

FOCIX 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 Focused Income Fund (December 31, 2009) to December 31, 2015. Unless otherwise specified, all holdings information is shown as of December 31, 2015. Past performance information quoted below does not guarantee future results. The investment return and principal value of an investment in The Fairholme Focused Income Fund will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the performance information quoted below. Performance figures assume reinvestment of dividends and capital gains. Most recent month-end performance and answers to any questions you may have can be obtained by calling Shareholder Services at 1.866.202.2263. The Fairholme Focused Income Fund maintains a focused portfolio of investments in a limited number of issuers and does not seek to diversify its investments. This exposes The Fairholme Focused Income Fund to the risk of unanticipated industry conditions and risks particular to a single company or the securities of a single company. The Fairholme Focused Income Fund's performance may differ markedly from the performance of the Barclays Capital U.S. Aggregate Bond Index in either up or down market trends. The Barclays Capital U.S. Aggregate Bond Index is an unmanaged market-weighted index comprised of investment-grade (rated Baa3/BBB-/BBB- or higher) taxable bonds, mortgage-backed securities, asset-backed securities, corporate securities, and government-related securities, including U.S. Treasury and government agency issues, with at least one year to maturity. Because indices cannot be invested in directly, these index returns do not reflect a deduction for fees, expenses, or taxes. The Fairholme Focused Income Fund's expense ratio reflected in its prospectus dated March 27, 2015, is 1.01%, which included acquired fund fees and expenses that were incurred indirectly by The Fairholme Focused Income Fund as a result of investments in securities issued by one or more investment companies.

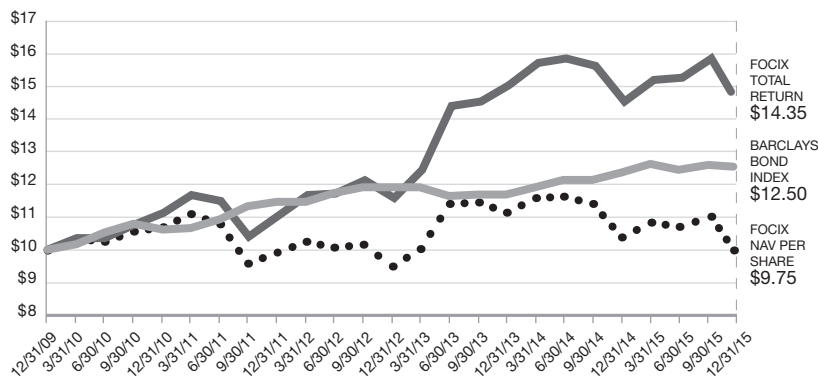
January 28, 2016

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

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

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

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



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

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

— FOCIX Return
 — Barclays
 ●●● FOCIX NAV

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

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

The Fund’s single largest bond position (20.6% of the Fund portfolio) is Imperial Metals Corporation (“Imperial”) senior unsecured notes due 2019 with a yield to maturity of 9.7%. The notes are backed by the world-class Red Chris mine that is expected to produce copper at cash costs of around \$1.20 per pound for decades to come. While primarily known for its huge copper reserve, Red Chris also boasts the seventh largest gold deposit in the world. Imperial posted record production results in 2015: 88.1 million pounds of copper, 44.7 thousand ounces of gold, and 224.5 thousand ounces of silver. We anticipate that Imperial will prudently weather this commodity cycle while preparing for the next upswing.

Debt securities issued by Sears Holdings Corporation (“Sears”) comprise 14.8% of the Fund’s assets. The Fund owns 6.625% senior secured notes due 2018 and 8.00% senior unsecured notes due 2019, with yields to maturity of 11.0% and 12.0%, respectively. Sears’ vast portfolio of real estate and other assets provides, in our view, ample asset coverage for these bonds. During 2015, Sears substantially de-risked its balance sheet by repurchasing \$936 million of debt, and successfully amending and extending its \$3.25 billion credit facility. The company must now accelerate its return to profitability in order to rebuild confidence with customers, creditors, vendors, employees, and other investors. Doing so should enable Sears to optimize the value of all its assets.

Seritage Growth Properties (“Seritage”), a newly formed public real estate investment trust (REIT) that acquired real estate from Sears, comprises 6.0% of Fund assets. Seritage’s real estate portfolio, which includes 235 properties and joint venture interests in 31 additional properties, has the opportunity to recycle existing leases into new leases commanding significantly higher rents. We anticipate that more than half of its 42 million square feet will be redeveloped and re-tenanted, which should ultimately boost cash flow and fuel meaningful dividend growth over time. One can only speculate that Warren Buffett concurs with this assessment given his recent decision to personally acquire shares of Seritage.

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

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

Sooner rather than later, we believe the Net Worth Sweep will be halted and a common sense solution will prevail: Fannie Mae and Freddie Mac will transform into low-risk, public utilities with regulated rates of return, just like your local electric company.

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

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

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

We are pleased to invite shareholders to join us for a public conference call in the near future, during which I will discuss the Fund's investments and address your questions. Details will be made available on www.fairholmefunds.com in the coming weeks, along with additional updated information on our investments.

Respectfully submitted,



Bruce R. Berkowitz
Chief Investment Officer
Fairholme Capital Management

The Portfolio Manager's Report is not part of The Fairholme Focused Income Fund's Annual Report due to forward-looking statements that, by their nature, cannot be attested to, as required by regulation. The Portfolio Manager's Report is based on calendar-year performance and precedes a more formal Management Discussion and Analysis. Opinions of the Portfolio Manager are intended as such, and not as statements of fact requiring attestation.

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

“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 Focused Income Fund (FOCIX)
Seeking current income

Annual Report 2015

Managed by Fairholme Capital Management

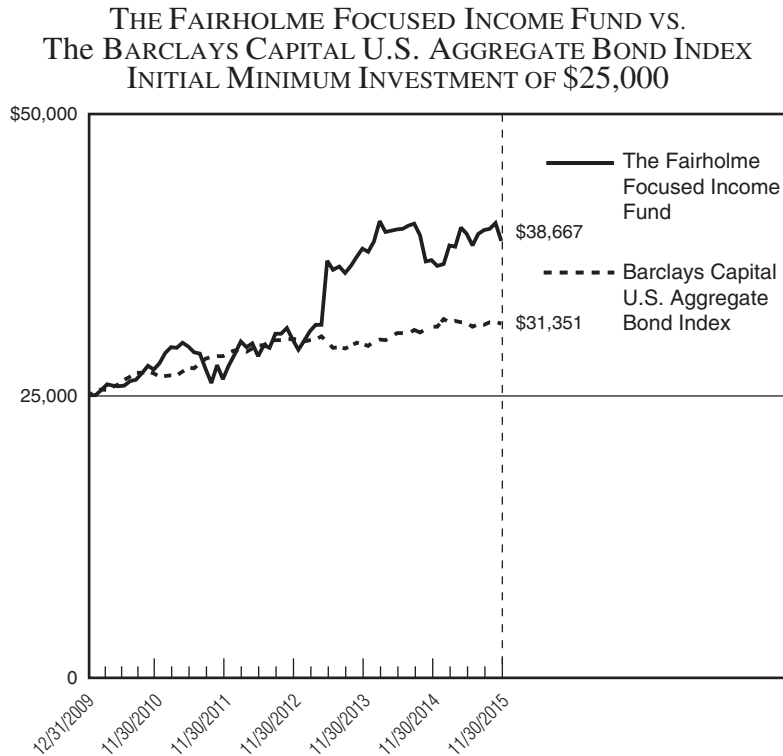
THE FAIRHOLME FOCUSED INCOME FUND

TABLE OF CONTENTS
November 30, 2015

	<u>Page</u>
FUND PERFORMANCE	3
MANAGEMENT DISCUSSION & ANALYSIS	4
EXPENSE EXAMPLE	7
SCHEDULE OF INVESTMENTS	8
STATEMENT OF ASSETS & LIABILITIES	10
STATEMENT OF OPERATIONS	11
STATEMENTS OF CHANGES IN NET ASSETS	12
FINANCIAL HIGHLIGHTS	13
NOTES TO FINANCIAL STATEMENTS	14
REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM	20
ADDITIONAL INFORMATION	21

THE FAIRHOLME FOCUSED INCOME FUND

FUND PERFORMANCE (unaudited)
Inception through November 30, 2015



The Fairholme Focused Income Fund (the “Fund”) commenced operations on December 31, 2009. 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 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 both the Barclays Capital U.S. Aggregate Bond 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 and does not reflect any investment management fees or transaction expenses, nor the effects of taxes, fees, or other charges.

THE FAIRHOLME FOCUSED INCOME FUND

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

The Fairholme Focused Income 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>
22,682,152	\$10.72	\$11.12	\$10.82

At December 31, 2015, the unaudited per share NAV of the Fund was \$9.75. 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>Five Year</u>	<u>Since Inception 12/31/2009</u>
Cumulative:				
Fund	(1.61)%	4.60%	41.83%	54.66%
Barclays Bond Index	(0.12)%	0.98%	16.43%	25.40%
Annualized:				
Fund		4.60%	7.24%	7.65%
Barclays Bond Index		0.98%	3.09%	3.90%

For the six months ended November 30, 2015, the Fund was outperformed by the Barclays Capital U.S. Aggregate Bond Index (“Barclays Bond Index”) by 1.49 percentage points while over the last year the Fund outperformed the Barclays Bond Index by 3.62 percentage points. From inception, the Fund outperformed the Barclays Bond Index by 3.75 percentage points per annum, or on a cumulative basis, 29.26 percentage points over five years and eleven months.

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 Barclays Bond Index is an unmanaged index incurring no fees, expenses, or tax effects and is shown solely to compare Fund performance to that of an unmanaged and diversified index.

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 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

THE FAIRHOLME FOCUSED INCOME FUND

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

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 24.49% 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 Sears Holdings Corp., Imperial Metals Corp., and Federal National Mortgage Association. The biggest contributors to negative performance were investments in Chesapeake Energy Corp. and Atwood Oceanics, Inc. The following charts show the top holdings by issuer and sector in descending order of net assets as of November 30, 2015.

The Fairholme Focused Income Fund Top Holdings by Issuer* (% of Net Assets)		The Fairholme Focused Income Fund Top Sectors (% of Net Assets)	
Imperial Metals Corp.	18.4%	Cash and Cash Equivalents**	24.5%
Sears Holdings Corp.	14.7%	Metals & Mining	18.4%
Federal National Mortgage Association	5.4%	Retail Department Stores	14.7%
Chesapeake Energy Corp.	5.2%	Mortgage Finance	10.3%
Federal Home Loan Mortgage Corp.	4.9%	Oil & Natural Gas Exploration	9.6%
Seritage Growth Properties	4.8%	Real Estate Investment Trusts	4.8%
Atwood Oceanics, Inc.	4.4%	Consumer Finance	4.0%
Ally Financial, Inc.	4.0%	Aerospace & Defense	3.9%
Bombardier, Inc.	3.9%	Real Estate Management & Development	3.8%
Homefed Corp.	3.8%	Pharmaceuticals	2.8%
	<u>69.5%</u>		<u>96.8%</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 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

THE FAIRHOLME FOCUSED INCOME FUND

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

an aggregate 1,440,894 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 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 FOCUSED INCOME 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 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	\$ 983.90	1.00%	\$4.97
Hypothetical (5% return before expenses)	\$1,000.00	\$1,020.05	1.00%	\$5.06

* 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 FOCUSED INCOME FUND

SCHEDULE OF INVESTMENTS
November 30, 2015

Shares		Value	Principal		Value
DOMESTIC EQUITY SECURITIES — 4.8%			DOMESTIC CORPORATE BONDS — 34.2%		
REAL ESTATE INVESTMENT TRUSTS — 4.8%			AEROSPACE & DEFENSE — 3.9%		
318,600	Seritage Growth Properties ^(a)	\$ 11,628,900		Bombardier, Inc.	
TOTAL DOMESTIC EQUITY SECURITIES (COST \$11,995,198)			\$ 6,557,000	7.500%, 03/15/2018 ^(b)	\$ 6,557,000
		11,628,900	3,000,000	5.500%, 09/15/2018 ^(b)	2,835,000
					9,392,000
DOMESTIC PREFERRED EQUITY SECURITIES — 14.9%			CONSUMER FINANCE — 2.1%		
CONSUMER FINANCE — 1.9%			5,000,000	Ally Financial, Inc.	
4,604	Ally Financial, Inc. 7.000%, Series G ^(b)	4,629,967		3.500%, 07/18/2016	5,024,500
MORTGAGE FINANCE — 10.3%			14,155,000	OIL & NATURAL GAS EXPLORATION — 8.8%	
	Federal Home Loan Mortgage Corp.			Atwood Oceanics, Inc.	
1,200,000	7.875%, Series Z ^{(a)(c)}	5,208,000		6.500%, 02/01/2020	10,687,025
1,029,724	6.550%, Series Y ^(a)	3,707,006		Chesapeake Energy Corp.	
396,000	5.100%, Series H ^(a)	2,376,000	10,850,000	7.250%, 12/15/2018	6,483,960
98,355	6.000%, Series P ^(a)	663,896	8,856,000	6.625%, 08/15/2020	4,162,320
	Federal National Mortgage Association				21,333,305
1,167,500	7.000%, Series O ^{(a)(c)}	8,767,925		PHARMACEUTICALS — 2.8%	
520,000	7.750%, Series S ^{(a)(c)}	2,262,000		7,000,000	Valeant Pharmaceuticals International, Inc.
500,000	6.750%, Series Q ^(a)	2,155,000			6.750%, 08/15/2018 ^(b)
		25,139,827			6,855,800
			9,230,000	REAL ESTATE MANAGEMENT & DEVELOPMENT — 3.8%	
OIL & NATURAL GAS EXPLORATION — 0.8%				Homefed Corp.	
	Chesapeake Energy Corp.			6.500%, 06/30/2018 ^(b)	9,230,923
47,200	5.000%	1,699,200		RETAIL DEPARTMENT STORES — 12.8%	
600	5.750% ^(b)	142,404		Sears Holdings Corp.	
100	5.750% ^(b)	24,927	8,093,000	6.625%, 10/15/2018	7,924,666
		1,866,531	23,738,500	8.000%, 12/15/2019	23,164,028
RETAIL DEPARTMENT STORES — 1.9%				Sears Roebuck Acceptance Corp.	
	Sears Roebuck Acceptance Corp.			7.500%, 10/15/2027	68,495
178,106	7.000%	2,504,170		6.750%, 01/15/2028	7,837
149,931	7.400%	2,109,529		40,000	27,816
		4,613,699		50,000	35,960
					31,228,802
TOTAL DOMESTIC PREFERRED EQUITY SECURITIES (COST \$40,443,518)			TOTAL DOMESTIC CORPORATE BONDS (COST \$87,057,971)		
		36,250,024			83,065,330

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

THE FAIRHOLME FOCUSED INCOME FUND

SCHEDULE OF INVESTMENTS (continued)
November 30, 2015

<u>Principal</u>	<u>Value</u>	<u>Principal</u>	<u>Value</u>
FOREIGN CORPORATE BONDS — 18.4%		U.S. GOVERNMENT OBLIGATIONS — 4.1%	
CANADA — 18.4%		\$10,000,000	U.S. Treasury Bills 0.099%, 03/17/2016 ^(d)
METALS & MINING — 18.4%			<u>\$ 9,994,720</u>
	Imperial Metals Corp.	TOTAL U.S. GOVERNMENT OBLIGATIONS	
\$47,700,000	7.000%, 03/15/2019 ^(b)		<u>9,994,720</u>
TOTAL FOREIGN CORPORATE BONDS			
	(COST \$44,857,840)	Shares	
	<u>44,780,760</u>	MONEY MARKET FUNDS — 6.8%	
COMMERCIAL PAPER — 13.6%		16,573,023	Fidelity Institutional Money Market Funds - Money Market Portfolio, 0.160% ^(e)
ALUMINUM — 4.5%			<u>16,573,023</u>
	Alcoa, Inc.	TOTAL MONEY MARKET FUNDS	
6,000,000	0.530%, 12/02/2015 ^(d)		<u>16,573,023</u>
5,000,000	0.550%, 12/07/2015 ^(d)		(COST \$16,573,023)
	<u>10,999,413</u>		<u>16,573,023</u>
AUTOMOTIVE RETAIL — 2.1%		MISCELLANEOUS INVESTMENTS — 1.9% ^(f)	
	AutoNation, Inc.		(COST \$4,404,504)
5,000,000	0.700%, 12/04/2015 ^(d)		<u>4,620,000</u>
MULTIMEDIA — 2.9%		TOTAL INVESTMENTS — 98.7%	
	Viacom, Inc.		(COST \$248,327,978)
7,000,000	0.500%, 12/02/2015 ^(d)		239,911,545
	<u>6,999,903</u>	OTHER ASSETS IN EXCESS OF LIABILITIES — 1.3%	
OIL & NATURAL GAS EXPLORATION — 4.1%			<u>3,160,504</u>
	Canadian Natural Resources Ltd.	NET ASSETS — 100.0%	
10,000,000	0.400%, 12/04/2015 ^(d)		<u>\$ 243,072,049</u>
TOTAL COMMERCIAL PAPER			
	(COST \$32,998,748)		
	<u>32,998,788</u>		

^(a) Non-income producing security.

^(b) Restricted security as defined in Rule 144A/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 \$75,056,781, which represents 30.88% of the Fund's net assets.

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

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

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

^(f) 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 FOCUSED INCOME FUND

STATEMENT OF ASSETS & LIABILITIES
November 30, 2015

Assets

Investments, at Fair Value (Cost — \$248,327,978)	\$239,911,545
Interest Receivable	3,289,469
Receivable for Capital Shares Sold	75,511
Total Assets	<u>243,276,525</u>

Liabilities

Accrued Management Fees	203,131
Payable for Capital Shares Redeemed	1,345
Total Liabilities	<u>204,476</u>

NET ASSETS \$243,072,049

Net Assets Consist of:

Paid-In Capital	\$247,980,756
Undistributed Net Investment Income	1,963,043
Accumulated Net Realized Gain on Investments and Foreign Currency Related Transactions	1,544,683
Net Unrealized Depreciation on Investments and Foreign Currency Related Translations	<u>(8,416,433)</u>

NET ASSETS \$243,072,049

Shares of Common Stock Outstanding* (\$0.0001 par value)	<u>22,682,152</u>
Net Asset Value, Offering and Redemption Price Per Share (\$243,072,049 / 22,682,152 shares)	<u>\$ 10.72</u>

* 200,000,000 shares authorized in total.

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

THE FAIRHOLME FOCUSED INCOME FUND

STATEMENT OF OPERATIONS

	For the Fiscal Year Ended November 30, 2015
Investment Income	
Interest	\$10,426,845
Dividends	<u>913,360</u>
Total Investment Income	<u>11,340,205</u>
Expenses	
Management Fees	<u>2,205,527</u>
Total Expenses	<u>2,205,527</u>
Net Investment Income	<u>9,134,678</u>
Realized and Unrealized Gain (Loss) on Investments and Foreign Currency Related Transactions	
Net Realized Gain on Investments and Foreign Currency Related Transactions	1,695,482
Net Change in Unrealized Appreciation (Depreciation) on Investments and Foreign Currency Related Translations	<u>(2,766,651)</u>
Net Realized and Unrealized Gain (Loss) on Investments and Foreign Currency Related Transactions	<u>(1,071,169)</u>
NET INCREASE IN NET ASSETS FROM OPERATIONS	<u><u>\$ 8,063,509</u></u>

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

THE FAIRHOLME FOCUSED INCOME 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	\$ 9,134,678	\$ 4,603,794
Net Realized Gain on Investments and Foreign Currency Related Transactions	1,695,482	2,795,505
Net Change in Unrealized (Depreciation) on Investments and Foreign Currency Related Translations	<u>(2,766,651)</u>	<u>(13,798,701)</u>
Net Increase (Decrease) in Net Assets from Operations	<u>8,063,509</u>	<u>(6,399,402)</u>
From Dividends and Distributions to Shareholders		
Net Investment Income	(8,626,519)	(3,837,576)
Net Realized Capital Gains from Investment Transactions	<u>(2,939,655)</u>	<u>(13,876,149)</u>
Net Decrease in Net Assets from Dividends and Distributions	<u>(11,566,174)</u>	<u>(17,713,725)</u>
From Capital Share Transactions		
Proceeds from Sale of Shares	69,260,014	30,025,869
Shares Issued in Reinvestment of Dividends and Distributions	9,261,109	14,885,867
Cost of Shares Redeemed	<u>(47,993,070)</u>	<u>(51,739,852)</u>
Net Increase (Decrease) in Net Assets from Shareholder Activity	<u>30,528,053</u>	<u>(6,828,116)</u>
NET ASSETS		
Net Increase (Decrease) in Net Assets	27,025,388	(30,941,243)
Net Assets at Beginning of Year	<u>216,046,661</u>	<u>246,987,904</u>
Net Assets at End of Year	<u>\$243,072,049</u>	<u>\$216,046,661</u>
Undistributed Net Investment Income at End of Year	<u>\$ 1,963,043</u>	<u>\$ 1,421,920</u>
SHARES TRANSACTIONS		
Issued	6,273,697	2,609,016
Reinvested	867,545	1,322,790
Redeemed	<u>(4,431,080)</u>	<u>(4,568,532)</u>
Net Increase (Decrease) in Shares	2,710,162	(636,726)
Shares Outstanding at Beginning of Year	<u>19,971,990</u>	<u>20,608,716</u>
Shares Outstanding at End of Year	<u>22,682,152</u>	<u>19,971,990</u>

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

THE FAIRHOLME FOCUSED INCOME 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 Fiscal Year Ended November 30, 2011
PER SHARE OPERATING PERFORMANCE					
NET ASSET VALUE, BEGINNING OF YEAR	\$10.82	\$11.98	\$10.02	\$9.71	\$10.70
Investment Operations					
Net Investment Income ⁽¹⁾	0.45	0.22	0.46	0.97	0.64
Net Realized and Unrealized Gain (Loss) on Investments	0.03	(0.51)	2.12	0.31	(0.95)
Total from Investment Operations	0.48	(0.29)	2.58	1.28	(0.31)
Dividends and Distributions					
From Net Investment Income	(0.43)	(0.19)	(0.62)	(0.97)	(0.64)
From Realized Capital Gains	(0.15)	(0.68)	—	—	(0.04)
Total Dividends and Distributions	(0.58)	(0.87)	(0.62)	(0.97)	(0.68)
NET ASSET VALUE, END OF YEAR	\$10.72	\$10.82	\$11.98	\$10.02	\$9.71
TOTAL RETURN	4.60%	(2.67)%	26.91%	13.45%	(3.24)%
Ratio/Supplemental Data					
Net Assets, End of Year (in 000's)	\$243,072	\$216,047	\$246,988	\$257,430	\$299,224
Ratio of Expenses to Average Net Assets:					
Before Expenses Waived	1.00%	1.00%	1.00%	1.00%	1.00%
After Expenses Waived	1.00% ⁽²⁾	1.00% ⁽²⁾	1.00% ⁽²⁾	0.91% ⁽²⁾	0.67%
Ratio of Net Investment Income to Average Net Assets	4.14%	1.94%	4.28%	9.53%	5.96%
Portfolio Turnover Rate	67.05%	38.86%	42.87%	8.27%	91.67%

⁽¹⁾ Based on average shares outstanding.

⁽²⁾ 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.

THE FAIRHOLME FOCUSED INCOME FUND

NOTES TO FINANCIAL STATEMENTS

November 30, 2015

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 Focused Income 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 current income. Under normal circumstances, the Fund seeks to achieve its investment objective by investing in a focused portfolio of cash distributing securities. To maintain maximum flexibility, the securities in which the Fund may invest include corporate bonds and other corporate debt securities of issuers in the U.S. and foreign countries, bank debt (including bank loans and loan participations), government and agency debt securities of the U.S. and foreign countries (including U.S. Treasury bills), convertible bonds and other convertible securities, and equity securities, including preferred and common stock and interests in real estate investment trusts (“REITs”). Although the Fund normally holds a focused portfolio of securities, the Fund is not required to be fully invested in such securities and may maintain a significant portion of its total assets in cash and securities generally considered to be cash equivalents. Fairholme Capital Management, L.L.C. (the “Manager”) serves as investment adviser to the Fund.

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

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 or the average bid of independent broker/dealer quotes and/or the average

THE FAIRHOLME FOCUSED INCOME FUND

NOTES TO FINANCIAL STATEMENTS (continued)
November 30, 2015

of valuations from independent pricing services. Although fixed-income securities are classified in Level 2 of the fair value 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 FAIRHOLME FOCUSED INCOME FUND

NOTES TO FINANCIAL STATEMENTS (continued)
November 30, 2015

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;
- 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 11/30/2015
	Level 1 – Quoted Prices	Level 2 – Other Significant Observable Inputs	
ASSETS:			
INVESTMENTS (Fair Value):			
Domestic Equity Securities*	\$11,628,900	—	\$ 11,628,900
Domestic Preferred Equity Securities			
Consumer Finance	—	\$ 4,629,967	4,629,967
Mortgage Finance	24,475,931	663,896	25,139,827
Oil & Natural Gas Exploration	1,699,200	167,331	1,866,531
Retail Department Stores	—	4,613,699	4,613,699
Domestic Corporate Bonds*	—	83,065,330	83,065,330
Foreign Corporate Bonds*	—	44,780,760	44,780,760
Commercial Paper*	—	32,998,788	32,998,788
U.S. Government Obligations	—	9,994,720	9,994,720
Money Market Funds	16,573,023	—	16,573,023
Miscellaneous Investments	—	4,620,000	4,620,000
TOTAL INVESTMENTS	<u>\$54,377,054</u>	<u>\$185,534,491</u>	<u>\$239,911,545</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.

Dividends and Distributions: The Fund records dividends and distributions to shareholders on the ex-dividend date. The Fund intends to declare and pay net investment income distributions, if any, quarterly in March, June, September, and 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 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

THE FAIRHOLME FOCUSED INCOME FUND

NOTES TO FINANCIAL STATEMENTS (continued)
November 30, 2015

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.

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 and other brokerage 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 March 30, 2011 to March 29, 2012. For the period December 31, 2009 to March 30, 2011, the Manager had contractually agreed to waive a portion of its management fee and/or limit the Fund's operating expenses (excluding those expenses noted above) so that the Fund's operating expenses, after such waiver or limitation payment, would not exceed an annual rate of 0.50% of the Fund's daily average net assets. 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 reimbursement is subject to the Board's review and approval. A reimbursement may be requested by the Manager if the 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 which were subject to recoupment by the Manager in the amount of \$249,582 expired.

THE FAIRHOLME FOCUSED INCOME FUND

NOTES TO FINANCIAL STATEMENTS (continued)
November 30, 2015

The Manager earned \$2,205,527 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 1,440,894 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>
\$151,168,799	\$112,616,736

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>
\$248,445,725	\$3,359,378	\$(11,893,558)	\$(8,534,180)

The difference between book basis and tax basis net unrealized appreciation is attributable to 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*	\$ 2,490,873
Net Long-Term Capital Gain	1,134,600
Net Unrealized Depreciation on Investments and Foreign Currency Related Transactions	<u>(8,534,180)</u>
Total	<u>\$(4,908,707)</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 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 FAIRHOLME FOCUSED INCOME FUND

NOTES TO FINANCIAL STATEMENTS (continued)
November 30, 2015

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:		
Ordinary Income	\$ 8,626,519	\$ 3,837,576
Long-Term Capital Gain	<u>2,939,655</u>	<u>13,876,149</u>
	<u>\$11,566,174</u>	<u>\$17,713,725</u>

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

Dividends and Distributions paid from:	
Ordinary Income	\$2,978,314
Short-Term Capital Gain	528,009
Long-Term Capital Gain	<u>1,134,811</u>
	<u>\$4,641,134</u>

Note 7. Reclassification in the Capital Accounts

In accordance with U.S. GAAP, the Fund has recorded reclassifications in their capital accounts. These reclassifications have no impact on the net asset value of the Fund and are designed generally to present undistributed income and realized gains on a tax basis which is considered to be more informative to the shareholder. Permanent differences are primarily due to the tax treatment of distributions from partnerships to the Fund. As of November 30, 2015, the Fund recorded the following reclassifications to increase (decrease) the accounts listed below:

Undistributed Net Investment Income	\$ 32,964
Accumulated Net Realized Gain	(32,964)

Note 8. 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 enter 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 Focused Income Fund:

We have audited the accompanying statement of assets and liabilities, including the schedule of investments, of The Fairholme Focused Income 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 five years in the period then ended. 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 Focused Income 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 five years in the period then ended, in conformity with accounting principles generally accepted in the United States of America.

DELOITTE & TOUCHE LLP

Philadelphia, Pennsylvania
January 28, 2016

THE FAIRHOLME FOCUSED INCOME 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 FOCUSED INCOME 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 Focused Income 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 also reviewed and considered a third-party report (from Lipper/Broadridge, “Lipper”) comparing information about the investment performance of the Fund, including information reflecting that the Fund’s performance had trailed the 1-year performance of its Lipper peer group’s average and median performance by 0.72 and 3.5 percentage points, but that the 3-year, 5-year and since inception annualized performance of the Fund exceeded both the average and median annualized performance of similarly situated mutual funds for those periods by 4.71 and 5.01, 3.01 and 2.47, and 1.21 and 0.70 percentage points, respectively. The Directors also noted that while the Fund’s performance for the year ended August 31, 2015 trailed the Barclays Capital US Aggregate Bond Index, its benchmark, by 3.03 percentage points, its annualized performance for the 3-year, 5-year, and since-inception periods exceeded the benchmark index by 7.70, 5.54 and 4.46 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 Fees and Expense Ratios

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

THE FAIRHOLME FOCUSED INCOME FUND

ADDITIONAL INFORMATION (continued)
November 30, 2015

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, 2015, 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 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.

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).

THE FAIRHOLME FOCUSED INCOME FUND

ADDITIONAL INFORMATION (continued)
November 30, 2015

Shareholder Tax Information (unaudited)

The Fund reported \$11,566,174 of total distributions paid during the fiscal year ended November 30, 2015, and \$2,939,655 of that represented long-term capital gain distributions.

The information below is reported for the Fund's fiscal year and not calendar year. Therefore, shareholders should refer to their Form 1099-DIV or other tax information which will be mailed in 2016 to determine the calendar year amounts to be included on their 2015 tax returns. Shareholders should consult their own tax advisors.

Please note that, for the fiscal year ended November 30, 2015, the respective percentages of ordinary income distributions paid by the Fund were reported as follows:

<u>Distribution Period November 30, 2015</u>	<u>The Fund</u>
Qualified Dividend Income for Individuals	10.88%
Dividends Qualifying for the Dividends Received Deduction for Corporations	11.10%
Qualifying Interest Income	76.44%
U.S. Treasury Securities	0.19%

* The law varies in each state as to whether and what percentage of dividend income attributable to U.S. Treasury securities is exempt from state and local income tax. It is recommended that you consult your tax advisor to determine if any portion of the dividends you received is exempt from income taxes.

All information reported is based on financial information available as of the date of this annual report and, accordingly, are subject to change. For each item, it is the intention of the Fund to report the maximum amount permitted under the Internal Revenue Code and the regulations thereunder.

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

THIS REPORT IS PROVIDED FOR THE GENERAL INFORMATION OF THE SHAREHOLDERS OF FAIRHOLME FUNDS, INC. IT IS NOT INTENDED FOR DISTRIBUTION TO PROSPECTIVE INVESTORS IN THE FUNDS UNLESS PRECEDED OR ACCOMPANIED BY AN EFFECTIVE PROSPECTUS, WHICH CONTAINS MORE INFORMATION ON FEES, CHARGES AND OTHER EXPENSES AND SHOULD BE READ CAREFULLY BEFORE INVESTING OR SENDING MONEY. PAST PERFORMANCE IS NOT A GUARANTEE OF FUTURE RESULTS. SHARES OF THE FUNDS ARE DISTRIBUTED BY FAIRHOLME DISTRIBUTORS, LLC.