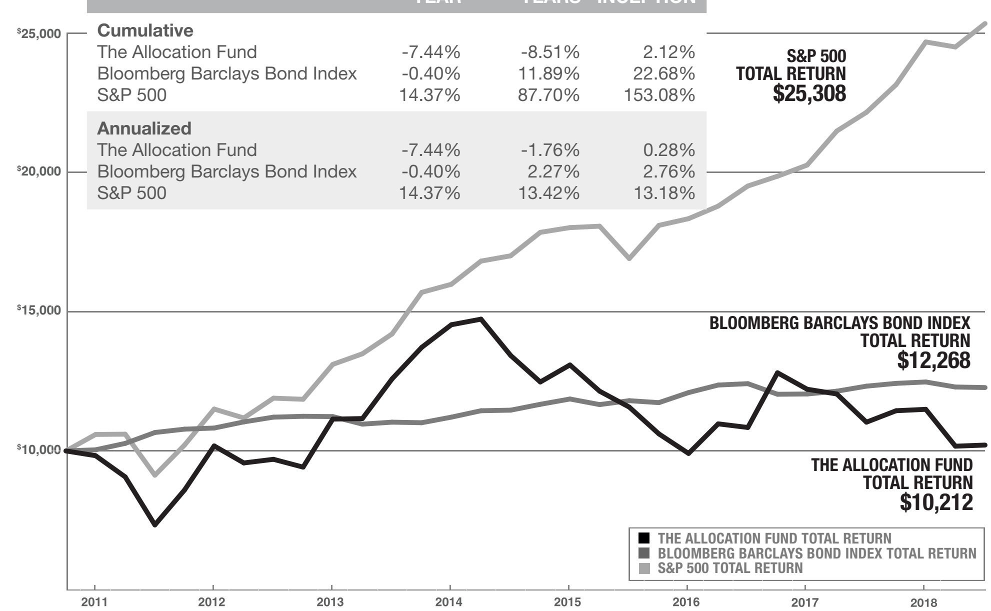
July 30, 2018

To the Shareholders and Directors of The Fairholme Allocation Fund:

Fund performance remains disappointing with declines in the preferred shares of Fannie and Freddie and common shares of Imperial Metals. The Fund's holds of cash and short-duration commercial paper constitute 46% of Fund assets. Collectively, I and my family are the largest shareholders of the Fund.

The Allocation Fund

	ONE YEAR	FIVE YEARS	SINCE INCEPTION
Cumulative			
The Allocation Fund	-7.44%	-8.51%	2.12%
Bloomberg Barclays Bond Index	-0.40%	11.89%	22.68%
S&P 500	14.37%	87.70%	153.08%
Annualized			
The Allocation Fund	-7.44%	-1.76%	0.28%
Bloomberg Barclays Bond Index	-0.40%	2.27%	2.76%
S&P 500	14.37%	13.42%	13.18%



TOP 10 ISSUERS (% OF NET ASSETS)	
Cash and Cash Equivalents*	45.9%
The St. Joe Co.	9.0%
Federal Home Loan Mortgage Corp.	7.2%
Federal National Mortgage Association	6.5%
International Wire Group, Inc.	5.2%
Vista Outdoor, Inc.	4.5%
Imperial Metals Corp.	4.5%
Sears Holdings Corp.	4.1%
Chesapeake Energy Corp.	3.8%
AT&T, Inc.	2.4%

The Allocation Fund's 30-Day SEC Yield at June 30, 2018, was 1.64%.
The chart on the left covers the period from inception of The Allocation Fund (December 31, 2010) through June 30, 2018.

The Allocation Fund decreased 11.15% versus a 1.62% decrease for the Bloomberg Barclays Bond Index and a 2.65% increase for the S&P 500 for the six-month period that ended June 30, 2018. The above graph and performance table compare The Allocation Fund's unaudited performance (after expenses) with that of the Bloomberg Barclays Bond Index and the S&P 500, with dividends and distributions reinvested, for various periods ending June 30, 2018. The value of a $10,000 investment in The Allocation Fund at its inception was worth $10,212 (assumes reinvestment of distributions into additional Allocation Fund shares) compared to $12,268 and $25,308 for the Bloomberg Barclays Bond Index and the S&P 500, respectively, at June 30, 2018. Of the $10,212, the value of reinvested distributions was $3,122.

*Includes cash, U.S. Treasury Bills, money market funds, and various commercial paper issuers.

Fannie Mae and Freddie Mac

We remain confident in our preferred equity ownership. For evidence, look no further than the latest developments.

Last month, the White House released a paper advocating for a series of government reforms, including ending the conservatorship of Fannie and Freddie, with the goal for these mission critical institutions to remain shareholder-owned. Secretary Mnuchin believes 2019 is the year to resolve remaining issues.

This month, the Fifth Circuit Court of Appeals ruled that the Federal Housing Finance Agency (FHFA), Fannie and Freddie's conservator, is unconstitutionally structured, as the court concluded that a variety of factors unlawfully sheltered the FHFA from presidential oversight. Although the Net Worth Sweep was not vacated, this is a positive development for shareholders, as it increases the odds of further review by the en banc Fifth Circuit, the Supreme Court, or both. However, by a two-to-one vote, the Fifth Circuit rejected the plaintiffs' argument that the FHFA exceeded its statutory authority under HERA and that the Net Worth Sweep agreement violated the Administrative Procedure Act. Judge Don Willett, the lone dissenter, provided a powerful and highly persuasive dissent concluding that "the net worth sweep strips the GSEs of their capital reserves, and it is thus antithetical to the FHFA's statutory command that it 'preserve and conserve the assets and property' of the GSEs". When acting as conservator, HERA does not authorize the FHFA "to bleed the GSEs profits in perpetuity." We agree and the Eighth Circuit, which has yet to rule on Saxton v. FHFA, was notified of Judge Willett's sound analysis.

Meanwhile, Fannie and Freddie continue to report strong quarterly profits, highlighting the strength of the core operating franchises. Had the Net Worth Sweep never been implemented, Fannie and Freddie would have retained earnings well over $100 billion, which highlights how quickly capital can be restored. Trading at approximately one-quarter of their intrinsic value, we continue to view the preferred shares as an excellent investment.

The St. Joe Company

St. Joe's entitled land, resort assets, commercial properties, and ample cash pile are presently priced below a reasonable estimate of intrinsic value. As important, St. Joe is more focused than ever on increasing shareholder value in the coming years through expanding its portfolio of income producing assets. Currently, the market values all of St. Joe at $6,800 per acre of owned land or about $5,100 per acre net of the company's cash and short-term liquidity portfolio. We are hard pressed to find cheaper comparables considering:

- St. Joe's increasing growth initiatives, including Latitude Margaritaville, a joint venture with Minto Communities and Margaritaville Holdings to create a 55-and-better community located about six miles off the coast and just north on the Inter Coastal Waterway, with the first phase of 3,000 homes projected to open in early 2020.

- St. Joe's leasable commercial property has grown over 44% to 813,000 square feet over the past few years, with occupancy now up to 87% leased.

- Airport capacity at Northwest Florida Beaches International Airport has increased from one airline carrier in 2009 to four, with passenger traffic up 300% as the airport soon approaches the one million annual passenger mark.

For these reasons and others, you can begin to understand why St. Joe has repurchased nearly one-third of its outstanding shares over the past few years.

Vista Outdoors Inc.

Vista Outdoors, originally owned by Honeywell until the early 1990s, is a dominant producer of ammunition that is purchased by military, police, and governments around the world, in addition to U.S. consumers. Vista's product portfolio spans 50+ brands. We believe that Vista's bottom-cycle profitability has largely been clouded by the temporary oversupply of the U.S. consumer ammunitions market. We expect a return to equilibrium this year and that the company will recover to past profit levels by selling non-core brands and reducing debt outstanding.

Imperial Metals Corporation

Imperial has substantial asset value, notably the copper and gold deposits at the Red Chris mine in northern British Columbia. Imperial is only a few years into operating Red Chris, which has the resource depth to be a multi-generational asset. Continuous operational improvements and improving copper fundamentals provide tailwinds. Given current prices, we expect a favorable return on the company's equity over the next few years.

Sears Holdings Corporation

Sears continues to reduce its operating footprint. Its pension liability has been greatly diminished and the maturity date of most debt obligations have been extended. Over the past few quarters, liquidity has been enhanced from a new credit card agreement with Citigroup and further monetizations of real estate assets. Currently, Sears' securities are priced for doom, but we continue to expect that additional asset sales and continued cost cutting will fuel outperformance.

Exited Positions

Seritage Growth Properties

The Fund exited its position in Seritage Growth Properties as we remain concerned that the cash flows from developed properties no longer cover the annual dividend. We also believe that the current dividend yield is not attractive in a rising rate environment.

General Outlook

It has been nearly ten years since the financial crisis. Our economy has prospered with the help of low interest rates and low inflation. The result has been new highs in the stock market with low volatility. We believe these conditions can't last forever. As we monitor our portfolio and research new opportunities, we are keenly aware that these variables can quickly turn, providing opportunities to those with liquidity.

Respectfully submitted,

Bruce

Bruce R. Berkowitz
Chief Investment Officer

The Fund's investment objectives, risks, charges, and expenses should be considered carefully before investing. The prospectus contains this and other important information about the Fund, and it may be obtained by calling Shareholder Services at (866) 202-2263 or visiting our website www.fairholmefunds.com. Read it carefully before investing. The Portfolio Manager's Report is not part of The Fairholme Funds, Inc. Semi-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. A more formal Management Discussion and Analysis is included in the Semi-Annual Report. Opinions of the Portfolio Manager are intended as such, and not as statements of fact requiring attestation.

Fairholme Distributors, LLC (7/18)