

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 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 quoted 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, 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.

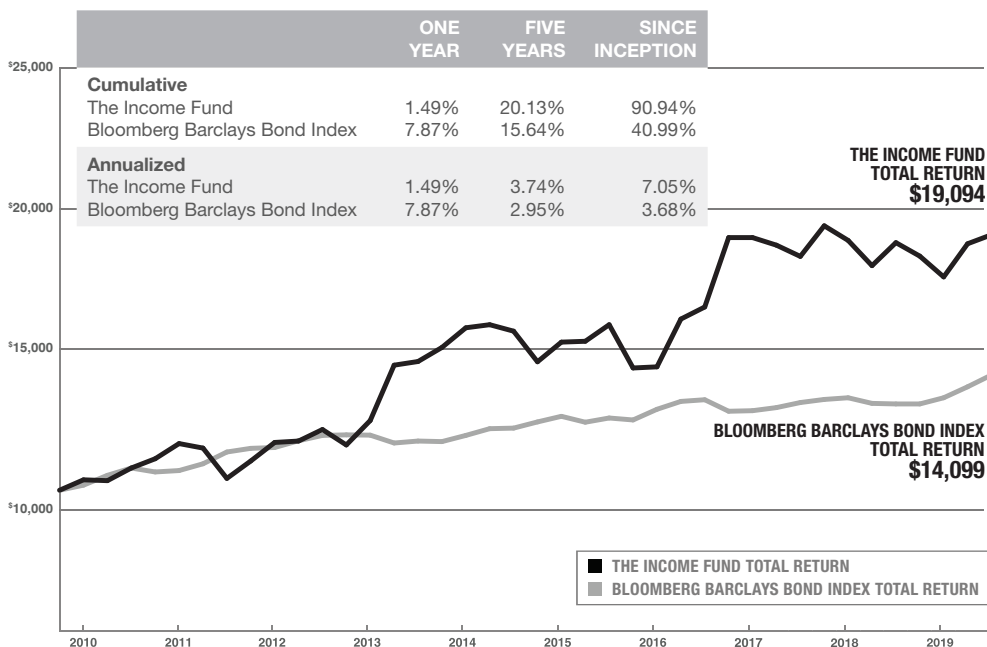
July 26, 2019

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

The Fund increased 8.55% for the six-month period that ended June 30, 2019. The strong absolute and relative returns were driven by the senior debt of Imperial Metals, the preferred shares of Freddie Mac, and portfolio income.

The value of a \$10,000 investment in the Fund at its inception (on December 31, 2009) was worth \$19,094 compared to \$14,099 for the Bloomberg Barclays Bond Index at June 30, 2019.

The Fairholme Focused Income Fund



TOP ISSUERS (% OF NET ASSETS)	
Cash and Cash Equivalents*	66.2%
Imperial Metals Corp.	12.7%
Federal Home Loan Mortgage Corp.	4.8%
GMAC Capital Trust I, Inc.	3.7%
The Goldman Sachs Group, Inc.	3.4%
Citigroup, Inc.	2.8%
Bank of America Corp.	2.2%
Chesapeake Energy Corp.	2.0%
Wells Fargo & Co.	1.3%
Energy Transfer Operating LP	1.1%

The Income Fund's 30-Day SEC Yield at June 30, 2019, was 2.83% (unsubsidized) and 3.03% (subsidized).**

The chart on the left covers the period from inception of The Income Fund (December 31, 2009) through June 30, 2019

The Income Fund increased 8.55% versus a 6.11% increase for the Bloomberg Barclays Bond Index for the six-month period that ended June 30, 2019. 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, 2019. The value of a \$10,000 investment in The Income Fund at its inception was worth \$19,094 (assumes reinvestment of distributions into additional Income Fund shares) compared to \$14,099 for the Bloomberg Barclays Bond Index at June 30, 2019. Of the \$19,094, the value of reinvested distributions was \$8,594.

*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 Income Fund over the 30-Day period, expressed as an annual percentage rate based on The Income 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.

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, including the senior debt owned by the Fund. The price of the bonds increased 45% this year driving Fund outperformance.

Freddie Mac ("Freddie")

The Fund owns a 4% position in the preferred shares of Freddie, which currently trade at less than half of stated liquidation values, implying potential current yields of over 14% per annum. In 2008, Freddie's board of directors agreed to federal conservatorship and U.S. Treasury investments earning 10% of principal, \$1 billion in fees, and an 80% ownership stake. Since then, Freddie has earned and paid \$120 billion to our U.S. Treasury, which is \$12 billion more than promised. It is now time for 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 junior preferred shares.

Portfolio

The Fund generates interest income via a portfolio of bank preferred shares, investment grade commercial paper, and U.S. Treasury bills. Fund liquidity is high and credit exposure is modest given tight credit spreads. The Fund is well prepared for future 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.