Mutual fund investing involves risks, including possible loss of principal. Unless otherwise specified, all information is shown as of June 30, 2017. Past performance information quoted below does not guarantee future results. The investment return and principal value of an investment in The Fairholme Fund, The Fairholme Focused Income Fund ("The Income Fund"), and The Fairholme Allocation Fund ("The Allocation Fund"), (each being a "Fund" and collectively, the "Funds"), 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 Fairholme Fund and The Allocation 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. Each Fund maintains a focused portfolio of investments in a limited number of issuers and does not seek to diversify its investments. This exposes each Fund to the risk of unanticipated industry conditions and risks particular to a single company or the securities of a single company within its respective portfolio. 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 a Fund's performance, asset composition, or volatility. A 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 ratios for The Fairholme Fund, The Income Fund, and The Allocation Fund reflected in the current prospectus dated March 30, 2017, are 1.03%, 1.01%, and 1.01%, respectively, and may differ from the actual expenses incurred by the Funds for the period covered by the Funds' Semi-Annual Report. The expense ratio includes any acquired fund fees and expenses which are incurred indirectly by each Fund as a result of investments in securities issued by one or more investment companies.

July 31, 2017

Fairholme Shareholders and Directors:

Fairholme has established a track record of successful value investing. Over the past 17 years, our flagship Fairholme Fund has outperformed the S&P 500 index with a 425.37% cumulative return after all Fund expenses compared to a 132.36% return for a benchmark S&P index.

We have achieved this success by using a distinctive talent for patient value investing – selecting contrarian stakes and then deploying significant funds with conviction. We have consistently sought out attractive opportunities that meet our strict value-oriented criteria. While the world does change, and we always try to consider the reasons for change, the Funds' investment philosophy remains constant. However, the very strategies that have rewarded us for decades appear misguided. I will explain in this letter why it seems this way and why I still believe the same investment style will generate future successes.

Fannie Mae and Freddie Mac

After eight long years of cover-ups, bald-faced lies, and judicial obstruction, the government has finally released thousands of documents demonstrating that the Obama Administration created false pretenses to unlawfully siphon tens of billions of corporate cash from Fannie Mae and Freddie Mac. These documents clearly demonstrate that senior government officials knew the GSEs were on the verge of sustained profitability and took actions to usurp all of those profits. Indeed, the documents reveal that these officials lied to the public and perjured themselves in federal courts. The so-called "Net Worth Sweep" was unnecessary to prevent a "downward spiral." Put simply, we now have unambiguous evidence that the Obama varsity team knew what their statutory authorities were, willfully exceeded those authorities to steal billions of dollars from investors, and subsequently engaged in a cover-up to hide their wrongdoing.

When you follow the cash, it's easy to see that Fannie and Freddie have generated hundreds of billions in profits, taxes, and consumer savings. Each held tens of billions of tangible value and maintained tens of billions in earnings power – even at the worst point of The Great Recession. Each had the wherewithal to pay all bills and pursue its stated mission of providing liquidity when all others cannot.

Federal agencies continue to defend contrived accounting gimmicks by arguing that they followed the law and, notwithstanding, they are above it. As more and more documents are released, the Department of Justice will see that the actions undertaken by former officials undermine their defenses and long-established laws. Fannie and Freddie can safely return to their role of insuring the uniquely American housing finance system against catastrophic risk with private capital. There is a proven blueprint to succeed, and we hope to successfully resolve this matter before reaching the Supreme Court of the United States.

After all, capital markets are based on the sanctity of contracts – the original buyers' and sellers' expectations and rights travel with a contract no matter who holds it. When this saga ends, we expect contracts to be honored and substantial value for all stakeholders.

Sears, et al.

From the ashes of failed retailers often come great real estate companies. Malls and shopping centers are not in permanent decline. Sears spin-off, Seritage Growth Properties, has re-tenanted over three million square feet at more than three times old rents since 2015, and demand continues to grow. Investors may disagree on the exact path forward for Sears, but the company owns many valuable assets and there is huge value in optimizing all of them. In the first half of the year, Sears sold the Craftsman name for a net present value of $900 million. Real estate sales added another $400 million. Sears remains extremely competitive in all aspects of hardline retail. Company vendors are estimated to earn $5 billion annually from relationships with Sears. There is no reason why Sears cannot share in this success <u>and</u> monetize assets through innovative partnering.

Sears continues to accelerate the pace of its operational restructurings, and is heading toward $1.25 billion in annualized cost savings. The news that Amazon is now offering Kenmore appliances with Sears' white-glove delivery, warranty, and installation services greatly improves the competitive landscape for both. In addition, "Shop Your Way" already has millions of members enjoying a simple, easy, and personalized shopping experience. If you want to learn more about the Shop Your Way program, visit the following link: www.shopyourway.com/fairholme/getmore.

St. Joe

St. Joe owns 120,000 contiguous acres with entitlements to build homes and grow jobs for generations to come – at near zero land costs. CEO Jorge Gonzalez and team are making investments that will add value to this land with projects generating recurring revenue. It is my belief that GKN Aerospace may be just the first of many high-tech companies that will move to Northwest Florida. Great jobs build strong communities with top-notch education and healthcare.

If you are considering any type of corporate relocation or expansion, please call Jorge at (850) 544-3177 to find out why one of the largest global aerospace companies chose St. Joe to build their first facility in Florida.

Imperial Metals and Others

Imperial has yet to achieve planned costs and recoveries for the next 100 years at its Red Chris property. More cash and time is needed to "get it right" at what we know to be a world-class copper and gold deposit.

Intelsat and Atwood Oceanics are leaders in satellite communications and offshore drilling, respectively. The Funds were able to purchase relatively senior bonds of each at steep discounts to redemption values because of industry overcapacity. Both companies subsequently announced industry consolidating mergers. The Funds cashed out for significant income and realized capital gains.

Sears Canada (not to be confused with Sears) self-inflicted a court-led restructuring that will guarantee tens of millions of unnecessary professional costs. We are studying ways to recover what appears lost.

Summary

The Income Fund has proved that outstanding performance can be achieved with debt obligations, preferred stock, and real estate investment trust certificates that are generally less volatile with greater cash distributions and shorter payback periods than common stock. The strategies for all the Funds have been heading in this direction.

Overall, the Funds' net assets stand at $2.6 billion. I, along with Fairholme employees and Fairholme-related entities, own about $221 million of the total. Each Fund holds 20% or more of net assets in cash and investment-grade cash equivalents, and each Fund generates at least enough income to cover Fund expenses. There is light at the end of what appears, at times, to be a never-ending tunnel.

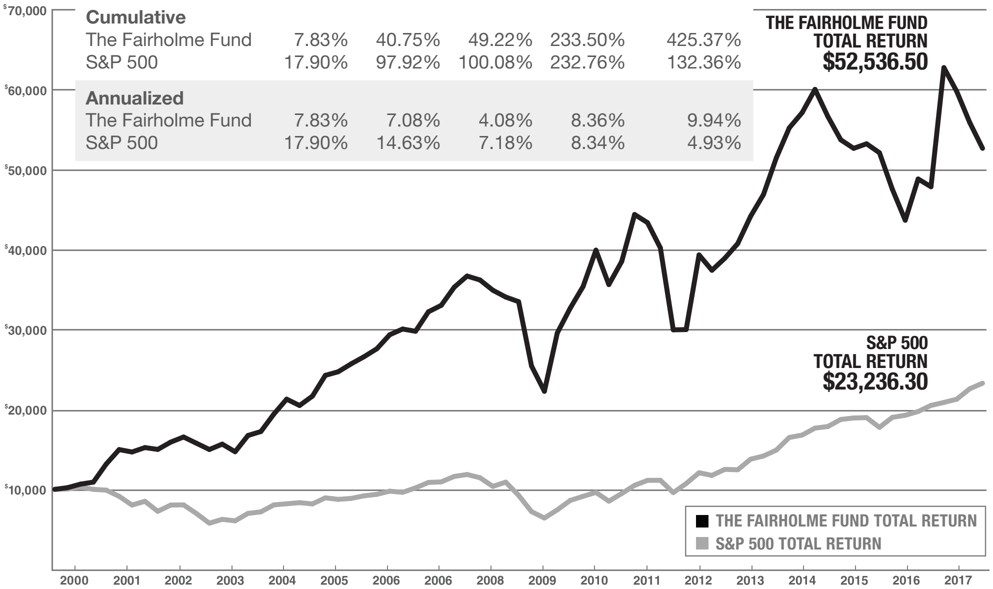
Thank you for your trust and patience.

Respectfully submitted,

Bruce R. Berkowitz
Chief Investment Officer

The Fairholme Fund

	ONE YEAR	FIVE YEARS	TEN YEARS	FIFTEEN YEARS	SINCE INCEPTION
Cumulative					
The Fairholme Fund	7.83%	40.75%	49.22%	233.50%	425.37%
S&P 500	17.90%	97.92%	100.08%	232.76%	132.36%
Annualized					
The Fairholme Fund	7.83%	7.08%	4.08%	8.36%	9.94%
S&P 500	17.90%	14.63%	7.18%	8.34%	4.93%



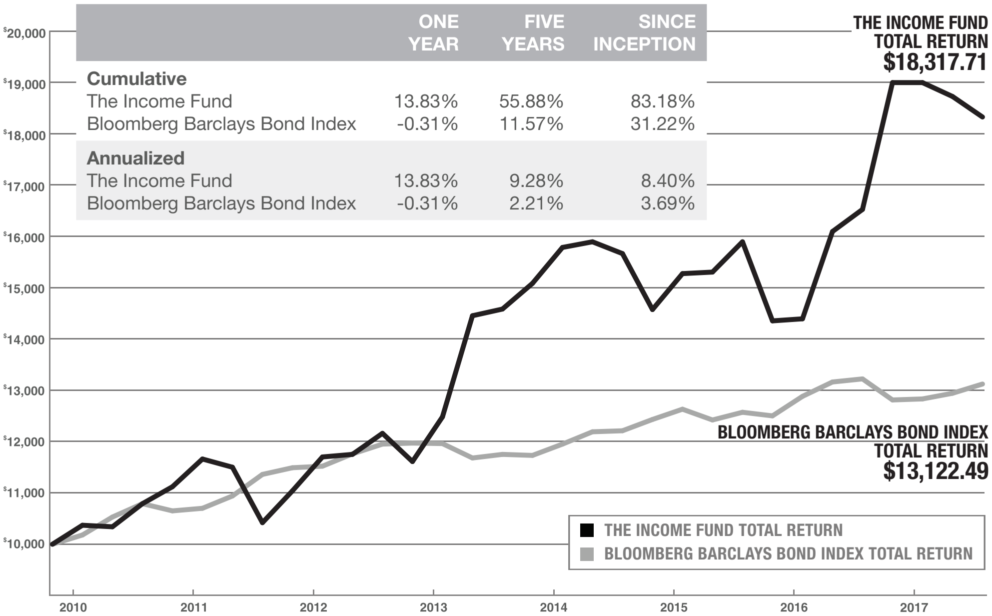
TOP 10 ISSUERS (% OF NET ASSETS)	
Cash and Cash Equivalents*	23.1%
The St. Joe Co.	19.8%
Federal National Mortgage Association	15.8%
Federal Home Loan Mortgage Corp.	14.7%
Sears Holdings Corp.	11.2%
Imperial Metals Corp.	7.2%
Seritage Growth Properties	4.3%
Monitronics International, Inc.	1.9%
Lands' End, Inc.	1.4%
Sears Canada, Inc.	0.4%

The chart on the left covers the period from inception of The Fairholme Fund (December 29, 1999) through June 30, 2017.

The Fairholme Fund decreased 11.89% versus a 9.34% gain for the S&P 500 for the six-month period that ended June 30, 2017. The above graph and performance table compare The Fairholme Fund's unaudited performance (after expenses) with that of the S&P 500, with dividends and distributions reinvested, for various periods ending June 30, 2017. The value of a $10,000 investment in The Fairholme Fund at its inception was worth $52,537 (assumes reinvestment of distributions into additional Fairholme Fund shares) compared to $23,236 for the S&P 500 at June 30, 2017. Of the $52,537, the value of reinvested distributions was $33,417. The net assets of The Fairholme Fund are $2.2 billion at June 30, 2017.

The Income Fund

	ONE YEAR	FIVE YEARS	SINCE INCEPTION
Cumulative			
The Income Fund	13.83%	55.88%	83.18%
Bloomberg Barclays Bond Index	-0.31%	11.57%	31.22%
Annualized			
The Income Fund	13.83%	9.28%	8.40%
Bloomberg Barclays Bond Index	-0.31%	2.21%	3.69%



TOP 10 ISSUERS (% OF NET ASSETS)	
Cash and Cash Equivalents*	33.5%
Sears Holdings Corp.	10.3%
Imperial Metals Corp.	10.1%
Seritage Growth Properties	9.6%
Federal National Mortgage Association	6.6%
Federal Home Loan Mortgage Corp.	6.0%
International Wire Group, Inc.	4.6%
GMAC Capital Trust I, Inc.	4.5%
Monitronics International, Inc.	4.2%
HC2 Holdings, Inc.	3.9%

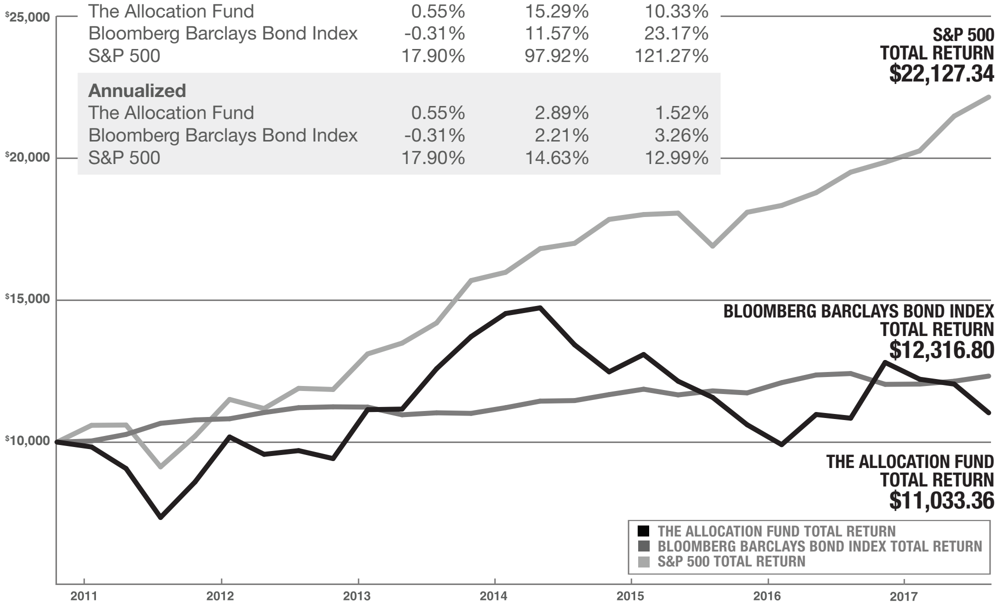
The Income Fund's 30-Day SEC Yield at June 30, 2017, was 4.54%.
The chart on the left covers the period from inception of The Income Fund (December 31, 2009) through June 30, 2017.

The Income Fund decreased 3.53% versus a 2.27% gain for the Bloomberg Barclays Bond Index for the six-month period that ended June 30, 2017. Since inception, The Income Fund increased 83.18% versus 31.22% for the Bloomberg Barclays Bond Index. 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, 2017. The value of a $10,000 investment in The Income Fund at its inception was worth $18,318 (assumes reinvestment of distributions into additional Income Fund shares) compared to $13,122 for the Bloomberg Barclays Bond Index at June 30, 2017. Of the $18,318, the value of reinvested distributions was $6,868. The net assets of The Income Fund are $247 million at June 30, 2017.

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

The Allocation Fund

	ONE YEAR	FIVE YEARS	SINCE INCEPTION
Cumulative			
The Allocation Fund	0.55%	15.29%	10.33%
Bloomberg Barclays Bond Index	-0.31%	11.57%	23.17%
S&P 500	17.90%	97.92%	121.27%
Annualized			
The Allocation Fund	0.55%	2.89%	1.52%
Bloomberg Barclays Bond Index	-0.31%	2.21%	3.26%
S&P 500	17.90%	14.63%	12.99%



TOP 10 ISSUERS (% OF NET ASSETS)	
Cash and Cash Equivalents*	26.7%
Seritage Growth Properties	22.2%
Federal National Mortgage Association	13.4%
Federal Home Loan Mortgage Corp.	11.9%
Sears Holdings Corp.	8.9%
Imperial Metals Corp.	5.2%
Monitronics International, Inc.	4.5%
International Wire Group, Inc.	3.0%
Lands' End, Inc.	1.9%
Atwood Oceanics, Inc.	1.2%

The Allocation Fund's 30-Day SEC Yield at June 30, 2017, was 0.62%.
The chart on the left covers the period from inception of The Allocation Fund (December 31, 2010) through June 30, 2017.

The Allocation Fund decreased 9.64% versus a 2.27% gain for the Bloomberg Barclays Bond Index and a 9.34% increase for the S&P 500 for the six-month period that ended June 30, 2017. 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, 2017. The value of a $10,000 investment in The Allocation Fund at its inception was worth $11,033 (assumes reinvestment of distributions into additional Allocation Fund shares) compared to $12,317 and $22,127 for the Bloomberg Barclays Bond Index and the S&P 500, respectively, at June 30, 2017. Of the $11,033, the value of reinvested distributions was $3,253. The net assets of The Allocation Fund are $184 million at June 30, 2017.

The Funds' investment objectives, risks, charges, and expenses should be considered carefully before investing. The prospectus contains this and other important information about the Funds, 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 and corresponding Appendix are 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 and corresponding Appendix are 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 (7/17)

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