

FAIRX

FOCIX

FAAFX

2017 ANNUAL REPORT

FAIRHOLME

Ignore the crowd.

FAIRHOLME

Ignore the crowd.

PORTFOLIO MANAGER'S REPORT
FAIRHOLME FUNDS, INC.

January 2018

Mutual fund investing involves risks, including possible loss of principal. Unless otherwise specified, all information is shown as of December 31, 2017. Past performance information quoted below does not guarantee future results. The investment return and principal value of an investment in The Fairholme Fund ("FAIRX"), The Fairholme Focused Income Fund ("The Income Fund" or "FOCIX"), and The Fairholme Allocation Fund ("The Allocation Fund" or "FAAFX"), (each being a "Fund" and collectively, the "Funds"), will fluctuate so that the value of an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the performance information quoted below. Performance figures reflect the deduction of expenses and assume reinvestment of dividends and capital gains but do not reflect a 2.00% redemption fee imposed by The Fairholme Fund and The Allocation Fund on shares redeemed or exchanged within 60 calendar days of their purchase. Most recent month-end performance and answers to any questions you may have can be obtained by calling Shareholder Services at (866) 202-2263. Each Fund maintains a focused portfolio of investments in a limited number of issuers and does not seek to diversify its investments. This exposes each Fund to the risk of unanticipated industry conditions and risks particular to a single company or the securities of a single company within its respective portfolio. Current and future portfolio holdings are subject to change and risk. The S&P 500 Index (the "S&P 500") is a widely recognized, unmanaged index of 500 of the largest companies in the United States as measured by market capitalization and the performance of the S&P 500 assumes the reinvestment of all dividends and distributions. The Bloomberg Barclays U.S. Aggregate Bond Index (the "Bloomberg Barclays Bond Index") is a broad-based flagship benchmark that measures the investment grade, U.S. dollar denominated, fixed-rate taxable bond market, and includes Treasuries, government-related and corporate securities, mortgage-backed securities (agency fixed rate and hybrid adjustable-rate mortgage pass-throughs), asset-backed securities and commercial mortgage backed securities (agency and non-agency). The S&P 500 and the Bloomberg Barclays Bond Index are used for comparative purposes only, and are not meant to be indicative of a Fund's performance, asset composition, or volatility. A Fund's performance may differ markedly from the performance of the S&P 500 or the Bloomberg Barclays Bond Index in either up or down market trends. Because indices cannot be invested in directly, these index returns do not reflect a deduction for fees, expenses, or taxes. The expense ratios for The Fairholme Fund, The Income Fund, and The Allocation Fund reflected in the current prospectus dated March 30, 2017, are 1.03%, 1.01%, and 1.01%, respectively, and may differ from the actual expenses incurred by the Funds for the period covered by the Funds' Annual Report. The expense ratio includes any acquired fund fees and expenses which are incurred indirectly by each Fund as a result of investments in securities issued by one or more investment companies.

January 29, 2018

Dear Shareholders and Directors of Fairholme Funds, Inc.:

This past year did not go as planned for Fairholme Funds shareholders. Although markets reached new highs in 2017, there was not much to celebrate as the securities of Sears Holdings Corporation ("Sears") and Sears Canada wrecked the Funds' performance. Sears realized billions of dollars from asset sales, as we predicted, but I did not foresee the operating losses that have significantly reduced values. Getting the asset values largely correct, but missing the company's inability to stop retailing losses, has been hugely frustrating and fatiguing for me to watch. Today Sears is a much diminished position and nowhere as relevant to our financial position.

Our history since inception demonstrates that holding tight amid disappointing performance often pays. This has been the case for as long as I have run Fairholme Capital Management ("Fairholme"). On numerous occasions, long periods have elapsed before prices have matched our estimates, and I will discuss below some of the driving forces that can make this happen again. Before elaborating, I'd like you to know that Fairholme-related entities own 8.2% of The Fairholme Fund, 20.1% of The Income Fund, and 43.7% of The Allocation Fund. My family is the largest shareholder in each. I eat my own cooking and I feel the same recent disappointments as you, but I also want to share my strong belief in future outperformance. One final point: You may have already seen that effective January 1, 2018, Fairholme has voluntarily waived its annual management fees to 80 basis points.¹ We have done this in recognition of the elevated levels of cash and cash equivalents currently held in the Funds' portfolios as we await attractively priced investment opportunities.

The Fairholme Fund seeks to achieve long-term capital growth. From inception on December 29, 1999, to 2017 year-end, FAIRX returned 10.04% per annum after reinvesting dividends and realized capital gain distributions totaling \$4.4 billion. At January 26, 2018, FAIRX net assets stand at \$1.7 billion. 25.9% of assets are held in cash and cash equivalents, 23.2% in the preferred stock of Fannie Mae ("Fannie") and Freddie Mac ("Freddie"), 24.4% in the common stock of The St. Joe Company ("St. Joe"), 8.8% in the debt and common stock of Imperial Metals Corporation ("Imperial"), 5.2% in the common stock of Seritage Growth Properties ("Seritage"), and 5.4% in Sears' debt and equities. FAIRX also has nearly \$710 million of tax-loss attributes to shelter future gains from taxes.

The Income Fund seeks current income first and capital gains second. FOCIX's total return from inception on December 31, 2009, to year-end 2017 is 8.27% per annum with the reinvestment of distributions. At January 26, 2018, FOCIX net assets stand at \$271 million and comprise senior debt (both secured and unsecured), preferred stock, income-paying common shares, and investment-grade commercial paper.

¹ Effective January 1, 2018, Fairholme has agreed to waive, on a voluntary basis, all or a portion of the management fee of The Fairholme Fund, The Income Fund, and The Allocation Fund to the extent necessary to limit the management fee paid to Fairholme by each of the Funds to an annual rate of 0.80% of the daily average net asset value of the Funds ("Undertaking"). This Undertaking may be terminated by Fairholme upon 60 days' written notice to the Funds.

Credit risks are mitigated by issuers' expected cash flows and diversification. High current yields and relatively short maturities mitigate interest rate risks. Also at January 26, 37.6% of net assets are held in investment grade commercial paper yielding 2% and turning over in a few weeks. FOCIX's current yield is 5.0% and duration (the time it takes to recover invested capital) is eight months. The largest single issuer, Imperial, is 8.7% of the portfolio. Fannie and Freddie preferred stock together compose 9.4%, Seritage common stock comprises 8.6%, while Sears debt is 6.3% of The Income Fund.

The Allocation Fund seeks total return across smaller quantity ideas. From December 31, 2010, to year-end 2017, The Allocation Fund returned a disappointing 2.01% per annum with reinvestment of distributions. As of January 26, 2018, FFAFX net assets are \$109 million with cash and cash equivalents at 30.3% of assets. The Allocation Fund's largest holdings are Fannie and Freddie preferred stock, which comprise 24.5% of the portfolio, while 15.7% of the portfolio is in Seritage common stock, 6.9% is in St. Joe, 4.8% is in Imperial common, 4.4% is in International Wire Group, and 3.2% is in Sears common and warrants.

Fannie Mae and Freddie Mac:

Fannie and Freddie have helped tens of millions of Americans secure affordable, predictable mortgages to help achieve the dream of financial independence while operating under the conservatorship of the Federal Housing Finance Agency ("FHFA"). Since 2012, Fannie and Freddie have shipped the entirety of their profits—\$275 billion and counting—to the U.S. Treasury. You've heard this all before. The point is, with hundreds of billions in profits flowing to the federal government, there is no doubt about Fannie and Freddie's earnings power or their ability to serve the public and survive. That is why reform is coming. In a letter to the Senate this month, FHFA Director Mel Watt re-emphasized that "ongoing conservatorship is not sustainable and needs to end." He believes Fannie and Freddie should be public utilities with regulated rates of return. We agree. Treasury Secretary Steve Mnuchin tells us 2018 is the year for Fannie and Freddie reform. "We need to fix Fannie and Freddie," Mnuchin said in September. "[...] we're going to fix [them] and when we fix [them] we want to make sure we never put the taxpayers at risk." We also agree Fannie and Freddie must be returned to their private owners. So far, the Funds have realized \$140 million of gains from Fannie and Freddie investments over the past four years. I would expect further gains from any Trump Administration-led initiative.

Seritage Growth Properties:

Seritage is a simple redevelopment story clouded by a complex tenant relationship with Sears. Seritage owns 40 million square feet of retail space and surrounding parking lots; Sears occupies 75% of its retail space. When Sears closes stores at Seritage locations, the real estate is re-rented at market rates three times higher to tenants such as Whole Foods and Nordstrom Rack. Proportionally higher cash distributions to owners then follow. I believe this opportunity to recapture valuable real estate is why Warren Buffett personally became one of the largest shareholders of Seritage.

Imperial Metals Corporation:

Imperial owns the Red Chris mine, which holds a mother lode of copper and gold in British Columbia, Canada. Copper is essential to the transmission of electrons. Gold has been a store of value since the beginning of time. Industry demand for copper is increasing, but mine supply growth is slowing. Demand for electric vehicles, updated electric grids and smart infrastructure will cause further imbalances without new supplies. There is renewed merger and acquisition activity in the sector, as it has become cheaper and quicker to buy assets rather than dig for them. The price of copper has moved back above \$3.00. Together, these trends will boost Imperial's cash flows and valuation.

The St. Joe Company:

St. Joe is building a vibrant economic region and sustainable corporate profits with its communities across coastal Walton and Bay counties in Northwest Florida. The company is doing it the right way, with little debt, low fixed expenses, low-cost land, and \$300 million of cash for the inevitable surprises of real estate development. Entitled to develop 178,000 homes and 22 million square feet of commercial space over 122,000 acres, St. Joe has a bright future, something its CEO Jorge Gonzalez and I—as the Chairman of both Fairholme and St. Joe—agree on.

There are big forces working in our favor. While Florida enjoys the country's second fastest growing population, Northwest Florida's Emerald Coast, where St. Joe owns its land, is growing twice as fast. The area has a new international airport and miles of sandy coast. Tyndall Air Force Base, which is spending \$250 million and creating 1,600 new jobs, is but one example of the area's rapid economic expansion.² Aviation companies are looking to be nearby, and local campuses for Florida State University and Gulf Coast State College are expanding their engineering programs to meet expected demand. Passenger counts at Northwest Florida Beaches International Airport have nearly tripled to 910,000 since 2010. Planes are at least 80% full. A fourth national carrier will soon offer new direct flights to major cities. Recently, \$1.5 billion was committed to boost the regional economy, using settlement funds from the BP oil spill. Even more appealing to prospective re-locators after the recent federal tax changes is Florida's zero state income tax. St. Joe's outlook is promising.

² Kleindienst, Linda. "Northwest Florida is a Hub of Aerospace and Aviation Activity". <http://www.850businessmagazine.com/June-July-2014/Northwest-Florida-is-a-Hub-of-Aerospace-and-Aviation-Activity/>. Accessed 29 January 2018.

I know the last few years have been hard. Still, the Fairholme Fund's and The Income Fund's respective after-fee performance since inception remain top-tier, as shown in exhibits following my letter. Based on our holdings, I strongly believe portfolios will return to the outperformance you richly deserve for your patience. I am reminded of Horace's quote from *Ars Poetica* found on the first page of every edition of Benjamin Graham's *Security Analysis*: "Many shall be restored that are now fallen, and many shall fall that are now in honor."

Thank you for staying the course.

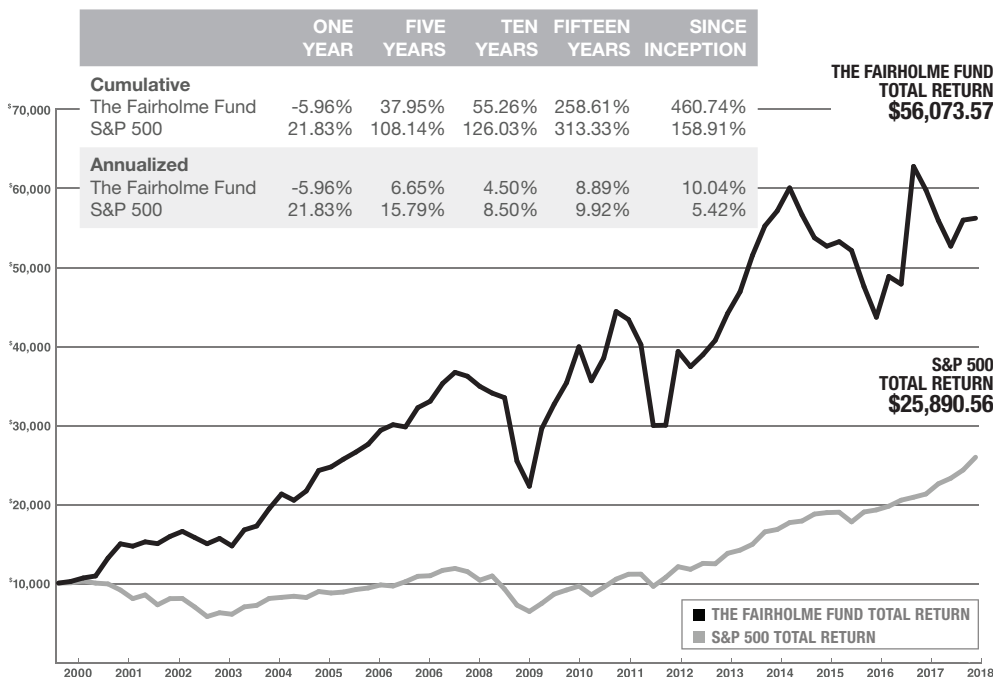
Respectfully submitted,



Bruce R. Berkowitz
Chief Investment Officer

P.S. I urge everyone to watch *Wormwood*, *The Post*, and *American Made*. These new Hollywood releases explore U.S. government cover-ups, making me realize that our fight for Fannie and Freddie is simply a repeat of history.

The Fairholme Fund



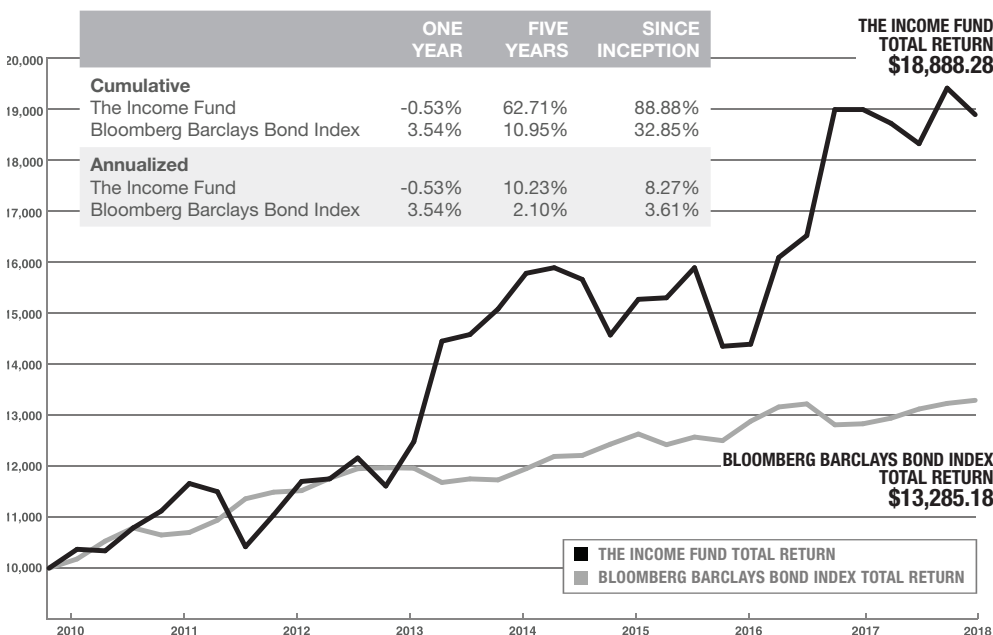
TOP ISSUERS (% OF NET ASSETS)

Cash and Cash Equivalents*	27.1%
The St. Joe Co.	21.7%
Federal Home Loan Mortgage Corp.	15.7%
Federal National Mortgage Association	14.8%
Imperial Metals Corp.	8.1%
Sears Holdings Corp.	6.6%
Seritage Growth Properties	4.7%
International Wire Group, Inc.	2.0%
Monitronics International, Inc.	1.8%

The chart on the left covers the period from inception of The Fairholme Fund (December 29, 1999) through December 31, 2017.

The Fairholme Fund decreased 5.96% versus a 21.83% gain for the S&P 500 in 2017. At year-end, and since inception, The Fairholme Fund increased 460.74% versus 158.91% for the S&P 500. The above graph and performance table compare The Fairholme Fund's unaudited performance (after expenses) with that of the S&P 500, with dividends and distributions reinvested, for various periods ending December 31, 2017. The value of a \$10,000 investment in The Fairholme Fund at its inception was worth \$56,073.57 (assumes reinvestment of distributions into additional Fairholme Fund shares) compared to \$25,890.56 for the S&P 500 at year-end. Of the \$56,073.57, the value of reinvested distributions was \$35,933.57.

The Income Fund



TOP ISSUERS (% OF NET ASSETS)

Cash and Cash Equivalents*	45.5%
Imperial Metals Corp.	10.2%
Seritage Growth Properties	9.0%
Sears Holdings Corp.	6.8%
Federal National Mortgage Association	5.7%
Federal Home Loan Mortgage Corp.	5.3%
International Wire Group, Inc.	4.5%
GMAC Capital Trust I, Inc.	2.7%
HC2 Holdings, Inc.	2.6%
Public Finance Authority	2.2%

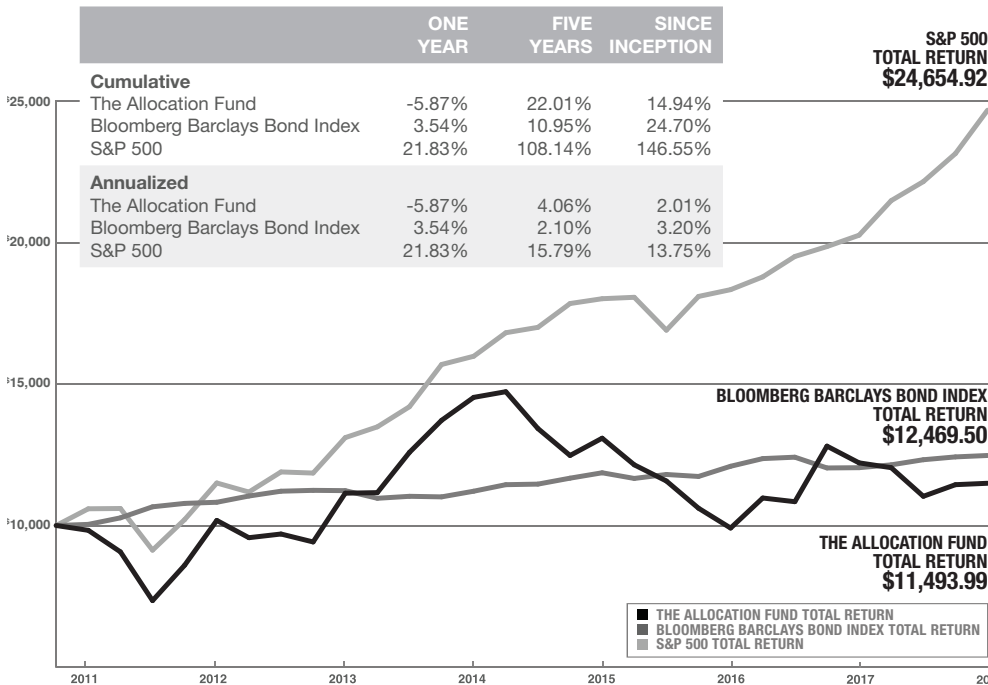
The Income Fund's 30-Day SEC Yield at December 31, 2017, was 4.25%.

The chart on the left covers the period from inception of The Income Fund (December 31, 2009) through December 31, 2017.

The Income Fund decreased 0.53% versus a 3.54% gain for the Bloomberg Barclays Bond Index in 2017. At year-end, and since inception, The Income Fund increased 88.88% versus 32.85% for the Bloomberg Barclays Bond Index. The above graph and performance table compare The Income Fund's unaudited performance (after expenses) with that of the Bloomberg Barclays Bond Index, with dividends and distributions reinvested, for various periods ending December 31, 2017. The value of a \$10,000 investment in The Income Fund at its inception was worth \$18,888.28 (assumes reinvestment of distributions into additional Income Fund shares) compared to \$13,285.18 for the Bloomberg Barclays Bond Index at year-end. Of the \$18,888.28, the value of reinvested distributions was \$7,868.28.

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

The Allocation Fund



TOP ISSUERS (% OF NET ASSETS)	
Cash and Cash Equivalents*	28.1%
Seritage Growth Properties	17.6%
Federal Home Loan Mortgage Corp.	17.3%
Federal National Mortgage Association	11.8%
The St. Joe Co.	6.3%
Imperial Metals Corp.	6.1%
Sears Holdings Corp.	4.3%
International Wire Group, Inc.	3.9%
Chesapeake Energy Corp.	2.4%
Monitronics International, Inc.	2.0%

The Allocation Fund's 30-Day SEC Yield at December 31, 2017, was 0.93%.

The chart on the left covers the period from inception of The Allocation Fund (December 31, 2010) through December 31, 2017.

The Allocation Fund decreased 5.87% versus a 3.54% gain for the Bloomberg Barclays Bond Index and a 21.83% increase for the S&P 500 in 2017. At year-end, and since inception, The Allocation Fund increased 14.94% versus 24.70% and 146.55% for the Bloomberg Barclays Bond Index and the S&P 500, respectively. The above graph and performance table compare The Allocation Fund's unaudited performance (after expenses) with that of the Bloomberg Barclays Bond Index and the S&P 500, with dividends and distributions reinvested, for various periods ending December 31, 2017. The value of a \$10,000 investment in The Allocation Fund at its inception was worth \$11,493.99 (assumes reinvestment of distributions into additional Allocation Fund shares) compared to \$12,469.50 and \$24,654.92 for the Bloomberg Barclays Bond Index and the S&P 500, respectively, at year-end. Of the \$11,493.99, the value of reinvested distributions was \$3,513.99.

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

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

FAIRHOLME

Ignore the crowd.

FAIRHOLME FUNDS, INC.

The Fairholme Fund (FAIRX)

Seeking long-term growth of capital

The Fairholme Focused Income Fund (FOCIX)

Seeking current income

The Fairholme Allocation Fund (FAAFX)

Seeking long-term total return

Annual Report

November 30, 2017

Managed by Fairholme Capital Management

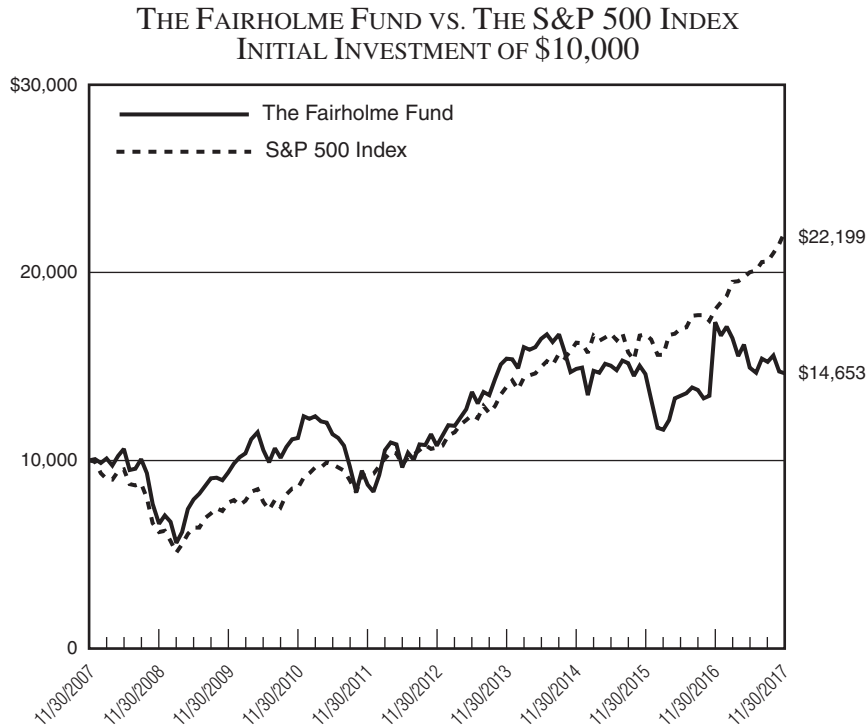
FAIRHOLME FUNDS, INC.

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FAIRHOLME FUNDS, INC.

FUND PERFORMANCE (unaudited)
November 30, 2007 — November 30, 2017

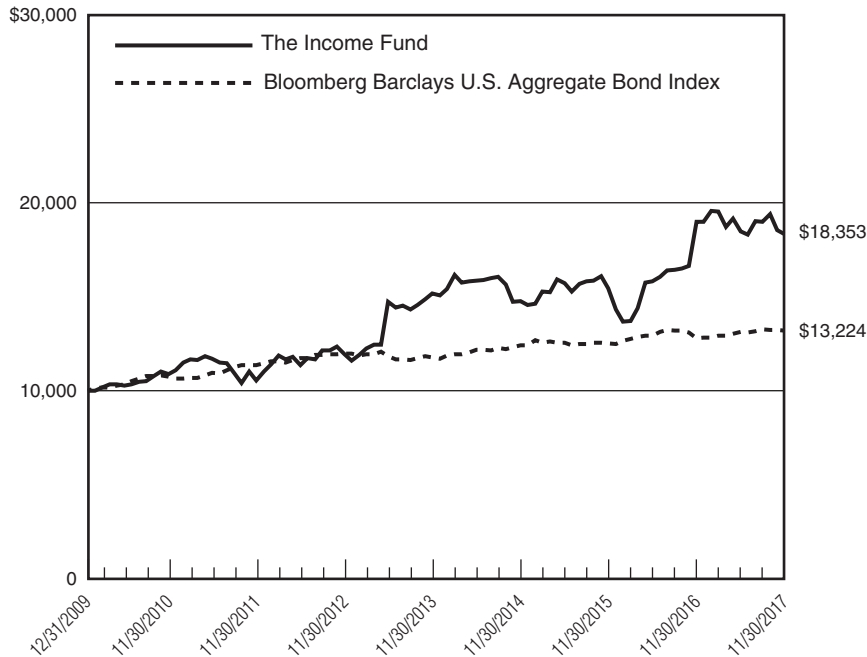


The Fairholme Fund (“The Fairholme Fund”) commenced operations on December 29, 1999. The chart above presents the performance of a \$10,000 investment for up to ten years to the latest annual period ending November 30, 2017.

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 Fairholme 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 distributions from The Fairholme Fund or upon redemption of shares of The Fairholme Fund. 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 S&P 500 Index and The Fairholme 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 Fairholme Fund distributions. 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 INCOME FUND VS.
The BLOOMBERG BARCLAYS U.S. AGGREGATE BOND INDEX
INITIAL INVESTMENT OF \$10,000

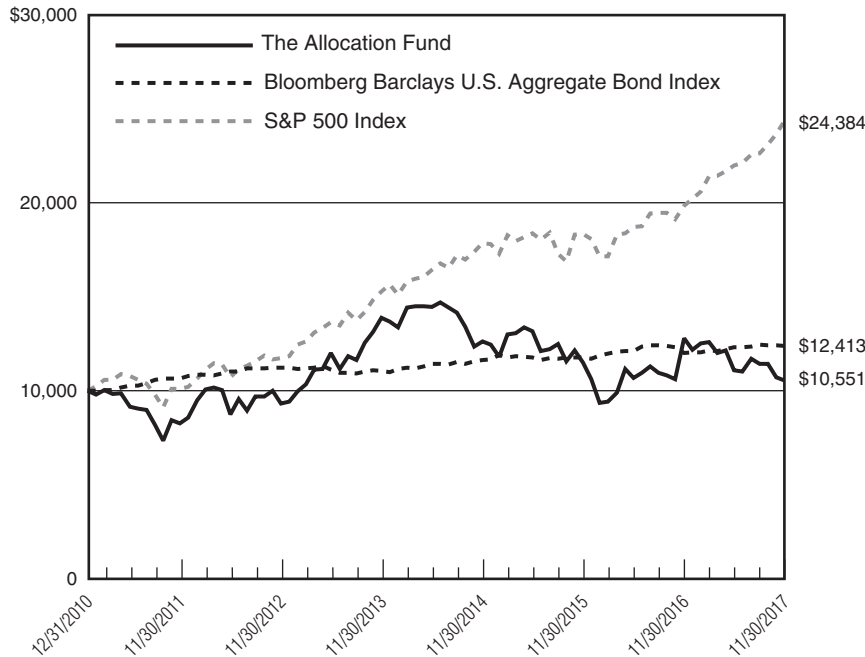


The Fairholme Focused Income Fund (“The Income Fund”) commenced operations on December 31, 2009. The chart above presents the performance of a \$10,000 investment from inception to the latest annual period ending November 30, 2017.

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 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 quoted within. The performance information does not reflect the taxes an investor would pay on distributions from The Income Fund or upon redemption of shares of The Income Fund. 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 Bloomberg Barclays U.S. Aggregate Bond Index and The Income 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 Income Fund distributions. The Bloomberg Barclays U.S. Aggregate Bond Index is a broad-based flagship benchmark that measures the investment grade, U.S. dollar-denominated, fixed-rate taxable bond market, and includes Treasuries, government-related and corporate securities, mortgage-backed securities (agency fixed-rate and hybrid adjustable-rate mortgage pass-throughs), asset-backed securities and commercial mortgage-backed securities (agency and non-agency). The Bloomberg Barclays U.S. Aggregate Bond Index does not reflect any investment management fees or transaction expenses, nor the effects of taxes, fees, or other charges.

THE ALLOCATION FUND VS. THE BLOOMBERG BARCLAYS U.S. AGGREGATE BOND INDEX AND THE S&P 500 INDEX
INITIAL INVESTMENT OF \$10,000



The Fairholme Allocation Fund (“The Allocation Fund”) commenced operations on December 31, 2010. The chart above presents the performance of a \$10,000 investment from inception to the latest annual period ending November 30, 2017.

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 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 quoted within. The performance information does not reflect the taxes an investor would pay on distributions from The Allocation Fund or upon redemption of shares of The Allocation Fund. 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 Bloomberg Barclays U.S. Aggregate Bond Index, the S&P 500 Index and The Allocation 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 Allocation Fund distributions. The Bloomberg Barclays U.S. Aggregate Bond Index is a broad-based flagship benchmark that measures the investment grade, U.S. dollar-denominated, fixed-rate taxable bond market, and includes Treasuries, government-related and corporate securities, mortgage-backed securities (agency fixed-rate and hybrid adjustable-rate mortgage pass-throughs), asset-backed securities and commercial mortgage-backed securities (agency and non-agency). The S&P 500 Index is a widely recognized, unmanaged index of 500 of the largest companies in the United States as measured by market capitalization. These index returns do not reflect any investment management fees or transaction expenses, nor the effects of taxes, fees or other charges.

FAIRHOLME FUNDS, INC.

MANAGEMENT DISCUSSION & ANALYSIS For the Fiscal Year Ended November 30, 2017

The Fairholme Fund, The Income Fund, and The Allocation Fund (each a “Fund” and collectively, the “Funds”) shares outstanding and audited net asset value per share (“NAV”) at November 30, 2017, the end of the Funds’ fiscal year, and NAVs at other pertinent dates, were as follows:

	<u>11/30/2017</u> <u>Shares</u> <u>Outstanding</u>	<u>11/30/2017</u> <u>NAV</u> <u>(audited)</u>	<u>05/31/2017</u> <u>NAV</u> <u>(unaudited)</u>	<u>11/30/2016</u> <u>NAV</u> <u>(audited)</u>
The Fairholme Fund	97,989,113	\$19.10	\$19.47	\$24.26
The Income Fund	19,724,137	\$11.33	\$11.69	\$12.38
The Allocation Fund	15,354,878	\$ 7.44	\$ 7.84	\$ 9.65

At December 31, 2017, the unaudited NAVs of The Fairholme Fund, The Income Fund, and The Allocation Fund were \$20.14, \$11.02, and \$7.98 per share, respectively.

Performance figures below are shown for the Funds’ fiscal year ended November 30, 2017, and do not match calendar year figures for the period ended December 31, 2017, cited in the Portfolio Manager’s report.

<u>The Fairholme Fund</u> <u>Performance</u> <u>to 11/30/2017</u>	<u>Six</u> <u>Months</u>	<u>One</u> <u>Year</u>	<u>Five</u> <u>Years</u>	<u>Ten</u> <u>Years</u>	<u>Fifteen</u> <u>Years</u>	<u>Since</u> <u>Inception</u> <u>12/29/1999</u>
Cumulative:						
The Fairholme Fund	(1.90)%	(15.64)%	35.80%	46.53%	237.55%	424.82%
S&P 500 Index	10.89%	22.87%	107.73%	121.99%	284.77%	156.06%
Annualized:						
The Fairholme Fund		(15.64)%	6.31%	3.89%	8.45%	9.69%
S&P 500 Index		22.87%	15.74%	8.30%	9.40%	5.38%

For the six months ended November 30, 2017, The Fairholme Fund was outperformed by the S&P 500 Index (“S&P 500”) by 12.79 percentage points while over the last year The Fairholme Fund was outperformed by the S&P 500 by 38.51 percentage points. From inception, The Fairholme Fund outperformed the S&P 500 by 4.31 percentage points per annum, or on a cumulative basis, 268.76 percentage points over seventeen years and eleven months.

<u>The Income Fund</u> <u>Performance</u> <u>to 11/30/2017</u>	<u>Six</u> <u>Months</u>	<u>One</u> <u>Year</u>	<u>Five</u> <u>Year</u>	<u>Since</u> <u>Inception</u> <u>12/31/2009</u>
Cumulative:				
The Income Fund		(0.69)%	(3.35)%	53.30%
Bloomberg Barclays Bond Index		0.68%	3.21%	10.29%
Annualized:				
The Income Fund			(3.35)%	8.92%
Bloomberg Barclays Bond Index			3.21%	1.98%

FAIRHOLME FUNDS, INC.

MANAGEMENT DISCUSSION & ANALYSIS (continued) For the Fiscal Year Ended November 30, 2017

For the six months ended November 30, 2017, The Income Fund was outperformed by the Bloomberg Barclays U.S. Aggregate Bond Index (“Bloomberg Barclays Bond Index”) by 1.37 percentage points while over the last year The Income Fund was outperformed by the Bloomberg Barclays Bond Index by 6.56 percentage points. From inception, The Income Fund outperformed the Bloomberg Barclays Bond Index by 4.38 percentage points per annum, or on a cumulative basis, 51.28 percentage points over seven years and eleven months.

The Allocation Fund Performance to 11/30/2017	Six Months	One Year	Five Year	Since Inception 12/31/2010
Cumulative:				
The Allocation Fund	(5.10)%	(17.59)%	13.09%	5.51%
Bloomberg Barclays Bond Index	0.68%	3.21%	10.29%	24.13%
S&P 500 Index	10.89%	22.87%	107.73%	143.84%
Annualized:				
The Allocation Fund		(17.59)%	2.49%	0.78%
Bloomberg Barclays Bond Index		3.21%	1.98%	3.17%
S&P 500 Index		22.87%	15.74%	13.75%

For the six months ended November 30, 2017, The Allocation Fund was outperformed by the Bloomberg Barclays Bond Index and the S&P 500 by 5.78 and 15.99 percentage points, respectively, while over the last year The Allocation Fund was outperformed by the Bloomberg Barclays Bond Index and the S&P 500 by 20.80 and 40.46 percentage points, respectively. From inception, The Allocation Fund was outperformed by the Bloomberg Barclays Bond Index and the S&P 500 by 2.39 and 12.97 percentage points per annum, respectively, or on a cumulative basis, 18.62 and 138.33 percentage points over six 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 S&P 500 and the Bloomberg Barclays Bond Index are unmanaged indices incurring no fees, expenses, or tax effects and are shown solely to compare the Funds’ performance to that of unmanaged and diversified indices of securities. Shareholders are also cautioned that it is possible that some securities mentioned in this discussion may no longer be held by a Fund subsequent to the end of the fiscal period, and that a Fund may have made significant new purchases that are not yet required to be disclosed. It is the Funds’ 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 Funds 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 the Funds’ policy may result in shorter holding periods.

The Manager invests each Fund’s assets in securities to the extent it finds reasonable investment opportunities in accordance with its Prospectus and may invest a significant portion of each Fund’s assets in liquid, low-risk securities or cash. The Manager views liquidity as a strategic advantage. At November 30, 2017, cash and cash equivalents (consisting of cash, commercial paper, deposit accounts, U.S. Treasury Bills, and money-market funds) represented 27.0%, 34.6%, and 18.7% of The Fairholme Fund, The Income Fund, and The Allocation Fund total

FAIRHOLME FUNDS, INC.

MANAGEMENT DISCUSSION & ANALYSIS (continued) For the Fiscal Year Ended November 30, 2017

assets, respectively. Since inception, the Funds have 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 Funds' liquidity.

Each Fund is considered to be "non-diversified" under the Investment Company Act of 1940. The Funds 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 Funds may also have a greater percentage of assets invested in a particular industry than a diversified fund, exposing the Funds to the risk of an unanticipated industry condition as well as risks specific to a single company or security.

The commentaries below provide details of each fund's portfolio holdings by issuer and sector, as well as reporting the most significant positive and negative performance by investment for the fiscal year ended November 30, 2017.

The most significant losses in each of the Funds related to negative developments in the Mortgage Finance, Retail Department Stores, Real Estate Management & Development, and Real Estate Investment Trusts. Investments in the Capital Goods and Oil & Gas sectors saw some gains during the fiscal year.

The Manager made no changes to the core investment strategies and techniques it employs during the fiscal year ended November 30, 2017.

For the fiscal year ended November 30, 2017, The Fairholme Fund investments that were the biggest contributors to positive performance were Intelsat Jackson Holdings S.A. ("Intelsat"), Chesapeake Energy Corp. ("Chesapeake"), and Atwood Oceanic, Inc. ("Atwood"). The biggest contributors to negative performance were investments in Sears Holdings Corp. ("Sears"), Federal National Mortgage Association ("Fannie"), Federal Home Loan Mortgage Corp. ("Freddie"), The St. Joe Co., Sears Canada, Inc., Seritage Growth Properties ("Seritage"), and Imperial Metals Corp. ("Imperial"). The following charts show the top holdings by issuer and sector in descending order of net assets as of November 30, 2017.

The Fairholme Fund Top Holdings by Issuer* (% of Net Assets)		The Fairholme Fund Top Sectors (% of Net Assets)	
The St. Joe Co.	22.8%	Cash and Cash Equivalents**	27.1%
Federal Home Loan Mortgage Corp.	12.9%	Mortgage Finance	25.6%
Federal National Mortgage Association	12.7%	Real Estate Management & Development	22.8%
Imperial Metals Corp.	7.9%	Metals & Mining	7.9%
Sears Holdings Corp.	7.3%	Retail Department Stores	7.3%
Seritage Growth Properties	4.7%	Real Estate Investment Trusts	4.7%
International Wire Group, Inc.	2.0%	Capital Goods	2.0%
Monitronics International, Inc.	1.9%	Consumer Services	1.9%
Bristow Group, Inc.	0.5%	Oil & Gas Equipment & Services	0.5%
	<u>72.7%</u>		<u>99.8%</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.

FAIRHOLME FUNDS, INC.

MANAGEMENT DISCUSSION & ANALYSIS (continued) For the Fiscal Year Ended November 30, 2017

For the fiscal year ended November 30, 2017, The Income Fund investments that were the biggest contributors to positive performance were Atwood, Intelsat, Imperial, Chesapeake, HC2 Holdings, Inc., GMAC Capital Trust I, Inc. The biggest contributors to negative performance were investments in Sears, Fannie, Freddie, and Seritage. The following charts show the top holdings by issuer and sector in descending order of net assets as of November 30, 2017.

The Income Fund Top Holdings by Issuer* (% of Net Assets)		The Income Fund Top Sectors (% of Net Assets)	
Imperial Metals Corp.	11.6%	Cash and Cash Equivalents**	34.7%
Seritage Growth Properties	10.4%	Metals & Mining	11.6%
Sears Holdings Corp.	8.3%	Real Estate Investment Trusts	10.4%
Federal National Mortgage Association	5.5%	Mortgage Finance	9.9%
International Wire Group, Inc.	5.1%	Capital Goods	9.4%
Federal Home Loan Mortgage Corp.	4.4%	Retail Department Stores	8.3%
HC2 Holdings, Inc.	4.3%	Consumer Finance	3.1%
GMAC Capital Trust I, Inc.	3.1%	Chemicals	2.5%
Public Finance Authority	2.5%	Oil & Natural Gas Exploration	1.8%
Chesapeake Energy Corp.	1.8%	Consumer Services	1.7%
	<u>57.0%</u>		<u>93.4%</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.

For the fiscal year ended November 30, 2017, The Allocation Fund investments that were the biggest contributors to positive performance were Intelsat and Atwood. The biggest contributors to negative performance were investments in Sears, Imperial, Fannie, Freddie, Seritage, Sears Canada, Inc., and Lands' End, Inc. The following charts show the top holdings by issuer and sector in descending order of net assets as of November 30, 2017.

The Allocation Fund Top Holdings by Issuer* (% of Net Assets)		The Allocation Fund Top Sectors (% of Net Assets)	
Seritage Growth Properties	24.5%	Mortgage Finance	32.5%
Federal Home Loan Mortgage Corp.	16.3%	Real Estate Investment Trusts	24.5%
Federal National Mortgage Association	16.2%	Cash and Cash Equivalents**	18.6%
The St. Joe Co.	6.9%	Real Estate Management & Development	6.9%
Sears Holdings Corp.	5.1%	Retail Department Stores	5.1%
International Wire Group, Inc.	4.1%	Capital Goods	4.1%
Imperial Metals Corp.	3.5%	Metals & Mining	3.5%
Chesapeake Energy Corp.	2.5%	Oil & Natural Gas Exploration	2.5%
Monitronics International, Inc.	2.2%	Consumer Services	2.2%
	<u>81.3%</u>		<u>99.9%</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.

FAIRHOLME FUNDS, INC.

MANAGEMENT DISCUSSION & ANALYSIS (continued) For the Fiscal Year Ended November 30, 2017

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

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

Since inception, the Funds have been advised by the Manager. Bruce Berkowitz, both the Chief Investment Officer of the Manager and Chairman of the Funds' Board, and his affiliates beneficially own an aggregate 7,604,186, 1,750,580, and 6,465,023 shares of The Fairholme Fund, The Income Fund, and The Allocation Fund, respectively, at November 30, 2017. While there is no requirement that Mr. Berkowitz own shares of the Funds, 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 Funds 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 Funds; the present constitution of Directors and policies; and current rules and regulations. A Director and Officers of the Funds are also Officers of the Manager. Nevertheless, at November 30, 2017, a majority of Directors were independent of the Manager, no stock option or restricted stock plans exist, Officers received no direct compensation from the Funds, and the Director affiliated with the Manager received no compensation for being a Director.

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

FAIRHOLME FUNDS, INC.

EXPENSE EXAMPLE

For the Six Month Period from June 1, 2017
through November 30, 2017 (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 The Fairholme Fund and The Fairholme Allocation 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 examples are intended to help you understand your indirect costs (also referred to as “ongoing costs” and measured in dollars) when investing in the Funds and to compare these costs with the ongoing costs of investing in other mutual funds. These examples are based on an investment of \$1,000 invested in the Funds at June 1, 2017, and held for the entire six month period ending November 30, 2017.

Actual Expenses

The first line of the tables 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 tables provides information about hypothetical account values and hypothetical expenses based on each 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 Funds 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 tables 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 tables 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.

	<u>Beginning Account Value June 1, 2017</u>	<u>Ending Account Value November 30, 2017</u>	<u>Annualized Expense Ratio</u>	<u>Expenses Paid During the Period June 1, 2017 Through November 30, 2017*</u>
The Fairholme Fund				
Actual	\$1,000.00	\$ 981.00	1.03%	\$5.12
Hypothetical (5% return before expenses)	\$1,000.00	\$1,019.90	1.03%	\$5.22
The Income Fund				
Actual	\$1,000.00	\$ 993.10	1.00%	\$5.00
Hypothetical (5% return before expenses)	\$1,000.00	\$1,020.05	1.00%	\$5.06
The Allocation Fund				
Actual	\$1,000.00	\$ 949.00	1.00%	\$4.89
Hypothetical (5% return before expenses)	\$1,000.00	\$1,020.05	1.00%	\$5.06

* Expenses are equal to each 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 FUND

SCHEDULE OF INVESTMENTS November 30, 2017

Shares	Value	Shares	Value
DOMESTIC EQUITY SECURITIES — 30.4%		DOMESTIC PREFERRED EQUITY SECURITIES — 25.6%	
REAL ESTATE INVESTMENT TRUSTS — 4.7%		MORTGAGE FINANCE — 25.6%	
2,185,580	Seritage Growth Properties ^(a) \$ 88,953,106		Federal Home Loan Mortgage Corp.
		29,448,106	7.875%, Series Z ^{(b)(e)} \$ 195,829,905
		2,678,285	6.550%, Series Y ^(b) 13,471,774
		1,285,184	1.696%, Series B ^{(b)(e)} 10,294,324
22,730,687	The St. Joe Co. ^{(a)(b)(c)} 427,336,916	1,099,962	5.100%, Series H ^(b) 10,064,652
		1,214,003	5.570%, Series V ^(b) 5,766,636
		442,107	5.900%, Series U ^(b) 2,210,535
13,535,991	Sears Holdings Corp. ^{(a)(b)(c)(d)} 53,467,164	429,669	5.660%, Series W ^(b) 2,040,928
		196,492	5.000%, Series F ^(b) 1,768,428
TOTAL DOMESTIC EQUITY SECURITIES (COST \$1,501,625,813)	569,757,186		Federal National Mortgage Association
		31,479,110	7.750%, Series S ^{(b)(e)} 210,595,246
		1,473,690	7.625%, Series R ^(b) 8,444,244
		1,530,181	6.750%, Series Q ^(b) 7,880,432
		1,083,749	4.500%, Series P ^{(b)(e)} 5,527,120
		390,493	7.000%, Series O ^{(b)(e)} 3,943,979
		125,000	0.570%, Series G ^{(b)(e)} 1,181,250
			479,019,453
			RETAIL DEPARTMENT STORES — 0.0%
		15,134	Sears Roebuck Acceptance Corp. 7.400% ^{(a)(c)(d)} 144,378
TOTAL FOREIGN EQUITY SECURITIES (COST \$65,617,874)	12,636,868	TOTAL DOMESTIC PREFERRED EQUITY SECURITIES (COST \$349,231,448)	479,163,831

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

THE FAIRHOLME FUND

SCHEDULE OF INVESTMENTS (continued)
November 30, 2017

Shares	Value	Principal	Value
		RIGHTS — 0.0%	
		METALS & MINING — 0.0%	
4,797,852	Imperial Metals Corp., Expire 12/22/2017 ^{(a)(b)}	\$ 92,971	
TOTAL RIGHTS			
(COST \$0)		92,971	
		WARRANTS — 0.0%	
		RETAIL DEPARTMENT	
		STORES — 0.0%	
218,419	Sears Holdings Corp., Vested, Strike Price \$25.686, Expire 12/15/2019 ^{(a)(b)(c)(d)(f)}	98,289	
TOTAL WARRANTS			
(COST \$3,881,918)		98,289	
		Principal	
		DOMESTIC CORPORATE	
		BONDS — 8.8%	
		CAPITAL GOODS — 2.0%	
\$ 42,187,000	International Wire Group, Inc. 10.750%, 08/01/2021 ^(g)	38,461,888	
		CONSUMER	
		SERVICES — 1.9%	
41,951,000	Monitronics International, Inc. 9.125%, 04/01/2020	35,410,839	
		OIL & GAS EQUIPMENT &	
		SERVICES — 0.5%	
11,790,000	Bristow Group, Inc. 6.250%, 10/15/2022	9,531,036	
		RETAIL DEPARTMENT	
		STORES — 4.4%	
		Sears Holdings Corp.	
7,580,000	6.625%, 10/15/2018 ^{(a)(c)(d)}	5,867,678	
140,893,000	8.000%, 12/15/2019 ^{(a)(c)(d)}	73,137,556	
6,765,000	Sears Roebuck Acceptance Corp. 7.500%, 10/15/2027 ^{(a)(c)(d)}	2,850,771	
		81,856,005	
TOTAL DOMESTIC CORPORATE BONDS			
(COST \$240,701,930)		165,259,768	
		FOREIGN CORPORATE	
		BONDS — 7.2%	
		CANADA — 7.2%	
		METALS & MINING — 7.2%	
		Imperial Metals Corp. 7.000%, 03/15/2019 ^{(a)(g)}	\$ 134,271,563
		TOTAL FOREIGN CORPORATE BONDS	
		(COST \$139,593,695)	134,271,563
		COMMERCIAL	
		PAPER — 19.9%	
		AUTOMOTIVE RETAIL — 2.7%	
		AutoZone, Inc. 1.351%, 12/08/2017 ^{(g)(h)}	49,984,756
		BEVERAGES — 1.4%	
		Molson Coors Brewing Co. 1.541%, 12/04/2017 ^{(g)(h)}	26,995,914
		FOOD PRODUCTS — 2.9%	
		Mondelez International, Inc. 1.331%, 12/07/2017 ^{(g)(h)}	35,990,410
		18,000,000 1.361%, 12/18/2017 ^{(g)(h)}	17,987,364
			53,977,774
		INSURANCE BROKERS — 0.5%	
		Marsh & McLennan Co., Inc. 1.280%, 12/06/2017 ^{(g)(h)}	9,997,720
		LIFE & HEALTH INSURANCE — 1.0%	
		Cigna Corp. 1.291%, 12/07/2017 ^{(g)(h)}	18,994,680
		LODGING — 2.6%	
		Wyndham Worldwide Co. 1.851%, 12/05/2017 ^{(g)(h)}	10,997,345
		37,500,000 1.851%, 12/06/2017 ^{(g)(h)}	37,489,131
			48,486,476
		MULTIMEDIA — 1.0%	
		Viacom, Inc. 1.902%, 12/11/2017 ^{(g)(h)}	18,492,199

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

THE FAIRHOLME FUND

SCHEDULE OF INVESTMENTS (continued)
November 30, 2017

<u>Principal</u>		<u>Value</u>	<u>Principal</u>		<u>Value</u>
	COMMERCIAL PAPER			U.S. GOVERNMENT	
	(CONTINUED) — 19.9%			OBLIGATIONS — 6.7%	
	OIL & GAS STORAGE &			U.S. Treasury Bills	
	TRANSPORTATION — 4.5%			\$75,000,000 1.030%, 12/07/2017 ^(h)	\$ 74,987,875
	Energy Transfer Partners			50,000,000 1.245%, 04/26/2018 ^(h)	49,739,937
\$27,000,000	2.052%, 12/01/2017 ^{(g)(h)}	\$ 26,998,700			
30,000,000	1.951%, 12/11/2017 ^{(g)(h)}	29,984,004			
27,000,000	2.052%, 12/21/2017 ^{(g)(h)}	26,971,996			
		<u>83,954,700</u>		TOTAL U.S. GOVERNMENT	
				OBLIGATIONS	
				(COST \$124,736,010)	<u>124,727,812</u>
				Shares	
	OIL & NATURAL GAS			MONEY MARKET	
	EXPLORATION — 1.3%			FUNDS — 0.5%	
24,000,000	Canadian Natural Resources Ltd.		10,489,864	Fidelity Investments Money	
	1.430%, 12/07/2017 ^{(g)(h)}	<u>23,992,347</u>		Market Treasury Portfolio -	
				Class I, 0.97% ⁽ⁱ⁾	<u>10,489,864</u>
	RAILROADS — 1.1%			TOTAL MONEY MARKET FUNDS	
20,000,000	Kansas City Southern			(COST \$10,489,864)	<u>10,489,864</u>
	1.551%, 12/01/2017 ^{(g)(h)}	<u>19,999,037</u>			
	RETAIL DRUG STORE — 0.9%			TOTAL INVESTMENTS — 99.8%	
	Walgreens Boots Alliance, Inc.			(COST \$2,807,754,264)	1,868,365,139
7,000,000	1.381%, 12/06/2017 ^{(g)(h)}	6,998,404		OTHER ASSETS IN	
10,000,000	1.420%, 12/18/2017 ^{(g)(h)}	9,992,980		EXCESS OF	
		<u>16,991,384</u>		LIABILITIES — 0.2%	<u>3,114,944</u>
	TOTAL COMMERCIAL PAPER			NET ASSETS — 100.0%	<u>\$1,871,480,083</u>
	(COST \$371,875,712)	<u>371,866,987</u>			

^(a) Affiliated Company. See Note 8.

^(b) Non-income producing security.

^(c) Restricted and controlled security under procedures approved by the Directors. The value of these securities totals \$562,902,752, which represents 30.08% of The Fairholme Fund's net assets. Information related to these securities is as follows:

<u>Shares/ Principal Amount</u>	<u>Issuer</u>	<u>Acquisition Date(s)</u>	<u>Acquisition Cost</u>	<u>11/30/2017 Carrying Value Per Unit</u>
\$ 7,580,000	Sears Holdings Corp., 6.625%	09/10/2015-10/30/2015	\$ 7,622,418	\$77.41
\$140,893,000	Sears Holdings Corp., 8.000%	09/10/2015-10/30/2015	\$142,252,083	\$51.91
13,535,991	Sears Holdings Corp. Common Stock	11/26/2007-12/11/2015	\$810,536,627	\$ 3.95
218,419	Sears Holdings Corp., Strike Price \$25.686	09/10/2015-10/20/2015	\$ 3,881,918	\$ 0.45
\$ 6,765,000	Sears Roebuck Acceptance Corp., 7.500%	09/08/2015-09/23/2015	\$ 5,048,220	\$42.14
15,134	Sears Roebuck Acceptance Corp., 7.400% Preferred Stock	09/08/2015-09/24/2015	\$ 248,912	\$ 9.54
22,730,687	The St. Joe Co.	12/12/2007-10/13/2010	\$601,313,309	\$18.80

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

THE FAIRHOLME FUND

SCHEDULE OF INVESTMENTS (continued)
November 30, 2017

- ^(d) Security is deemed an illiquid security pursuant to the Funds' liquidity guidelines.
- ^(e) Variable rate security. Rates shown are the effective rates as of November 30, 2017.
- ^(f) 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 1:1.11.
- ^(g) Restricted security as defined in Rule 144(a) under the Securities Act of 1933. The Manager has determined that such security is liquid pursuant to the Funds' liquidity guidelines. The value of these securities totals \$544,600,438, which represents 29.10% of The Fairholme Fund's net assets.
- ^(h) Rates shown are the effective yields based on the purchase price. The calculation assumes the security is held to maturity.
- ⁽ⁱ⁾ Annualized based on the 1-day yield as of November 30, 2017.

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

THE FAIRHOLME FUND

STATEMENT OF ASSETS & LIABILITIES November 30, 2017

Assets

Investments, at Fair Value:	
Unaffiliated Issuers (Cost — \$942,370,876)	\$1,069,507,879
Affiliated Issuers (Cost — \$1,865,383,388)	798,857,260
Interest Receivable	9,727,886
Receivable for Capital Shares Sold	262,480
Receivable for Investments Sold	3,739
Total Assets	<u>1,878,359,244</u>

Liabilities

Payable for Capital Shares Redeemed	5,062,132
Accrued Management Fees	1,559,514
Accrued Legal Expenses	257,515
Total Liabilities	<u>6,879,161</u>

NET ASSETS \$1,871,480,083

Net Assets Consist of:

Paid-In Capital	\$2,793,490,316
Undistributed Net Investment Income	24,854,693
Distributions in Excess of Net Realized Gain on Investments and Foreign Currency Related Transactions	(7,475,801)
Net Unrealized Depreciation on Investments and Foreign Currency Related Translations	<u>(939,389,125)</u>

NET ASSETS \$1,871,480,083

Shares of Common Stock Outstanding* (\$0.0001 par value) 97,989,113

Net Asset Value, Offering and Redemption Price Per Share
(\$1,871,480,083 / 97,989,113 shares) \$ 19.10

* 700,000,000 shares authorized in total.

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

THE FAIRHOLME FUND

STATEMENT OF OPERATIONS

	For the Fiscal Year Ended November 30, 2017
Investment Income	
Interest — Unaffiliated Issuers	\$ 24,547,019
Interest — Affiliated Issuers	25,527,719
Dividends — Affiliated Issuers	<u>2,218,099</u>
Total Investment Income	<u>52,292,837</u>
Expenses	
Management Fees	24,295,975
Legal Expenses	<u>379,750</u>
Total Expenses	<u>24,675,725</u>
Net Investment Income	<u>27,617,112</u>
Realized and Unrealized Gain (Loss) on Investments, Redemption In-Kind, and Foreign Currency Related Transactions	
Net Realized Gain (Loss) on Investments and Foreign Currency Related Transactions	
Unaffiliated Issuers	68,060,331
Affiliated Issuers	(68,554,824)
Net Realized Loss on Redemption In-Kind	(2,649,939)
Net Change in Unrealized Appreciation (Depreciation) on Investments and Foreign Currency Related Translations	<u>(466,620,782)</u>
Net Realized and Unrealized Gain (Loss) on Investments, Redemption In-Kind, and Foreign Currency Related Transactions	<u>(469,765,214)</u>
NET DECREASE IN NET ASSETS FROM OPERATIONS	<u><u>\$(442,148,102)</u></u>

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

THE FAIRHOLME FUND

STATEMENTS OF CHANGES IN NET ASSETS

	For the Fiscal Year Ended November 30, 2017	For the Fiscal Year Ended November 30, 2016
CHANGES IN NET ASSETS		
From Operations		
Net Investment Income	\$ 27,617,112	\$ 51,679,552
Net Realized Gain (Loss) on Investments, Redemption In-Kind, and Foreign Currency Related Transactions	(3,144,432)	162,438,179
Net Change in Unrealized Appreciation (Depreciation) on Investments and Foreign Currency Related Translations	<u>(466,620,782)</u>	<u>112,798,128</u>
Net Increase (Decrease) in Net Assets from Operations	<u>(442,148,102)</u>	<u>326,915,859</u>
From Dividends and Distributions to Shareholders		
Net Investment Income	(51,680,064)	(73,562,659)
Net Realized Capital Gains from Investment Transactions	<u>(150,461,252)</u>	<u>(1,509,019,832)</u>
Net Decrease in Net Assets from Dividends and Distributions	<u>(202,141,316)</u>	<u>(1,582,582,491)</u>
From Capital Share Transactions		
Proceeds from Sale of Shares	156,030,929	288,427,843
Shares Issued in Reinvestment of Dividends and Distributions	189,229,486	1,450,080,952
Redemption Fees	136,808	212,693
Cost of Shares Redeemed	(951,869,665)	(1,939,699,783)
Cost of Shares Redeemed In-Kind	<u>(33,467,555)</u>	<u>—</u>
Net Decrease in Net Assets from Shareholder Activity	<u>(639,939,997)</u>	<u>(200,978,295)</u>
NET ASSETS		
Net Decrease in Net Assets	(1,284,229,415)	(1,456,644,927)
Net Assets at Beginning of Year	<u>3,155,709,498</u>	<u>4,612,354,425</u>
Net Assets at End of Year	<u>\$ 1,871,480,083</u>	<u>\$ 3,155,709,498</u>
Undistributed Net Investment Income at End of Year	<u>\$ 24,854,693</u>	<u>\$ 51,679,552</u>
SHARES TRANSACTIONS		
Issued	7,652,492	15,789,748
Reinvested	8,546,950	76,199,735
Redeemed	(46,505,476)	(96,599,326)
Redeemed In-Kind	<u>(1,799,331)</u>	<u>—</u>
Net Decrease in Shares	(32,105,365)	(4,609,843)
Shares Outstanding at Beginning of Year	<u>130,094,478</u>	<u>134,704,321</u>
Shares Outstanding at End of Year	<u>97,989,113</u>	<u>130,094,478</u>

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

THE FAIRHOLME FUND

FINANCIAL HIGHLIGHTS

	For the Fiscal Year Ended November 30,				
	2017	2016	2015	2014	2013
PER SHARE OPERATING PERFORMANCE					
NET ASSET VALUE, BEGINNING OF YEAR	\$24.26	\$34.24	\$37.96	\$42.76	\$29.89
Investment Operations					
Net Investment Income (Loss) ⁽¹⁾	0.23	0.33	0.46	(0.19)	(0.10)
Net Realized and Unrealized Gain (Loss) on Investments	(3.81)	2.60	(1.10)	(1.21)	12.97
Total from Investment Operations	(3.58)	2.93	(0.64)	(1.40)	12.87
Dividends and Distributions					
From Net Investment Income	(0.40)	(0.60)	—	—	—
From Realized Capital Gains	(1.18)	(12.31)	(3.08)	(3.40)	—
Total Dividends and Distributions	(1.58)	(12.91)	(3.08)	(3.40)	—
Redemption Fees ⁽¹⁾	0.00 ⁽²⁾	0.00 ⁽²⁾	0.00 ⁽²⁾	0.00 ⁽²⁾	0.00 ⁽²⁾
NET ASSET VALUE, END OF YEAR	\$19.10	\$24.26	\$34.24	\$37.96	\$42.76
TOTAL RETURN	(15.64)%	18.93%	(1.95)%	(3.50)%	43.06%
Ratio/Supplemental Data					
Net Assets, End of Year (in 000's)	\$1,871,480	\$3,155,709	\$4,612,354	\$6,776,885	\$8,789,849
Ratio of Expenses to Average Net Assets	1.02% ⁽³⁾	1.02% ⁽³⁾	1.03% ⁽⁴⁾	1.06% ⁽⁵⁾	1.02% ⁽³⁾⁽⁶⁾
Ratio of Net Investment Income (Loss) to Average Net Assets	1.14%	1.79%	1.31%	(0.48)%	(0.29)%
Portfolio Turnover Rate	6.57%	19.19%	40.46%	1.62%	15.59%

⁽¹⁾ Based on average shares outstanding.

⁽²⁾ Redemption fees represent less than \$0.01.

⁽³⁾ 0.02% is attributable to legal expenses incurred outside of the 1.00% management fee.

⁽⁴⁾ 0.03% is attributable to legal expenses incurred outside of the 1.00% management fee and less than 0.01% is attributable to registration fees and miscellaneous expenses incurred outside of the 1.00% management fee.

⁽⁵⁾ 0.04% is attributable to legal expenses incurred outside of the 1.00% management fee and 0.02% is attributable to miscellaneous expenses incurred outside of the 1.00% management fee.

⁽⁶⁾ Less than 0.01% is attributable to interest expenses incurred outside of the 1.00% management fee.

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

THE FAIRHOLME FOCUSED INCOME FUND

SCHEDULE OF INVESTMENTS
November 30, 2017

Shares		Value	Shares		Value
DOMESTIC EQUITY SECURITIES — 10.4%			RETAIL DEPARTMENT STORES — 1.4%		
REAL ESTATE INVESTMENT TRUSTS — 10.4%			Sears Roebuck Acceptance Corp.		
568,000	Seritage Growth Properties	\$ 23,117,600	178,106	7.000% ^{(d)(e)}	\$ 1,725,847
			149,931	7.400% ^{(d)(e)}	1,430,342
TOTAL DOMESTIC EQUITY SECURITIES (COST \$22,591,281)			TOTAL DOMESTIC PREFERRED EQUITY SECURITIES (COST \$35,094,695)		
		23,117,600			3,156,189
DOMESTIC PREFERRED EQUITY SECURITIES — 16.2%			Principal		
CONSUMER FINANCE — 3.1%			DOMESTIC CORPORATE BONDS — 20.9%		
268,500	GMAC Capital Trust I, Inc. 7.201%, Series 2 ^(a)	7,013,220	CAPITAL GOODS — 9.4%		
MORTGAGE FINANCE — 9.9%			\$ 9,350,000	HC2 Holdings, Inc. 11.000%, 12/01/2019 ^(c)	9,519,235
	Federal Home Loan Mortgage Corp.		12,500,000	International Wire Group, Inc. 10.750%, 08/01/2021 ^(c)	11,396,250
1,029,724	6.550%, Series Y ^(b)	5,179,512	20,915,485		
396,000	5.100%, Series H ^(b)	3,623,400			
98,355	6.000%, Series P ^(b)	939,290			
	Federal National Mortgage Association		CONSUMER SERVICES — 1.7%		
967,500	7.000%, Series O ^{(a)(b)}	9,771,750	4,559,000	Monitronics International, Inc. 9.125%, 04/01/2020	3,848,252
500,000	6.750%, Series Q ^(b)	2,575,000	DIVERSIFIED BANKS — 1.5%		
		22,088,952	3,247,000	Bank of America Corp. 8.000% ^{(f)(g)}	3,268,105
OIL & NATURAL GAS EXPLORATION — 1.8%			OIL & GAS EQUIPMENT & SERVICES — 1.4%		
44,585	Chesapeake Energy Corp. 5.000%	2,519,053	4,000,000	Bristow Group, Inc. 6.250%, 10/15/2022	3,233,600
2,000	5.750% ^(c)	1,127,180	RETAIL DEPARTMENT STORES — 6.9%		
600	5.750% ^(c)	338,154	29,520,500	Sears Holdings Corp. 8.000%, 12/15/2019 ^{(d)(e)}	15,324,092
100	5.750% ^(c)	57,279	95,000	Sears Roebuck Acceptance Corp. 7.500%, 10/15/2027 ^{(d)(e)}	40,033
		4,041,666	11,000	6.750%, 01/15/2028 ^{(d)(e)}	4,764
			40,000	6.500%, 12/01/2028 ^{(d)(e)}	17,000
			50,000	7.000%, 06/01/2032 ^{(d)(e)}	21,170
			15,407,059		
			TOTAL DOMESTIC CORPORATE BONDS (COST \$59,766,774)		
					46,672,501

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

THE FAIRHOLME FOCUSED INCOME FUND

SCHEDULE OF INVESTMENTS (continued)
November 30, 2017

<u>Principal</u>	<u>Value</u>	<u>Principal</u>	<u>Value</u>
FOREIGN CORPORATE BONDS — 11.6%		COMMERCIAL PAPER — 22.4%	
CANADA — 11.6%		OIL & GAS STORAGE & TRANSPORTATION — 4.0%	
METALS & MINING — 11.6%		Energy Transfer Partners	
\$27,725,000	7.000%, 03/15/2019 ^(c)	\$ 25,992,187	\$ 8,995,201
TOTAL FOREIGN CORPORATE BONDS (COST \$26,869,230)		OIL & NATURAL GAS EXPLORATION — 3.6%	
		25,992,187	Canadian Natural Resources Ltd.
MUNICIPAL BONDS — 2.5%		8,000,000	1.521%, 12/04/2017 ^{(c)(h)}
WISCONSIN — 2.5%		TOTAL COMMERCIAL PAPER (COST \$49,986,670)	
Public Finance Authority,		49,985,895	
Industrial Improvements,		U.S. GOVERNMENT OBLIGATIONS — 2.2%	
Refunding Revenue,		U.S. Treasury Bills	
Taxable Pass Through,		3,000,000	1.245%, 04/26/2018 ^(h)
Natgasoline LLC		2,000,000	1.365%, 10/11/2018 ^(h)
5,512,500	10.000%, 06/30/2021 ^(c)	TOTAL U.S. GOVERNMENT OBLIGATIONS (COST \$4,961,065)	
		4,957,117	
TOTAL MUNICIPAL BONDS (COST \$5,491,840)		Shares	
		MONEY MARKET FUNDS — 10.1%	
COMMERCIAL PAPER — 22.4%		22,511,280	
BEVERAGES — 3.1%		Fidelity Investments Money	
7,000,000	1.501%, 12/08/2017 ^{(c)(h)}	Market Treasury Portfolio -	
FOOD PRODUCTS — 4.0%		Class I, 0.97% ⁽ⁱ⁾	
Conagra Brands, Inc.		22,511,280	
9,000,000	1.300%, 12/01/2017 ^{(c)(h)}	TOTAL MONEY MARKET FUNDS (COST \$22,511,280)	
		22,511,280	
INSURANCE		TOTAL INVESTMENTS — 96.3%	
BROKERS — 2.3%		(COST \$227,272,835)	
Marsh & McLennan Co., Inc.		215,055,722	
5,000,000	1.300%, 12/07/2017 ^{(c)(h)}	OTHER ASSETS IN EXCESS OF LIABILITIES — 3.7%	
		8,376,578	
LODGING — 2.7%		NET ASSETS — 100.0%	
Wyndham Worldwide Co.		\$ 223,432,300	
6,000,000	1.851%, 12/05/2017 ^{(c)(h)}		
MULTIMEDIA — 2.7%			
Viacom, Inc.			
6,000,000	1.902%, 12/11/2017 ^{(c)(h)}		

^(a) Variable rate security. Rates shown are the effective rates as of November 30, 2017.

^(b) Non-income producing security.

^(c) Restricted security as defined in Rule 144(a) under the Securities Act of 1933. The Manager has determined that such security is liquid pursuant to the Funds' liquidity guidelines. The value of these securities totals \$103,935,295, which represents 46.52% of The Income Fund's net assets.

^(d) Restricted or controlled security under procedures approved by the Directors. The value of these securities totals \$18,563,248, which represents 8.31% of The Income Fund's net assets. Information related to these securities is as follows:

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

THE FAIRHOLME FOCUSED INCOME FUND

SCHEDULE OF INVESTMENTS (continued) November 30, 2017

Shares/ Principal Amount	Issuer	Acquisition Date	Acquisition Cost	11/30/2017 Carrying Value Per Unit
\$29,520,500	Sears Holdings Corp., 8.000%	08/17/2015-05/25/2017	\$27,103,944	\$51.91
178,106	Sears Roebuck Acceptance Corp., 7.000% Preferred Stock	08/18/2015-08/28/2015	\$ 2,550,795	\$ 9.69
149,931	Sears Roebuck Acceptance Corp., 7.400% Preferred Stock	08/18/2015-08/26/2015	\$ 2,150,510	\$ 9.54
\$ 95,000	Sears Roebuck Acceptance Corp., 7.500%	08/27/2015	\$ 55,613	\$42.14
\$ 11,000	Sears Roebuck Acceptance Corp., 6.750%	08/27/2015	\$ 6,435	\$43.31
\$ 40,000	Sears Roebuck Acceptance Corp., 6.500%	08/27/2015	\$ 23,140	\$42.50
\$ 50,000	Sears Roebuck Acceptance Corp., 7.000%	08/27/2015	\$ 28,775	\$42.34

^(e) Security is deemed an illiquid security pursuant to the Funds' liquidity guidelines.

^(f) Security is perpetual in nature and has no stated maturity date.

^(g) Security is a fix-to-float security, which carries a fixed coupon until a certain date, upon which it switches to a floating rate. Rate shown is the fixed rate.

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

⁽ⁱ⁾ Annualized based on the 1-day yield as of November 30, 2017.

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

THE FAIRHOLME FOCUSED INCOME FUND

STATEMENT OF ASSETS & LIABILITIES
November 30, 2017

Assets

Investments, at Fair Value (Cost — \$227,272,835)	\$215,055,722
Receivable for Investments Sold	5,686,349
Dividends and Interest Receivable	2,871,107
Receivable for Capital Shares Sold	<u>23,357</u>
Total Assets	<u>223,636,535</u>

Liabilities

Accrued Management Fees	183,695
Payable for Capital Shares Redeemed	<u>20,540</u>
Total Liabilities	<u>204,235</u>

NET ASSETS \$223,432,300

Net Assets Consist of:

Paid-In Capital	\$224,384,952
Undistributed Net Investment Income	1,158,154
Accumulated Net Realized Gain on Investments and Foreign Currency Related Transactions	10,106,307
Net Unrealized Depreciation on Investments and Foreign Currency Related Translations	<u>(12,217,113)</u>

NET ASSETS \$223,432,300

Shares of Common Stock Outstanding* (\$0.0001 par value) 19,724,137

Net Asset Value, Offering and Redemption Price Per Share
(\$223,432,300 / 19,724,137 shares) \$ 11.33

* 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, 2017
Investment Income	
Interest	\$ 12,483,211
Dividends	<u>2,445,793</u>
Total Investment Income	<u>14,929,004</u>
Expenses	
Management Fees	<u>2,478,958</u>
Total Expenses	<u>2,478,958</u>
Net Investment Income	<u>12,450,046</u>
Realized and Unrealized Gain (Loss) on Investments and Foreign Currency Related Transactions	
Net Realized Gain on Investments and Foreign Currency Related Transactions	10,848,748
Net Change in Unrealized Appreciation (Depreciation) on Investments and Foreign Currency Related Transactions	<u>(33,646,360)</u>
Net Realized and Unrealized Gain (Loss) on Investments and Foreign Currency Related Transactions	<u>(22,797,612)</u>
NET DECREASE IN NET ASSETS FROM OPERATIONS	<u><u>\$(10,347,566)</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, 2017	For the Fiscal Year Ended November 30, 2016
CHANGES IN NET ASSETS		
From Operations		
Net Investment Income	\$ 12,450,046	\$ 11,534,166
Net Realized Gain on Investments and Foreign Currency Related Transactions	10,848,748	903,603
Net Change in Unrealized Appreciation (Depreciation) on Investments and Foreign Currency Related Translations	<u>(33,646,360)</u>	<u>29,845,680</u>
Net Increase (Decrease) in Net Assets from Operations	<u>(10,347,566)</u>	<u>42,283,449</u>
From Dividends and Distributions to Shareholders		
Net Investment Income	(12,599,960)	(11,470,063)
Net Realized Capital Gains from Investment Transactions	<u>(903,302)</u>	<u>(1,662,820)</u>
Net Decrease in Net Assets from Dividends and Distributions	<u>(13,503,262)</u>	<u>(13,132,883)</u>
From Capital Share Transactions		
Proceeds from Sale of Shares	69,952,576	44,514,853
Shares Issued in Reinvestment of Dividends and Distributions	11,829,533	12,024,846
Cost of Shares Redeemed	<u>(74,694,435)</u>	<u>(88,566,860)</u>
Net Increase (Decrease) in Net Assets from Shareholder Activity	<u>7,087,674</u>	<u>(32,027,161)</u>
NET ASSETS		
Net Decrease in Net Assets	(16,763,154)	(2,876,595)
Net Assets at Beginning of Year	<u>240,195,454</u>	<u>243,072,049</u>
Net Assets at End of Year	<u>\$223,432,300</u>	<u>\$240,195,454</u>
Undistributed Net Investment Income at End of Year	<u>\$ 1,158,154</u>	<u>\$ 2,027,146</u>
SHARES TRANSACTIONS		
Issued	5,609,488	4,398,347
Reinvested	994,924	1,172,678
Redeemed	<u>(6,282,407)</u>	<u>(8,851,045)</u>
Net Increase (Decrease) in Shares	322,005	(3,280,020)
Shares Outstanding at Beginning of Year	<u>19,402,132</u>	<u>22,682,152</u>
Shares Outstanding at End of Year	<u>19,724,137</u>	<u>19,402,132</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,				
	2017	2016	2015	2014	2013
PER SHARE OPERATING PERFORMANCE					
NET ASSET VALUE, BEGINNING OF YEAR	\$12.38	\$10.72	\$10.82	\$11.98	\$10.02
Investment Operations					
Net Investment Income ⁽¹⁾	0.60	0.57	0.45	0.22	0.46
Net Realized and Unrealized Gain (Loss) on Investments	(0.99)	1.72	0.03	(0.51)	2.12
Total from Investment Operations	(0.39)	2.29	0.48	(0.29)	2.58
Dividends and Distributions					
From Net Investment Income	(0.61)	(0.56)	(0.43)	(0.19)	(0.62)
From Realized Capital Gains	(0.05)	(0.07)	(0.15)	(0.68)	—
Total Dividends and Distributions	(0.66)	(0.63)	(0.58)	(0.87)	(0.62)
NET ASSET VALUE, END OF YEAR	\$11.33	\$12.38	\$10.72	\$10.82	\$11.98
TOTAL RETURN	(3.35)%	22.77%	4.60%	(2.67)%	26.91%
Ratio/Supplemental Data					
Net Assets, End of Year (in 000's)	\$223,432	\$240,195	\$243,072	\$216,047	\$246,988
Ratio of Expenses to Average Net Assets	1.00%	1.00%	1.00%	1.00%	1.00%
Ratio of Net Investment Income to Average Net Assets	5.02%	5.48%	4.14%	1.94%	4.28%
Portfolio Turnover Rate	36.05%	28.81%	67.05%	38.86%	42.87%

⁽¹⁾ Based on average shares outstanding.

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

THE FAIRHOLME ALLOCATION FUND

SCHEDULE OF INVESTMENTS
November 30, 2017

Shares		Value	Shares		Value
	DOMESTIC EQUITY			RIGHTS — 0.0%	
	SECURITIES — 36.3%			METALS & MINING — 0.0%	
	REAL ESTATE INVESTMENT		2,239,153	Imperial Metals Corp.,	
	TRUSTS — 24.5%			Expire 12/22/2017 ^(c)	\$ 43,389
687,318	Seritage Growth Properties	\$ 27,973,843	TOTAL RIGHTS		
			(COST \$0)		43,389
	REAL ESTATE MANAGEMENT			WARRANTS — 0.2%	
	& DEVELOPMENT — 6.9%			RETAIL DEPARTMENT	
426,748	The St. Joe Co. ^{(a)(b)(c)}	7,835,093	404,785	STORES — 0.2%	
				Sears Holdings Corp.,	
	RETAIL DEPARTMENT			Vested, Strike Price \$25.686,	
	STORES — 4.9%			Expire 12/15/2019 ^{(a)(b)(c)(f)}	182,153
1,425,398	Sears Holdings Corp. ^{(a)(b)(c)}	5,630,322	TOTAL WARRANTS		
	TOTAL DOMESTIC EQUITY SECURITIES		(COST \$2,980,059)		182,153
	(COST \$89,688,132)	41,439,258			
	FOREIGN EQUITY		Principal		
	SECURITIES — 3.5%			DOMESTIC CORPORATE	
	CANADA — 3.5%			BONDS — 6.3%	
	METALS & MINING — 3.5%			CAPITAL GOODS — 4.1%	
2,239,153	Imperial Metals Corp. ^(c)	4,026,535	\$5,121,000	International Wire Group, Inc.	
	TOTAL FOREIGN EQUITY SECURITIES			10.750%, 08/01/2021 ^(e)	4,668,816
	(COST \$26,313,866)	4,026,535			
	DOMESTIC PREFERRED			CONSUMER	
	EQUITY			SERVICES — 2.2%	
	SECURITIES — 35.0%			2,929,000	Monitronics International, Inc.
	MORTGAGE FINANCE — 32.5%			9.125%, 04/01/2020	2,472,368
	Federal Home Loan Mortgage			TOTAL DOMESTIC CORPORATE BONDS	
	Corp.			(COST \$7,604,951)	7,141,184
2,795,969	7.875%, Series Z ^{(c)(d)}	18,593,194			
	Federal National Mortgage			COMMERCIAL	
	Association			PAPER — 13.1%	
2,757,818	7.750%, Series S ^{(c)(d)}	18,449,802		BEVERAGES — 3.5%	
		37,042,996		4,000,000	Molson Coors Brewing Co.
				1.501%, 12/08/2017 ^{(e)(g)}	3,998,781
	OIL & NATURAL GAS			LODGING — 2.6%	
	EXPLORATION — 2.5%			3,000,000	Wyndham Worldwide Co.
	Chesapeake Energy Corp.			1.851%, 12/05/2017 ^{(e)(g)}	2,999,276
5,121	5.750% ^(e)	2,886,144		OIL & GAS STORAGE &	
	TOTAL DOMESTIC PREFERRED			TRANSPORTATION — 2.6%	
	EQUITY SECURITIES			3,000,000	Energy Transfer Partners
	(COST \$28,250,699)	39,929,140		1.951%, 12/11/2017 ^{(e)(g)}	2,998,400

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

THE FAIRHOLME ALLOCATION FUND

SCHEDULE OF INVESTMENTS (continued)
November 30, 2017

<u>Principal</u>	<u>Value</u>	<u>Shares</u>	<u>Value</u>
COMMERCIAL PAPER (CONTINUED) — 13.1%			
OIL & NATURAL GAS EXPLORATION — 4.4%			
\$5,000,000 Canadian Natural Resources Ltd. 1.430%, 12/07/2017 ^{(c)(g)}	\$ 4,998,406		
TOTAL COMMERCIAL PAPER (COST \$14,995,399)	<u>14,994,863</u>		
U.S. GOVERNMENT OBLIGATIONS — 4.3%			
5,000,000 U.S. Treasury Bills 1.404%, 05/17/2018 ^(g)	4,968,021		
TOTAL U.S. GOVERNMENT OBLIGATIONS (COST \$4,968,108)	<u>4,968,021</u>		
		MONEY MARKET FUNDS — 1.2%	
		1,372,116 Fidelity Investments Money Market Treasury Portfolio - Class I, 0.97% ^(h)	\$ 1,372,116
		TOTAL MONEY MARKET FUNDS (COST \$1,372,116)	<u>1,372,116</u>
		TOTAL INVESTMENTS — 99.9% (COST \$176,173,330)	114,096,659
		OTHER ASSETS IN EXCESS OF LIABILITIES — 0.1%	93,490
		NET ASSETS — 100.0%	<u>\$ 114,190,149</u>

^(a) Restricted and controlled security under procedures approved by the Directors. The value of these securities totals \$13,647,568, which represents 11.95% of The Allocation Fund's net assets. Information related to these securities is as follows:

<u>Shares</u>	<u>Issuer</u>	<u>Acquisition</u> <u>Date(s)</u>	<u>Acquisition</u> <u>Cost</u>	<u>11/30/2017</u> <u>Carrying Value</u> <u>Per Unit</u>
1,425,398	Sears Holdings Corp.	12/16/2011-12/11/2014	\$53,325,603	\$ 3.95
404,785	Sears Holdings Corp., Warrants, Vested, Strike Price \$25.686, Expire 12/15/2019	11/17/2014-11/24/2014	\$ 2,980,059	\$ 0.45
426,748	The St. Joe Co.	08/08/2017-09/05/2017	\$ 8,066,747	\$18.36

^(b) Security is deemed an illiquid security pursuant to the Funds' liquidity guidelines.

^(c) Non-income producing security.

^(d) Variable rate security. Rates shown are the effective rates as of November 30, 2017.

^(e) Restricted security as defined in Rule 144(a) under the Securities Act of 1933. The Manager has determined that such security is liquid pursuant to the Funds' liquidity guidelines. The value of these securities totals \$22,549,823 which represents 19.75% of The Allocation Fund's net assets.

^(f) 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 1:1.11.

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

^(h) Annualized based on the 1-day yield as of November 30, 2017.

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

THE FAIRHOLME ALLOCATION FUND

STATEMENT OF ASSETS & LIABILITIES
November 30, 2017

Assets

Investments, at Fair Value (Cost — \$176,173,330)	\$114,096,659
Interest Receivable	235,974
Total Assets	<u>114,332,633</u>

Liabilities

Accrued Management Fees	116,316
Payable for Capital Shares Redeemed	26,168
Total Liabilities	<u>142,484</u>

NET ASSETS \$114,190,149

Net Assets Consist of:

Paid-In Capital	\$175,169,850
Undistributed Net Investment Income	1,633,932
Distributions in Excess of Net Realized Gain on Investments and Foreign Currency Related Transactions	(536,962)
Net Unrealized Depreciation on Investments and Foreign Currency Related Translations	<u>(62,076,671)</u>

NET ASSETS \$114,190,149

Shares of Common Stock Outstanding* (\$0.0001 par value)	<u>15,354,878</u>
Net Asset Value, Offering and Redemption Price Per Share (\$114,190,149 / 15,354,878 shares)	<u>\$ 7.44</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, 2017
Investment Income	
Interest	\$ 3,397,099
Dividends	<u>1,060,300</u>
Total Investment Income	<u>4,457,399</u>
Expenses	
Management Fees	<u>2,032,317</u>
Total Expenses	<u>2,032,317</u>
Net Investment Income	<u>2,425,082</u>
Realized and Unrealized Loss on Investments, Redemption In-Kind, and Foreign Currency Related Transactions	
Net Realized Loss on Investments and Foreign Currency Related Transactions	(230,253)
Net Realized Loss on Redemption In-Kind	(5,852,146)
Net Change in Unrealized Appreciation (Depreciation) on Investments and Foreign Currency Related Translations	<u>(38,175,810)</u>
Net Realized and Unrealized Loss on Investments, Redemption In-Kind, and Foreign Currency Related Transactions	<u>(44,258,209)</u>
NET DECREASE IN NET ASSETS FROM OPERATIONS	<u><u>\$(41,833,127)</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, 2017	For the Fiscal Year Ended November 30, 2016
CHANGES IN NET ASSETS		
From Operations		
Net Investment Income	\$ 2,425,082	\$ 4,185,984
Net Realized Gain (Loss) on Investments, Redemption In-Kind, and Foreign Currency Related Transactions	(6,082,399)	11,621,080
Net Change in Unrealized Appreciation (Depreciation) on Investments and Foreign Currency Related Translations	<u>(38,175,810)</u>	<u>2,115,196</u>
Net Increase (Decrease) in Net Assets from Operations	<u>(41,833,127)</u>	<u>17,922,260</u>
From Dividends and Distributions to Shareholders		
Net Investment Income	(4,526,968)	(8,437,431)
Net Realized Capital Gains from Investment Transactions	<u>(11,620,764)</u>	<u>(36,408,537)</u>
Net Decrease in Net Assets from Dividends and Distributions	<u>(16,147,732)</u>	<u>(44,845,968)</u>
From Capital Share Transactions		
Proceeds from Sale of Shares	6,761,226	29,640,495
Shares Issued in Reinvestment of Dividends and Distributions	15,699,837	44,238,410
Redemption Fees	6,814	8,431
Cost of Shares Redeemed	(86,895,673)	(84,989,762)
Cost of Shares Redeemed In-Kind	<u>(22,902,409)</u>	<u>—</u>
Net Decrease in Net Assets from Shareholder Activity	<u>(87,330,205)</u>	<u>(11,102,426)</u>
NET ASSETS		
Net Decrease in Net Assets	(145,311,064)	(38,026,134)
Net Assets at Beginning of Year	<u>259,501,213</u>	<u>297,527,347</u>
Net Assets at End of Year	<u>\$ 114,190,149</u>	<u>\$259,501,213</u>
Undistributed Net Investment Income at End of Year	<u>\$ 1,633,932</u>	<u>\$ 3,978,466</u>
SHARES TRANSACTIONS		
Issued	810,064	3,699,085
Reinvested	1,796,320	5,323,515
Redeemed	(10,962,667)	(10,730,450)
Redeemed In-Kind	<u>(3,189,751)</u>	<u>—</u>
Net Decrease in Shares	<u>(11,546,034)</u>	<u>(1,707,850)</u>
Shares Outstanding at Beginning of Year	<u>26,900,912</u>	<u>28,608,762</u>
Shares Outstanding at End of Year	<u>15,354,878</u>	<u>26,900,912</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,				
	2017	2016	2015	2014	2013
PER SHARE OPERATING PERFORMANCE					
NET ASSET VALUE, BEGINNING OF YEAR	\$9.65	\$10.40	\$12.57	\$13.82	\$9.33
Investment Operations					
Net Investment Income (Loss) ⁽¹⁾	0.10	0.14	0.35	(0.10)	(0.09)
Net Realized and Unrealized Gain (Loss) on Investments	(1.71)	0.75	(1.38)	(1.15)	4.64
Total from Investment Operations	(1.61)	0.89	(1.03)	(1.25)	4.55
Dividends and Distributions					
From Net Investment Income	(0.17)	(0.31)	—	—	(0.06)
From Realized Capital Gains	(0.43)	(1.33)	(1.14)	—	—
Total Dividends and Distributions	(0.60)	(1.64)	(1.14)	—	(0.06)
Redemption Fees ⁽¹⁾	0.00 ⁽²⁾	0.00 ⁽²⁾	0.00 ⁽²⁾	0.00 ⁽²⁾	0.00 ⁽²⁾
NET ASSET VALUE, END OF YEAR	\$7.44	\$9.65	\$10.40	\$12.57	\$13.82
TOTAL RETURN	(17.59)%	11.06%	(8.88)%	(9.04)%	49.09%
Ratio/Supplemental Data					
Net Assets, End of Year (in 000's)	\$114,190	\$259,501	\$297,527	\$378,750	\$359,470
Ratio of Expenses to Average Net Assets	1.00%	1.00%	1.00%	1.00%	1.01% ⁽³⁾
Ratio of Net Investment Income (Loss) to Average Net Assets	1.19%	1.81%	3.09%	(0.73)%	(0.80)%
Portfolio Turnover Rate	31.01%	13.65%	39.24%	33.15%	35.97%

⁽¹⁾ Based on average shares outstanding.

⁽²⁾ Redemption fees represent less than \$0.01.

⁽³⁾ 0.01% is attributable to interest expense incurred outside of the 1.00% management fee.

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. 700,000,000 shares have been allocated to The Fairholme Fund (“The Fairholme Fund”), 200,000,000 shares have been allocated to The Fairholme Focused Income Fund (“The Income Fund”), and 200,000,000 shares have been allocated to The Fairholme Allocation Fund (“The Allocation Fund”). The Fairholme Fund, The Income Fund, and The Allocation Fund (each a “Fund” and collectively the “Funds”) are non-diversified funds. The Funds may have a greater percentage of their assets invested in particular securities than a diversified fund, exposing the Funds to the risk of unanticipated industry conditions as well as risks specific to a single company or the securities of a single company. Each Fund has different objectives, capitalizations, and considerations that may or may not lead to differing compositions of issuers, securities within an issuer, and cash levels within each Fund. 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 Fairholme Fund’s investment objective is to provide long-term growth of capital. Under normal circumstances, The Fairholme Fund seeks to achieve its investment objective by investing in a focused portfolio of equity and fixed-income securities. The proportion of The Fairholme Fund’s assets invested in each type of asset class will vary from time to time based upon Fairholme Capital Management, L.L.C.’s (the “Manager”) assessment of general market and economic conditions. The Fairholme Fund may invest in, and may shift frequently among, the asset classes and market sectors. The equity securities in which The Fairholme Fund may invest include common and preferred stock (including convertible preferred stock), partnership interests, business trust shares, interests in real estate investment trusts (“REITs”), rights and warrants to subscribe for the purchase of equity securities, and depository receipts. The Fairholme Fund may invest in equity securities without regard to the jurisdictions in which the issuers of the securities are organized or situated and without regard to the market capitalizations or sectors of such issuers. The fixed-income securities in which The Fairholme Fund may invest include U.S. corporate debt securities, non-U.S. corporate debt securities, bank debt (including bank loans and participations), U.S. government and agency debt securities (including U.S. Treasury bills), short-term debt obligations of foreign governments, and foreign money market instruments. Except for its investments in short-term debt obligations of foreign governments, The Fairholme Fund may invest in fixed-income securities regardless of maturity or the rating of the issuer of the security. The Fairholme Fund may also invest in “special situations” to achieve its objective. “Special situation” investments may include equity securities or fixed-income securities, such as corporate debt, which may be in a distressed position as a result of economic or company specific developments. Although The Fairholme Fund normally holds a focused portfolio of equity and fixed-income securities, The Fairholme 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. The Manager serves as investment adviser to The Fairholme Fund.

The Income Fund’s investment objective is to seek current income. Under normal circumstances, The Income 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 Income 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 REITs. Although The Income Fund normally holds a focused portfolio of securities, The Income 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. The Manager serves as investment adviser to The Income Fund.

The Allocation Fund’s investment objective is to seek long-term total return. Under normal circumstances, The Allocation 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 Allocation Fund’s portfolio invested

in each asset class will vary from time to time based on the Manager's 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 Allocation Fund seeks to capitalize on anticipated fluctuations in the financial markets by changing the mix of its holdings in the targeted asset classes. The Allocation 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 Allocation Fund.

There is no guarantee that the Funds will meet their respective objectives.

Note 2. Significant Accounting Policies

As investment companies, the Funds follow the investment company accounting and reporting guidance, which is part of U.S. generally accepted accounting principles ("U.S. GAAP"). The Funds' investments are reported at fair value as defined by U.S. GAAP. The Funds calculate their net asset values 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 Funds' 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 determined using market quotations when readily available, but may also be determined 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, 2017, 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 of valuations from independent pricing services. Although fixed-income securities are classified in Level 2 of the fair value hierarchy at November 30, 2017, in instances where significant unobservable inputs are used, 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 Funds' 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. As of December 3, 2015, the Manager was deemed to be an affiliate of Sears Holdings

Corporation (“Sears”) for purposes of the Securities Act of 1933 and Rule 144. This determination was made based on a number of factors, including the collective ownership of Sears by the Funds and other investment entities managed by the Manager. The Sears securities are considered control securities under Rule 144 and are treated as restricted securities for purposes of the Company’s valuation and liquidity procedures. Due to the restrictions on resale, the securities are generally valued at a discount to similar publicly traded securities. Depending on the relative significance of valuation inputs, these instruments may be classified in either Level 2 or Level 3 of the fair value hierarchy.

Warrants: The Funds 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 Funds use 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.

Subject to the oversight of the Board, 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 fair valued 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 Funds’ 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).

FAIRHOLME FUNDS, INC.

NOTES TO FINANCIAL STATEMENTS (continued)
November 30, 2017

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 Funds' investments by inputs used to value the Funds' investments as of November 30, 2017, is as follows:

	Valuation Inputs		Total Fair Value at 11/30/17
	Level 1 – Quoted Prices	Level 2 – Other Significant Observable Inputs	
THE FAIRHOLME FUND			
ASSETS:			
INVESTMENTS (Fair Value):			
Domestic Equity Securities			
Retail Department Stores	\$ —	\$ 53,467,164	\$ 53,467,164
Other Industries*	516,290,022	—	516,290,022
Foreign Equity Securities*	12,636,868	—	12,636,868
Domestic Preferred Equity Securities			
Mortgage Finance	479,019,453	—	479,019,453
Retail Department Stores	—	144,378	144,378
Rights*	92,971	—	92,971
Warrants*	—	98,289	98,289
Domestic Corporate Bonds*	—	165,259,768	165,259,768
Foreign Corporate Bonds*	—	134,271,563	134,271,563
Commercial Paper*	—	371,866,987	371,866,987
U.S. Government Obligations	—	124,727,812	124,727,812
Money Market Funds	10,489,864	—	10,489,864
TOTAL INVESTMENTS	<u>\$1,018,529,178</u>	<u>\$849,835,961</u>	<u>\$1,868,365,139</u>
THE INCOME FUND			
ASSETS:			
INVESTMENTS (Fair Value):			
Domestic Equity Securities*	\$ 23,117,600	\$ —	\$ 23,117,600
Domestic Preferred Equity Securities			
Oil & Natural Gas Exploration	2,519,053	1,522,613	4,041,666
Retail Department Stores	—	3,156,189	3,156,189
Other Industries*	29,102,172	—	29,102,172
Domestic Corporate Bonds*	—	46,672,501	46,672,501
Foreign Corporate Bonds*	—	25,992,187	25,992,187
Municipal Bonds*	—	5,519,115	5,519,115
Commercial Paper*	—	49,985,895	49,985,895
U.S. Government Obligations	—	4,957,117	4,957,117
Money Market Funds	22,511,280	—	22,511,280
TOTAL INVESTMENTS	<u>\$ 77,250,105</u>	<u>\$137,805,617</u>	<u>\$ 215,055,722</u>

FAIRHOLME FUNDS, INC.

NOTES TO FINANCIAL STATEMENTS (continued)
November 30, 2017

	Valuation Inputs		Total Fair Value at 11/30/17
	Level 1 – Quoted Prices	Level 2 – Other Significant Observable Inputs	
THE ALLOCATION FUND			
ASSETS:			
INVESTMENTS (Fair Value):			
Domestic Equity Securities			
Real Estate Investment Trusts	\$27,973,843	\$ —	\$ 27,973,843
Retail Department Stores	—	5,630,322	5,630,322
Real Estate Management & Development	—	7,835,093	7,835,093
Foreign Equity Securities*	4,026,535	—	4,026,535
Domestic Preferred Equity Securities			
Oil & Natural Gas Exploration	—	2,886,144	2,886,144
Mortgage Finance	37,042,996	—	37,042,996
Rights*	43,389	—	43,389
Warrants*	—	182,153	182,153
Domestic Corporate Bonds*	—	7,141,184	7,141,184
Commercial Paper*	—	14,994,863	14,994,863
U.S. Government Obligations	—	4,968,021	4,968,021
Money Market Funds	1,372,116	—	1,372,116
TOTAL INVESTMENTS	<u>\$70,458,879</u>	<u>\$43,637,780</u>	<u>\$114,096,659</u>

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

The Funds had no transfers between Level 1 and Level 2 during the year ended November 30, 2017. The Funds' policy is to recognize transfers among Levels as of the beginning of the reporting period.

There were no Level 3 investments at November 30, 2017 or November 30, 2016.

Warrants: The Funds' investments in warrants as of November 30, 2017 are presented within the Schedules of Investments.

The Fairholme Fund's and The Allocation Fund's warrant positions during the year ended November 30, 2017, had an average monthly market value of approximately \$535,996 and \$1,141,305, respectively.

As of November 30, 2017, The Fairholme Fund's and The Allocation Fund's value of warrants with equity risk exposure of \$98,289 and \$182,153, respectively, is included with Investments at Fair Value on the Statement of Assets and Liabilities. For the year ended November 30, 2017, The Fairholme Fund's and The Allocation Fund's effect of the net change in unrealized appreciation/(depreciation) of warrants with equity risk exposure of \$(698,237) and \$(1,314,528), respectively, is included with the Net Change in Unrealized Appreciation (Depreciation) on Investments and Foreign Currency Related Translations on the Statements of Operations, and realized losses from warrants with equity risk exposure of \$(64,707) and \$(319,151), respectively, is included in Net Realized Gain (Loss) on Investments and Foreign Currency Related Transactions on the Statements of Operations.

Dividends and Distributions: The Funds record dividends and distributions to shareholders on the ex-dividend date. The Fairholme Fund and The Allocation Fund intend to distribute substantially all of their net investment income (if any) as dividends to their respective shareholders on an annual basis in December. The Income Fund intends to declare and pay net investment income distributions, if any, quarterly in March, June, September, and December. The Funds intend 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 Funds 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 Funds do 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 Funds to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of increases and decreases in net assets from operations during the reported period. Actual results could differ from those estimates.

Redemption Fee: The Fairholme Fund and The Allocation Fund assess a 2% fee on the proceeds of The Fairholme Fund and The Allocation Fund shares that are redeemed within 60 days of their purchase. The redemption fee is paid to The Fairholme Fund and The Allocation Fund, as applicable, for the benefit of remaining shareholders and is recorded as paid-in capital. The redemption fees retained by The Fairholme Fund and The Allocation Fund during the fiscal years ended November 30, 2017 and November 30, 2016, amounted to \$136,808 and \$212,693, and \$6,814 and \$8,431, respectively.

During the year ended November 30, 2017, The Fairholme Fund and The Fairholme Allocation Fund delivered portfolio securities and cash in exchange for shares redeemed by shareholders in in-kind redemptions. For financial reporting purposes, the Fund recognized a net loss on the transfer of securities; however, for tax purposes the transaction was treated as a tax free exchange and the loss has been reclassified from undistributed realized gain (loss) to paid-in capital. The Fairholme Fund and The Fairholme Allocation Fund realized (\$2,649,939) and (\$5,852,146) of net losses attributable to the in-kind redemption, respectively.

Other: The Funds account 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 Funds 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 Funds paid commissions, other brokerage fees, and registration fees during the period. The Fairholme Fund also paid legal expenses in connection with its investments in Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation.

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, each Fund pays a management fee to the Manager for its provision of investment advisory and operating services to each 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 each Fund. The Manager is responsible pursuant to the Investment Management Agreement for

paying each 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 each Fund: commissions, brokerage fees, issue and transfer taxes, and other costs chargeable to each Fund in connection with securities transactions or in connection with securities owned by each Fund, taxes, interest, acquired fund fees and related expenses, expenses in connection with litigation by or against each Fund, and any other extraordinary expenses.

The Manager earned \$24,295,975, \$2,478,958, and \$2,032,317, from The Fairholme Fund, The Income Fund, and The Allocation Fund, respectively, for its services during the year ended November 30, 2017.

Bruce Berkowitz, both the Chief Investment Officer of the Manager and Chairman of the Funds' Board, and his affiliates beneficially own an aggregate 7,604,186 shares, 1,750,580 shares, and 6,465,023 shares of The Fairholme Fund, The Income Fund, and The Allocation Fund, respectively, at November 30, 2017.

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

Note 4. Investments

For the year ended November 30, 2017, aggregated purchases and sales of investment securities other than short-term investments, redemptions in-kind of Fund shares, and U.S. government obligations were as follows:

	<u>Purchases</u>	<u>Sales</u>
The Fairholme Fund	\$128,833,407	\$1,033,792,819
The Income Fund	65,869,842	113,116,811
The Allocation Fund	48,194,875	100,060,589

Note 5. Tax Matters

Federal Income Taxes: Each 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, each 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 depreciation of investments at November 30, 2017, were as follows:

	<u>Cost</u>	<u>Gross Unrealized Appreciation</u>	<u>Gross Unrealized Depreciation</u>	<u>Net Unrealized Depreciation</u>
The Fairholme Fund	\$2,811,339,020	\$138,590,040	\$(1,081,563,921)	\$(942,973,881)
The Income Fund	227,376,513	6,107,301	(18,428,092)	(12,320,791)
The Allocation Fund	176,307,321	11,844,303	(74,054,965)	(62,210,662)

The difference between book basis and tax basis for The Fairholme Fund's net unrealized depreciation is attributable to the tax deferral of losses on wash sales and capitalized cost. The difference between book basis and tax basis for The Income Fund's and The Allocation Fund's net unrealized depreciation is attributable to capitalized cost.

FAIRHOLME FUNDS, INC.

NOTES TO FINANCIAL STATEMENTS (continued)
November 30, 2017

The Funds' tax basis capital gains are determined only at the end of each fiscal year. As of November 30, 2017 the components of distributable earnings on a tax basis were as follows:

	<u>The Fairholme Fund</u>	<u>The Income Fund</u>	<u>The Allocation Fund</u>
Undistributed Ordinary Income*	\$ 24,854,693	\$ 2,277,296	\$ 1,633,932
Capital Loss carryforwards	(3,891,045)	—	(402,970)
Net Long-Term Capital Gain	—	9,090,843	—
Net Unrealized Appreciation/(Depreciation) on Investments and Foreign Currency Related Transactions	(942,973,881)	(12,320,791)	(62,210,663)
Total	<u>\$ (922,010,233)</u>	<u>\$ (952,652)</u>	<u>\$ (60,979,701)</u>

* Inclusive of short-term capital gain, if any.

The Funds are permitted to carry forward for an unlimited period capital losses incurred to reduce future required distributions of net capital gains to shareholders. Capital losses that are carried forward will retain their character as either short term or long term capital losses. As of November 30, 2017, net long term capital loss carryforwards were as follows:

	<u>The Fairholme Fund</u>	<u>The Allocation Fund</u>
Long term capital loss carryforward	\$3,891,045	\$402,970

The Manager has analyzed the Funds' 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 Funds' 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 Funds are 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 each Fund were as follows:

	<u>The Fairholme Fund</u>	
	<u>For the Fiscal Year Ended November 30, 2017*</u>	<u>For the Fiscal Year Ended November 30, 2016*</u>
Dividends and Distributions paid from:		
Ordinary Income	\$ 54,441,970	\$ 73,575,252
Long-Term Capital Gain	150,461,057	1,509,019,832
	<u>\$204,903,027</u>	<u>\$1,582,595,084</u>

* Total distributions paid differs from the Statement of Changes in Net Assets due to the utilization of equalization.

FAIRHOLME FUNDS, INC.

NOTES TO FINANCIAL STATEMENTS (continued)
November 30, 2017

The Income Fund

	<u>For the Fiscal Year Ended November 30, 2017*</u>	<u>For the Fiscal Year Ended November 30, 2016</u>
Dividends and Distributions paid from:		
Ordinary Income**	\$13,445,804	\$11,998,072
Long-Term Capital Gain	<u>1,401,141</u>	<u>1,134,811</u>
	<u>\$14,846,945</u>	<u>\$13,132,883</u>

* Total distributions paid differs from the Statement of Changes in Net Assets due to the utilization of equalization.

** Inclusive of short-term capital gains.

The Allocation Fund

	<u>For the Fiscal Year Ended November 30, 2017*</u>	<u>For the Fiscal Year Ended November 30, 2016</u>
Dividends and Distributions paid from:		
Ordinary Income**	\$ 9,301,676	\$14,439,971
Long-Term Capital Gain	<u>7,088,565</u>	<u>30,405,997</u>
	<u>\$16,390,241</u>	<u>\$44,845,968</u>

* Total distributions paid differs from the Statement of Changes in Net Assets due to the utilization of equalization.

** Inclusive of short-term capital gains.

The Funds declared and made payable the following distribution on December 15, 2017.

	<u>The Fairholme Fund</u>	<u>The Income Fund</u>	<u>The Allocation Fund</u>
Dividends and Distributions paid from:			
Ordinary Income	\$24,854,760	\$ 2,168,421	\$1,817,019
Short-Term Capital Gain	—	1,108,368	—
Long-Term Capital Gain	—	<u>9,090,968</u>	—
	<u>\$24,854,760</u>	<u>\$12,367,757</u>	<u>\$1,817,019</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 were primarily due to the disallowance of certain non-tax deductible expenses for the Fund. As of November 30, 2017, the Fund recorded the following reclassifications to increase (decrease) the accounts listed below:

	<u>The Fairholme Fund</u>	<u>The Income Fund</u>	<u>The Allocation Fund</u>
Undistributed Net Investment Income	\$(2,761,907)	\$(719,078)	\$ (242,648)
Accumulated Net Realized Gain	2,650,135	(624,605)	5,852,287
Paid-in-Capital	111,772	1,343,683	(5,609,639)

FAIRHOLME FUNDS, INC.

NOTES TO FINANCIAL STATEMENTS (continued)
November 30, 2017

Note 8. Transactions in Shares of Affiliates

Portfolio companies in which The Fairholme Fund owns 5% or more of the outstanding voting securities of the issuer are considered affiliates of The Fairholme Fund. The aggregate fair value of all securities of affiliates held in The Fairholme Fund as of November 30, 2017 amounted to \$798,857,260, representing approximately 42.69% of The Fairholme Fund's net assets.

Transactions in The Fairholme Fund during the year ended November 30, 2017, in which the issuer was an affiliate are as follows:

	November 30, 2016	Gross Additions	Gross Deductions	November 30, 2017		Realized Gain (Loss)	Investment Income	Change in Unrealized Appreciation/Depreciation
	Shares/ Par Value	Shares/ Par Value	Shares/ Par Value	Shares/ Par Value	Fair Value			
Imperial Metals Corp.	7,152,813	—	125,461	7,027,352	\$ 12,636,868	\$ (481,375)	\$ —	\$ (18,577,388)
Lands' End, Inc. ^(a)	2,415,527	—	2,415,527	—	—	—	—	—
Sears Holdings Corp.	14,497,773	—	961,782	13,535,991	53,467,164	(67,258,674)	—	(55,306,846)
Sears Canada, Inc. ^(a)	10,075,672	—	10,075,672	—	—	—	—	—
Seritage Growth Properties	2,084,600	140,000	39,020	2,185,580	88,953,106	69,842	2,189,600	(14,445,561)
The St. Joe Co.	23,136,502	—	405,815	22,730,687	427,336,916	1,251,493	—	(47,605,660)
Sears Roebuck Acceptance Corp. 7.400%	15,405	—	271	15,134	144,378	(1,837)	28,499	(25,145)
Sears Holdings Corp., Vested, Strike Price \$25.686, Expire 12/15/2019	222,319	—	3,900	218,419	98,289	(64,707)	—	(698,237)
Imperial Metals Corp., Expire 12/22/2017	—	7,027,352	2,229,500	4,797,852	92,971	70,137	—	92,971
Imperial Metals Corp. 7.000%, 03/15/2019	\$156,780,000	\$ —	\$13,557,000	\$143,223,000	134,271,563	(981,985)	13,282,897	(3,892,717)
Sears Holdings Corp. 6.625%, 10/15/2018	\$ 7,715,000	\$ —	\$ 135,000	\$ 7,580,000	5,867,678	23,600	496,886	(1,325,158)
Sears Holdings Corp. 8.000%, 12/15/2019	\$143,408,000	\$ —	\$ 2,515,000	\$140,893,000	73,137,556	(1,141,284)	11,148,895	(57,321,223)
Sears Roebuck Acceptance Corp. 6.875%, 10/15/2017 ^(a)	\$ 823,000	\$ —	\$ 823,000	\$ —	—	—	—	—
Sears Roebuck Acceptance Corp. 7.500%, 10/15/2027	\$ 6,886,000	\$ —	\$ 121,000	\$ 6,765,000	2,850,771	(40,034)	599,041	(1,035,206)
Total					<u>\$798,857,260</u>	<u>\$(68,554,824)</u>	<u>\$27,745,818</u>	<u>\$(200,140,170)</u>

^(a) Security is no longer held in the portfolio at November 30, 2017.

Note 9. 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 Funds. In the normal course of business the Company or the Funds enter into contracts that contain a variety of representations and customary indemnifications. The Funds' maximum exposure under these arrangements is unknown as this would involve future claims that may be made against the Funds that have not yet occurred. However, based on their experience to date, the Funds expect the risk of loss to be remote.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors of Fairholme Funds, Inc. and Shareholders of The Fairholme Fund, The Fairholme Focused Income Fund, and The Fairholme Allocation Fund:

We have audited the accompanying statements of assets and liabilities, including the schedules of investments, of The Fairholme Fund, The Fairholme Focused Income Fund, and The Fairholme Allocation Fund, each a series comprising Fairholme Funds, Inc. (the “Funds”) as of November 30, 2017, and the related statements 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 Funds’ 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 Funds are not required to have, nor were we engaged to perform, an audit of their 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 Funds’ 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, 2017, by correspondence with the custodians and brokers. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of The Fairholme Fund, The Fairholme Focused Income Fund, and The Fairholme Allocation Fund as of November 30, 2017, the results of their operations for the year then ended, the changes in their 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 29, 2018

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 59	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., and Director, Sears Holdings Corporation (until October 2017)
Cesar L. Alvarez, Esq.* Age 70	Mr. Alvarez has served as a Director of the Company since May 19, 2008.	Senior Chairman of Greenberg Traurig, LLP effective January 1, 2016; Executive Chairman and Co-Chairman from 2010 to 2015; and Chief Executive Officer from 1997 to 2010.	3	Chairman, Board of Directors, Mednax, Inc.; Director, Intrexon Corp.; Director, The St. Joe Co.; Director, Watsco, Inc.; and Director, Sears Holdings Corporation (until May 2017)
Howard S. Frank* Age 76	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; and Director, The St. Joe Co.
Independent Directors^				
Terry L. Baxter Age 72	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
Steven J. Gilbert Age 70	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.; Lead Independent Director, Empire State Realty Trust; Lead Independent Director, TRI Pointe Homes, Inc.; Director, Waterpik, Inc.; Director, Oaktree Capital Group; Director, MBIA, Inc.; and Director, Trade Informatics, Inc. (until March 2016)
Avivith Oppenheim, Esq. Age 67	Ms. Oppenheim has served as a Director of the Company since December 15, 1999.	Attorney-at-Law.	3	None.
Leigh Walters, Esq. Age 71	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 ("Independent Directors").

* Each of Mr. Berkowitz and Mr. Alvarez is an interested person of the Company, ("Interested Director"), as defined in the 1940 Act, because of his affiliation with the Manager. Effective May 25, 2017, Mr. Frank is deemed to be an Interested Director because of his material relationship with a Portfolio Company of which a Fund currently has "control" as defined by the 1940 Act.

** 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.

FAIRHOLME FUNDS, INC.

ADDITIONAL INFORMATION (continued)
November 30, 2017

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 43	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 48	Treasurer	Mr. Kellner has served as Treasurer of the Company since March 2012.	President, Fairholme Holdings L.L.C. since January 2017; Chief Operating Officer, Fairholme Capital Management, L.L.C. since June 2014; and Chief Financial Officer, Fairholme Capital Management, L.L.C. since January 2012.
Paul R. Thomson Age 61	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.	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 31, 2017, the Board of Directors (the “Board” or the “Directors”) of Fairholme Funds, Inc. (the “Company”) approved the renewal of each of the investment management agreements (each an “Agreement” and collectively, the “Agreements”) between the Company, on behalf of each of The Fairholme Fund (“The Fairholme Fund”), The Fairholme Focused Income Fund (“The Income Fund”) and The Fairholme Allocation Fund (“The Allocation Fund”) (each a “Fund” and collectively, the “Funds”), and Fairholme Capital Management, L.L.C. (the “Manager”). In considering whether to approve the renewal of the Agreements, the Directors considered the factors discussed below, and information made available to them at the meeting relating to such factors, and other information the Directors deemed relevant. The Directors’ approval of the renewal of the Agreements was not, however, based on any single factor, but on an evaluation of the totality of factors and information they reviewed and evaluated.

A. Nature, Extent and Quality of Services

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

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

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

B. Investment Performance

The Directors considered information regarding each Fund’s performance and the Manager’s views on performance. The Directors also considered the holdings of each Fund that contributed negatively and positively to such Fund’s performance, and the Manager’s views of the investment rationale and outlook for the Funds’ holdings. They also discussed the Manager’s long-term investment approach generally, noting that the Funds’ holdings, and the Manager’s management of the Funds’ portfolios, were consistent with disclosures in each Fund’s prospectus.

The Fairholme Fund

The Directors considered information about the short- and long-term investment performance of The Fairholme Fund, including information comparing The Fairholme Fund’s cumulative and annualized performance with the comparable performance of the S&P 500 Index, for the 1-year, 3-year, 5-year, 10-year and since-inception periods ended August 31, 2017. The Directors also reviewed and considered a third-party report (from Lipper/Broadridge (“Lipper”)) comparing The Fairholme Fund’s annualized performance with the annualized performance of similarly situated mutual funds for the 1-year, 3-year, 5-year, 10-year and since inception periods ended August 31, 2017. They noted The Fairholme Fund’s annualized performance lagged

(a) both the average and median annualized performance of the Lipper peer group, and (b) the performance of the S&P 500 Index, for all the applicable periods, except for the period since inception through August 31, 2017.

The Income Fund

The Directors considered information about the investment performance of The Income Fund, including information comparing The Income Fund's performance to that of the Bloomberg Barclays Capital U.S. Aggregate Bond Index (the "Bloomberg Barclays Bond Index"), its benchmark, for the 1-year, 3-year, 5-year and since inception periods ended August 31, 2017. The Directors also reviewed information reflecting The Income Fund's performance relative to its Lipper peer group's average and median annualized performance for the same periods. The Directors noted The Income Fund's annualized performance exceeded both (a) the average and median annualized performance of its Lipper peer group, and (b) the performance of the Bloomberg Barclays Bond Index for all the applicable periods ended August 31, 2017.

The Allocation Fund

The Directors considered information about the investment performance of The Allocation Fund, including information reflecting the performance of The Allocation Fund relative to the annualized performance of both the Bloomberg Barclays Bond Index and the S&P 500 Index for the 1-year, 3-year, 5-year and since inception periods ended August 31, 2017. The Directors also reviewed information reflecting The Allocation Fund's annualized performance relative to its Lipper peer group's average and median annualized performance for the same periods. The Directors noted The Allocation Fund's annualized performance lagged both the average and median annualized performance of the peer group for all the applicable periods ended August 31, 2017. It was also noted that The Allocation Fund's annualized performance lagged the performance of both the S&P 500 Index and Bloomberg Barclays Bond Index for all the applicable periods ended August 31, 2017, with the exception of the Bloomberg Barclays Bond Index for the 5-year and since inception periods.

As to each Fund, 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 information about each Fund's total returns. In so doing, the Board acknowledged the disciplined, long term value-investing strategy employed by the Manager in advising the Funds.

C. Management Fees and Expense Ratios

The Directors considered information about each Fund's management fee and expense ratio, including information in the Lipper report comparing each Fund's management fee and most recent total expense ratio to the advisory fees and expense ratios of other similarly situated mutual funds.

In evaluating the management fee and expense ratio information, the Directors took into account the demands and complexity of portfolio management for each 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 each 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.

The Directors also considered the Manager's voluntary undertaking to waive a portion of its investment management fee and the terms of that undertaking. Based on all these facts, the Directors concluded that each Fund's management fee and overall expense ratio are reasonable in light of the services provided by or through the Manager.

D. Profitability

The Directors considered information regarding the estimated profitability of each Fund to the Manager. They considered such profitability in light of each 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 each Agreement.

E. Economies of Scale

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

The Directors, including a majority of the Directors who are not parties to any of the Agreements or interested persons of any such party, concluded, based on their consideration of the foregoing and their evaluation of all of the information they reviewed, that the renewal of the Agreements was in the best interest of the Funds and their shareholders. The Directors noted that their decision was based on an evaluation of the totality of factors and information presented or available to them, and not on any one factor, report, representation or response.

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 each Fund's portfolio. A description of these policies and procedures, and records of how each Fund voted proxies relating to their portfolio securities during the most recent twelve month period ended June 30, 2017, 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 (866) 202-2263. 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).

Shareholder Tax Information (unaudited)

The Fairholme Fund, The Income Fund, and The Allocation Fund reported \$204,903,027, \$14,846,945, and \$16,390,241 of total distributions paid during the fiscal year ended November 30, 2017, and \$150,461,057, \$1,401,141, and \$7,088,565 of that represented long-term capital gain distributions, respectively.

The information below is reported for the Funds' fiscal year and not calendar year. Therefore, shareholders should refer to their Form 1099-DIV or other tax information which will be mailed in 2018 to determine the calendar year amounts to be included on their 2017 tax returns. Shareholders should consult their own tax advisors.

FAIRHOLME FUNDS, INC.

ADDITIONAL INFORMATION (continued)
November 30, 2017

Please note that, for the fiscal year ended November 30, 2017, the respective percentages of ordinary income distributions paid by the Fund were reported as follows:

<u>Distribution Period November 30, 2017</u>	<u>The Fairholme Fund</u>	<u>The Income Fund</u>	<u>The Allocation Fund</u>
Qualified Dividend Income for Individuals	8.92%	15.95%	17.64%
Dividends Qualifying for the Dividends Received Deduction for Corporations	6.60%	15.94%	17.04%
Qualifying Interest Income	56.42%	58.02%	85.38%
Qualifying Short-term Gain	0.00%	100.00%	100.00%
U.S. Treasury Securities	0.39%	0.23%	0.23%

* 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

BNY MELLON INVESTMENT SERVICING (US) INC.
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