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 Focused Income Fund ("The Income 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. 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 Bloomberg Barclays Bond Index is used for comparative purposes only, and is 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 Bloomberg Barclays Bond Index in either up or down market trends. Because an index cannot be invested in directly, the 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.

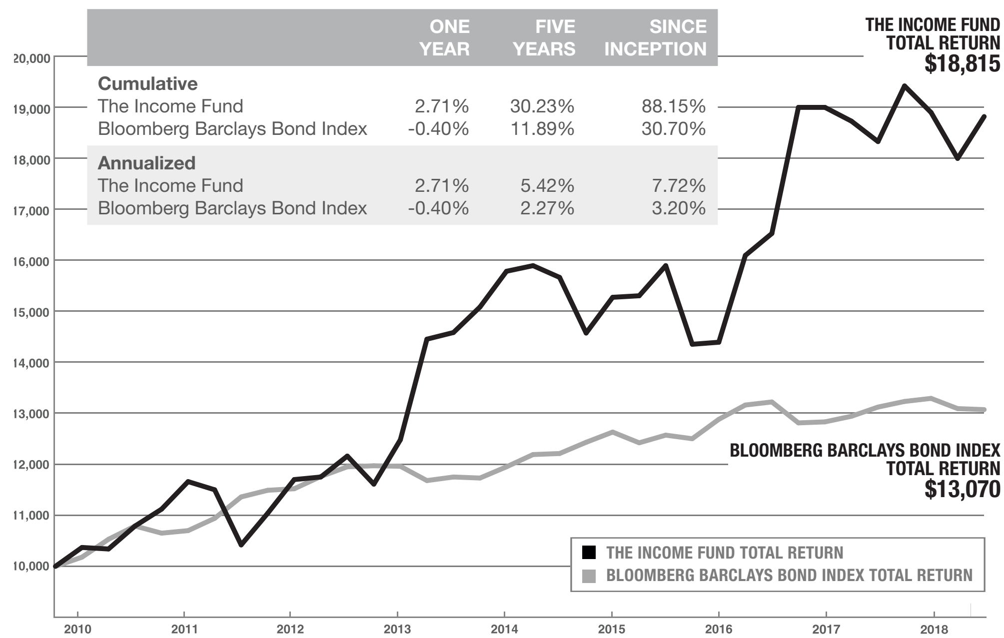
Effective January 1, 2018, the Manager agreed to waive, on a voluntary basis, a portion of the management fee of the Fund to the extent necessary to limit the management fee paid to the Manager by the Fund to an annual rate of 0.80% of the Fund's daily average net asset value. This undertaking may be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

July 30, 2018

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

The Income Fund

	ONE YEAR	FIVE YEARS	SINCE INCEPTION
Cumulative			
The Income Fund	2.71%	30.23%	88.15%
Bloomberg Barclays Bond Index	-0.40%	11.89%	30.70%
Annualized			
The Income Fund	2.71%	5.42%	7.72%
Bloomberg Barclays Bond Index	-0.40%	2.27%	3.20%



TOP ISSUERS (% OF NET ASSETS)	
Cash and Cash Equivalents*	38.2%
Imperial Metals Corp.	10.1%
Sears Holdings Corp.	8.9%
Chesapeake Energy Corp.	5.6%
Federal Home Loan Mortgage Corp.	4.0%
Vista Outdoor, Inc.	3.7%
International Wire Group, Inc.	3.5%
GMAC Capital Trust I, Inc.	3.2%
Federal National Mortgage Association	3.2%
The Goldman Sachs Group, Inc.	3.1%

The Income Fund's 30-Day SEC Yield at June 30, 2018, was 5.96%.
The chart on the left covers the period from inception of The Income Fund (December 31, 2009) through June 30, 2018.

The Income Fund decreased 0.39% versus a 1.62% decrease for the Bloomberg Barclays Bond Index for the six-month period that ended June 30, 2018. The above graph and performance table compare The Income Fund's unaudited performance (after expenses) with that of the Bloomberg Barclays Bond Index, with dividends and distributions reinvested, for various periods ending June 30, 2018. The value of a $10,000 investment in The Income Fund at its inception was worth $18,815 (assumes reinvestment of distributions into additional Income Fund shares) compared to $13,070 for the Bloomberg Barclays Bond Index at June 30, 2018. Of the $18,815, the value of reinvested distributions was $8,125.

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

We believe the Fund is: (i) well positioned to generate attractive returns, (ii) protected against higher interest rates, and (iii) ready to take advantage of future opportunities.

i. The current yield of the portfolio is 5.7%, and, furthermore, substantial upside exists across several of the investments given large discounts to the par value of owned claims on the underlying businesses.

ii. The portfolio is predominantly comprised of short duration fixed-rate bonds, floating rate securities, and cash equivalents, all which are immunized from the pain of rising interest rates.

iii. Approximately 38% of the Fund is invested in investment-grade commercial paper and cash equivalents which currently yield over 2% and can quickly be redeployed into higher yielding securities as opportunities arise.

The following is a summary of the core positions in the Fund.

Bank Preferred Shares

We added to our existing holdings of bank preferred shares, taking the aggregate position to just over 12% of Fund assets across five different issuers: Ally Financial, Inc., Bank of America Corp., Citigroup, Inc., The Goldman Sachs Group, Inc., and Wells Fargo & Co. These businesses are all very well capitalized, resulting in a low credit risk profile. Preferred dividends are tied to LIBOR, resulting in minimal interest rate risk. The average current yield on the preferred shares is 6%, with upside over time with rising interest rates.

Imperial Metals Corporation

The senior bonds of Imperial are backed by 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 the bonds double-digit yield to the 2019 maturity, we expect a favorable return profile.

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 beyond our senior bonds due December 2019. Over the past few quarters, liquidity has been enhanced from a new credit card agreement with Citigroup and further monetization of real estate assets. Sears bonds are priced for doom, but we continue to expect additional asset sales and continued cost cutting will fuel outperformance in our remaining Sears credit investments.

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.

Chesapeake Energy Corporation

We purchased an interest in the Chesapeake secured term loan, which has a first lien claim on valuable oil and gas collateral providing over 3x asset coverage. In addition, the Fund continues to hold the deeply discounted preferred equity shares of Chesapeake, which offer large current yields and may participate in equity upside down the road. The management team continues to drive value across its vast shale holdings with rising oil prices providing a tailwind for cash flow and deleveraging efforts.

Vista Outdoors Inc.

The senior bonds of Vista Outdoor, a new investment in the Fund, offer high single-digit IRR at our discounted purchase price. The company is a dominant producer of ammunition that is purchased by military, police, and governments around the world, in addition to U.S. consumers. We believe that Vista's industry leading quality and brand recognition have largely been ignored due to an oversupply of the U.S. ammunitions market. We expect a return to equilibrium this year and that the company will execute on some asset sales of non-core brands, reduce total debt outstanding, and return their operational focus towards being a premier outdoor products manufacturer.

International Wire Group

The secured notes of International Wire Group are backed by a leading, low-cost manufacturer of wire and wire-related products which are sold to a diverse set of customers across industrial, energy, telecom, defense, and medical segments. The company has a long history with many of its customers, with the largest customer accounting for less than 9% of total revenue. We think the bonds, which mature April 2021, offer an attractive equity-like return with the downside protections of being a creditor to a high-quality business.

HC2 Holdings

The senior bonds of HC2 Holdings are backed by a portfolio of assets ranging from a steel fabrication business to a global marine services business that we believe provide an adequate margin of safety to bondholders. The bonds offer an outsized current yield with a maturity in late 2019.

Oaktree Capital Group, LLC

Our investment in the publically-traded partnership units of Oaktree represents an ownership stake in a premier credit investing franchise that is an owner-operated business with a history of generating attractive returns. Oaktree's asset-rich balance sheet provides a margin-of-safety and owners benefit from healthy cash distributions. Longer term, when the opportunity set increases in distressed corporate credit, we expect Oaktree will be well positioned to generate value, which should result in higher cash distributions to owners.

Exited Positions

Seritage Growth Properties

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

Natgasoline LLC [Public Finance Authority]

As expected, our bonds backed by the Natgasoline methanol project were redeemed at par earlier this year, generating a 10% per annum return over our 15 month investment period. Natgasoline LLC is a world-class, low-cost methanol facility in Beaumont, Texas, which was funded primarily with equity from highly reputable operators. We continually search for more investments like this.

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. These conditions have led to frothy credit markets as evident by low yields and outsized issuances of covenant-lite securities. History proves this is all cyclical. As we monitor our portfolio and research new opportunities, we remain disciplined in waiting for more attractive opportunities in the credit markets.

Respectfully submitted,

Bruce R. Berkowitz
Chief Investment Officer

This letter must be accompanied or preceded by a Prospectus, which can be viewed by clicking the link. 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)