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2017 SEMI-ANNUAL REPORT

FAIRHOLME

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FAIRHOLME

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PORTFOLIO MANAGER'S REPORT
FAIRHOLME FUNDS, INC.

July 2017

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

July 31, 2017

Fairholme Shareholders and Directors:

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

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

Fannie Mae and Freddie Mac

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

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

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

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

Sears, et al.

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

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

St. Joe

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

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

Imperial Metals and Others

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

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

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

Summary

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

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

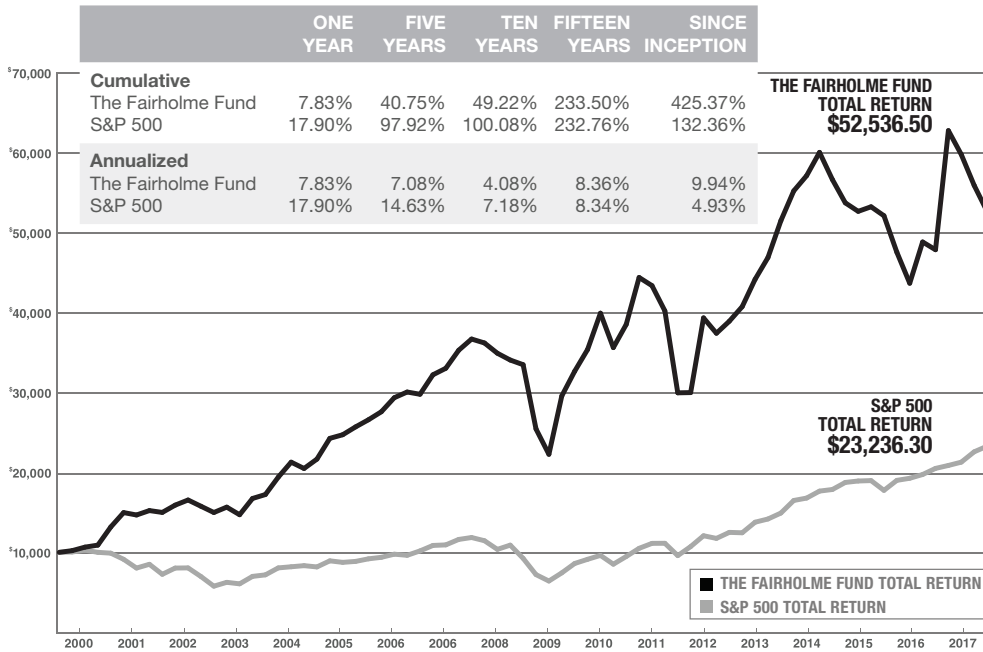
Thank you for your trust and patience.

Respectfully submitted,



Bruce R. Berkowitz
Chief Investment Officer

The Fairholme Fund



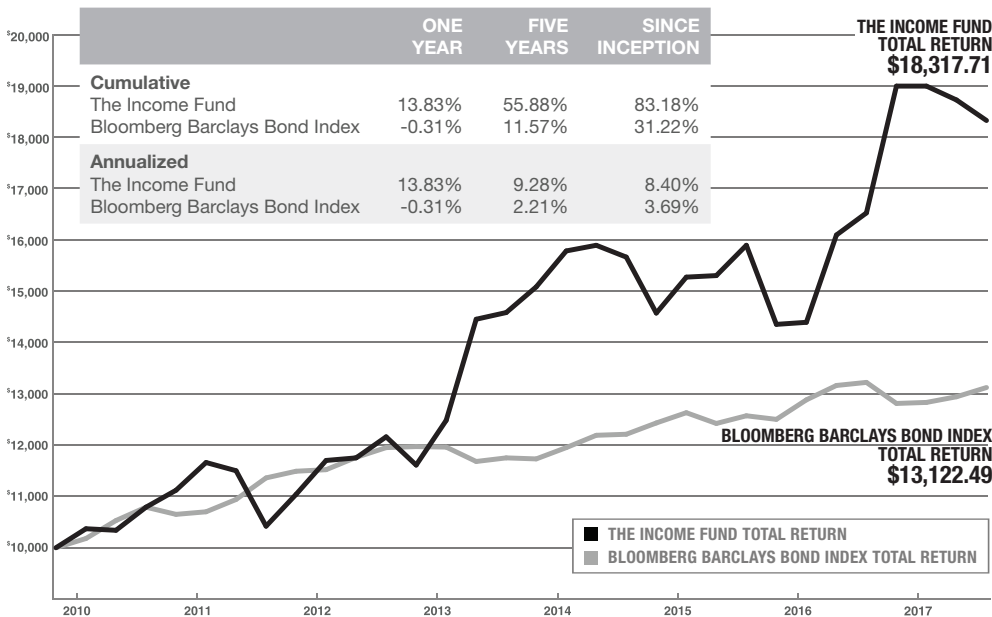
TOP 10 ISSUERS (% OF NET ASSETS)

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

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

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

The Income Fund



TOP 10 ISSUERS (% OF NET ASSETS)

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

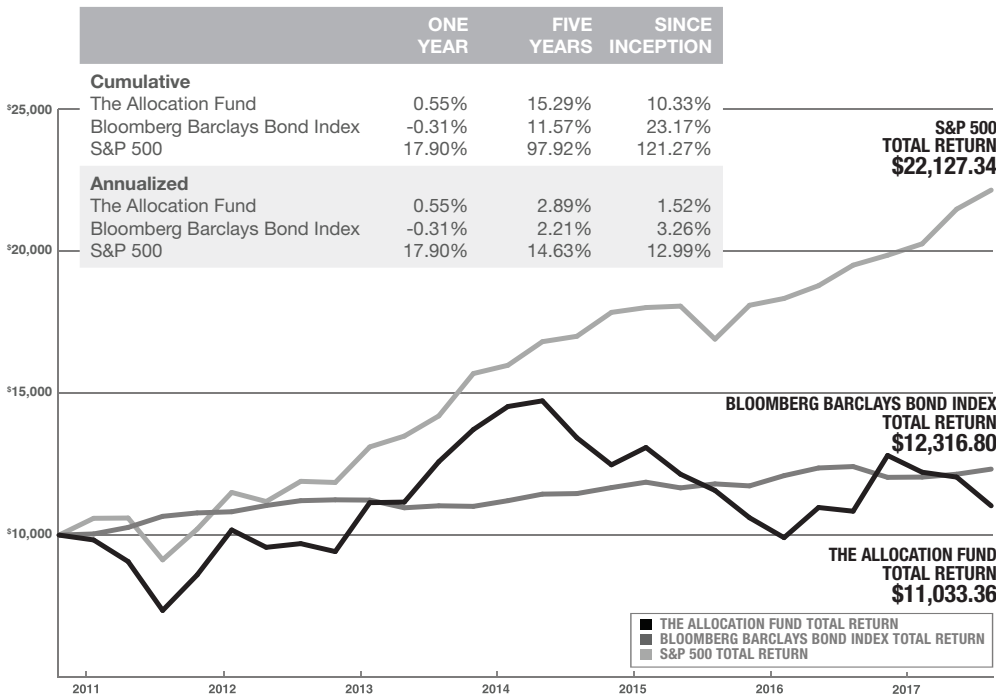
The Income Fund's 30-Day SEC Yield at June 30, 2017, was 4.54%.

The chart on the left covers the period from inception of The Income Fund (December 31, 2009) through June 30, 2017.

The Income Fund decreased 3.53% versus a 2.27% gain for the Bloomberg Barclays Bond Index for the six-month period that ended June 30, 2017. Since inception, The Income Fund increased 83.18% versus 31.22% for the Bloomberg Barclays Bond Index. The above graph and performance table compare The Income Fund's unaudited performance (after expenses) with that of the Bloomberg Barclays Bond Index, with dividends and distributions reinvested, for various periods ending June 30, 2017. The value of a \$10,000 investment in The Income Fund at its inception was worth \$18,318 (assumes reinvestment of distributions into additional Income Fund shares) compared to \$13,122 for the Bloomberg Barclays Bond Index at June 30, 2017. Of the \$18,318, the value of reinvested distributions was \$6,868. The net assets of The Income Fund are \$247 million at June 30, 2017.

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

The Allocation Fund



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

The Allocation Fund's 30-Day SEC Yield at June 30, 2017, was 0.62%.

The chart on the left covers the period from inception of The Allocation Fund (December 31, 2010) through June 30, 2017.

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

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

Fairholme Distributors, LLC (7/17)

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

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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

Semi-Annual Report

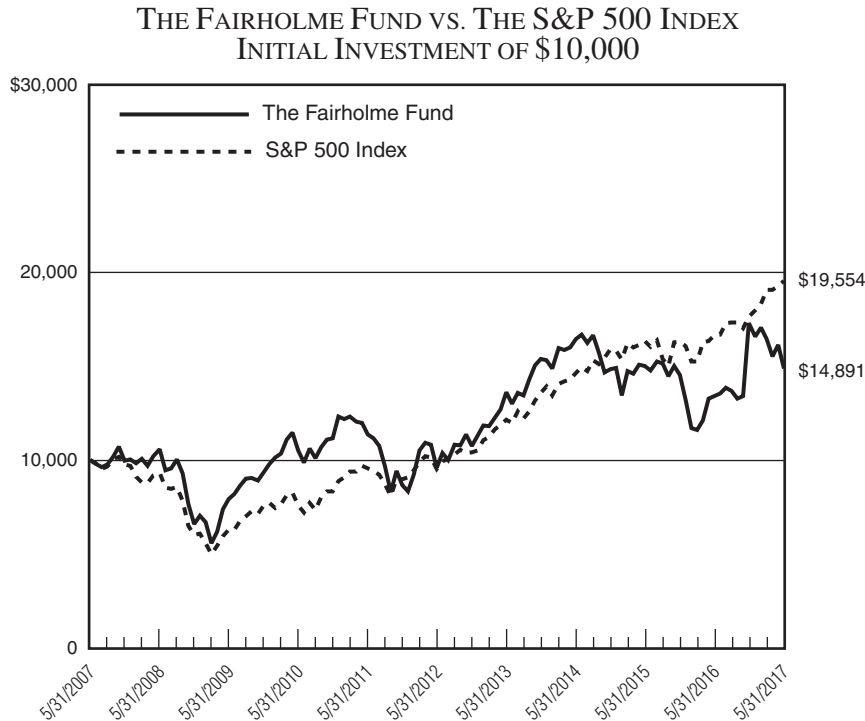
May 31, 2017

Managed by Fairholme Capital Management

FAIRHOLME FUNDS, INC.

TABLE OF CONTENTS
May 31, 2017

	<u>Page</u>
MANAGEMENT DISCUSSION & ANALYSIS	
FUND PERFORMANCE:	
THE FAIRHOLME FUND	3
THE FAIRHOLME FOCUSED INCOME FUND	4
THE FAIRHOLME ALLOCATION FUND	5
MANAGEMENT DISCUSSION & ANALYSIS REPORT	6
EXPENSE EXAMPLE	11
THE FAIRHOLME FUND:	
SCHEDULE OF INVESTMENTS	12
STATEMENT OF ASSETS & LIABILITIES	15
STATEMENT OF OPERATIONS	16
STATEMENTS OF CHANGES IN NET ASSETS	17
FINANCIAL HIGHLIGHTS	18
THE FAIRHOLME FOCUSED INCOME FUND:	
SCHEDULE OF INVESTMENTS	19
STATEMENT OF ASSETS & LIABILITIES	22
STATEMENT OF OPERATIONS	23
STATEMENTS OF CHANGES IN NET ASSETS	24
FINANCIAL HIGHLIGHTS	25
THE FAIRHOLME ALLOCATION FUND:	
SCHEDULE OF INVESTMENTS	26
STATEMENT OF ASSETS & LIABILITIES	28
STATEMENT OF OPERATIONS	29
STATEMENTS OF CHANGES IN NET ASSETS	30
FINANCIAL HIGHLIGHTS	31
NOTES TO FINANCIAL STATEMENTS	32
ADDITIONAL INFORMATION	41

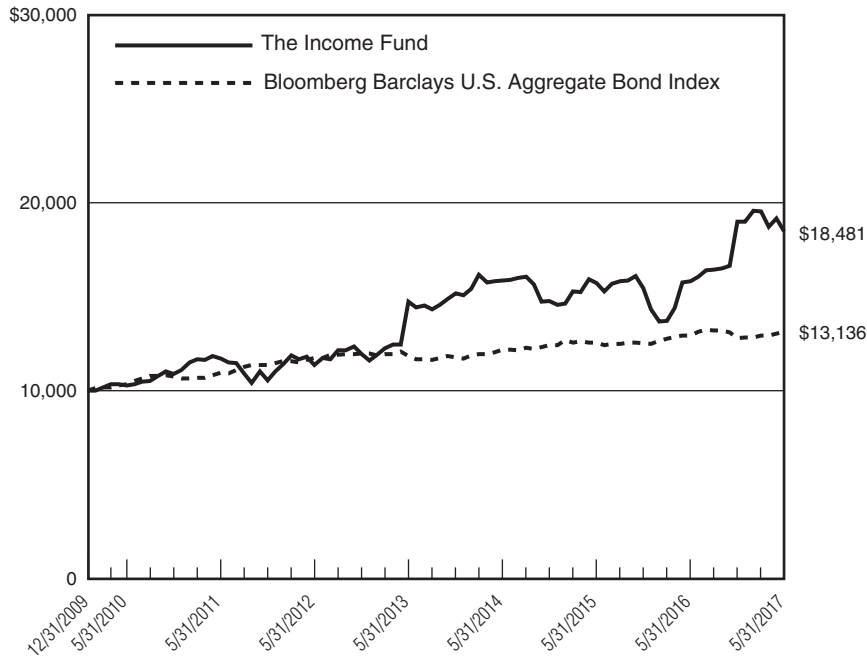


The Fairholme Fund (“The Fairholme Fund”) commenced operations on December 29, 1999. The chart above presents the performance of a \$10,000 investment for up to ten years to the latest semi-annual period ending May 31, 2017.

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

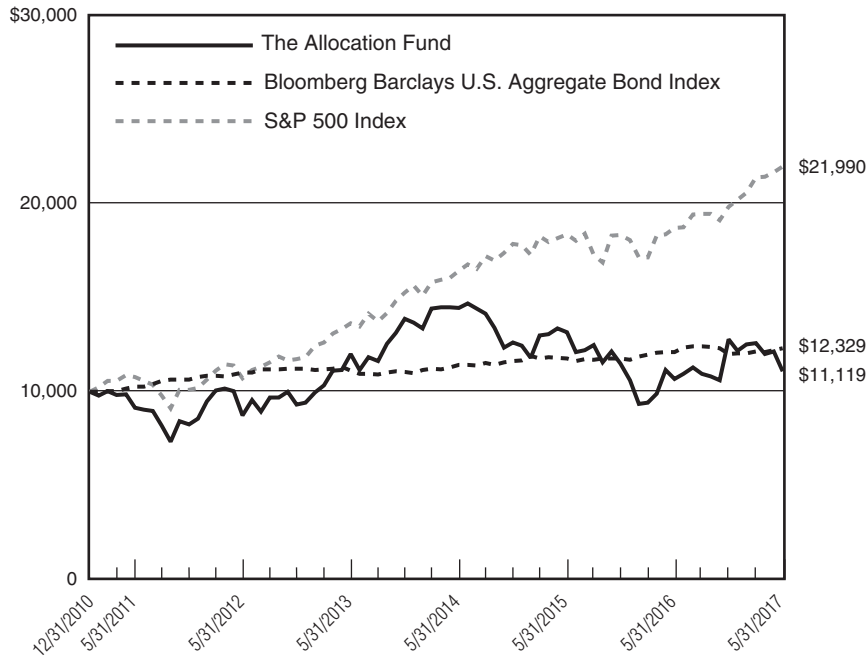


The Fairholme Focused Income Fund (“The Income Fund”) commenced operations on December 31, 2009. The chart above presents the performance of a \$10,000 investment from inception to the latest semi-annual period ending May 31, 2017.

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 semi-annual period ending May 31, 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 six months ended May 31, 2017

The Fairholme Fund, The Income Fund, and The Allocation Fund (each a “Fund” and collectively, the “Funds”) shares outstanding and unaudited net asset value per share (“NAV”) at May 31, 2017, the end of the Funds’ second fiscal quarter of 2017, and NAVs at other pertinent dates, were as follows:

	05/31/2017 Shares Outstanding	05/31/2017 NAV (unaudited)	11/30/2016 NAV (audited)	05/31/2016 NAV (unaudited)
The Fairholme Fund	117,673,184	\$19.47	\$24.26	\$18.81
The Income Fund	21,500,880	\$11.69	\$12.38	\$10.60
The Allocation Fund	23,912,638	\$ 7.84	\$ 9.65	\$ 8.05

At June 30, 2017, the unaudited NAVs of The Fairholme Fund, The Income Fund, and The Allocation Fund were \$19.12, \$11.45, and \$7.78 per share, respectively.

Performance figures below are shown for the Funds’ semi-annual period ended May 31, 2017, and do not match calendar year figures for the period ended June 30, 2017, cited in the Portfolio Manager’s report.

The Fairholme Fund Performance to 05/31/2017	Six Months	One Year	Five Years	Ten Years	Fifteen Years	Since Inception 12/29/1999
Cumulative:						
The Fairholme Fund	(14.01)%	10.91%	54.97%	48.91%	221.58%	434.98%
S&P 500 Index	10.81%	17.47%	104.79%	95.54%	207.14%	130.92%
Annualized:						
The Fairholme Fund		10.91%	9.16%	4.06%	8.10%	10.10%
S&P 500 Index		17.47%	15.42%	6.94%	7.77%	4.92%

For the six months ended May 31, 2017, The Fairholme Fund was outperformed by the S&P 500 Index (“S&P 500”) by 24.82 percentage points while over the last year The Fairholme Fund was outperformed by the S&P 500 by 6.56 percentage points. From inception, The Fairholme Fund outperformed the S&P 500 by 5.18 percentage points per annum, or on a cumulative basis, 304.06 percentage points over seventeen years and five months.

The Income Fund Performance to 05/31/2017	Six Months	One Year	Five Year	Since Inception 12/31/2009
Cumulative:				
The Income Fund		(2.67)%	16.67%	62.60%
Bloomberg Barclays Bond Index		2.52%	1.58%	11.72%
Annualized:				
The Income Fund			16.67%	10.21%
Bloomberg Barclays Bond Index			1.58%	2.24%

FAIRHOLME FUNDS, INC.

MANAGEMENT DISCUSSION & ANALYSIS (continued) For the six months ended May 31, 2017

For the six months ended May 31, 2017, The Income Fund was outperformed by the Bloomberg Barclays U.S. Aggregate Bond Index (“Bloomberg Barclays Bond Index”) by 5.19 percentage points while over the last year The Income Fund outperformed the Bloomberg Barclays Bond Index by 15.09 percentage points. From inception, The Income Fund outperformed the Bloomberg Barclays Bond Index by 4.89 percentage points per annum, or on a cumulative basis, 53.44 percentage points over seven years and five months.

The Allocation Fund Performance to 05/31/2017	Six Months	One Year	Five Year	Since Inception 12/31/2010
Cumulative:				
The Allocation Fund	(13.16)%	4.10%	27.21%	11.18%
Bloomberg Barclays Bond Index	2.52%	1.58%	11.72%	23.29%
S&P 500 Index	10.81%	17.47%	104.79%	119.90%
Annualized:				
The Allocation Fund		4.10%	4.93%	1.67%
Bloomberg Barclays Bond Index		1.58%	2.24%	3.32%
S&P 500 Index		17.47%	15.42%	13.06%

For the six months ended May 31, 2017, The Allocation Fund was outperformed by the Bloomberg Barclays Bond Index and the S&P 500 by 15.68 and 23.97 percentage points, respectively, while over the last year The Allocation Fund outperformed the Bloomberg Barclays Bond Index by 2.52 percentage points and was outperformed by the S&P 500 by 13.37 percentage points. From inception, The Allocation Fund was outperformed by the Bloomberg Barclays Bond Index and the S&P 500 by 1.65 and 11.39 percentage points per annum, respectively, or on a cumulative basis, 12.11 and 108.72 percentage points over six years and five 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 May 31, 2017, cash and cash equivalents (consisting of cash, commercial paper, deposit accounts, U.S. Treasury Bills, and money-market funds)

FAIRHOLME FUNDS, INC.

MANAGEMENT DISCUSSION & ANALYSIS (continued) For the six months ended May 31, 2017

represented 23.0%, 27.9%, and 24.9% of The Fairholme Fund, The Income Fund, and The Allocation Fund total 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 six months ended May 31, 2017.

The most significant losses in each of the Funds related to negative developments in the Mortgage Finance, Real Estate Investment Trust, and Retail Department Store sectors. Investments in the Telecommunication Services and Oil and Gas sectors saw some gains during the six months ended.

The Manager made no changes to the core investment strategies and techniques it employs during the six months ended May 31, 2017.

For the six months ended May 31, 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 Federal National Mortgage Association ("Fannie"), Federal Home Loan Mortgage Corp. ("Freddie"), Sears Holdings Corp. ("Sears"), The St. Joe Co., and Seritage Growth Properties ("Seritage"). The following charts show the top holdings by issuer and sector in descending order of net assets as of May 31, 2017.

The Fairholme Fund Top Holdings by Issuer* (% of Net Assets)		The Fairholme Fund Top Sectors (% of Net Assets)	
The St. Joe Co.	17.9%	Mortgage Finance	33.1%
Federal National Mortgage Association	16.9%	Cash and Cash Equivalents**	23.1%
Federal Home Loan Mortgage Corp.	16.2%	Real Estate Management & Development	17.9%
Sears Holdings Corp.	9.7%	Retail Department Stores	10.2%
Imperial Metals Corp.	7.5%	Metals & Mining	7.5%
Seritage Growth Properties	3.8%	Real Estate Investment Trusts	3.8%
Monitronics International, Inc.	2.1%	Consumer Services	2.1%
Lands' End, Inc.	1.6%	Retailer	1.6%
Sears Canada, Inc.	0.4%		
Sears Hometown and Outlet Stores, Inc.	0.1%		
	<u>76.2%</u>		<u>99.3%</u>

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

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

FAIRHOLME FUNDS, INC.

MANAGEMENT DISCUSSION & ANALYSIS (continued) For the six months ended May 31, 2017

For the six months ended May 31, 2017, The Income Fund investments that were the biggest contributors to positive performance were Atwood, Intelsat, Chesapeake, and Imperial Metals Corp. (“Imperial”). The biggest contributors to negative performance were investments in Fannie, Freddie, Sears, and Seritage. The following charts show the top holdings by issuer and sector in descending order of net assets as of May 31, 2017.

The Income Fund Top Holdings by Issuer* (% of Net Assets)		The Income Fund Top Sectors (% of Net Assets)	
Imperial Metals Corp.	10.4%	Cash and Cash Equivalents**	28.1%
Sears Holdings Corp.	10.0%	Mortgage Finance	13.9%
Seritage Growth Properties	8.9%	Real Estate Investment Trusts	10.5%
Federal National Mortgage Association	7.1%	Metals & Mining	10.4%
Federal Home Loan Mortgage Corp.	6.8%	Retail Department Stores	10.0%
GMAC Capital Trust I, Inc.	4.4%	Capital Goods	7.3%
Monitronics International, Inc.	4.2%	Consumer Finance	4.4%
HC2 Holdings, Inc.	3.8%	Consumer Services	4.2%
International Wire Group, Inc.	3.5%	Chemicals	2.1%
Public Finance Authority	2.1%	Oil & Natural Gas Exploration	1.3%
	<u>61.2%</u>		<u>92.2%</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 six months ended May 31, 2017, The Allocation Fund investments that were the biggest contributors to positive performance were Intelsat, Atwood, and Chesapeake. The biggest contributors to negative performance were investments in Sears, Freddie, Fannie, Seritage, Imperial, and Sears Canada, Inc. The following charts show the top holdings by issuer and sector in descending order of net assets as of May 31, 2017.

The Allocation Fund Top Holdings by Issuer* (% of Net Assets)		The Allocation Fund Top Sectors (% of Net Assets)	
Seritage Growth Properties	20.4%	Mortgage Finance	28.0%
Federal National Mortgage Association	14.7%	Cash and Cash Equivalents**	24.9%
Federal Home Loan Mortgage Corp.	13.3%	Real Estate Investment Trusts	20.4%
Sears Holdings Corp.	7.5%	Retail Department Stores	8.5%
Imperial Metals Corp.	5.1%	Metals & Mining	5.1%
Monitronics International, Inc.	4.4%	Consumer Services	4.4%
Lands' End, Inc.	2.2%	Retailer	2.2%
Atwood Oceanics, Inc.	1.2%	Oil & Gas Drilling	1.2%
Sears Canada, Inc.	1.0%		
	<u>69.8%</u>		<u>94.7%</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 six months ended May 31, 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 own an aggregate 5,990,308, 1,708,477, and 10,641,952 shares of The Fairholme Fund, The Income Fund, and The Allocation Fund, respectively, at May 31, 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 May 31, 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 December 1, 2016
through May 31, 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 December 1, 2016, and held for the entire six month period ending May 31, 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 December 1, 2016</u>	<u>Ending Account Value May 31, 2017</u>	<u>Annualized Expense Ratio</u>	<u>Expenses Paid During the Period December 1, 2016 Through May 31, 2017*</u>
The Fairholme Fund				
Actual	\$1,000.00	\$ 859.90	1.00%	\$4.64
Hypothetical (5% return before expenses)	\$1,000.00	\$1,019.95	1.00%	\$5.04
The Income Fund				
Actual	\$1,000.00	\$ 973.30	1.00%	\$4.92
Hypothetical (5% return before expenses)	\$1,000.00	\$1,019.95	1.00%	\$5.04
The Allocation Fund				
Actual	\$1,000.00	\$ 868.40	1.00%	\$4.66
Hypothetical (5% return before expenses)	\$1,000.00	\$1,019.95	1.00%	\$5.04

* Expenses are equal to each Fund’s annualized expense ratio, multiplied by the average account value over the period, multiplied by 182 days/365 days (to reflect the one-half year period).

THE FAIRHOLME FUND

SCHEDULE OF INVESTMENTS May 31, 2017 (unaudited)

<u>Shares</u>		<u>Value</u>	<u>Shares</u>		<u>Value</u>
	DOMESTIC EQUITY			DOMESTIC PREFERRED EQUITY	
	SECURITIES — 27.9%			SECURITIES — 33.1%	
	REAL ESTATE INVESTMENT			MORTGAGE FINANCE — 33.1%	
	TRUSTS — 3.8%			Federal Home Loan Mortgage	
2,224,600	Seritage Growth Properties ^(a)	\$ 87,315,550		Corp.	
	REAL ESTATE MANAGEMENT		45,877,348	7.875%, Series Z ^{(b)(e)}	\$ 284,439,558
	& DEVELOPMENT — 17.9%		5,750,575	5.570%, Series V ^(b)	27,602,760
23,136,502	The St. Joe Co. ^{(a)(b)(c)}	408,359,260	1,614,250	1.380%, Series M ^{(b)(e)}	14,528,250
	RETAIL DEPARTMENT		2,726,100	6.550%, Series Y ^(b)	13,685,022
	STORES — 4.6%		1,308,929	1.600%, Series B ^{(b)(e)}	11,400,771
14,497,773	Sears Holdings Corp. ^{(a)(b)(c)(d)}	103,949,033	1,119,600	5.100%, Series H ^(b)	10,188,360
640,300	Sears Hometown and Outlet		286,042	1.680%, Series L ^{(b)(e)}	2,462,822
	Stores, Inc. ^(b)	1,952,915	450,000	5.900%, Series U ^(b)	2,205,000
		105,901,948	437,340	5.660%, Series W ^(b)	2,121,099
	RETAILER — 1.6%		200,000	5.000%, Series F ^(b)	1,850,000
2,096,300	Lands' End, Inc. ^{(a)(b)}	36,894,880		Federal National Mortgage	
	TOTAL DOMESTIC EQUITY SECURITIES			Association	
	(COST \$1,642,230,462)	638,471,638	50,350,619	7.750%, Series S ^{(b)(e)}	322,243,962
	FOREIGN EQUITY		2,687,543	7.000%, Series O ^{(b)(e)}	27,412,938
	SECURITIES — 1.5%		3,558,097	4.500%, Series P ^{(b)(e)}	17,968,390
	CANADA — 1.5%		1,500,000	7.625%, Series R ^(b)	8,475,000
	METALS & MINING — 1.1%		1,557,500	6.750%, Series Q ^(b)	8,099,000
7,152,813	Imperial Metals Corp. ^{(a)(b)}	26,104,575	254,900	0.570%, Series G ^{(b)(e)}	2,574,490
	RETAIL DEPARTMENT				757,257,422
	STORES — 0.4%			RETAIL DEPARTMENT STORES — 0.0%	
10,075,672	Sears Canada, Inc. ^{(a)(b)}	9,370,375	15,405	Sears Roebuck Acceptance Corp.	
	TOTAL FOREIGN EQUITY SECURITIES			7.400% ^{(a)(c)(d)}	135,410
	(COST \$152,946,738)	35,474,950		TOTAL DOMESTIC PREFERRED	
				EQUITY SECURITIES	
				(COST \$602,650,459)	757,392,832

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

THE FAIRHOLME FUND

SCHEDULE OF INVESTMENTS (continued)
May 31, 2017 (unaudited)

Shares	Value	Principal	Value
WARRANTS — 0.0%		COMMERCIAL	
RETAIL DEPARTMENT		PAPER — 20.4%	
STORES — 0.0%		AUTOMOTIVE RETAIL — 4.3%	
222,319	Sears Holdings Corp., Vested, Strike Price \$25.686, Expire 12/15/2019 ^{(a)(b)(c)(d)(f)}	\$33,000,000	AutoNation, Inc. 1.400%, 06/01/2017 ^{(g)(h)}
	\$549,128	18,000,000	1.400%, 06/02/2017 ^{(g)(h)}
TOTAL WARRANTS		40,500,000	1.451%, 06/06/2017 ^{(g)(h)}
(COST \$3,947,990)	549,128	8,000,000	1.400%, 06/07/2017 ^{(g)(h)}
Principal			99,485,396
DOMESTIC CORPORATE		DIVERSIFIED	
BONDS — 7.3%		TELECOMMUNICATIONS — 0.9%	
CONSUMER		20,000,000	Telus Corp. 1.181%, 06/07/2017 ^{(g)(h)}
\$ 49,700,000	Monitronics International, Inc. 9.125%, 04/01/2020		19,995,489
	47,612,600	40,000,000	ENERGY SERVICES — 1.8% Duke Energy Corp. 1.120%, 06/05/2017 ^{(g)(h)}
RETAIL DEPARTMENT			39,993,589
STORES — 5.2%		FOOD PRODUCTS — 1.0%	
7,715,000	Sears Holdings Corp. 6.625%, 10/15/2018 ^{(a)(c)(d)}	21,600,000	Kraft Heinz Co. 1.251%, 06/12/2017 ^{(g)(h)}
143,408,000	8.000%, 12/15/2019 ^{(a)(c)(d)}		21,589,675
	7,086,999	HOUSEHOLD PRODUCTS — 1.6%	
823,000	Sears Roebuck Acceptance Corp. 6.875%, 10/15/2017 ^{(a)(c)(d)}	13,150,000	Newell Rubbermaid, Inc. 1.240%, 06/01/2017 ^{(g)(h)}
6,886,000	7.500%, 10/15/2027 ^{(a)(c)(d)}	23,000,000	1.250%, 06/02/2017 ^{(g)(h)}
	3,091,814		36,147,657
	118,576,701	LODGING — 1.1%	
TOTAL DOMESTIC CORPORATE BONDS		17,500,000	Wyndham Worldwide Co. 1.301%, 06/01/2017 ^{(g)(h)}
(COST \$206,794,490)	166,189,301	8,000,000	1.301%, 06/06/2017 ^{(g)(h)}
FOREIGN CORPORATE			7,998,095
BONDS — 6.4%		OIL & GAS STORAGE &	
CANADA — 6.4%		TRANSPORTATION — 4.4%	
METALS & MINING — 6.4%		Energy Transfer Partners	
156,780,000	Imperial Metals Corp. 7.000%, 03/15/2019 ^{(a)(g)}	15,500,000	1.651%, 06/05/2017 ^{(g)(h)}
	147,529,980	22,000,000	1.681%, 06/09/2017 ^{(g)(h)}
TOTAL FOREIGN CORPORATE BONDS		47,000,000	1.681%, 06/13/2017 ^{(g)(h)}
(COST \$151,534,604)	147,529,980	17,000,000	1.681%, 06/14/2017 ^{(g)(h)}
			16,988,893
			101,453,605

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

THE FAIRHOLME FUND

SCHEDULE OF INVESTMENTS (continued)
May 31, 2017 (unaudited)

<u>Principal</u>		<u>Value</u>	<u>Shares</u>		<u>Value</u>
	COMMERCIAL PAPER (CONTINUED) — 20.4%			MONEY MARKET FUNDS — 0.5%	
	OIL & NATURAL GAS EXPLORATION — 3.8%		12,133,082	Fidelity Investments Money Market Treasury Portfolio - Class I, 0.65% ⁽ⁱ⁾	\$ 12,133,082
\$37,000,000	Canadian Natural Resources Ltd. 1.351%, 06/07/2017 ^{(g)(h)}	\$ 36,990,431			
51,000,000	1.351%, 06/15/2017 ^{(g)(h)}	50,971,610		TOTAL MONEY MARKET FUNDS (COST \$12,133,082)	<u>12,133,082</u>
		87,962,041			
	RAILROADS — 1.5%			TOTAL INVESTMENTS — 99.3%	
35,000,000	Kansas City Southern 1.400%, 06/09/2017 ^{(g)(h)}	34,987,470		(COST \$3,289,169,160)	2,274,649,085
		467,112,324		OTHER ASSETS IN EXCESS OF LIABILITIES — 0.7%	<u>16,438,202</u>
	TOTAL COMMERCIAL PAPER (COST \$467,126,314)			NET ASSETS — 100.0%	<u>\$2,291,087,287</u>
	U.S. GOVERNMENT OBLIGATIONS — 2.2%				
50,000,000	U.S. Treasury Bills 0.950%, 10/26/2017 ^(h)	49,795,850			
	TOTAL U.S. GOVERNMENT OBLIGATIONS (COST \$49,805,021)	49,795,850			

^(a) Affiliated Company. See Note 7.

^(b) Non-income producing security.

^(c) Restricted and controlled security under procedures approved by the Directors. The value of these securities totals \$631,569,532, which represents 27.57% 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>05/31/2017 Carrying Value Per Unit</u>
\$ 7,715,000	Sears Holdings Corp., 6.625%	09/10/2015-10/30/2015	\$ 7,757,214	\$91.86
\$143,408,000	Sears Holdings Corp., 8.000%	09/10/2015-10/30/2015	\$144,784,138	\$75.06
14,497,773	Sears Holdings Corp. Common Stock	09/19/2005-12/11/2015	\$881,679,980	\$ 7.17
222,319	Sears Holdings Corp., Strike Price \$25.686	09/10/2015-10/20/2015	\$ 3,947,990	\$ 2.47
\$ 6,886,000	Sears Roebuck Acceptance Corp., 7.500%	09/08/2015-09/23/2015	\$ 5,138,365	\$44.90
\$ 823,000	Sears Roebuck Acceptance Corp., 6.875%	09/23/2015-09/29/2015	\$ 796,978	\$91.84
15,405	Sears Roebuck Acceptance Corp., 7.400% Preferred Stock	09/08/2015-09/24/2015	\$ 253,311	\$ 8.79
23,136,502	The St. Joe Co.	12/12/2007-10/13/2010	\$607,609,975	\$17.65

^(d) Security is deemed an illiquid security under Rule 144.

^(e) Variable rate security. Rates shown are the effective rates as of May 31, 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 144A/144a 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 \$614,642,304, which represents 26.83% 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 May 31, 2017.

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

THE FAIRHOLME FUND

STATEMENT OF ASSETS & LIABILITIES May 31, 2017 (unaudited)

Assets

Investments, at Fair Value:	
Unaffiliated Issuers (Cost — \$1,185,294,869)	\$ 1,335,864,193
Affiliated Issuers (Cost — \$2,103,874,291)	<u>938,784,892</u>
Total Investments, at Fair Value	
(Cost — \$3,289,169,160)	2,274,649,085
Receivable for Investments Sold	12,492,043
Interest Receivable	8,526,376
Receivable for Capital Shares Sold	<u>64,505</u>
Total Assets	<u>2,295,732,009</u>

Liabilities

Payable for Capital Shares Redeemed	2,589,315
Accrued Management Fees	2,034,373
Accrued Legal Expenses	<u>21,034</u>
Total Liabilities	<u>4,644,722</u>

NET ASSETS

\$ 2,291,087,287

Net Assets Consist of:

Paid-In Capital	\$ 3,175,161,217
Undistributed Net Investment Income	16,815,312
Accumulated Net Realized Gain on Investments and Foreign Currency Related Transactions	113,630,833
Net Unrealized Depreciation on Investments and Foreign Currency Related Translations	<u>(1,014,520,075)</u>

NET ASSETS

\$ 2,291,087,287

Shares of Common Stock Outstanding* (\$0.0001 par value)	<u>117,673,184</u>
Net Asset Value, Offering and Redemption Price Per Share (\$2,291,087,287 / 117,673,184 shares)	<u>\$ 19.47</u>

* 700,000,000 shares authorized in total.

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

THE FAIRHOLME FUND

STATEMENT OF OPERATIONS (unaudited)

	For the Six Months Ended May 31, 2017 (Unaudited)
Investment Income	
Interest — Unaffiliated Issuers	\$ 16,417,851
Interest — Affiliated Issuers	12,960,971
Dividends — Affiliated Issuers	<u>1,091,550</u>
Total Investment Income	<u>30,470,372</u>
Expenses	
Management Fees	13,588,398
Legal Expenses	<u>66,150</u>
Total Expenses	<u>13,654,548</u>
Net Investment Income	<u>16,815,824</u>
Realized and Unrealized Gain (Loss) on Investments and Foreign Currency Related Transactions	
Net Realized Gain (Loss) on Investments and Foreign Currency Related Transactions	
Unaffiliated Issuers	122,544,388
Affiliated Issuers	(1,932,051)
Net Change in Unrealized Appreciation (Depreciation) on Investments and Foreign Currency Related Translations	<u>(541,751,732)</u>
Net Realized and Unrealized Gain (Loss) on Investments and Foreign Currency Related Transactions	<u>(421,139,395)</u>
NET DECREASE IN NET ASSETS FROM OPERATIONS	<u><u>\$(404,323,571)</u></u>

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

THE FAIRHOLME FUND

STATEMENTS OF CHANGES IN NET ASSETS

	For the Six Months Ended May 31, 2017 (Unaudited)	For the Fiscal Year Ended November 30, 2016
CHANGES IN NET ASSETS		
From Operations		
Net Investment Income	\$ 16,815,824	\$ 51,679,552
Net Realized Gain on Investments and Foreign Currency Related Transactions	120,612,337	162,438,179
Net Change in Unrealized Appreciation (Depreciation) on Investments and Foreign Currency Related Translations	<u>(541,751,732)</u>	<u>112,798,128</u>
Net Increase (Decrease) in Net Assets from Operations	<u>(404,323,571)</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	80,141,716	288,427,843
Shares Issued in Reinvestment of Dividends and Distributions	189,229,486	1,450,080,952
Redemption Fees	115,710	212,693
Cost of Shares Redeemed	<u>(527,644,236)</u>	<u>(1,939,699,783)</u>
Net Decrease in Net Assets from Shareholder Activity	<u>(258,157,324)</u>	<u>(200,978,295)</u>
NET ASSETS		
Net Decrease in Net Assets	(864,622,211)	(1,456,644,927)
Net Assets at Beginning of Period	<u>3,155,709,498</u>	<u>4,612,354,425</u>
Net Assets at End of Period	<u>\$2,291,087,287</u>	<u>\$ 3,155,709,498</u>
Undistributed Net Investment Income at End of Period	<u>\$ 16,815,312</u>	<u>\$ 51,679,552</u>
SHARES TRANSACTIONS		
Issued	3,707,590	15,789,748
Reinvested	8,546,950	76,199,735
Redeemed	<u>(24,675,834)</u>	<u>(96,599,326)</u>
Net Decrease in Shares	<u>(12,421,294)</u>	<u>(4,609,843)</u>
Shares Outstanding at Beginning of Period	<u>130,094,478</u>	<u>134,704,321</u>
Shares Outstanding at End of Period	<u>117,673,184</u>	<u>130,094,478</u>

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

THE FAIRHOLME FUND

FINANCIAL HIGHLIGHTS

	For the	For the Fiscal Year Ended November 30,				
	Six Months Ended May 31, 2017 (unaudited)	2016	2015	2014	2013	2012
PER SHARE OPERATING PERFORMANCE						
NET ASSET VALUE, BEGINNING OF PERIOD	\$24.26	\$34.24	\$37.96	\$42.76	\$29.89	\$25.10
Investment Operations						
Net Investment Income (Loss) ⁽¹⁾	0.13	0.33	0.46	(0.19)	(0.10)	0.15
Net Realized and Unrealized Gain (Loss) on Investments	(3.34)	2.60	(1.10)	(1.21)	12.97	5.55
Total from Investment Operations	(3.21)	2.93	(0.64)	(1.40)	12.87	5.70
Dividends and Distributions						
From Net Investment Income	(0.40)	(0.60)	—	—	—	(0.70)
From Realized Capital Gains	(1.18)	(12.31)	(3.08)	(3.40)	—	—
From Return of Capital	—	—	—	—	—	(0.21)
Total Dividends and Distributions	(1.58)	(12.91)	(3.08)	(3.40)	—	(0.91)
Redemption Fees⁽¹⁾	0.00 ⁽²⁾	0.00 ⁽²⁾	0.00 ⁽²⁾	0.00 ⁽²⁾	0.00 ⁽²⁾	0.00 ⁽²⁾
NET ASSET VALUE, END OF PERIOD	\$19.47	\$24.26	\$34.24	\$37.96	\$42.76	\$29.89
TOTAL RETURN	(14.01)% ⁽³⁾	18.93%	(1.95)%	(3.50)%	43.06%	23.69%
Ratio/Supplemental Data						
Net Assets, End of Period (in 000's)	\$2,291,087	\$3,155,709	\$4,612,354	\$6,776,885	\$8,789,849	\$6,992,078
Ratio of Expenses to Average Net Assets	1.00% ⁽⁴⁾	1.02% ⁽⁵⁾	1.03% ⁽⁶⁾	1.06% ⁽⁷⁾	1.02% ⁽⁵⁾⁽⁸⁾	1.00%
Ratio of Net Investment Income (Loss) to Average Net Assets	1.24% ⁽⁴⁾	1.79%	1.31%	(0.48)%	(0.29)%	0.52%
Portfolio Turnover Rate	3.68% ⁽³⁾	19.19%	40.46%	1.62%	15.59%	1.57%

(1) Based on average shares outstanding.

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

(3) Not annualized.

(4) Annualized.

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

(6) 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.

(7) 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.

(8) 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
May 31, 2017 (unaudited)

Shares	Value	Shares	Value
DOMESTIC EQUITY SECURITIES — 10.5%		RETAIL DEPARTMENT STORES — 1.1%	
REAL ESTATE INVESTMENT TRUSTS — 10.5%		Sears Roebuck Acceptance Corp.	
568,000	Seritage Growth Properties \$ 22,294,000	178,106	7.000% ^{(d)(e)} \$ 1,512,120
551,900	Washington Prime Group, Inc. 4,210,997	149,931	7.400% ^{(d)(e)} 1,317,893
			2,830,013
TOTAL DOMESTIC EQUITY SECURITIES (COST \$27,176,837)		TOTAL DOMESTIC PREFERRED EQUITY SECURITIES (COST \$46,545,753)	
	26,504,997		52,141,005
DOMESTIC PREFERRED EQUITY SECURITIES — 20.7%		Principal	
CONSUMER FINANCE — 4.4%		DOMESTIC CORPORATE BONDS — 21.7%	
428,500	GMAC Capital Trust I, Inc. 6.967%, Series 2 ^(a) 10,935,320	CAPITAL GOODS — 7.3%	
MORTGAGE FINANCE — 13.9%		HC2 Holdings, Inc. 11.000%, 12/01/2019 ^(c) 9,615,540	
Federal Home Loan Mortgage Corp.		International Wire Group, Inc. 10.750%, 08/01/2021 ^(c) 8,799,850	
1,200,000	7.875%, Series Z ^{(a)(b)} 7,440,000	\$ 9,350,000	18,415,390
1,029,724	6.550%, Series Y ^(b) 5,169,214	CONSUMER SERVICES — 4.2%	
396,000	5.100%, Series H ^(b) 3,603,600	Monitronics International, Inc. 9.125%, 04/01/2020 10,431,662	
98,355	6.000%, Series P ^(b) 958,961	DIVERSIFIED BANKS — 1.3%	
Federal National Mortgage Association		Bank of America Corp. 8.000% ^{(a)(f)} 3,352,528	
1,167,500	7.000%, Series O ^{(a)(b)} 11,908,500	RETAIL DEPARTMENT STORES — 8.9%	
520,000	7.750%, Series S ^{(a)(b)} 3,328,000	Sears Holdings Corp. 8.000%, 12/15/2019 ^{(d)(e)} 22,158,087	
500,000	6.750%, Series Q ^(b) 2,600,000	Sears Roebuck Acceptance Corp. 7.500%, 10/15/2027 ^{(d)(e)} 42,655	
	35,008,275	6.750%, 01/15/2028 ^{(d)(e)} 5,012	
OIL & NATURAL GAS EXPLORATION — 1.3%		6.500%, 12/01/2028 ^{(d)(e)} 18,448	
Chesapeake Energy Corp.		7.000%, 06/01/2032 ^{(d)(e)} 22,310	
47,200	5.000% 2,931,120	22,246,512	
600	5.750% ^(c) 373,206	TOTAL DOMESTIC CORPORATE BONDS (COST \$60,071,135)	
100	5.750% ^(c) 63,071	54,446,092	
	3,367,397		

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

THE FAIRHOLME FOCUSED INCOME FUND

SCHEDULE OF INVESTMENTS (continued)
May 31, 2017 (unaudited)

<u>Principal</u>	<u>Value</u>	<u>Principal</u>	<u>Value</u>
FOREIGN CORPORATE BONDS — 10.4%		COMMERCIAL PAPER — 25.5%	
CANADA — 10.4%		OIL & GAS STORAGE & TRANSPORTATION — 4.3%	
METALS & MINING — 10.4%		Energy Transfer Partners	
\$27,725,000	7.000%, 03/15/2019 ^(c)	\$ 26,089,225	1.681%, 06/14/2017 ^{(c)(g)}
TOTAL FOREIGN CORPORATE BONDS (COST \$26,562,764)		OIL & NATURAL GAS EXPLORATION — 4.0%	
		Canadian Natural Resources Ltd.	
		3,000,000	1.351%, 06/05/2017 ^{(c)(g)}
		7,000,000	1.351%, 06/07/2017 ^{(c)(g)}
			9,997,637
MUNICIPAL BONDS — 2.1%		TOTAL COMMERCIAL PAPER (COST \$63,984,624)	
WISCONSIN — 2.1%			
Public Finance Authority, Industrial Improvements, Refunding Revenue, Taxable Pass Through, Natgasoline LLC			
5,250,000	10.000%, 06/30/2021 ^(c)		
		U.S. GOVERNMENT OBLIGATIONS — 2.0%	
TOTAL MUNICIPAL BONDS (COST \$5,226,993)		U.S. Treasury Bills	
		2,000,000	0.611%, 10/12/2017 ^(g)
		3,000,000	0.950%, 10/26/2017 ^(g)
			1,992,796
			2,987,751
COMMERCIAL PAPER — 25.5%		TOTAL U.S. GOVERNMENT OBLIGATIONS (COST \$4,983,868)	
AUTOMOTIVE RETAIL — 4.4%			
AutoNation, Inc.		Shares	
11,000,000	1.400%, 06/07/2017 ^{(c)(g)}	MONEY MARKET FUNDS — 0.6%	
		Fidelity Investments Money Market Treasury Portfolio - Class I, 0.65% ^(b)	
		1,434,334	1,434,334
DIVERSIFIED TELECOMMUNICATIONS — 2.4%		TOTAL MONEY MARKET FUNDS (COST \$1,434,334)	
Telus Corp.			
6,000,000	1.181%, 06/07/2017 ^{(c)(g)}		
		TOTAL INVESTMENTS — 93.5% (COST \$235,986,308)	
ENERGY SERVICES — 2.8%			
Duke Energy Corp.		OTHER ASSETS IN EXCESS OF LIABILITIES — 6.5%	
7,000,000	1.120%, 06/05/2017 ^{(c)(g)}		
		NET ASSETS — 100.0%	
FOOD PRODUCTS — 2.8%			
Conagra Brands, Inc.			
7,000,000	1.201%, 06/05/2017 ^{(c)(g)}		
HOUSEHOLD PRODUCTS — 2.0%			
Newell Rubbermaid, Inc.			
5,000,000	1.250%, 06/02/2017 ^{(c)(g)}		
LODGING — 2.8%			
Wyndham Worldwide Co.			
7,000,000	1.350%, 06/05/2017 ^{(c)(g)}		

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

THE FAIRHOLME FOCUSED INCOME FUND

SCHEDULE OF INVESTMENTS (continued) May 31, 2017 (unaudited)

- (a) Variable rate security. Rates shown are the effective rates as of May 31, 2017.
 (b) Non-income producing security.
 (c) Restricted security as defined in Rule 144A/144a under the Securities Act of 1933. The Manager has determined that such security is liquid pursuant to the Funds' liquidity guidelines. The value of these securities totals \$114,223,133, which represents 45.45% of The Income Fund's net assets.
 (d) Restricted or controlled security under procedures approved by the Directors. The value of these securities totals \$25,076,525, which represents 9.98% of The Income Fund's net assets. Information related to these securities is as follows:

Shares/ Principal Amount	Issuer	Acquisition Date	Acquisition Cost	05/31/2017 Carrying Value Per Unit
\$29,520,500	Sears Holdings Corp., 8.000%	08/17/2015-05/25/2017	\$27,103,944	\$75.06
178,106	Sears Roebuck Acceptance Corp., 7.000% Preferred Stock	08/18/2015-08/28/2015	\$ 2,550,795	\$ 8.49
149,931	Sears Roebuck Acceptance Corp., 7.400% Preferred Stock	08/18/2015-08/26/2015	\$ 2,150,510	\$ 8.79
\$ 95,000	Sears Roebuck Acceptance Corp., 7.500%	08/27/2015	\$ 55,613	\$44.90
\$ 11,000	Sears Roebuck Acceptance Corp., 6.750%	08/27/2015	\$ 6,435	\$45.56
\$ 40,000	Sears Roebuck Acceptance Corp., 6.500%	08/27/2015	\$ 23,140	\$46.12
\$ 50,000	Sears Roebuck Acceptance Corp., 7.000%	08/27/2015	\$ 28,775	\$44.62

- (e) Security is deemed an illiquid security under Rule 144.
 (f) Security is perpetual in nature and has no stated maturity date.
 (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 May 31, 2017.

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

THE FAIRHOLME FOCUSED INCOME FUND

STATEMENT OF ASSETS & LIABILITIES
May 31, 2017 (unaudited)

Assets

Investments, at Fair Value (Cost — \$235,986,308)	\$234,878,441
Receivable for Investments Sold	14,535,635
Dividends and Interest Receivable	2,925,216
Receivable for Capital Shares Sold	<u>85,607</u>
Total Assets	<u>252,424,899</u>

Liabilities

Payable for Investments Purchased	605,375
Payable for Capital Shares Redeemed	312,930
Accrued Management Fees	<u>217,240</u>
Total Liabilities	<u>1,135,545</u>

NET ASSETS

\$251,289,354

Net Assets Consist of:

Paid-In Capital	\$244,012,845
Undistributed Net Investment Income	2,059,023
Accumulated Net Realized Gain on Investments and Foreign Currency Related Transactions	6,325,353
Net Unrealized Depreciation on Investments and Foreign Currency Related Translations	<u>(1,107,867)</u>

NET ASSETS

\$251,289,354

Shares of Common Stock Outstanding* (\$0.0001 par value)	<u>21,500,880</u>
Net Asset Value, Offering and Redemption Price Per Share (\$251,289,354 / 21,500,880 shares)	<u>\$ 11.69</u>

* 200,000,000 shares authorized in total.

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

THE FAIRHOLME FOCUSED INCOME FUND

STATEMENT OF OPERATIONS (unaudited)

	For the Six Months Ended May 31, 2017
Investment Income	
Interest	\$ 6,600,906
Dividends	<u>1,416,619</u>
Total Investment Income	<u>8,017,525</u>
Expenses	
Management Fees	<u>1,287,413</u>
Total Expenses	<u>1,287,413</u>
Net Investment Income	<u>6,730,112</u>
Realized and Unrealized Gain (Loss) on Investments and Foreign Currency Related Transactions	
Net Realized Gain on Investments and Foreign Currency Related Transactions	6,443,189
Net Change in Unrealized Appreciation (Depreciation) on Investments and Foreign Currency Related Translations	<u>(22,537,114)</u>
Net Realized and Unrealized Gain (Loss) on Investments and Foreign Currency Related Transactions	<u>(16,093,925)</u>
NET DECREASE IN NET ASSETS FROM OPERATIONS	<u><u>\$ (9,363,813)</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 Six Months Ended May 31, 2017 (Unaudited)	For the Fiscal Year Ended November 30, 2016
CHANGES IN NET ASSETS		
From Operations		
Net Investment Income	\$ 6,730,112	\$ 11,534,166
Net Realized Gain on Investments and Foreign Currency Related Transactions	6,443,189	903,603
Net Change in Unrealized Appreciation (Depreciation) on Investments and Foreign Currency Related Translations	<u>(22,537,114)</u>	<u>29,845,680</u>
Net Increase (Decrease) in Net Assets from Operations	<u>(9,363,813)</u>	<u>42,283,449</u>
From Dividends and Distributions to Shareholders		
Net Investment Income	(6,698,235)	(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>(7,601,537)</u>	<u>(13,132,883)</u>
From Capital Share Transactions		
Proceeds from Sale of Shares	55,257,549	44,514,853
Shares Issued in Reinvestment of Dividends and Distributions	6,675,711	12,024,846
Cost of Shares Redeemed	<u>(33,874,010)</u>	<u>(88,566,860)</u>
Net Increase (Decrease) in Net Assets from Shareholder Activity	<u>28,059,250</u>	<u>(32,027,161)</u>
NET ASSETS		
Net Increase (Decrease) in Net Assets	11,093,900	(2,876,595)
Net Assets at Beginning of Period	<u>240,195,454</u>	<u>243,072,049</u>
Net Assets at End of Period	<u>\$251,289,354</u>	<u>\$240,195,454</u>
Undistributed Net Investment Income at End of Period	<u>\$ 2,059,023</u>	<u>\$ 2,027,146</u>
SHARES TRANSACTIONS		
Issued	4,349,621	4,398,347
Reinvested	554,672	1,172,678
Redeemed	<u>(2,805,545)</u>	<u>(8,851,045)</u>
Net Increase (Decrease) in Shares	2,098,748	(3,280,020)
Shares Outstanding at Beginning of Period	<u>19,402,132</u>	<u>22,682,152</u>
Shares Outstanding at End of Period	<u>21,500,880</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 Six Months Ended May 31, 2017 (unaudited)	For the Fiscal Year Ended November 30,				
		2016	2015	2014	2013	2012
PER SHARE OPERATING PERFORMANCE						
NET ASSET VALUE, BEGINNING OF PERIOD	\$12.38	\$10.72	\$10.82	\$11.98	\$10.02	\$9.71
Investment Operations						
Net Investment Income ⁽¹⁾	0.32	0.57	0.45	0.22	0.46	0.97
Net Realized and Unrealized Gain (Loss) on Investments	(0.64)	1.72	0.03	(0.51)	2.12	0.31
Total from Investment Operations	(0.32)	2.29	0.48	(0.29)	2.58	1.28
Dividends and Distributions						
From Net Investment Income	(0.32)	(0.56)	(0.43)	(0.19)	(0.62)	(0.97)
From Realized Capital Gains	(0.05)	(0.07)	(0.15)	(0.68)	—	—
Total Dividends and Distributions	(0.37)	(0.63)	(0.58)	(0.87)	(0.62)	(0.97)
NET ASSET VALUE, END OF PERIOD	<u>\$11.69</u>	<u>\$12.38</u>	<u>\$10.72</u>	<u>\$10.82</u>	<u>\$11.98</u>	<u>\$10.02</u>
TOTAL RETURN	(2.67)% ⁽²⁾	22.77%	4.60%	(2.67)%	26.91%	13.45%
Ratio/Supplemental Data						
Net Assets, End of Period (in 000's)	\$251,289	\$240,195	\$243,072	\$216,047	\$246,988	\$257,430
Ratio of Expenses to Average Net Assets:						
Before Expenses Waived	1.00% ⁽³⁾	1.00%	1.00%	1.00%	1.00%	1.00%
After Expenses Waived	1.00% ⁽³⁾⁽⁴⁾	1.00% ⁽⁴⁾	1.00% ⁽⁴⁾	1.00% ⁽⁴⁾	1.00% ⁽⁴⁾	0.91% ⁽⁴⁾
Ratio of Net Investment Income to Average Net Assets	5.23% ⁽³⁾	5.48%	4.14%	1.94%	4.28%	9.53%
Portfolio Turnover Rate	26.93% ⁽²⁾	28.81%	67.05%	38.86%	42.87%	8.27%

⁽¹⁾ Based on average shares outstanding.

⁽²⁾ Not annualized.

⁽³⁾ Annualized.

⁽⁴⁾ Effective March 29, 2012, the Manager's contractual management fee waiver/expense reimbursement for The Income Fund expired.

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

THE FAIRHOLME ALLOCATION FUND

SCHEDULE OF INVESTMENTS
May 31, 2017 (unaudited)

Shares	Value	Shares	Value
DOMESTIC EQUITY SECURITIES — 29.5%		WARRANTS — 0.6%	
REAL ESTATE INVESTMENT TRUSTS — 20.4%		RETAIL DEPARTMENT STORES — 0.6%	
974,050	Seritage Growth Properties \$ 38,231,463	474,266	Sears Holdings Corp., Vested, Strike Price \$25.686, Expire 12/15/2019 ^{(a)(b)(c)(e)} \$ 1,171,436
RETAIL DEPARTMENT STORES — 6.9%		TOTAL WARRANTS (COST \$3,323,528)	
1,793,900	Sears Holdings Corp. ^{(a)(b)(c)} 12,862,263		
RETAILER — 2.2%		Principal	
240,000	Lands' End, Inc. ^(c) 4,224,000	DOMESTIC CORPORATE BONDS — 5.6%	
TOTAL DOMESTIC EQUITY SECURITIES (COST \$110,030,625)		CONSUMER SERVICES — 4.4%	
		55,317,726	\$8,600,000
FOREIGN EQUITY SECURITIES — 6.1%		Monitronics International, Inc. 9.125%, 04/01/2020 8,238,800	
CANADA — 6.1%		OIL & GAS DRILLING — 1.2%	
METALS & MINING — 5.1%		2,250,000	Atwood Oceanics, Inc. 6.500%, 02/01/2020 2,265,525
2,623,506	Imperial Metals Corp. ^(c) 9,574,626	TOTAL DOMESTIC CORPORATE BONDS (COST \$10,438,464)	
RETAIL DEPARTMENT STORES — 1.0%			
1,938,443	Sears Canada, Inc. ^(c) 1,802,752	10,504,325	
TOTAL FOREIGN EQUITY SECURITIES (COST \$36,609,754)		COMMERCIAL PAPER — 21.0%	
		AUTOMOTIVE RETAIL — 4.2%	
11,377,378		AutoNation, Inc.	
DOMESTIC PREFERRED EQUITY SECURITIES — 28.0%		6,000,000	1.451%, 06/06/2017 ^{(f)(g)} 5,998,571
MORTGAGE FINANCE — 28.0%		2,000,000	1.400%, 06/07/2017 ^{(f)(g)} 1,999,444
Federal Home Loan Mortgage Corp.		7,998,015	
4,033,100	7.875%, Series Z ^{(c)(d)} 25,005,220	ENERGY SERVICES — 2.7%	
Federal National Mortgage Association		5,000,000	Duke Energy Corp. 1.120%, 06/05/2017 ^{(f)(g)} 4,999,198
4,301,200	7.750%, Series S ^{(c)(d)} 27,527,680	FOOD PRODUCTS — 1.6%	
TOTAL DOMESTIC PREFERRED EQUITY SECURITIES (COST \$37,299,594)		3,000,000	Conagra Brands, Inc. 1.201%, 06/05/2017 ^{(f)(g)} 2,999,447
52,532,900			

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

THE FAIRHOLME ALLOCATION FUND

SCHEDULE OF INVESTMENTS (continued)
May 31, 2017 (unaudited)

<u>Principal</u>		<u>Value</u>	<u>Principal</u>		<u>Value</u>
	COMMERCIAL PAPER			U.S. GOVERNMENT	
	(CONTINUED) — 21.0%			OBLIGATIONS — 2.7%	
	HOUSEHOLD		\$5,000,000	U.S. Treasury Bills 0.646%,	
	PRODUCTS — 3.2%			08/24/2017 ^(g)	\$ 4,989,265
	Newell Rubbermaid, Inc.		TOTAL U.S. GOVERNMENT		
\$2,000,000	1.250%, 06/02/2017 ^{(f)(g)}	\$ 1,999,841	OBLIGATIONS		
4,000,000	1.250%, 06/05/2017 ^{(f)(g)}	3,999,207	(COST \$4,992,586)		4,989,265
		<u>5,999,048</u>	Shares		
	LODGING — 1.9%			MONEY MARKET	
3,500,000	Wyndham Worldwide Co.			FUNDS — 1.2%	
	1.350%, 06/05/2017 ^{(f)(g)}	<u>3,499,306</u>	2,209,441	Fidelity Investments Money	
				Market Treasury Portfolio -	
	OIL & GAS STORAGE &			Class I, 0.65% ^(h)	2,209,441
	TRANSPORTATION — 4.2%				
	Energy Transfer Partners		TOTAL MONEY MARKET FUNDS		
2,000,000	1.631%, 06/01/2017 ^{(f)(g)}	1,999,921	(COST \$2,209,441)		2,209,441
6,000,000	1.681%, 06/14/2017 ^{(f)(g)}	5,996,080			
		<u>7,996,001</u>	TOTAL INVESTMENTS — 94.7%		
			(COST \$244,395,646)		177,592,379
	OIL & NATURAL GAS			OTHER ASSETS IN	
	EXPLORATION — 3.2%			EXCESS OF	
6,000,000	Canadian Natural Resources Ltd.			LIABILITIES — 5.3%	9,991,405
	1.351%, 06/05/2017 ^{(f)(g)}	<u>5,998,893</u>	NET ASSETS — 100.0%		<u>\$ 187,583,784</u>
	TOTAL COMMERCIAL PAPER				
	(COST \$39,491,654)	<u>39,489,908</u>			

^(a) Restricted and controlled security under procedures approved by the Directors. The value of these securities totals \$14,033,699, which represents 7.48% of The Allocation Fund's net assets. Information related to these securities is as follows:

<u>Shares</u>	<u>Issuer</u>	<u>Acquisition Date(s)</u>	<u>Acquisition Cost</u>	<u>05/31/2017 Carrying Value Per Unit</u>
1,793,900	Sears Holdings Corp.	08/19/2011-12/11/2014	\$65,137,769	\$7.17
474,266	Sears Holdings Corp., Warrants, Vested, Strike Price \$25.686, Expire 12/15/2019	11/17/2014-11/24/2014	\$ 3,323,528	\$2.47

^(b) Security is deemed an illiquid security under Rule 144.

^(c) Non-income producing security.

^(d) Variable rate security. Rates shown are the effective rates as of May 31, 2017.

^(e) 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.

^(f) Restricted security as defined in Rule 144a under the Securities Act of 1933. The Manager has determined that such security is liquid pursuant to the Funds' liquidity guidelines. The value of these securities totals \$39,489,908, which represents 21.05% of The Allocation Fund's net assets.

^(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 May 31, 2017.

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

THE FAIRHOLME ALLOCATION FUND

STATEMENT OF ASSETS & LIABILITIES May 31, 2017 (unaudited)

Assets

Investments, at Fair Value (Cost — \$244,395,646)	\$177,592,379
Receivable for Investments Sold	10,058,953
Interest Receivable	178,974
Total Assets	<u>187,830,306</u>

Liabilities

Accrued Management Fees	165,622
Payable for Capital Shares Redeemed	80,900
Total Liabilities	<u>246,522</u>

NET ASSETS \$187,583,784

Net Assets Consist of:

Paid-In Capital	\$242,838,666
Undistributed Net Investment Income	1,105,520
Accumulated Net Realized Gain on Investments and Foreign Currency Related Transactions	10,442,865
Net Unrealized Depreciation on Investments and Foreign Currency Related Translations	<u>(66,803,267)</u>

NET ASSETS \$187,583,784

Shares of Common Stock Outstanding* (\$0.0001 par value)	<u>23,912,638</u>
Net Asset Value, Offering and Redemption Price Per Share (\$187,583,784 / 23,912,638 shares)	<u>\$ 7.84</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 (unaudited)

	For the Six Months Ended May 31, 2017
Investment Income	
Interest	\$ 2,301,018
Dividends	<u>487,025</u>
Total Investment Income	<u>2,788,043</u>
Expenses	
Management Fees	<u>1,134,021</u>
Total Expenses	<u>1,134,021</u>
Net Investment Income	<u>1,654,022</u>
Realized and Unrealized Gain (Loss) on Investments and Foreign Currency Related Transactions	
Net Realized Gain on Investments and Foreign Currency Related Transactions	10,749,715
Net Change in Unrealized Appreciation (Depreciation) on Investments and Foreign Currency Related Translations	<u>(42,902,406)</u>
Net Realized and Unrealized Gain (Loss) on Investments and Foreign Currency Related Transactions	<u>(32,152,691)</u>
NET DECREASE IN NET ASSETS FROM OPERATIONS	<u><u>\$(30,498,669)</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 Six Months Ended May 31, 2017 (Unaudited)	For the Fiscal Year Ended November 30, 2016
CHANGES IN NET ASSETS		
From Operations		
Net Investment Income	\$ 1,654,022	\$ 4,185,984
Net Realized Gain on Investments and Foreign Currency Related Transactions	10,749,715	11,621,080
Net Change in Unrealized Appreciation (Depreciation) on Investments and Foreign Currency Related Translations	<u>(42,902,406)</u>	<u>2,115,196</u>
Net Increase (Decrease) in Net Assets from Operations	<u>(30,498,669)</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	4,574,554	29,640,495
Shares Issued in Reinvestment of Dividends and Distributions	15,699,837	44,238,410
Redemption Fees	6,090	8,431
Cost of Shares Redeemed	<u>(45,551,509)</u>	<u>(84,989,762)</u>
Net Decrease in Net Assets from Shareholder Activity	<u>(25,271,028)</u>	<u>(11,102,426)</u>
NET ASSETS		
Net Decrease in Net Assets	(71,917,429)	(38,026,134)
Net Assets at Beginning of Period	<u>259,501,213</u>	<u>297,527,347</u>
Net Assets at End of Period	<u>\$187,583,784</u>	<u>\$259,501,213</u>
Undistributed Net Investment Income at End of Period	<u>\$ 1,105,520</u>	<u>\$ 3,978,466</u>
SHARES TRANSACTIONS		
Issued	529,543	3,699,085
Reinvested	1,796,320	5,323,515
Redeemed	<u>(5,314,137)</u>	<u>(10,730,450)</u>
Net Decrease in Shares	<u>(2,988,274)</u>	<u>(1,707,850)</u>
Shares Outstanding at Beginning of Period	<u>26,900,912</u>	<u>28,608,762</u>
Shares Outstanding at End of Period	<u>23,912,638</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	For the Fiscal Year Ended November 30,				
	Six Months Ended May 31, 2017 (unaudited)	2016	2015	2014	2013	2012
PER SHARE OPERATING PERFORMANCE						
NET ASSET VALUE, BEGINNING OF PERIOD	\$9.65	\$10.40	\$12.57	\$13.82	\$9.33	\$8.29
Investment Operations						
Net Investment Income (Loss) ⁽¹⁾	0.06	0.14	0.35	(0.10)	(0.09)	0.07
Net Realized and Unrealized Gain (Loss) on Investments	(1.27)	0.75	(1.38)	(1.15)	4.64	0.97
Total from Investment Operations	(1.21)	0.89	(1.03)	(1.25)	4.55	1.04
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⁾	0.00 ⁽²⁾
NET ASSET VALUE, END OF PERIOD	\$7.84	\$9.65	\$10.40	\$12.57	\$13.82	\$9.33
TOTAL RETURN	(13.16)% ⁽³⁾	11.06%	(8.88)%	(9.04)%	49.09%	12.55%
Ratio/Supplemental Data						
Net Assets, End of Period (in 000's)	\$187,584	\$259,501	\$297,527	\$378,750	\$359,470	\$255,430
Ratio of Expenses to Average Net Assets:						
Before Expenses Waived	1.00% ⁽⁴⁾	1.00%	1.00%	1.00%	1.01% ⁽⁵⁾	1.00%
After Expenses Waived	1.00% ⁽⁴⁾⁽⁶⁾	1.00% ⁽⁶⁾	1.00% ⁽⁶⁾	1.00% ⁽⁶⁾	1.01% ⁽⁶⁾	0.92% ⁽⁶⁾
Ratio of Net Investment Income (Loss) to Average Net Assets	1.46% ⁽⁴⁾	1.81%	3.09%	(0.73)%	(0.80)%	0.74%
Portfolio Turnover Rate	16.92% ⁽³⁾	13.65%	39.24%	33.15%	35.97%	26.96%

⁽¹⁾ Based on average shares outstanding.

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

⁽³⁾ Not annualized.

⁽⁴⁾ Annualized.

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

⁽⁶⁾ Effective March 29, 2012, the Manager's contractual management fee waiver/expense reimbursement for The Allocation Fund expired.

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

Note 1. Organization

Fairholme Funds, Inc. (the “Company”), a Maryland corporation, is registered under the Investment Company Act of 1940, as amended (the “1940 Act”), as an open-end management investment company. The Company’s Articles of Incorporation permit the Board of Directors of the Company (the “Board” or the “Directors”) to issue 1,100,000,000 shares of common stock at \$.0001 par value. 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 estimated using market quotations when readily available, but may also be estimated by various methods when no such market quotations exist and when the Manager believes these other methods reflect the fair value of such securities. These methods may consider recently executed transactions in securities of the issuer or comparable issuers and market price valuations from independent pricing services and/or brokers (where observable). Where the Manager deems it appropriate to do so (such as when independent prices are unavailable or not deemed to be representative of fair value) long-term fixed income securities will be fair valued in good faith following consideration by, and conclusion of, the Manager's Valuation Committee. As of May 31, 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 May 31, 2017, in instances where lower relative weight is placed on transaction prices, quotations, or similar observable inputs, they would be classified in Level 3.

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

Short-term securities: Investments in securities with maturities of less than sixty days when acquired, or which subsequently are within sixty days of maturity, shall be valued at prices supplied by an independent pricing source or by one of the 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.

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

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

The inputs and valuation techniques used to measure fair value of the 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)
May 31, 2017 (unaudited)

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 May 31, 2017, is as follows:

	Valuation Inputs		Total Fair Value at 5/31/17
	Level 1 – Quoted Prices	Level 2 – Other Significant Observable Inputs	
THE FAIRHOLME FUND			
ASSETS:			
INVESTMENTS (Fair Value):			
Domestic Equity Securities			
Retail Department Stores	\$ 1,952,915	\$103,949,033	\$ 105,901,948
Other Industries*	532,569,690	—	532,569,690
Foreign Equity Securities*	35,474,950	—	35,474,950
Domestic Preferred Equity Securities			
Mortgage Finance	757,257,422	—	757,257,422
Retail Department Stores	—	135,410	135,410
Warrants*	—	549,128	549,128
Domestic Corporate Bonds*	—	166,189,301	166,189,301
Foreign Corporate Bonds*	—	147,529,980	147,529,980
Commercial Paper*	—	467,112,324	467,112,324
U.S. Government Obligations	—	49,795,850	49,795,850
Money Market Funds	12,133,082	—	12,133,082
TOTAL INVESTMENTS	\$1,339,388,059	\$935,261,026	\$2,274,649,085
THE INCOME FUND			
ASSETS:			
INVESTMENTS (Fair Value):			
Domestic Equity Securities*	\$ 26,504,997	\$ —	\$ 26,504,997
Domestic Preferred Equity Securities			
Consumer Finance	10,935,320	—	10,935,320
Mortgage Finance	35,008,275	—	35,008,275
Oil & Natural Gas Exploration	2,931,120	436,277	3,367,397
Retail Department Stores	—	2,830,013	2,830,013
Domestic Corporate Bonds*	—	54,446,092	54,446,092
Foreign Corporate Bonds*	—	26,089,225	26,089,225
Municipal Bonds*	—	5,300,400	5,300,400
Commercial Paper*	—	63,981,841	63,981,841
U.S. Government Obligations	—	4,980,547	4,980,547
Money Market Funds	1,434,334	—	1,434,334
TOTAL INVESTMENTS	\$ 76,814,046	\$158,064,395	\$ 234,878,441

FAIRHOLME FUNDS, INC.

NOTES TO FINANCIAL STATEMENTS (continued)
May 31, 2017 (unaudited)

	Valuation Inputs		Total Fair Value at 5/31/17
	Level 1 – Quoted Prices	Level 2 – Other Significant Observable Inputs	
THE ALLOCATION FUND			
ASSETS:			
INVESTMENTS (Fair Value):			
Domestic Equity Securities			
Retail Department Stores	\$ —	\$12,862,263	\$ 12,862,263
Other Industries*	42,455,463	—	42,455,463
Foreign Equity Securities*	11,377,378	—	11,377,378
Domestic Preferred Equity Securities*	52,532,900	—	52,532,900
Warrants*	—	1,171,436	1,171,436
Domestic Corporate Bonds*	—	10,504,325	10,504,325
Commercial Paper*	—	39,489,908	39,489,908
U.S. Government Obligations	—	4,989,265	4,989,265
Money Market Funds	2,209,441	—	2,209,441
TOTAL INVESTMENTS	<u>\$108,575,182</u>	<u>\$69,017,197</u>	<u>\$177,592,379</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 period ended May 31, 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 May 31, 2017, or November 30, 2016.

Warrants: The Funds' investments in warrants as of May 31, 2017, are presented within the Schedules of Investments.

The Fairholme Fund's and The Allocation Fund's warrant positions during the six months ended May 31, 2017, had an average monthly market value of approximately \$663,463 and \$1,415,344, respectively.

As of May 31, 2017, The Fairholme Fund's and The Allocation Fund's value of warrants with equity risk exposure of \$549,128 and \$1,171,436, respectively, is included with Investments at Fair Value on the Statement of Assets and Liabilities. For the six months ended May 31, 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 \$(313,470) and \$(668,714), respectively, is included with the Net Change in Unrealized Appreciation (Depreciation) on Investments and Foreign Currency Related Translations on the Statements of Operations. For the six months ended May 31, 2017, there were no realized gains or losses from warrants.

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 six months ended May 31, 2017 and the fiscal year ended November 30, 2016, amounted to \$115,710 and \$212,693, and \$6,090 and \$8,431, 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.

Effective March 29, 2012, the Manager's contractual management fee waiver/expense reimbursement for The Income Fund expired. Prior to March 29, 2012, the Manager had contractually agreed to waive a portion of its management fee and/or limit The Income Fund's operating expenses (excluding taxes, interest, brokerage commissions, acquired fund fees and expenses, expenses incurred in connections with any merger or reorganization and extraordinary expenses such as litigation) so that The Income Fund's operating expenses, after such waiver or limitation payment, would not exceed an annual rate of 0.75% of The

FAIRHOLME FUNDS, INC.

NOTES TO FINANCIAL STATEMENTS (continued)
May 31, 2017 (unaudited)

Income Fund's daily average net assets for the period March 30, 2011 to March 29, 2012. For the period December 31, 2009 to March 30, 2011, the Manager had contractually agreed to waive a portion of its management fee and/or limit The Income Fund's operating expenses (excluding those expenses noted above) so that The Income Fund's operating expenses, after such waiver or limitation payment, would not exceed an annual rate of 0.50% of The Income Fund's daily average net assets.

Effective March 29, 2012, the Manager's contractual management fee waiver/expense reimbursement for The Allocation Fund expired. Prior to March 29, 2012, the Manager had contractually agreed to waive a portion of its management fee and/or limit The Allocation Fund's operating expenses (excluding taxes, interest, brokerage commissions, acquired fund fees and expenses, expenses incurred in connections with any merger or reorganization and extraordinary expenses such as litigation) so that The Allocation Fund's operating expenses, after such waiver or limitation payment, would not exceed an annual rate of 0.75% of The Allocation Fund's daily average net assets for the period December 29, 2010 to March 29, 2012.

The Manager earned \$13,588,398, \$1,287,413, and \$1,134,021 from The Fairholme Fund, The Income Fund, and The Allocation Fund, respectively, for its services during the six months ended May 31, 2017.

Bruce Berkowitz, both the Chief Investment Officer of the Manager and Chairman of the Funds' Board, and his affiliates own an aggregate 5,990,308 shares, 1,708,477 shares, and 10,641,952 shares of The Fairholme Fund, The Income Fund, and The Allocation Fund, respectively, at May 31, 2017.

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

Note 4. Investments

For the six months ended May 31, 2017, aggregated purchases and sales of investment securities other than short-term investments and U.S. government obligations were as follows:

	<u>Purchases</u>	<u>Sales</u>
The Fairholme Fund	\$83,478,332	\$674,368,209
The Income Fund	53,652,007	79,772,477
The Allocation Fund	29,754,625	71,696,656

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 May 31, 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	\$3,295,535,464	\$168,442,091	\$(1,189,328,470)	\$(1,020,886,379)
The Income Fund	236,104,054	9,768,285	(10,993,898)	(1,225,613)
The Allocation Fund	244,702,355	15,484,768	(82,594,744)	(67,109,976)

The difference between book basis and tax basis for The Fairholme Fund's and The Allocation 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 net unrealized depreciation is attributable to capitalized cost.

The Funds' tax basis capital gains are determined only at the end of each fiscal year. Therefore, the components of distributable earnings will be included in the Annual Report for the fiscal year ended November 30, 2017.

FAIRHOLME FUNDS, INC.

NOTES TO FINANCIAL STATEMENTS (continued)
May 31, 2017 (unaudited)

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

The Manager has analyzed the 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:

	The Fairholme Fund	
	For the Six Months Ended May 31, 2017	For the Fiscal Year Ended November 30, 2016*
Dividends and Distributions paid from:		
Ordinary Income	\$ 51,680,064	\$ 73,575,252
Long-Term Capital Gain	150,461,252	1,509,019,832
	<u>\$202,141,316</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.

	The Income Fund	
	For the Six Months Ended May 31, 2017	For the Fiscal Year Ended November 30, 2016
Dividends and Distributions paid from:		
Ordinary Income*	\$6,757,129	\$11,998,072
Long-Term Capital Gain	844,408	1,134,811
	<u>\$7,601,537</u>	<u>\$13,132,883</u>

* Inclusive of short-term capital gains.

	The Allocation Fund	
	For the Six Months Ended May 31, 2017	For the Fiscal Year Ended November 30, 2016
Dividends and Distributions paid from:		
Ordinary Income*	\$ 9,059,034	\$14,439,971
Long-Term Capital Gain	7,088,698	30,405,997
	<u>\$16,147,732</u>	<u>\$44,845,968</u>

FAIRHOLME FUNDS, INC.

NOTES TO FINANCIAL STATEMENTS (continued)
May 31, 2017 (unaudited)

* Inclusive of short-term capital gains.

Note 7. 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 May 31, 2017, amounted to \$938,784,892 representing approximately 40.98% of The Fairholme Fund's net assets.

Transactions in The Fairholme Fund during the six months ended May 31, 2017, in which the issuer was an affiliate are as follows:

	November 30, 2016	Gross Additions	Gross Deductions	May 31, 2017		Realized Gain (Loss)	Investment Income
	Shares/ Par Value	Shares/ Par Value	Shares/ Par Value	Shares/ Par Value	Fair Value		
Imperial Metals Corp.	7,152,813	—	—	7,152,813	\$ 26,104,575	\$ —	\$ —
Lands' End, Inc.	2,415,527	—	319,227	2,096,300	36,894,880	(1,932,051)	—
Sears Holdings Corp.	14,497,773	—	—	14,497,773	103,949,033	—	—
Sears Canada, Inc.	10,075,672	—	—	10,075,672	9,370,375	—	—
Seritage Growth Properties	2,084,600	140,000	—	2,224,600	87,315,550	—	1,077,300
The St. Joe Co.	23,136,502	—	—	23,136,502	408,359,260	—	—
Sears Roebuck Acceptance Corp. 7.400%	15,405	—	—	15,405	135,410	—	14,250
Sears Holdings Corp., Vested, Strike Price \$25.686, Expire 12/15/2019	222,319	—	—	222,319	549,128	—	—
Imperial Metals Corp. 7.000%, 03/15/2019	\$156,780,000	\$ —	\$ —	\$156,780,000	147,529,980	—	6,800,031
Sears Holdings Corp. 6.625%, 10/15/2018	\$ 7,715,000	\$ —	\$ —	\$ 7,715,000	7,086,999	—	248,405
Sears Holdings Corp. 8.000%, 12/15/2019	\$143,408,000	\$ —	\$ —	\$143,408,000	107,642,045	—	5,579,531
Sears Roebuck Acceptance Corp. 6.875%, 10/15/2017	\$ 823,000	\$ —	\$ —	\$ 823,000	755,843	—	34,819
Sears Roebuck Acceptance Corp. 7.500%, 10/15/2027	\$ 6,886,000	\$ —	\$ —	\$ 6,886,000	3,091,814	—	298,186
Total					<u>\$938,784,892</u>	<u>\$(1,932,051)</u>	<u>\$14,052,521</u>

Note 8. Indemnifications

Under the Company's organizational documents, its Officers and Directors are indemnified against certain liabilities arising out of the performance of their duties to the 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.

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, 2016, 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 Funds' 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 Funds' 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 (800) 732-0330 for information on the operation of the Public Reference Room).

FAIRHOLME FUNDS

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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.*

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