Mutual fund investing involves risks, including loss of principal. The charts below cover the period from inception of The Fairholme Focused Income Fund (December 31, 2009) 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 Focused Income 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. 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 Focused Income Fund maintains a focused portfolio of investments in a limited number of issuers and does not seek to diversify its investments. This exposes The Fairholme Focused Income Fund to the risk of unanticipated industry conditions and risks particular to a single company or the securities of a single company. The Fairholme Focused Income Fund's performance may differ markedly from the performance of the Barclays Capital U.S. Aggregate Bond Index in either up or down market trends. 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. Because indices cannot be invested in directly, these index returns do not reflect a deduction for fees, expenses, or taxes. The Fairholme Focused Income Fund's expense ratio reflected in its prospectus dated March 27, 2015, is 1.01%, which included acquired fund fees and expenses that were incurred indirectly by The Fairholme Focused Income Fund as a result of investments in securities issued by one or more investment companies.

January 28, 2016

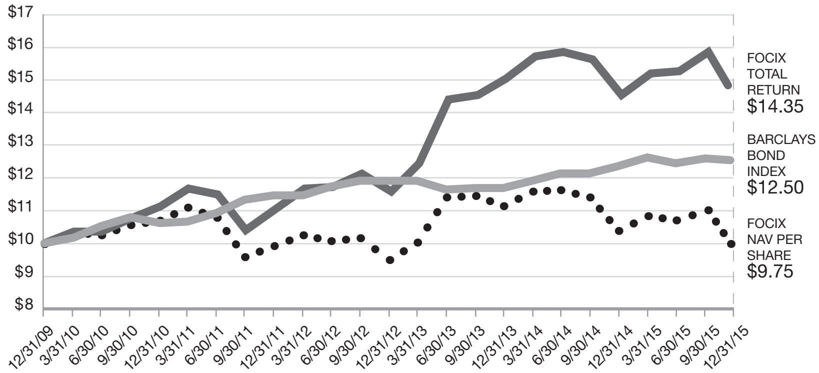
The Fairholme Focused Income Fund vs. The Barclays Capital U.S. Aggregate Bond Index

TOTAL ANNUAL RETURN		
Year	The Fairholme Focused Income Fund	The Barclays Capital U.S. Aggregate Bond Index
2010	11.2%	6.5%
2011	(0.7)%	7.8%
2012	5.2%	4.2%
2013	29.9%	(2.0)%
2014	(3.4)%	6.0%
2015	(1.5)%	0.6%
Compounded Annual Gain	**6.2%**	**3.8%**
Overall Gain	**43.5%**	**25.0%**

To the Shareholders and Directors of The Fairholme Focused Income Fund:

The Fairholme Focused Income Fund (the "Fund" or "FOCIX") seeks current income. The Fund invests in a focused portfolio of cash distributing securities and, to maintain maximum flexibility, may invest in a variety of assets, including, but not limited to, corporate bonds and other corporate debt securities of issuers in the U.S. and foreign countries, bank debt, government and agency debt securities of the U.S. and foreign countries, convertible bonds and other convertible securities, preferred and common stock, and interests in real estate investment trusts.

The Fund decreased 1.50% versus an increase of 0.55% for the Barclays Capital U.S. Aggregate Bond Index (the "Barclays Bond Index") in 2015. Since inception, the Fund increased 43.51% versus 25.00% for the Barclays Bond Index. The following table compares the Fund's unaudited performance (after expenses) with that of the Barclays Bond Index, with dividends and distributions reinvested, for various periods ending December 31, 2015.



	ONE YEAR	THREE YEARS	FIVE YEARS	SINCE INCEPTION (12/31/2009)
Cumulative				
FOCIX	(1.50)%	23.62%	29.10%	43.51%
Barclays Bond Index	0.55%	4.39%	17.32%	25.00%
Annualized				
FOCIX	(1.50)%	7.32%	5.24%	6.20%
Barclays Bond Index	0.55%	1.44%	3.25%	3.79%

The Fund's 30-Day SEC Yield at December 31, 2015, was 5.47%.

At December 31, 2015, the value of a $10.00 investment in the Fund at its inception was worth $14.35 (assumes reinvestment of distributions into additional Fund shares) compared to $12.50 for the Barclays Bond Index. The Fund returned 1.7 times more than the Barclays Bond Index on a $10.00 investment since inception. Of the $14.35, the share price (net asset value per share) was $9.75 and the value of distributions reinvested was $4.60. This difference, more than anything, demonstrates how the Fund has outperformed the market (as represented by the Barclays Bond Index) over the period shown.

Last year's performance proved similar to that of 2014, as positive returns for the first three quarters were muted by fourth quarter tumult. As 2016 begins, credit investors remain fixated on several headline issues – a slowing China, freefalling commodity prices, and reduced liquidity in bond markets. However, today's teetering credit markets will likely produce tomorrow's winners, and the Fund is well positioned to buffer volatility and take advantage of new opportunities with cash and cash equivalents comprising 28.7% of the Fund.

The Fund's single largest bond position (20.6% of the Fund portfolio) is Imperial Metals Corporation ("Imperial") senior unsecured notes due 2019 with a yield to maturity of 9.7%. The notes are backed by the world-class Red Chris mine that is expected to produce copper at cash costs of 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. Imperial 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. We anticipate that Imperial will prudently weather this commodity cycle while preparing for the next upswing.

Debt securities issued by Sears Holdings Corporation ("Sears") comprise 14.8% of the Fund's assets. The Fund owns 6.625% senior secured notes due 2018 and 8.00% senior unsecured notes due 2019, with yields to maturity of 11.0% and 12.0%, respectively. Sears' vast portfolio of real estate and other assets provides, in our view, ample asset coverage for these bonds. During 2015, Sears substantially de-risked its balance sheet by repurchasing $936 million of debt, and successfully amending and extending its $3.25 billion credit facility. 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 acquired real estate from Sears, comprises 6.0% of Fund assets. 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 its 42 million square feet will be redeveloped and re-tenanted, which should ultimately boost cash flow and fuel meaningful dividend growth over time. One can only speculate that Warren Buffett concurs with this assessment given his recent decision to personally acquire shares of Seritage.

In 1986, famed Magellan Fund manager Peter Lynch touted Fannie Mae as "the best business, literally, in America." At that time, Fannie Mae had a price-to-earnings ratio of one. Lynch noted that "when a company can earn back the price of its stock in one year, you've found a good deal." Thirty years later, the price-to-earnings ratio of Fannie Mae is back at one – but the circumstances are quite different. Current prices of Fannie Mae as well as its smaller cousin Freddie Mac do not reflect the economic value, let alone the earnings power, embedded in these world-class franchises. Indeed, the companies are not priced for a run-off of their existing businesses; they are priced for permanent expropriation of all assets.

Fannie Mae and Freddie Mac preferred stock collectively represent 8.9% of Fund assets. The market gyrations experienced during 2015 do not reflect the progress in halting Treasury's unlawful taking of Fannie Mae and Freddie Mac's assets. For example, at the end of the summer, plaintiffs informed the United States Court of Appeals for the District of Columbia Circuit that newly discovered evidence from "improperly concealed" documents clearly shows that the government defendants submitted materials to a lower court that were "incomplete, misleading, and in important respects, outright false." This important evidence was subsequently presented to the D.C. Circuit Court (under seal as required), and plaintiffs in other cases from the Northern District of Iowa to the Eastern District of Kentucky have now obtained these documents as well. We remain confident that Treasury's deliberate effort to realign the equity of each company and allocate all profits to itself in perpetuity is strictly prohibited by federal and state law, and anticipate that several of these cases will be adjudicated this year.

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.

Plunging natural gas and oil prices have roiled the energy sector. Industry participants are being forced to adjust to today's realities of oversupplied markets and irrational production dynamics. Senior unsecured bonds of offshore driller Atwood Oceanics ("Atwood") and America's #2 natural gas producer, Chesapeake Energy ("Chesapeake"), were purchased at significant discounts to par and comprise 3.6% and 3.2% of Fund assets, respectively. Atwood owns 11 modernized drill rigs, and has manageable debt and solid contract coverage into 2018. Chesapeake holds large acreage positions across top U.S. shale basins providing a multi-decade drilling inventory. Both companies possess asset values that are being ignored at current prices.

The Fund's other bond investments include HomeFed Corporation notes due 2018 (4.3% of Fund assets), Bombardier notes due 2018 (4.3% of Fund assets), and Ally Financial notes due 2016 (2.3% of Fund assets). These three short duration investments also offer attractive yields averaging 6.7% to maturity.

Overall, we believe the Fund is positioned to offer attractive interest income as the underlying investments have an average current yield of 5.1% and capital appreciation potential with an average 7.5% yield to maturity, while minimizing the risks of rising interest rates.[1] We estimate that an instantaneous 100 basis point increase in interest rates may reduce the fair market value of the portfolio securities (excluding Seritage common) by 1.6%, or approximately 4 months of interest. The Fund also reopened to new investors during 2015. Effective February 1, 2016, the initial subscription minimum is $10,000, and the subsequent subscription minimum is $1,000.

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

[1]Average current yield represents interest received by the Fund and not distributions to shareholders.

For a copy of the top holdings for The Fairholme Focused Income 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 Focused Income 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)