Mutual fund investing involves risks, including possible loss of principal. Unless otherwise specified, all information is shown as of July 26, 2019. Past performance information quoted below does not guarantee future results. The investment return and principal value of an investment in The 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 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, 2019, is 1.01%, and may differ from the actual expenses incurred by the Fund for the period covered by the Fund's Semi-Annual Report.The expense ratio includes any acquired fund fees and expenses which are incurred indirectly by the Fund as a result of investments in securities issued by one or more investment companies, including money market funds.

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.

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.

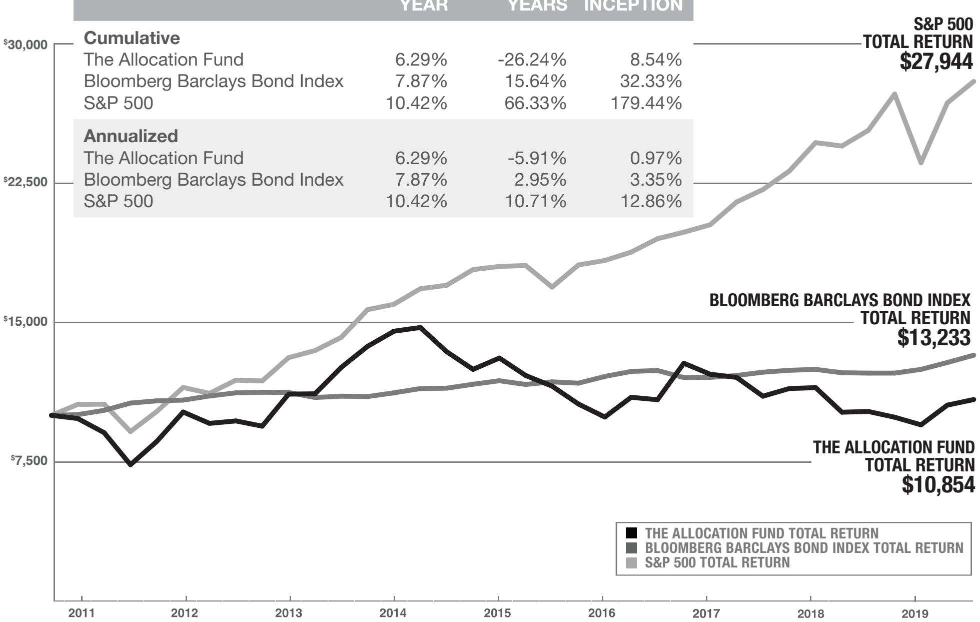
July 26, 2019

To the Shareholders and Directors of The Fairholme Allocation Fund:

The Fund increased 14.44% for the six-month period that ended June 30, 2019 with a majority of assets in cash and cash equivalents. The strong returns were driven by investments in Fannie Mae and Freddie Mac preferred shares, St. Joe common stock, and Imperial Metals common stock. I expect further performance from these core investments.

The Fairholme Allocation Fund

	ONE YEAR	FIVE YEARS	SINCE INCEPTION
Cumulative			
The Allocation Fund	6.29%	-26.24%	8.54%
Bloomberg Barclays Bond Index	7.87%	15.64%	32.33%
S&P 500	10.42%	66.33%	179.44%
Annualized			
The Allocation Fund	6.29%	-5.91%	0.97%
Bloomberg Barclays Bond Index	7.87%	2.95%	3.35%
S&P 500	10.42%	10.71%	12.86%



TOP ISSUERS (% OF NET ASSETS)	
Cash and Cash Equivalents*	63.4%
The St. Joe Co.	9.1%
Federal Home Loan Mortgage Corp.	8.6%
Federal National Mortgage Association	8.4%
Imperial Metals Corp.	6.7%
Chesapeake Energy Corp.	3.0%
Vista Outdoor, Inc.	0.8%

*The Allocation Fund's 30-Day SEC Yield at June 30, 2019, was 1.06% (unsubsidized) and 1.26% (subsidized).***

The chart on the left covers the period from inception of The Allocation Fund (December 31, 2010) through June 30, 2019.

The Allocation Fund increased 14.44% versus a 6.11% increase for the Bloomberg Barclays Bond Index and a 18.54% increase for the S&P 500 for the six-month period that ended June 30, 2019. 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, 2019. The value of a $10,000 investment in The Allocation Fund at its inception was worth $10,854 (assumes reinvestment of distributions into additional Allocation Fund shares) compared to $13,233 and $27,944 for the Bloomberg Barclays Bond Index and the S&P 500, respectively, at June 30, 2019. Of the $10,854, the value of reinvested distributions was $3,404.

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

**The 30-Day SEC Yield represents net investment income earned by The Allocation Fund over the 30-Day period, expressed as an annual percentage rate based on The Allocation Fund's share price at the end of the 30-Day period. The 30-Day unsubsidized SEC Yield does not reflect any fee waivers/reimbursements/limits in effect.

Fannie Mae and Freddie Mac ("Fannie" and "Freddie")

In 2008, Fannie and Freddie's boards of directors agreed to federal conservatorship and U.S. Treasury investments earning 10% of principal, $2 billion in fees, and 80% ownership stakes. Since then, Fannie and Freddie have earned and paid $300 billion to our U.S. Treasury, which is $24 billion more than promised. It is now time for Fannie and Freddie, like all others forced to take U.S. Treasury money during the last financial crisis, to keep what is rightly earned, recapitalize, and exit conservatorship. Such a course would follow established laws, maximize taxpayer safety and returns, and allow a reasonable, risk-adjusted return on the Fund's Fannie and Freddie junior preferred shares.

St. Joe Company ("JOE")

By 2021, JOE, with project partners, hopes to reach a run rate of 1,000 home and home lot sales per year; rent over 1,300 apartments, 900 hotel rooms, and 1.5 million square feet of commercial space; and register more than 1,400 *The Clubs by JOE* full-time members. Thirty residential, commercial, and hospitality projects are expected to start this year. Each project is based on pent-up demand, stands on its own, and is expected to increase company operating earnings and asset values. I continue to chair JOE's board of directors.

Imperial Metals Corporation ("Imperial")

In March, Imperial entered into an agreement to sell 70% of Red Chris, its flagship copper and gold mine, to Newcrest Mining for $807 million. Proceeds will be used to pay down maturing debt. Imperial's common stock offers further appreciation with such de-leveraging, Newcrest managing Red Chris, and rising copper and gold prices.

Outlook

There is room for further portfolio gains. Fannie and Freddie preferred stocks trade for less than half of stated liquidation prices. JOE is accelerating growth while diversifying risks. Imperial is about to complete the Red Chris transaction. Gold prices are up. The Fund holds cash and investment grade cash equivalents totaling more than 60% of net assets in preparation for expected opportunities.

Respectfully submitted,

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.