

FAAFX 2015 ANNUAL REPORT

FAIRHOLME

Ignore the crowd.

“(E)ven the intelligent investor is likely to need considerable willpower to keep from following the crowd.”

Benjamin Graham

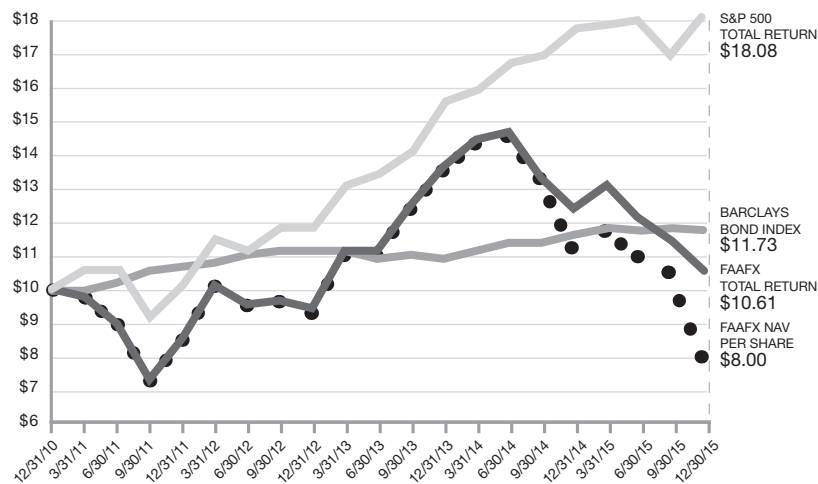
Mutual fund investing involves risks, including loss of principal. The charts below cover the period from inception of The Fairholme Allocation Fund (December 31, 2010) to December 31, 2015. Unless otherwise specified, all holdings information is shown as of December 31, 2015. Past performance information quoted below does not guarantee future results. The investment return and principal value of an investment in The Fairholme Allocation 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, but do not reflect a 2.00% redemption fee on shares redeemed within 60 days of purchase. 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 Allocation Fund invests opportunistically in a focused portfolio of investments in a limited number of issuers and does not seek to diversify its investments. This exposes The Fairholme Allocation Fund to the risk of unanticipated industry conditions and risks particular to a single company or the securities of a single company. The Fairholme Allocation Fund's performance may differ markedly from the performance of the S&P 500 Index or the Barclays Capital U.S. Aggregate Bond Index in either up or down market trends. The S&P 500 Index is a broad-based measurement of changes in the stock market and the performance of the S&P 500 Index is shown with all dividends reinvested and does not reflect any reduction in performance for the effects of transaction costs or management fees. 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. The S&P 500 Index and the Barclays Capital U.S. Aggregate Bond Index are used for comparative purposes only, and are not meant to be indicative of The Fairholme Allocation Fund's performance, asset composition, or volatility. Because indices cannot be invested in directly, these index returns do not reflect a deduction for fees, expenses, or taxes. The Fairholme Allocation Fund's expense ratio reflected in its prospectus dated March 27, 2015, was 1.01%, which included acquired fund fees and expenses that were incurred indirectly by The Fairholme Allocation Fund as a result of investments in securities issued by one or more investment companies.

January 28, 2016

The Fairholme Allocation Fund vs. The Barclays Capital U.S. Aggregate Bond Index and The S&P 500 Index

TOTAL ANNUAL RETURN			
Year	The Fairholme Allocation Fund	The Barclays Capital U.S. Aggregate Bond Index	The S&P 500 Index
2011	(14.0)%	7.8%	2.1%
2012	9.5%	4.2%	16.0%
2013	45.5%	(2.0)%	32.4%
2014	(9.0)%	6.0%	13.7%
2015	(14.9)%	0.6%	1.4%
Compounded Annual Gain	1.2%	3.3%	12.6%
Overall Gain	6.1%	17.3%	80.8%

The Fairholme Allocation Fund (the “Fund” or “FAAFX”) decreased 14.89% versus an increase of 0.55% for the Barclays Capital U.S. Aggregate Bond Index (the “Barclays Bond Index”) and a 1.38% increase for the S&P 500 Index (the “S&P 500”) in 2015. The following table compares the Fund’s unaudited performance (after expenses) with that of the Barclays Bond Index and S&P 500, with dividends and distributions reinvested, for various periods ending December 31, 2015.



	ONE YEAR	THREE YEARS	SINCE INCEPTION (12/31/2010)
Cumulative			
FAAFX	(14.89)%	12.67%	6.14%
Barclays Bond Index	0.55%	4.39%	17.32%
S&P 500	1.38%	52.59%	80.75%
Annualized			
FAAFX	(14.89)%	4.06%	1.20%
Barclays Bond Index	0.55%	1.44%	3.25%
S&P 500	1.38%	15.13%	12.56%

The Fund’s 30-Day SEC Yield at December 31, 2015, was 0.97%.

At December 31, 2015, the value of a \$10.00 investment in the Fund at its inception was worth \$10.61 (assumes reinvestment of distributions into additional Fund shares), compared to \$11.73 and \$18.08 for the Barclays Bond Index and the S&P 500, respectively.

Entering its sixth year, the Fund had 25.4% of its assets in cash and cash equivalents as investors remain fixated on a slowing China, freefalling commodity prices, and increased market volatility. We believe the portfolio is well positioned to weather today’s jittery environment and ultimately outperform in the years ahead.

Sears Holdings Corporation (“Sears”) common stock and warrants comprise 15.6% of the Fund’s assets. Our ongoing valuation work of Sears’ real estate, which has been independently corroborated by third party real estate professionals, reinforces our strong belief that this company is intrinsically worth multiples of its current market price – and we took advantage of price declines in the second half of the year to increase the Fund’s stake. During 2015, Sears continued its retail transformation while also raising over \$3 billion from the sale of 266 real estate properties. Sears used a portion of the proceeds to pay down \$936 million of debt and also amended and extended its \$3.25 billion credit facility, reducing its net debt to the lowest level this decade. 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 purchased the aforementioned 266 properties from Sears, comprises 15.1% of Fund assets. Our detailed property-by-property analysis indicates that Seritage is significantly undervalued at current market prices. One can only speculate that Warren Buffett concurs with this assessment given his recent decision to personally acquire shares of Seritage. 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 the company’s 42 million square feet will be redeveloped and re-tenanted, which should ultimately boost cash flow and fuel meaningful dividend growth over time.

The preferred securities of Fannie Mae and Freddie Mac represent 11.1% of Fund assets. At their core, Fannie Mae and Freddie Mac are simple and straightforward insurance companies. They are *not* banks. There isn’t a local Fannie Mae or Freddie Mac branch on the street corner. Unlike the big banks, Fannie Mae and Freddie Mac did not commit any consumer fraud in the run-up to the financial crisis. The two do not originate mortgages and they do not deal directly with individual homeowners. But when it comes to funding our nation’s housing market, Fannie Mae and Freddie Mac are mission critical. Simply put, if you own a home, Fannie Mae and Freddie Mac have helped you. If you have a mortgage, Fannie Mae and Freddie Mac have helped you. If you rent a home, Fannie Mae and Freddie Mac have helped you. And Fannie Mae and Freddie Mac have helped millions of American families buy, rent, or refinance a home even during the toughest economic times when banks and other lenders shunned mortgage risk. They *are* the housing finance system in America, and earn a nominal amount (less than 40 basis points) for ensuring that the venerable 30-year fixed-rate mortgage remains widely accessible and affordable.

During the 2008 financial crisis, Fannie Mae and Freddie Mac helped save America’s home mortgage system and resuscitated our national economy by continuing to provide liquidity when credit markets froze. In fact, according to a comprehensive analysis by Thomas Ferguson and Robert Johnson published in the *International Journal of Political Economy*, federal regulators explicitly directed Fannie Mae and Freddie Mac to initiate massive purchases of “home mortgages and mortgage bonds to stem declines in those markets and alleviate pressures on the balance sheets of private firms,” particularly “overburdened banks.” Then in 2012, Treasury’s decision to usurp all of the profits from each company in perpetuity (the so-called “Net Worth Sweep”) improved the federal budget deficit in an election year *and* avoided protracted debt ceiling negotiations with Congressional Republicans.

Today, taxpayers own 79.9% of Fannie Mae and Freddie Mac. Only those who oppose the dream of American homeownership would attempt to dismantle President Franklin Roosevelt's *New Deal* by eliminating two publicly traded, shareholder-owned companies that have single-handedly provided \$7 trillion dollars – yes, *trillion* – in liquidity to support America's mortgage market since 2009.

Shareholders simply request that the Treasury Department respect the capital structure of each company, respect the economic bundle of rights associated with our securities, and respect the law setting forth the rules of a conservatorship as decreed by Congress. The economist Herbert Stein once famously said: "If something cannot go on forever, it will stop." 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.

Bank of America warrants comprise 9.4% of Fund assets. The warrants offer attractive upside given that the company trades under tangible book value per share of \$15.62. CEO Brian Moynihan recently noted that Bank of America's 2015 results were the "company's highest earnings in nearly a decade," and much more improvement is possible. As the company reduces expenses and increases capital distributions, the double-ratchet feature of our warrants ensures that we are more than compensated for dividends paid to common equity shareholders.

American International Group ("AIG") warrants comprise 4.6% of Fund assets and are attractive for the very same reasons.

Imperial Metals Corporation ("Imperial"), whose securities comprise 4.9% of Fund assets, 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. During the year, the company focused on ramping up its world-class Red Chris mine that is expected to produce copper at cash costs 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. We anticipate that Imperial will prudently weather this commodity cycle while preparing for the next development phase at Red Chris.

The precipitous decline in oil and gas prices has roiled the energy sector. Industry participants in all parts of the production process are being forced to adjust to today's reality, characterized by oversupplied markets and irrational production dynamics. The Fund has purchased common shares in MRC Global and NOW Inc. that collectively comprise 2.5% of Fund assets. Both companies are essential to the North American energy distribution markets. In our view, each company possesses the financial wherewithal to survive this downturn and thrive once energy markets normalize. During the year, the Fund also purchased senior unsecured bonds of offshore driller Atwood Oceanics ("Atwood"), which comprises 1.8% of Fund assets, at a significant discount to par. Atwood owns 11 modernized drill rigs, and has manageable debt and solid contract coverage into 2018. At current bond prices, the market is ignoring Atwood's substantial asset value and conservative operating culture that dates back to 1968.

The Fund reopened to new investors in November 2015. Effective February 1, 2016, the initial subscription minimum is \$10,000, and the subsequent subscription minimum is \$1,000. We believe that opportunities abound, and the Fund is poised for future capital appreciation.

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

The Portfolio Manager's Report is not part of The Fairholme Allocation 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.

“Traditionally the investor has been the man with patience and the courage of his convictions who would buy when the harried or disheartened speculator was selling.”

Benjamin Graham & David Dodd

FAIRHOLME

Ignore the crowd.

The Fairholme Allocation Fund (FAAFX)

Seeking long-term total return

Annual Report 2015

Managed by Fairholme Capital Management

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THE FAIRHOLME ALLOCATION FUND

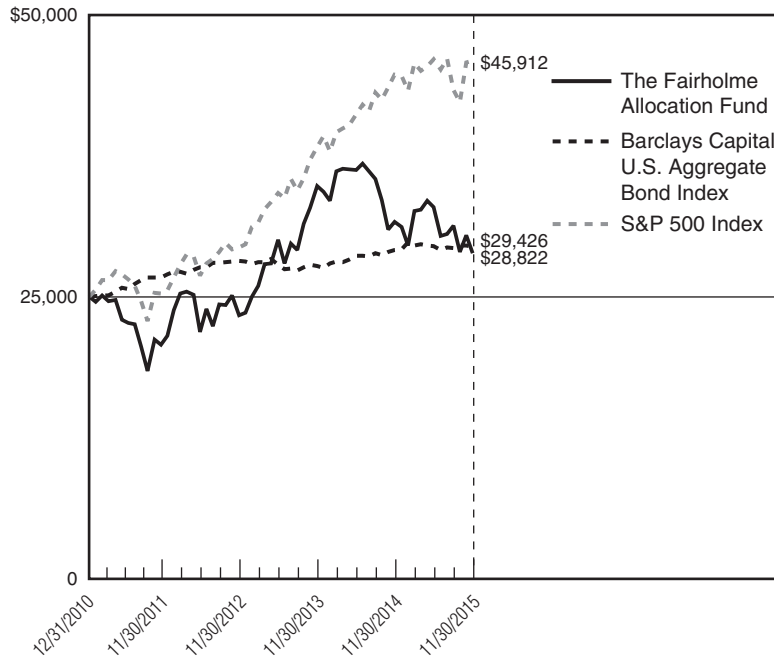
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THE FAIRHOLME ALLOCATION FUND

FUND PERFORMANCE (unaudited)
Inception through November 30, 2015

THE FAIRHOLME ALLOCATION FUND VS. THE BARCLAYS CAPITAL U.S. AGGREGATE BOND INDEX AND THE S&P 500 INDEX
INITIAL MINIMUM INVESTMENT OF \$25,000



The Fairholme Allocation Fund (the “Fund”) commenced operations on December 31, 2010. The chart above presents the performance of a \$25,000 investment from inception to the latest fiscal year ending November 30, 2015.

The following notes pertain to the chart above as well as to the performance table included in the Management Discussion & Analysis Report. **Performance information in this report represents past performance and is not a guarantee of future results. The investment return and principal value of an investment in the 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 quoted within. The performance information does not reflect the taxes an investor would pay on Fund distributions or upon redemption of the Fund shares. 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.**

Data for the Barclays Capital U.S. Aggregate Bond Index, the S&P 500 Index and the Fund are presented assuming all dividends and distributions have been reinvested and do not reflect any taxes that might have been incurred by a shareholder as a result of the Fund distributions. The Barclays Capital U.S. Aggregate Bond Index is an unmanaged market-weighted index comprised of investment grade corporate bonds (rated BBB or better), mortgages, and U.S. Treasury and government agency issues with at least one year to maturity. The S&P 500 Index is a widely recognized, unmanaged index of 500 of the largest companies in the United States as measured by market capitalization and does not reflect any investment management fees or transaction expenses, nor the effects of taxes, fees, or other charges.

THE FAIRHOLME ALLOCATION FUND

MANAGEMENT DISCUSSION & ANALYSIS For the Fiscal Year Ended November 30, 2015

The Fairholme Allocation Fund (the “Fund”) shares outstanding and audited net asset value per share (“NAV”) at November 30, 2015, the end of the Fund’s fiscal year, and per share NAVs at other pertinent dates, were as follows:

<u>11/30/2015 Shares Outstanding</u>	<u>11/30/2015 NAV (audited)</u>	<u>05/31/2015 NAV (unaudited)</u>	<u>11/30/2014 NAV (audited)</u>
28,608,762	\$10.40	\$11.88	\$12.57

At December 31, 2015, the unaudited per share NAV of the Fund was \$8.00. Performance figures below are shown for the Fund’s fiscal year ended November 30, 2015, and do not match calendar year figures for the period ended December 31, 2015, cited in the Portfolio Manager’s report.

<u>Fund Performance to 11/30/2015</u>	<u>Six Months</u>	<u>One Year</u>	<u>Since Inception 12/31/2010</u>
Cumulative:			
Fund	(12.46)%	(8.88)%	15.29%
Barclays Bond Index	(0.12)%	0.98%	17.70%
S&P 500	(0.21)%	2.75%	83.65%
Annualized:			
Fund		(8.88)%	2.94%
Barclays Bond Index		0.98%	3.37%
S&P 500		2.75%	13.16%

For the six months ended November 30, 2015, the Fund was outperformed by the Barclays Capital U.S. Aggregate Bond Index (“Barclays Bond Index”) and the S&P 500 Index (“S&P 500”) by 12.34 and 12.25 percentage points, respectively, while over the last year the Fund was outperformed by the Barclays Bond Index and S&P 500 by 9.86 and 11.63 percentage points, respectively. From inception, the Fund was outperformed by the Barclays Bond Index and the S&P 500 by 0.43 and 10.22 percentage points per annum or, on a cumulative basis, 2.41 and 68.36 percentage points over the past four years and eleven months, respectively.

Fairholme Capital Management, L.L.C. (the “Manager”) believes performance over shorter periods is likely to be less meaningful than performance over longer periods. Investors are cautioned not to rely on short-term results. The fact that securities increase or decline in value does not always indicate that the Manager believes these securities to be more or less attractive — in fact, the Manager believes that some price increases present selling opportunities and some price declines present buying opportunities.

Further, shareholders should note that the S&P 500 and the Barclays Bond Index are unmanaged indices incurring no fees, expenses, or tax effects and are shown solely to compare Fund performance to that of unmanaged and diversified indices of U.S. publicly traded corporation common stock.

Shareholders are also cautioned that it is possible that some securities mentioned in this discussion may no longer be held by the Fund subsequent to the end of the fiscal period and that the Fund may have made significant new purchases that are not yet required to be disclosed. It is the Fund’s general policy not to disclose portfolio holdings other than when required by relevant law or regulation. Portfolio holdings are subject to change without notice.

Not all Fund portfolio dispositions or additions are material, and, while the Fund and the Manager have long-term objectives, it is possible that a security sold or purchased in one period will be purchased or sold in a subsequent period. Generally, the Manager determines to buy and sell based on its estimates of the absolute and relative

THE FAIRHOLME ALLOCATION FUND

MANAGEMENT DISCUSSION & ANALYSIS (continued) For the Fiscal Year Ended November 30, 2015

intrinsic values and fundamental dynamics of a particular security and its issuer and its industry. However, certain strategies of the Manager in carrying out Fund policies may result in shorter holding periods.

The Manager invests Fund assets in securities to the extent it finds reasonable investment opportunities in accordance with its Prospectus and may invest a significant portion of Fund assets in liquid, low-risk securities or cash. The Manager views liquidity as a strategic advantage. At November 30, 2015, cash and cash equivalents (consisting of cash, commercial paper, deposit accounts, U.S. Treasury Bills, and money-market funds) represented 14.67% of total assets. Since inception, the Fund has held liquid, low-risk securities or cash for periods without negatively influencing performance, although there is no guarantee that future performance will not be negatively affected by Fund liquidity.

The Fund is considered to be “non-diversified” under the Investment Company Act of 1940. The Fund can invest a greater percentage of assets in fewer securities than a diversified fund and may invest a significant portion of cash and liquid assets in one or more higher-risk securities at any time, particularly in situations where markets are weak or a particular security declines sharply. The Fund may also have a greater percentage of assets invested in a particular industry than a diversified fund, exposing the Fund to the risk of an unanticipated industry condition as well as risks specific to a single company or security. For the fiscal year ended November 30, 2015, the Fund investments that performed the best were Canadian Natural Resources Ltd. and Valeant Pharmaceuticals International, Inc. The biggest contributors to negative performance were investments in Sears Holdings Corp., Imperial Metals Corp., Bank of America Corp., Seritage Growth Properties, and Leucadia National Corp. The following charts show the top holdings by issuer and sector in descending order of net assets as of November 30, 2015.

The Fairholme Allocation Fund Top Holdings by Issuer* (% of Net Assets)		The Fairholme Allocation Fund Top Sectors (% of Net Assets)	
Sears Holdings Corp.	16.5%	Retail Department Stores	18.2%
Seritage Growth Properties	11.9%	Cash and Cash Equivalents**	14.8%
Bank of America Corp.	11.7%	Mortgage Finance	12.2%
Federal National Mortgage Association	6.3%	Real Estate Investment Trusts	11.9%
Federal Home Loan Mortgage Corp.	5.9%	Diversified Banks	11.7%
Valeant Pharmaceuticals International, Inc.	5.1%	Oil & Natural Gas Exploration	5.6%
Imperial Metals Corp.	4.6%	Pharmaceuticals	5.1%
American International Group, Inc.	4.4%	Metals & Mining	4.6%
Canadian Natural Resources Ltd.	3.9%	Multi-Line Insurance	4.4%
Leucadia National Corp.	2.8%	Diversified Holding Companies	2.8%
	<u>73.1%</u>		<u>91.3%</u>

* Excludes cash, U.S. Treasury Bills, commercial paper, and money market funds.

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

The Manager views the ability to focus on fewer investments than a diversified fund as a strategic advantage. However, such a strategy may negatively influence short-term performance and there is no guarantee that long-term performance will not be negatively affected.

The Fund may invest in non-U.S. securities and securities of corporations domiciled outside of the United States, which may expose the Fund to adverse changes resulting from foreign currency fluctuations or other potential risks as described in the Fund’s Prospectus and Statement of Additional Information.

THE FAIRHOLME ALLOCATION FUND

MANAGEMENT DISCUSSION & ANALYSIS (continued)
For the Fiscal Year Ended November 30, 2015

The Fund's officers, the Board of Directors (the "Board" or the "Directors"), and the Manager are aware that large cash inflows or outflows may adversely affect Fund performance. Such flows are monitored and appropriate actions are contemplated for when such flows could negatively impact performance.

Since inception, the Fund has been advised by the Manager. Bruce Berkowitz, both the Chief Investment Officer of the Manager and Chairman of the Fund's Board, continues to have a significant personal stake in the Fund, holding an aggregate 9,157,652 shares at November 30, 2015. While there is no requirement that Mr. Berkowitz own shares of the Fund, such holdings are believed to help align the interests of the Manager with the interests of the shareholders.

The Board, including the Independent Directors, continues to believe that it is in the best interests of the Fund to have Mr. Berkowitz serve as Chairman of the Board given: his long-term relative performance; his experience, commitment, and significant personal investment in the Fund; the present constitution of Directors and policies; and current rules and regulations. A Director and Officers of the Fund are also Officers of the Manager. Nevertheless, at November 30, 2015, a majority of Directors were independent of the Manager, no stock option or restricted stock plans exist, Officers received no direct compensation from the Fund, and the Director affiliated with the Manager received no compensation for being a Director.

For more complete information about the Fund, or to obtain a current Prospectus, please visit www.fairholmefunds.com or call Shareholder Services at 1-866-202-2263.

THE FAIRHOLME ALLOCATION FUND

EXPENSE EXAMPLE

For the Six Month Period from June 1, 2015
through November 30, 2015 (unaudited)

As a Fund shareholder, you incur direct and indirect costs. Direct costs include, but are not limited to, transaction fees at some broker-dealers, custodial fees for retirement accounts, redemption fees on Fund shares redeemed within 60 days of purchase, and wire transfer fees. You also incur indirect, ongoing costs that include, but are not limited to, management fees paid to the Manager.

The following example is intended to help you understand your indirect costs (also referred to as “ongoing costs” and measured in dollars) when investing in the Fund and to compare these costs with the ongoing costs of investing in other mutual funds. This example is based on an investment of \$1,000 invested in the Fund at June 1, 2015, and held for the entire six month period ending November 30, 2015.

Actual Expenses

The first line of the table below provides information about actual account values and actual expenses. You may use the information in this line, together with the amount you had invested at the beginning of the period, to estimate the expenses that you paid over the period. Simply divide your account value by \$1,000 (for example, an \$8,600 account value divided by \$1,000 = 8.6), then multiply the result by the number in the first line under the heading “Expenses Paid During the Period” to estimate the expenses you paid on your Fund holdings during this period.

Hypothetical Example for Comparison Purposes

The second line of the table provides information about hypothetical account values and hypothetical expenses based on the Fund’s actual expense ratio and an assumed rate of return of 5% per year before expenses, which is not the Fund’s actual return for the period presented. The hypothetical account values and expenses may not be used to estimate the actual ending account balance or expenses that you paid for the period presented. However, you may use this information to compare ongoing costs of investing in the Fund with the ongoing costs of investing in other funds. To do so, compare this 5% hypothetical example with the 5% examples that appear in the shareholder reports of other funds.

Please note that the column titled “Expenses Paid During the Period” in the table below is meant to highlight your ongoing costs only and do not reflect any transactional costs, such as redemption fees (if any), or other direct costs. Therefore, the second line of the table is useful in comparing ongoing costs only, and will not help you determine the relative total costs of owning different funds. In addition, if these direct costs were included, your total costs would be higher.

Fund	Beginning Account Value June 1, 2015	Ending Account Value November 30, 2015	Annualized Expense Ratio	Expenses Paid During the Period June 1, 2015 Through November 30, 2015*
Actual	\$1,000.00	\$ 875.40	1.01%	\$4.75
Hypothetical (5% return before expenses)	\$1,000.00	\$1,020.00	1.01%	\$5.11

* Expenses are equal to the Fund’s annualized expense ratio, multiplied by the average account value over the period, multiplied by 183 days/365 days (to reflect the one-half year period).

THE FAIRHOLME ALLOCATION FUND

SCHEDULE OF INVESTMENTS
November 30, 2015

Shares		Value	Shares		Value
	DOMESTIC EQUITY			DOMESTIC PREFERRED	
	SECURITIES — 36.6%			EQUITY	
	DIVERSIFIED HOLDING			SECURITIES — 12.2%	
	COMPANIES — 2.8%			MORTGAGE FINANCE — 12.2%	
467,700	Leucadia National Corp.	\$ 8,268,936		Federal Home Loan Mortgage	
				Corp.	
	PHARMACEUTICALS — 3.8%		4,033,100	7.875%, Series Z ^{(a)(b)}	\$ 17,503,654
126,000	Valeant Pharmaceuticals			Federal National Mortgage	
	International, Inc. ^(a)	11,334,960		Association	
			4,301,200	7.750%, Series S ^{(a)(b)}	18,710,220
	REAL ESTATE INVESTMENT				
	TRUSTS — 11.9%			TOTAL DOMESTIC PREFERRED	
974,050	Seritage Growth Properties ^(a)	35,552,825		EQUITY SECURITIES	
				(COST \$37,299,594)	36,213,874
	RETAIL DEPARTMENT			WARRANTS — 18.1%	
	STORES — 14.5%			DIVERSIFIED BANKS — 11.7%	
1,948,100	Sears Holdings Corp.	43,111,453		Bank of America Corp.,	
			5,570,428	Vested, Strike Price \$13.137,	
	RETAILER — 1.1%			Expire 01/16/2019 ^{(a)(c)}	34,815,175
140,000	Lands' End, Inc. ^(a)	3,365,600			
				MULTI-LINE	
	TRADING COMPANIES &			INSURANCE — 4.4%	
	DISTRIBUTORS — 2.5%			American International	
255,000	MRC Global, Inc. ^(a)	3,771,450	507,515	Group, Inc.,	
195,000	NOW, Inc. ^(a)	3,584,100		Vested, Strike Price \$45,000,	
				Expire 01/19/2021 ^{(a)(c)}	13,027,910
		7,355,550			
TOTAL DOMESTIC EQUITY SECURITIES				RETAIL DEPARTMENT	
(COST \$144,637,940)		108,989,324		STORES — 2.0%	
	FOREIGN EQUITY			Sears Holdings Corp.,	
	SECURITIES — 10.2%			Vested, Strike Price \$25.686,	
	CANADA — 10.2%			Expire 12/15/2019 ^{(a)(c)}	6,165,452
	METALS & MINING — 4.6%				
2,623,506	Imperial Metals Corp. ^(a)	13,555,124		TOTAL WARRANTS	
				(COST \$26,341,647)	54,008,537
	OIL & NATURAL GAS				
	EXPLORATION — 3.9%				
485,000	Canadian Natural Resources Ltd.	11,737,000			
	RETAIL DEPARTMENT				
	STORES — 1.7%				
600,943	Sears Canada, Inc. ^(a)	5,095,997			
TOTAL FOREIGN EQUITY SECURITIES					
(COST \$42,453,605)		30,388,121			

The accompanying notes are an integral part of the financial statements.

THE FAIRHOLME ALLOCATION FUND

SCHEDULE OF INVESTMENTS (continued)
November 30, 2015

<u>Principal</u>	<u>Value</u>	<u>Shares</u>	<u>Value</u>
DOMESTIC CORPORATE BONDS — 3.0%			
OIL & NATURAL GAS EXPLORATION — 1.7%			
\$ 6,800,000 Atwood Oceanics, Inc. 6.500%, 02/01/2020	<u>\$ 5,134,000</u>	23,722,226	
PHARMACEUTICALS — 1.3%			
4,000,000 Valeant Pharmaceuticals International, Inc. 6.750%, 08/15/2018 ^(d)	<u>3,917,600</u>	Fidelity Institutional Money Market Funds - Money Market Portfolio, 0.160% ^(f)	<u>\$ 23,722,226</u>
TOTAL DOMESTIC CORPORATE BONDS (COST \$8,973,053)	<u>9,051,600</u>	TOTAL MONEY MARKET FUNDS (COST \$23,722,226)	<u>23,722,226</u>
COMMERCIAL PAPER — 3.4%			
MULTIMEDIA — 3.4%			
10,000,000 Viacom, Inc. 0.500%, 12/04/2015 ^(e)	<u>9,999,722</u>	MISCELLANEOUS INVESTMENTS — 4.9% ^(g)	<u>14,680,138</u>
TOTAL COMMERCIAL PAPER (COST \$9,999,583)	<u>9,999,722</u>	TOTAL INVESTMENTS — 99.8% (COST \$323,064,319)	<u>297,048,262</u>
U.S. GOVERNMENT OBLIGATIONS — 3.4%			
10,000,000 U.S. Treasury Bills 0.099%, 03/17/2016 ^(e)	<u>9,994,720</u>	OTHER ASSETS IN EXCESS OF LIABILITIES — 0.2%	<u>479,085</u>
TOTAL U.S. GOVERNMENT OBLIGATIONS (COST \$9,997,117)	<u>9,994,720</u>	NET ASSETS — 100.0%	<u><u>\$ 297,527,347</u></u>

^(a) Non-income producing security.

^(b) Variable rate security. Rates shown are the effective rates as of November 30, 2015.

^(c) Warrants have terms and conditions based on dividends paid and other events that may lower the strike price and raise the shares per warrant conversion ratio. Reported strike prices and conversion ratios are as of the date of this report. All share-to-warrant conversion ratios are currently 1:1, excluding the Sears Holdings Corp. warrants, which on November 30, 2015 had a conversion ratio of 1:1.11.

^(d) Restricted security as defined in Rule 144a under the Securities Act of 1933. The Manager has determined that such security is liquid pursuant to the Fund's liquidity guidelines. The value of these securities totals \$3,917,600, which represents 1.32% of the Fund's net assets.

^(e) Rates shown are the effective yields based on the purchase price. The calculation assumes the security is held to maturity.

^(f) Annualized based on the 1-day yield as of November 30, 2015.

^(g) Represents previously undisclosed unrestricted securities, which the Fund has held for less than one year.

The accompanying notes are an integral part of the financial statements.

THE FAIRHOLME ALLOCATION FUND

STATEMENT OF ASSETS & LIABILITIES
November 30, 2015

Assets

Investments, at Fair Value (Cost — \$323,064,319)	\$297,048,262
Interest Receivable	956,940
Receivable for Capital Shares Sold	58,600
Total Assets	<u>298,063,802</u>

Liabilities

Payable for Capital Shares Redeemed	281,848
Accrued Management Fees	254,607
Total Liabilities	<u>536,455</u>

NET ASSETS \$297,527,347

Net Assets Consist of:

Paid-In Capital	\$279,212,120
Undistributed Net Investment Income	8,229,913
Accumulated Net Realized Gain on Investments and Foreign Currency Related Transactions	36,101,371
Net Unrealized Depreciation on Investments and Foreign Currency Related Translations	<u>(26,016,057)</u>

NET ASSETS \$297,527,347

Shares of Common Stock Outstanding* (\$0.0001 par value)	<u>28,608,762</u>
Net Asset Value, Offering and Redemption Price Per Share (\$297,527,347 / 28,608,762 shares)	<u>\$ 10.40</u>

* 200,000,000 shares authorized in total.

The accompanying notes are an integral part of the financial statements.

THE FAIRHOLME ALLOCATION FUND

STATEMENT OF OPERATIONS

	For the Fiscal Year Ended November 30, 2015
Investment Income	
Dividends (net of \$13,477 in foreign taxes withheld)	\$ 11,562,984
Interest	<u>2,547,816</u>
Total Investment Income	<u>14,110,800</u>
Expenses	
Management Fees	3,443,638
Registration Fees	<u>15,000</u>
Total Expenses	<u>3,458,638</u>
Net Investment Income	<u>10,652,162</u>
Realized and Unrealized Gain (Loss) on Investments and Foreign Currency Related Transactions	
Net Realized Gain on Investments and Foreign Currency Related Transactions	36,408,291
Net Change in Unrealized Appreciation (Depreciation) on Investments and Foreign Currency Related Translations	<u>(76,862,855)</u>
Net Realized and Unrealized Gain (Loss) on Investments and Foreign Currency Related Transactions	<u>(40,454,564)</u>
NET DECREASE IN NET ASSETS FROM OPERATIONS	<u><u>\$(29,802,402)</u></u>

The accompanying notes are an integral part of the financial statements.

THE FAIRHOLME ALLOCATION FUND

STATEMENTS OF CHANGES IN NET ASSETS

	For the Fiscal Year Ended November 30, 2015	For the Fiscal Year Ended November 30, 2014
CHANGES IN NET ASSETS		
From Operations		
Net Investment Income (Loss)	\$ 10,652,162	\$ (2,601,316)
Net Realized Gain on Investments and Foreign Currency Related Transactions	36,408,291	34,479,453
Net Change in Unrealized Depreciation on Investments and Foreign Currency Related Translations	<u>(76,862,855)</u>	<u>(63,377,266)</u>
Net Decrease in Net Assets from Operations	<u>(29,802,402)</u>	<u>(31,499,129)</u>
From Dividends and Distributions to Shareholders		
Net Realized Capital Gains from Investment Transactions	<u>(34,099,921)</u>	<u>—</u>
Net Decrease in Net Assets from Dividends and Distributions	<u>(34,099,921)</u>	<u>—</u>
From Capital Share Transactions		
Proceeds from Sale of Shares	18,287,557	82,815,593
Shares Issued in Reinvestment of Dividends and Distributions	33,456,690	—
Redemption Fees	1,177	1,983
Cost of Shares Redeemed	<u>(69,066,091)</u>	<u>(32,037,717)</u>
Net Increase (Decrease) in Net Assets from Shareholder Activity	<u>(17,320,667)</u>	<u>50,779,859</u>
NET ASSETS		
Net Increase (Decrease) in Net Assets	(81,222,990)	19,280,730
Net Assets at Beginning of Year	<u>378,750,337</u>	<u>359,469,607</u>
Net Assets at End of Year	<u>\$297,527,347</u>	<u>\$378,750,337</u>
Accumulated Undistributed Net Investment Income (Loss) at End of Year	<u>\$ 8,229,913</u>	<u>\$ (2,422,249)</u>
SHARES TRANSACTIONS		
Issued	1,597,157	6,502,543
Reinvested	2,973,928	—
Redeemed	<u>(6,086,517)</u>	<u>(2,394,347)</u>
Net Increase (Decrease) in Shares	(1,515,432)	4,108,196
Shares Outstanding at Beginning of Year	<u>30,124,194</u>	<u>26,015,998</u>
Shares Outstanding at End of Year	<u>28,608,762</u>	<u>30,124,194</u>

The accompanying notes are an integral part of the financial statements.

THE FAIRHOLME ALLOCATION FUND

FINANCIAL HIGHLIGHTS

	For the Fiscal Year Ended November 30, 2015	For the Fiscal Year Ended November 30, 2014	For the Fiscal Year Ended November 30, 2013	For the Fiscal Year Ended November 30, 2012	For the Period Ended November 30, 2011 ⁽¹⁾
PER SHARE OPERATING PERFORMANCE					
NET ASSET VALUE, BEGINNING OF PERIOD	\$12.57	\$13.82	\$9.33	\$8.29	\$10.00
Investment Operations					
Net Investment Income (Loss) ⁽²⁾	0.35	(0.10)	(0.09)	0.07	(0.02)
Net Realized and Unrealized Gain (Loss) on Investments	(1.38)	(1.15)	4.64	0.97	(1.69)
Total from Investment Operations	(1.03)	(1.25)	4.55	1.04	(1.71)
Dividends and Distributions					
From Net Investment Income	—	—	(0.06)	—	—
From Realized Capital Gains	(1.14)	—	—	—	—
Total Dividends and Distributions	(1.14)	—	(0.06)	—	—
Redemption Fees⁽²⁾	0.00 ⁽³⁾	0.00 ⁽³⁾	0.00 ⁽³⁾	0.00 ⁽³⁾	0.00 ⁽³⁾
NET ASSET VALUE, END OF PERIOD	\$10.40	\$12.57	\$13.82	\$9.33	\$8.29
TOTAL RETURN	(8.88)%	(9.04)%	49.09%	12.55%	(17.10)% ⁽⁴⁾
Ratio/Supplemental Data					
Net Assets, End of Period (in 000's)	\$297,527	\$378,750	\$359,470	\$255,430	\$212,122
Ratio of Expenses to Average Net Assets:					
Before Expenses Waived	1.00%	1.00%	1.01% ⁽⁵⁾	1.00%	1.00% ⁽⁶⁾
After Expenses Waived	1.00% ⁽⁷⁾	1.00% ⁽⁷⁾	1.01% ⁽⁷⁾	0.92% ⁽⁷⁾	0.75% ⁽⁶⁾
Ratio of Net Investment Income (Loss) to Average Net Assets	3.09%	(0.73)%	(0.80)%	0.74%	(0.30)% ⁽⁶⁾
Portfolio Turnover Rate	39.24%	33.15%	35.97%	26.96%	41.60% ⁽⁴⁾

⁽¹⁾ The Fund commenced operations on December 31, 2010.

⁽²⁾ Based on average shares outstanding.

⁽³⁾ Redemption fees represent less than \$0.01.

⁽⁴⁾ Not Annualized.

⁽⁵⁾ 0.01% is attributable to interest expense incurred outside of the 1.00% management fee.

⁽⁶⁾ Annualized.

⁽⁷⁾ Effective March 29, 2012, the Manager's contractual management fee waiver/expense reimbursement for the Fund expired.

The accompanying notes are an integral part of the financial statements.

Note 1. Organization

Fairholme Funds, Inc. (the “Company”), a Maryland corporation, is registered under the Investment Company Act of 1940, as amended (the “1940 Act”), as an open-end management investment company. The Company’s Articles of Incorporation permit the Board of Directors of the Company (the “Board” or the “Directors”) to issue 1,100,000,000 shares of common stock at \$.0001 par value. 200,000,000 shares have been allocated to The Fairholme Allocation Fund (the “Fund”). The Fund is a non-diversified fund. The Fund may have a greater percentage of its assets invested in particular securities than a diversified fund, exposing the Fund to the risk of unanticipated industry conditions as well as risks specific to a single company or the securities of a single company. The Board has the power to designate one or more separate and distinct series and/or classes of shares of common stock and to classify or reclassify any unissued shares with respect to such series.

The Fund’s investment objective is to seek long-term total return. Under normal circumstances, the Fund seeks to achieve its investment objective by investing opportunistically in a focused portfolio of investments in the equity, fixed-income and cash, and cash-equivalent asset classes. The proportion of the Fund’s portfolio invested in each asset class will vary from time to time based on Fairholme Capital Management, L.L.C.’s (the “Manager”) assessment of relative fundamental values of securities and other investments in the asset class, the attractiveness of investment opportunities within each asset class, general market and economic conditions, and expected future returns of other investment opportunities. The Fund seeks to capitalize on anticipated fluctuations in the financial markets by changing the mix of its holdings in the targeted asset classes. The Fund may maintain a significant portion of its total assets in cash and securities generally considered to be cash equivalents. The Manager serves as investment adviser to the Fund.

There is no guarantee that the Fund will meet its objective.

Note 2. Significant Accounting Policies

As an investment company, the Fund follows the investment company accounting and reporting guidance, which is part of U.S. generally accepted accounting principles (“U.S. GAAP”). The Fund’s investments are reported at fair value as defined by U.S. GAAP. The Fund calculates its net asset value as soon as practicable following the close of regular trading on the New York Stock Exchange (currently 4:00 p.m. Eastern Time) on each day the New York Stock Exchange is open.

A description of the valuation techniques applied to the Fund’s securities measured at fair value on a recurring basis follows:

Security Valuation:

Equity securities (common and preferred stocks): Securities traded on a national securities exchange or reported on the NASDAQ national market are generally valued at the official closing price, or at the last reported sale price on the exchange or market on which the securities are traded, as of the close of business on the day the securities are being valued or, lacking any sales, at the last available bid price. To the extent these securities are actively traded and valuation adjustments are not applied, they are classified in Level 1 of the fair value hierarchy. If these securities are not actively traded, they are classified in Level 2. The Manager may also employ other valuation methods which the Manager believes would provide a more accurate indication of fair value. In these situations, if the inputs are observable, the valuation will be classified in Level 2 of the fair value hierarchy, otherwise they would be classified in Level 3.

Fixed-income securities (U.S. government obligations, corporate bonds, convertible bonds, and asset backed securities): The fair value of fixed-income securities is estimated using market quotations when readily available, but may also be estimated by various methods when no such market quotations exist and when the Manager believes these other methods reflect the fair value of such securities. These methods may consider recently executed transactions in securities of the issuer or comparable issuers and market price valuations from independent pricing services and/or brokers (where observable). Where the Manager deems it appropriate to do so (such as when independent prices are unavailable or not deemed to be representative of fair value) long-term fixed-income securities will be fair valued in good faith following consideration by, and conclusion of, the Manager’s Valuation Committee. As of November 30, 2015, fixed-income securities are valued by the Manager utilizing observable market prices on the day of valuation. Although fixed-income securities are classified in Level 2 of the fair value

THE FAIRHOLME ALLOCATION FUND

NOTES TO FINANCIAL STATEMENTS (continued)
November 30, 2015

hierarchy at November 30, 2015, in instances where lower relative weight is placed on transaction prices, quotations, or similar observable inputs, they would be classified in Level 3.

Open-end mutual funds: Investments in open-end mutual funds including money market funds are valued at their closing net asset value each business day and are classified in Level 1 of the fair value hierarchy.

Short-term securities: Investments in securities with maturities of less than sixty days when acquired, or which subsequently are within sixty days of maturity, shall be valued at prices supplied by an independent pricing source or by one of the Fund's pricing agents based on broker or dealer supplied valuations or matrix pricing. To the extent the inputs are observable and timely, the values would be classified in Level 2 of the fair value hierarchy.

Restricted securities: Depending on the relative significance of valuation inputs, these instruments may be classified in any level of the fair value hierarchy.

Warrants: The Fund may invest in warrants, which may be acquired either through a direct purchase, included as part of a private placement, or pursuant to corporate actions. Warrants entitle, but do not obligate, the holder to buy equity securities at a specific price for a specific period of time. Warrants may be considered more speculative than certain other types of investments in that they do not entitle a holder to dividends or voting rights with respect to the underlying securities that may be purchased nor do they represent any rights in the assets of the issuing company. Also, the value of a warrant does not necessarily change with the value of the underlying securities and a warrant ceases to have value if it is not exercised prior to its expiration date. Warrants traded on a security exchange are valued at the official closing price on the valuation date and are classified as Level 1 of the fair value hierarchy. Over the counter (OTC) warrants are valued using simulation models utilizing market value of the underlying security, expiration date of the warrants, volatility of the underlying security, strike price of the warrants, risk-free interest rate at the valuation date, and are classified as Level 2 or Level 3 of the fair value hierarchy depending on the observability of the inputs used.

The Fund uses several recognized industry third-party pricing services (TPPS) - approved by the Board and unaffiliated with the Manager - to value some of its securities. It also uses other independent market trade data sources (such as TRACE, the FINRA-developed mandatory reporting of over-the-counter secondary market transactions), as well as broker quotes provided by market makers. The data within these feeds is ultimately sourced from major stock exchanges and trading systems where these securities trade. If a price obtained from the pricing source is deemed unreliable, it may be discarded and/or challenged. In these cases the pricing decision is made by reference to the reliable market data from the other market data sources.

The Manager may determine the fair valuation of a security when market quotations are insufficient or not readily available, when securities are determined to be illiquid or restricted, or when in the judgment of the Manager the prices or values available do not represent the fair value of the instrument. Factors which may cause the Manager to make such a judgment include the following: (a) only a bid price or an asked price is available; (b) the spread between bid and asked prices is substantial; (c) the liquidity of the securities; (d) the frequency of sales; (e) the thinness of the market; (f) the size of reported trades; (g) actions of the securities markets, such as the suspension or limitation of trading; and (h) local market closures. Among the factors to be considered to fair value a security are recent prices of comparable securities that are publicly traded, reliable prices of securities not publicly traded, the use of valuation models, current analyst reports, valuing the income or cash flow of the issuer, or cost if the preceding factors do not apply. The circumstances of Level 3 securities are frequently monitored to determine if fair valuation measures continue to apply.

The Manager reports quarterly to the Board the results of the application of fair valuation policies and procedures.

The inputs and valuation techniques used to measure fair value of the Fund's investments are summarized into three levels as described in the hierarchy below:

- Level 1 — quoted prices in active markets for identical securities;

THE FAIRHOLME ALLOCATION FUND

NOTES TO FINANCIAL STATEMENTS (continued)
November 30, 2015

- Level 2 — other significant observable inputs (including quoted prices for similar securities, quoted prices in inactive markets for identical securities, interest rates, prepayment speeds, credit risk, etc.); and
- Level 3 — significant unobservable inputs (including the Manager’s determination as to the fair value of investments).

The inputs or methodology used for valuing investments are not necessarily an indication of the level of risk associated with investing in those investments. The summary of the Fund’s investments by inputs used to value the Fund’s investments as of November 30, 2015, is as follows:

	Valuation Inputs		Total Fair Value at 11/30/15
	Level 1 – Quoted Prices	Level 2 – Other Significant Observable Inputs	
ASSETS:			
INVESTMENTS (Fair Value):			
Domestic Equity Securities*	\$108,989,324	—	\$108,989,324
Foreign Equity Securities*	30,388,121	—	30,388,121
Domestic Preferred Equity Securities*	36,213,874	—	36,213,874
Warrants*	54,008,537	—	54,008,537
Domestic Corporate Bonds*	—	\$ 9,051,600	9,051,600
Commercial Paper*	—	9,999,722	9,999,722
U.S. Government Obligations	—	9,994,720	9,994,720
Money Market Funds	23,722,226	—	23,722,226
Miscellaneous Investments	—	14,680,138	14,680,138
TOTAL INVESTMENTS	<u>\$253,322,082</u>	<u>\$43,726,180</u>	<u>\$297,048,262</u>

* Industry classifications for these categories are detailed in the Schedule of Investments.

The Fund had no transfers between Level 1 and Level 2 during the fiscal year ended November 30, 2015. The Fund’s policy is to recognize transfers among Levels as of the beginning of the reporting period.

There were no Level 3 investments at November 30, 2015, or November 30, 2014.

Warrants: The Fund’s investments in warrants as of November 30, 2015, are presented within the Schedule of Investments.

The Fund’s warrant positions during the year ended November 30, 2015, had an average monthly market value of approximately \$89,690,474.

As of November 30, 2015, the value of warrants with equity risk exposure of \$54,008,537 is included with Investments at Fair Value on the Statement of Assets and Liabilities. For the year ended November 30, 2015, the effect of the net change in unrealized appreciation of warrants with equity risk exposure of \$(36,184,590) is included with the Net Change in Unrealized Appreciation (Depreciation) on Investments and Foreign Currency Related Translations on the Statement of Operations and realized gains from warrants with equity risk exposure of \$29,865,290 is included in Net Realized Gain on Investments and Foreign Currency Related Transactions on the Statement of Operations.

Dividends and Distributions: The Fund records dividends and distributions to shareholders on the ex-dividend date. The Fund intends to distribute substantially all of its net investment income (if any) as dividends to its shareholders on an annual basis in December. The Fund intends to distribute any net long-term capital gains and any net short-term capital gains at least once a year. If the total dividends and distributions made in any tax year exceeds net investment income and accumulated realized capital gains, a portion of the total distribution may be treated as a tax return of capital.

Foreign Currency Translation: The books and records of the Fund are maintained in U.S. dollars. Foreign currency amounts are translated into U.S. dollars on the following basis: (i) fair value of investment securities, assets, and liabilities at the

THE FAIRHOLME ALLOCATION FUND

NOTES TO FINANCIAL STATEMENTS (continued)
November 30, 2015

current rate of exchange; and (ii) purchases and sales of investment securities, income, and expenses at the relevant rates of exchange prevailing on the respective dates of such transactions. The Fund does not isolate that portion of gains and losses on investment securities which is due to changes in the foreign exchange rates from that which is due to changes in the market prices of such securities.

Estimates: The preparation of financial statements in conformity with U.S. GAAP requires the Fund to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of both contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

Redemption Fee: The Fund assesses a 2% fee on the proceeds of the Fund shares that are redeemed within 60 days of their purchase. The redemption fee is paid to the Fund, as applicable, for the benefit of remaining shareholders and is recorded as paid-in capital. The redemption fees retained by the Fund during the fiscal years ended November 30, 2015 and November 30, 2014, amounted to \$1,177 and \$1,983, respectively.

Other: The Fund accounts for security transactions on the trade date for financial statement purposes. The specific identification method is used for determining gains or losses for financial statements and income tax purposes. Dividend income is recorded on the ex-dividend date net of foreign taxes withheld where recovery is uncertain and interest income is recorded on an accrual basis. Discounts and premiums on securities purchased are amortized over the life of the respective securities using the effective yield method. Securities denominated in currencies other than U.S. dollars are subject to changes in value due to fluctuation in exchange rates. The Fund may invest in countries that require governmental approval for the repatriation of investment income, capital, or the proceeds of sales of securities by foreign investors. In addition, if there is deterioration in a country's balance of payments or for other reasons, a country may impose temporary restrictions on foreign capital remittances abroad.

The Fund paid commissions, other brokerage fees, and registration fees during the period.

Note 3. Related Party Transactions

The Manager is a Delaware limited liability company and is registered with the Securities and Exchange Commission as an investment adviser. The Manager's principal business and occupation is to provide investment management and advisory services to individuals, corporations, and other institutions throughout the world. Pursuant to an Investment Management Agreement, the Fund pays a management fee to the Manager for its provision of investment advisory and operating services to the Fund. Subject to applicable waivers or limitations, the management fee is paid at an annual rate equal to 1.00% of the daily average net assets of the Fund. The Manager is responsible pursuant to the Investment Management Agreement for paying the Fund's expenses for the following services: transfer agency, fund accounting, fund administration, custody, legal, audit, compliance, directors' fees, call center, fulfillment, travel, insurance, rent, printing, postage, and other office supplies. The Manager is not responsible for paying for the following costs and expenses of the Fund: commissions, brokerage fees, issue and transfer taxes, and other costs chargeable to the Fund in connection with securities transactions or in connection with securities owned by the Fund, taxes, interest, acquired fund fees and related expenses, expenses in connection with litigation by or against the Fund, and any other extraordinary expenses.

Effective March 29, 2012, the Manager's contractual management fee waiver/expense reimbursement for the Fund expired. Prior to March 29, 2012, the Manager had contractually agreed to waive a portion of its management fee and/or limit the Fund's operating expenses (excluding taxes, interest, brokerage commissions, acquired fund fees and expenses, expenses incurred in connections with any merger or reorganization and extraordinary expenses such as litigation) so that the Fund's operating expenses, after such waiver or limitation payment, would not exceed an annual rate of 0.75% of the Fund's daily average net assets for the period December 29, 2010 to March 29, 2012. The Manager may be reimbursed for fee waivers and/or expense limitation payments made in any fiscal year of the Fund over the following three fiscal years. Any such reimbursement is subject to the Board's review and approval. A reimbursement may be requested by the Manager if the

THE FAIRHOLME ALLOCATION FUND

NOTES TO FINANCIAL STATEMENTS (continued)
November 30, 2015

aggregate amount paid by the Fund for operating expenses for such fiscal year, taking into account any reimbursement, does not exceed the fee waiver/expense limitation in place at the time of the initial waiver or reimbursement of the amount by the Manager. On November 30, 2015, reimbursements subject to recoupment by the manager in the amount of \$225,673 expired.

The Manager earned \$3,443,638 from the Fund for its services during the year ended November 30, 2015.

Bruce Berkowitz, both the Chief Investment Officer of the Manager and Chairman of the Fund's Board, continues to have a significant personal stake in the Fund, holding an aggregate 9,157,652 shares at November 30, 2015.

A Director and Officers of the Fund are also Officers of the Manager or its affiliates.

Note 4. Investments

For the year ended November 30, 2015, aggregated purchases and sales of investment securities other than short-term investments and U.S. government obligations were as follows:

<u>Purchases</u>	<u>Sales</u>
\$128,072,794	\$105,341,693

Note 5. Tax Matters

Federal Income Taxes: The Fund intends to qualify each year as a "Regulated Investment Company" under Subchapter M of the Internal Revenue Code of 1986, as amended. By so qualifying, the Fund will not be subject to federal income taxes to the extent that it distributes all of its net investment income and any realized capital gains.

For U.S. federal income tax purposes, the cost of securities owned, gross unrealized appreciation, gross unrealized depreciation, and net unrealized appreciation of investments at November 30, 2015, were as follows:

<u>Cost</u>	<u>Gross Unrealized Appreciation</u>	<u>Gross Unrealized Depreciation</u>	<u>Net Unrealized Depreciation</u>
\$323,371,031	\$34,042,594	\$(60,365,363)	\$(26,322,769)

The differences between book basis and tax basis net unrealized appreciation is attributable to the tax deferral of losses on wash sales and capitalized cost.

The Fund's tax basis capital gains are determined at the end of each fiscal year. As of November 30, 2015, the components of distributable earnings on a tax basis were as follows:

Undistributed Ordinary Income*	\$ 14,232,224
Undistributed Long-term Capital Gains	30,405,772
Net Unrealized Depreciation on Investments and Foreign Currency Related Transactions	<u>(26,322,769)</u>
Total	<u>\$ 18,315,227</u>

* Inclusive of short-term capital gain

The Fund is permitted to carry capital losses forward for an unlimited period. Capital losses that are carried forward will retain their character as either short term or long term capital losses.

The Manager has analyzed the Fund's tax positions taken on tax returns for all open tax years (current and prior three tax years) and has concluded that there are no uncertain tax positions that require recognition of a tax liability. The Fund's federal and state income and federal excise tax returns for tax years for which the applicable statutes of limitations have not expired (the current year and prior three years) are subject to examination by the Internal Revenue Service and state departments of

THE FAIRHOLME ALLOCATION FUND

NOTES TO FINANCIAL STATEMENTS (continued)
November 30, 2015

revenue. Additionally, the Fund is not aware of any tax position for which it is reasonably possible that the total amounts of unrecognized tax benefits will change materially in the next twelve months.

Note 6. Dividends and Distributions to Shareholders

Ordinary income and capital gain distributions are determined in accordance with federal income tax regulations, which may differ from U.S. GAAP.

The tax character of dividends and distributions paid by the Fund were as follows:

	<u>For the Fiscal Year Ended November 30, 2015</u>	<u>For the Fiscal Year Ended November 30, 2014</u>
Dividends and Distributions paid from:		
Long-term Capital Gain	<u>\$34,099,921</u>	<u>\$—</u>

The Fund declared and made payable the following distribution on December 11, 2015.

Dividends and Distributions paid from:	
Ordinary Income	\$ 8,437,431
Long-Term Capital Gain	30,405,997
Short-Term Capital Gain	<u>6,002,540</u>
	\$44,845,968

Note 7. Indemnifications

Under the Company's organizational documents, its Officers and Directors are indemnified against certain liabilities arising out of the performance of their duties to the Fund. In the normal course of business the Company or the Fund enters into contracts that contain a variety of representations and customary indemnifications. The Fund's maximum exposure under these arrangements is unknown as this would involve future claims that may be made against the Fund that have not yet occurred. However, based on its experience to date, the Fund expects the risk of loss to be remote.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors of Fairholme Funds, Inc. and
the shareholders of The Fairholme Allocation Fund:

We have audited the accompanying statement of assets and liabilities, including the schedule of investments, of The Fairholme Allocation Fund (the "Fund"), as of November 30, 2015, and the related statement of operations for the year then ended, the statements of changes in net assets for each of the two years in the period then ended, and the financial highlights for each of the periods presented. These financial statements and financial highlights are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. The Fund is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. Our procedures included confirmation of securities owned as of November 30, 2015, by correspondence with the custodian. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of The Fairholme Allocation Fund as of November 30, 2015, the results of its operations for the year then ended, the changes in its net assets for each of the two years in the period then ended, and the financial highlights for each of the periods presented, in conformity with accounting principles generally accepted in the United States of America.

DELOITTE & TOUCHE LLP

Philadelphia, Pennsylvania
January 28, 2016

THE FAIRHOLME ALLOCATION FUND

ADDITIONAL INFORMATION

November 30, 2015

Board of Directors (unaudited)

The Board of Directors has overall responsibility for conduct of the Company's affairs. The day-to-day operations of the Fund are managed by the Manager, subject to the By-Laws of the Company and review by the Company's Board. The Directors and Officers of the Company, including those Directors who are also officers, are listed below.

Name, Age & Address†	Position(s) Held, Term of Office & Length of Time Served**	Principal Occupation(s) During Past 5 Years§	Number of Portfolios in Fund Complex Overseen by Director	Other Current Directorships Held by Director
Interested Directors and Officers				
Bruce R. Berkowitz* Age 57	Mr. Berkowitz has served as a Director of the Company since December 15, 1999.	Manager, Fairholme Holdings LLC since January 2015 and Chief Investment Officer, Fairholme Capital Management, L.L.C. since October 1997; Managing Member, Fairholme Capital Management, L.L.C. from October 1997 to December 2014.	3	Director and Chairman of the Board of Directors, The St. Joe Co.
Cesar L. Alvarez, Esq.* Age 68	Mr. Alvarez has served as a Director of the Company since May 19, 2008.	Senior Chairman effective January 1, 2016; Executive Chairman and Co-Chairman from 2010 to 2015; and Chief Executive Officer from 1997 to 2010 of Greenberg Traurig, LLP.	3	Chairman, Board of Directors, Mednax, Inc.; Director, Intrexon Corp., Sears Holdings Corp., and The St. Joe Co.
Independent Directors^				
Terry L. Baxter Age 70	Mr. Baxter has served as a Director of the Company since May 19, 2008.	Chairman of the Board, CEO, Source One (retired); President of White Mountain Holdings (retired).	3	Director, Main Street America Group
Howard S. Frank Age 74	Mr. Frank has served as a Director of the Company since May 7, 2007.	Chairman of the Board of Costa Crociere S.p.A. since 2014; Special Advisor to the CEO and to the Chairman of Carnival Corporation & plc. since 2013; Vice Chairman, Chief Operating Officer and Director, Carnival Corporation & plc. 1989 to 2013	3	Director, New World Symphony; Director, The St. Joe Co.
Steven J. Gilbert Age 68	Mr. Gilbert has served as a Director of the Company since June 16, 2014	Chairman, Gilbert Global Equity Partners, L.P. since 1998; Vice Chairman, MidOcean Equity Partners, L.P. since 2005; Co-Chairman, Birch Grove Capital since 2013; Senior Managing Director and Chairman, Sun Group (USA) from 2007 to 2009.	3	Chairman, CPM Holdings, Inc.; Director, MBIA, Inc.; Lead Independent Director, Empire State Realty Trust; Lead Independent Director, TRI Pointe Homes, Inc.; Director, Waterpik, Inc., and Director, Trade Informatics, Inc.
Avivith Oppenheim, Esq. Age 65	Ms. Oppenheim has served as a Director of the Company since December 15, 1999.	Attorney-at-Law.	3	None.
Leigh Walters, Esq. Age 69	Mr. Walters has served as a Director of the Company since December 15, 1999.	Vice-President and Director, Valcor Engineering Corporation. Attorney-at-Law.	3	Director, Valcor Engineering Corporation

† Unless otherwise indicated, the address of each Director of the Company is c/o Fairholme Capital Management, L.L.C., 4400 Biscayne Blvd., 9th Floor, Miami, FL 33137.

^ Directors who are not "interested persons" of the Company as defined under the 1940 Act.

* Mr. Berkowitz and Mr. Alvarez are each an interested person, as defined in the 1940 Act, of the Company because of their affiliation with the Manager.

** Each Director serves for an indefinite term. Each officer serves for an annual term and until his or her successor is elected and qualified.

§ The information reported includes the principal occupation during the last five years for each Director and other information relating to the professional experiences, attributes and skills relevant to each Director's qualifications to serve as Director.

THE FAIRHOLME ALLOCATION FUND

ADDITIONAL INFORMATION (continued)
November 30, 2015

Officers (unaudited)

Name, Age & Address†	Position(s) Held with the Company	Term of Office & Length of Time Served*	Principal Occupation(s) During Past 5 Years
Fernando Font Age 41	Vice President	Mr. Font has served as Vice President of the Company since June 2015.	Chief Administrative Officer of Fairholme Capital Management, L.L.C. since August 2009.
Wayne Kellner Age 46	Treasurer	Mr. Kellner has served as Treasurer of the Company since March 2012.	Chief Operating Officer, Fairholme Capital Management, L.L.C. since June 2014; Chief Financial Officer, Fairholme Capital Management, L.L.C. since January 2012; Treasurer, Fairholme Capital Management, L.L.C. from January 2011 to December 2011; Tax Principal, Rothstein Kass from 2006 to 2010.
Paul R. Thomson Age 59	Chief Compliance Officer and Secretary	Mr. Thomson has served as Chief Compliance Officer of the Company since April 2010 and has served as Secretary of the Company since June 2011. Mr. Thomson previously served as Chief Compliance Officer from November 2008 to January 2009.	Chief Compliance Officer, Fairholme Capital Management L.L.C. since April 2010; Chief Financial Officer, Fairholme Capital Management L.L.C. from January 2008 to January 2012.

† Unless otherwise indicated, the address of each Officer of the Company is c/o Fairholme Capital Management, L.L.C., 4400 Biscayne Blvd., 9th Floor, Miami, FL 33137.

* Each officer serves for an annual term and until his or her successor is elected and qualified.

Approval of Investment Management Agreement (unaudited)

At its meeting on October 22, 2015, the Board of Directors (the “Board” or the “Directors”) of Fairholme Funds, Inc. (the “Company”) approved the renewal of the investment management agreement between the Company, on behalf of The Fairholme Allocation Fund (the “Fund”), and Fairholme Capital Management, L.L.C. (the “Manager”). In considering whether to approve the renewal of the agreement, the Directors considered the factors discussed below, and information made available to them at the meeting relating to such factors, and other information they deemed relevant. The renewal of the agreement was not, however, based on any single factor, but on an evaluation of the totality of factors and information reviewed and evaluated by the Directors.

A. Nature, Extent and Quality of Services

The Directors considered information provided to them concerning the services performed by the Manager for the Fund pursuant to the agreement. The Directors reviewed information concerning the nature, extent and quality of investment advisory and operational services provided, or overseen, by the Manager. The Directors reviewed information concerning the personnel responsible for the day-to-day portfolio and administrative management of the Fund, the overall reputation of the Manager and the Manager’s current and planned staffing levels. The Directors considered the Manager’s commitment to the Fund as evidenced, among other things, by the current share ownership of the Fund by management/owners/employees of the Manager. The Directors considered information describing the Manager’s compliance policies and procedures, including recent updates to those policies and information concerning the policies designed to address the Fund’s compliance with its investment objective, policies and restrictions and applicable regulatory requirements and to address the Manager’s conflicts of interest in providing services to the Fund and to other advisory clients.

The Directors did not compare services provided by the Manager to the Fund with the services provided by Manager to its other advisory accounts because such accounts are not subject to the same regulatory requirements as the Fund, may have different investment restrictions, holdings and goals than the Fund and require different levels of client and back-office servicing than the Fund.

The Directors concluded that the nature, extent and quality of services provided by the Manager to the Fund were appropriate and sufficient to support renewal of the agreement.

B. Investment Performance

The Directors considered information regarding the Fund’s performance, the Manager’s views on performance and the holdings of the Fund that contributed negatively and positively to the Fund’s performance. The Directors considered information about the investment performance of the Fund, including information reflecting that the performance of the Fund had trailed the performance of the Barclays Capital US Aggregate Bond Index by approximately 13.17 percentage points for the 1-year period ended August 31, 2015, but the Fund’s performance had exceeded the annualized performance of the Barclays Capital US Aggregate Bond Index by approximately 7.26 and 1.46 percentage points, for the 3-years and since inception periods ended August 31, 2015. The Directors also considered information that the Fund’s annualized performance lagged the annualized performance of its second benchmark index, the S&P 500 Index, by 12.1, 5.52 and 7.56 percentage points in the 1-year, 3-year and since its inception periods to August 31, 2015. The Directors also reviewed and considered a third-party report (from Lipper/Broadridge, “Lipper”), comparing the Fund’s annualized performance and the annualized performance of similarly situated mutual funds, which reflected that in the 1-year, 3-year and since inception periods ended August 31, 2015 the Fund’s annualized performance trailed, exceeded and trailed the average and median annualized performance of the peer group, by 7.51 and 8.60, 1.98 and 1.26, and 0.51 and 0.27 percentage points, respectively. The Directors considered information provided to them concerning the performance of the Fund in light of market events and other factors affecting the Fund’s performance and information about developments with respect to specific issuers of securities held in the Fund’s portfolio. They also considered other information about the Fund’s total returns and focused investment strategies.

C. Management Fee and Expense Ratio

The Directors considered information about the Fund's management fee and expense ratio, including information in the Lipper report comparing the Fund's management fee and the most recent Total Expense ratio to the advisory fees and expense ratios of other similarly situated mutual funds. The Directors noted for the Fund that the Management Fee was reasonable when compared to the median of the peer groups' Advisory Fees when consideration was given to the Fund operating and other expenses that the Manager pays on behalf of the Fund. The Directors noted that, for the Fund, the total expense ratio for its latest full fiscal year was lower than the median expense ratio of the most recently completed fiscal year of its peer group funds included in the Lipper report.

In evaluating the management fee and expense ratio information, the Directors took into account the demands and complexity of portfolio management for the Fund in light of its investment objective, strategies, and asset size. The Directors also considered information regarding the Manager's payment (in some cases from its resources) of certain expenses for the benefit of the Fund, including shareholder account-level expenses associated with certain omnibus accounts. The Directors also reviewed information concerning the fees paid to the Manager by its other advisory accounts.

After reviewing information presented to them concerning fees, expenses, performance and other matters, the Directors concluded that the Fund's management fee and overall expense ratio were reasonable in light of the services provided by or through the Manager.

D. Profitability

The Directors considered information regarding the estimated profitability of the Fund to the Manager. They considered such profitability in light of the Fund's assets under management, overall expense ratio, performance and the services provided by or through the Manager, and concluded that the Manager's estimated profitability was not such as to prevent Directors from approving the renewal of the agreement.

E. Economies of Scale

The Directors considered information concerning economies of scale for the Fund, including the current assets of the Fund. The Directors concluded for the Fund that no modification to the Fund's existing arrangements was warranted based on economies of scale.

Proxy Voting Policies, Procedures and Records (unaudited)

The Company has adopted policies and procedures that provide guidance and set forth parameters for the voting of proxies relating to securities held in the Fund's portfolio. A description of these policies and procedures, and records of how the Fund voted proxies relating to their portfolio securities during the most recent twelve month period ended June 30, 2014, are available to you upon request and free of charge by writing to the Fairholme Funds, Inc., c/o BNY Mellon Investment Servicing (US) Inc., P.O. Box 9692, Providence, RI, 02940 or by calling Shareholder Services at 1-866-202-2263 or visiting our website at www.fairholmefunds.com. They may also be obtained by visiting the Securities and Exchange Commission ("SEC") website at www.sec.gov. The Company shall respond to all shareholder requests for records within three business days of its receipt of such request by first-class mail or other means designed to ensure prompt delivery.

THE FAIRHOLME ALLOCATION FUND

ADDITIONAL INFORMATION (continued)
November 30, 2015

N-Q Filing (unaudited)

The Company files a complete schedule of the Fund's portfolio holdings on Form N-Q for the fiscal quarters ending February 28 (February 29 during leap year) and August 31. The Form N-Q filing must be made within 60 days of the end of the quarter. The Forms N-Q relating to the Fund's portfolio investments are available on the SEC's website at www.sec.gov, or may be reviewed and copied at the SEC's Public Reference Room in Washington, DC (call 1-800-732-0330 for information on the operation of the Public Reference Room).

Shareholder Tax Information (unaudited)

The Fund reported \$34,099,921 of long-term capital gain distributions paid during the fiscal year ended November 30, 2015.

FAIRHOLME FUNDS

Officers of Fairholme Funds, Inc.

BRUCE R. BERKOWITZ
President

FERNANDO M. FONT
Vice President

WAYNE KELLNER
Treasurer

PAUL R. THOMSON
Chief Compliance Officer & Secretary

Board of Directors of Fairholme Funds, Inc.

CESAR L. ALVAREZ, *Esq.*

TERRY L. BAXTER

BRUCE R. BERKOWITZ

HOWARD S. FRANK

STEVEN J. GILBERT, *Esq.*

AVIVITH OPPENHEIM, *Esq.*

LEIGH WALTERS, *Esq.*

Investment Manager

FAIRHOLME CAPITAL MANAGEMENT, L.L.C.
4400 Biscayne Boulevard, Miami, FL 33137

Transfer Agent, Fund Accountant & Administrator

BNY MELLON INVESTMENT SERVICING (US) INC.
760 Moore Road, King of Prussia, PA 19406

Custodian

THE BANK OF NEW YORK MELLON
One Wall Street, New York, NY 10286

Independent Registered Public Accounting Firm

DELOITTE & TOUCHE LLP
1700 Market Street, Philadelphia, PA 19103

Legal Counsel

SEWARD & KISSEL LLP
901 K Street NW, Washington, DC 20001

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