

FAIRX

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2019 SEMI-ANNUAL REPORT

FAIRHOLME

Ignore the crowd.

Beginning March 29, 2021, as permitted by regulations adopted by the Securities and Exchange Commission, paper copies of each Fund's annual and semi-annual shareholder reports will no longer be sent by mail, unless you specifically request paper copies of the reports from the Fund or from your financial intermediary, such as a broker-dealer or bank. Instead, the reports will be made available on the Fund's website (www.fairholmefunds.com), and you will be notified by mail each time a report is posted and provided with a website link to access the report.

If you already elected to receive shareholder reports electronically, you will not be affected by this change and you need not take any action. You may elect to receive shareholder reports and other communications from a Fund or your financial intermediary electronically at any time by contacting your financial intermediary (such as a broker-dealer or bank) or, if you are a direct investor, by calling the Fund at (866) 202-2263.

You may elect to receive all future reports in paper form free of charge. If you invest through a financial intermediary, you can contact your financial intermediary to request that you continue to receive paper copies of your shareholder reports; if you invest directly with a Fund, you can call the Fund at (866) 202-2263. Your election to receive reports in paper form will apply to all funds held in your account with your financial intermediary or, if you invest directly, to all funds held with Fairholme Funds, Inc.

FAIRHOLME

Ignore the crowd.

PORTFOLIO MANAGER'S REPORT
FOR EACH SERIES OF FAIRHOLME FUNDS, INC.

July 2019

Mutual fund investing involves risks, including possible loss of principal. Unless otherwise specified, all information is shown as of July 26, 2019. Past performance information quoted below does not guarantee future results. The investment return and principal value of an investment in The Fairholme Fund ("Fund") 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 quoted 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 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. The Fund maintains a focused portfolio of investments in a limited number of issuers and does not seek to diversify its investments. This exposes the Fund to the risk of unanticipated industry conditions and risks particular to a single company or the securities of a single company within its portfolio. Current and future portfolio holdings are subject to change and risk. The S&P 500 Index (the "S&P 500") is a widely recognized, unmanaged index of 500 of the largest companies in the United States as measured by market capitalization and the performance of the S&P 500 assumes the reinvestment of all dividends and distributions. The S&P 500 is used for comparative purposes only, and is not meant to be indicative of the Fund's performance, asset composition, or volatility. The Fund's performance may differ markedly from the performance of the S&P 500 in either up or down market trends. Because an index cannot be invested in directly, the index returns do not reflect a deduction for fees, expenses, or taxes. The expense ratio for the Fund reflected in the current prospectus dated March 29, 2019, is 1.00%, and may differ from the actual expenses incurred by the Fund for the period covered by the Fund's Semi-Annual Report.

Effective January 1, 2018, the Manager agreed to waive, on a voluntary basis, a portion of the management fee of the Fund to the extent necessary to limit the management fee paid to the Manager by the Fund to an annual rate of 0.80% of the Fund's daily average net asset value. This undertaking may be terminated by the Manager upon 60 days' written notice to the Fund.

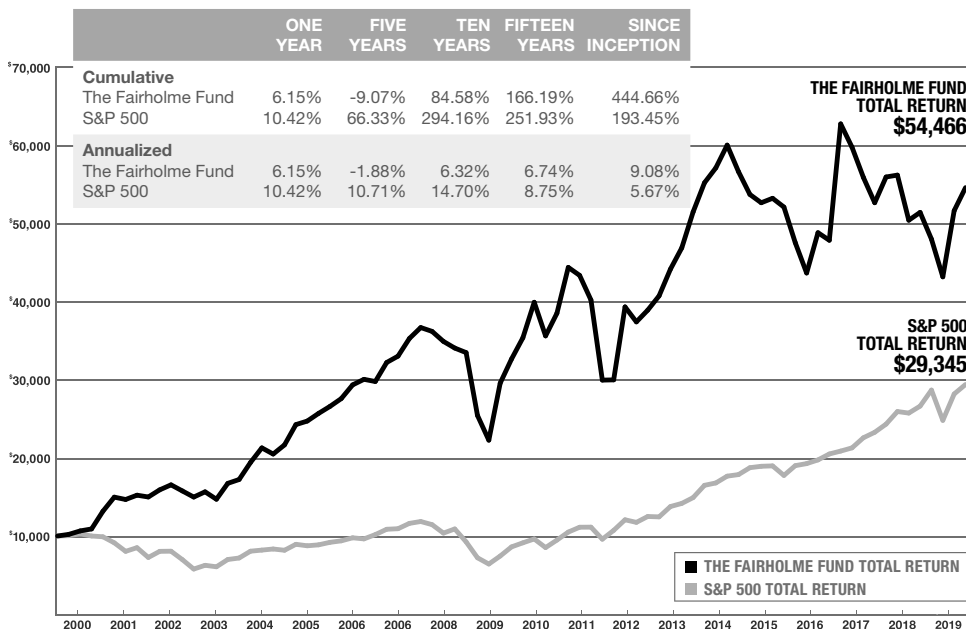
The Portfolio Manager's Report is not part of The Fairholme Funds, Inc. Semi-Annual Report due to forward-looking statements that, by their nature, cannot be attested to, as required by regulation. The Portfolio Manager's Report is based on calendar-year performance. A more formal Management Discussion 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.

July 26, 2019

To the Shareholders and Directors of The Fairholme Fund:

The Fairholme Fund increased net asset values by 26.42% for the first six months of 2019. Strong absolute and relative returns were based on investments in Fannie Mae, Freddie Mac, St. Joe, and Imperial Metals.

The Fairholme Fund



TOP ISSUERS (% OF NET ASSETS)	
The St. Joe Co.	34.4%
Cash and Cash Equivalents*	31.5%
Imperial Metals Corp.	13.5%
Federal Home Loan Mortgage Corp.	9.9%
Federal National Mortgage Association	9.8%
Vista Outdoor, Inc.	0.3%
Sears Holdings Corp.	0.3%

The chart on the left covers the period from inception of The Fairholme Fund (December 29, 1999) through June 30, 2019.

The Fairholme Fund increased 26.42% versus a 18.54% increase for the S&P 500 for the six-month period that ended June 30, 2019. 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, 2019. The value of a \$10,000 investment in The Fairholme Fund at its inception was worth \$54,466 (assumes reinvestment of distributions into additional Fairholme Fund shares) compared to \$29,345 for the S&P 500 at June 30, 2019. Of the \$54,466, the value of reinvested distributions was \$35,326.

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

Fannie Mae and Freddie Mac ("Fannie" and "Freddie")

In 2008, Fannie and Freddie's boards of directors agreed to federal conservatorship and U.S. Treasury investments earning 10% of principal, \$2 billion in fees, and 80% ownership stakes. Since then, Fannie and Freddie have earned and paid \$300 billion to our U.S. Treasury, which is \$24 billion more than promised. It is now time for Fannie and Freddie, like all others forced to take U.S. Treasury money during the last financial crisis, to keep what is rightly earned, recapitalize, and exit conservatorship. Such a course would follow established laws, maximize taxpayer safety and returns, and allow a reasonable, risk-adjusted return on the Fund's Fannie and Freddie junior preferred shares.

St. Joe Company ("JOE")

By 2021, JOE, with project partners, hopes to reach a run rate of 1,000 home and home lot sales per year; rent over 1,300 apartments, 900 hotel rooms, and 1.5 million square feet of commercial space; and register more than 1,400 *The Clubs by JOE* full-time members. Thirty residential, commercial, and hospitality projects are expected to start this year. Each project is based on pent-up demand, stands on its own, and is expected to increase company operating earnings and asset values. I continue to chair JOE's board of directors.

Imperial Metals Corporation ("Imperial")

In March, Imperial entered into an agreement to sell 70% of Red Chris, its flagship copper and gold mine, to Newcrest Mining for \$807 million. Proceeds will be used to pay down maturing debt, including the senior debt owned by the Fund. The Fund will remain an owner of Imperial's common stock, which offers further appreciation with such de-leveraging, Newcrest managing Red Chris, and rising copper and gold prices.

Outlook

There is room for further portfolio gains. Fannie and Freddie preferred stocks trade for less than half of stated liquidation prices. JOE is accelerating growth while diversifying risks. Imperial is about to complete the Red Chris transaction. Gold prices are up. The Fund holds cash and investment grade cash equivalents totaling more than 30% of net assets in preparation for expected opportunities.

Respectfully submitted,



Bruce R. Berkowitz
Chief Investment Officer

Mutual fund investing involves risks, including possible loss of principal. Unless otherwise specified, all information is shown as of July 26, 2019. Past performance information quoted below does not guarantee future results. The investment return and principal value of an investment in The Fairholme Focused Income Fund ("The Income Fund" or the "Fund") 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 quoted performance information quoted below. Performance figures reflect the deduction of expenses and assume reinvestment of dividends and capital gains. Most recent month-end performance and answers to any questions you may have can be obtained by calling Shareholder Services at (866) 202-2263. The Fund maintains a focused portfolio of investments in a limited number of issuers and does not seek to diversify its investments. This exposes the Fund to the risk of unanticipated industry conditions and risks particular to a single company or the securities of a single company within its portfolio. Current and future portfolio holdings are subject to change and risk. 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 Bloomberg Barclays Bond Index is used for comparative purposes only, and is not meant to be indicative of the Fund's performance, asset composition, or volatility. The Fund's performance may differ markedly from the performance of the Bloomberg Barclays Bond Index in either up or down market trends. Because an index cannot be invested in directly, the index returns do not reflect a deduction for fees, expenses, or taxes. The expense ratio for the Fund reflected in the current prospectus dated March 29, 2019, is 1.01%, and may differ from the actual expenses incurred by the Fund for the period covered by the Fund's Semi-Annual Report. The expense ratio includes any acquired fund fees and expenses which are incurred indirectly by the Fund as a result of investments in securities issued by one or more investment companies, including money market funds.

Effective January 1, 2018, the Manager agreed to waive, on a voluntary basis, a portion of the management fee of the Fund to the extent necessary to limit the management fee paid to the Manager by the Fund to an annual rate of 0.80% of the Fund's daily average net asset value. This undertaking may be terminated by the Manager upon 60 days' written notice to the Fund.

The Portfolio Manager's Report is 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 is 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.

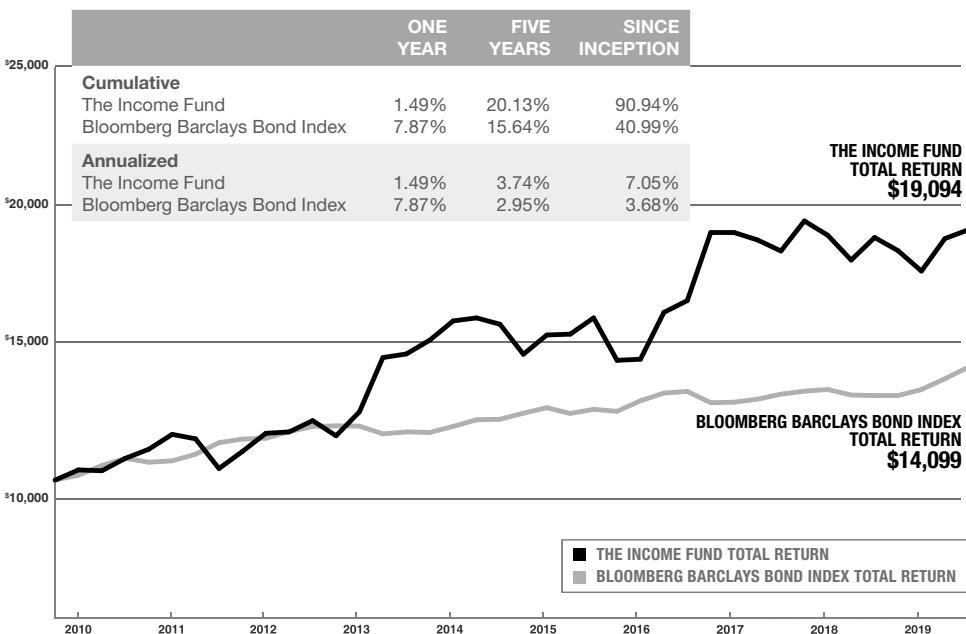
July 26, 2019

To the Shareholders and Directors of The Fairholme Focused Income Fund:

The Fund increased 8.55% for the six-month period that ended June 30, 2019. The strong absolute and relative returns were driven by the senior debt of Imperial Metals, the preferred shares of Freddie Mac, and portfolio income.

The value of a \$10,000 investment in the Fund at its inception (on December 31, 2009) was worth \$19,094 compared to \$14,099 for the Bloomberg Barclays Bond Index at June 30, 2019.

The Fairholme Focused Income Fund



TOP ISSUERS (% OF NET ASSETS)	
Cash and Cash Equivalents*	66.2%
Imperial Metals Corp.	12.7%
Federal Home Loan Mortgage Corp.	4.8%
GMAC Capital Trust I, Inc.	3.7%
The Goldman Sachs Group, Inc.	3.4%
Citigroup, Inc.	2.8%
Bank of America Corp.	2.2%
Chesapeake Energy Corp.	2.0%
Wells Fargo & Co.	1.3%
Energy Transfer Operating LP	1.1%

The Income Fund's 30-Day SEC Yield at June 30, 2019, was 2.83% (unsubsidized) and 3.03% (subsidized).**
The chart on the left covers the period from inception of The Income Fund (December 31, 2009) through June 30, 2019

The Income Fund increased 8.55% versus a 6.11% increase for the Bloomberg Barclays Bond Index for the six-month period that ended June 30, 2019. 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, 2019. The value of a \$10,000 investment in The Income Fund at its inception was worth \$19,094 (assumes reinvestment of distributions into additional Income Fund shares) compared to \$14,099 for the Bloomberg Barclays Bond Index at June 30, 2019. Of the \$19,094, the value of reinvested distributions was \$8,594.

*Includes cash, U.S. Treasury Bills, money market funds, and various commercial paper issuers.
**The 30-Day SEC Yield represents net investment income earned by The Income Fund over the 30-Day period, expressed as an annual percentage rate based on The Income Fund's share price at the end of the 30-Day period. The 30-Day unsubsidized SEC Yield does not reflect any fee waivers/reimbursements/limits in effect.

Imperial Metals Corporation (“Imperial”)

In March, Imperial entered into an agreement to sell 70% of Red Chris, its flagship copper and gold mine, to Newcrest Mining for \$807 million. Proceeds will be used to pay down maturing debt, including the senior debt owned by the Fund. The price of the bonds increased 45% this year driving Fund outperformance.

Freddie Mac (“Freddie”)

The Fund owns a 4% position in the preferred shares of Freddie, which currently trade at less than half of stated liquidation values, implying potential current yields of over 14% per annum. In 2008, Freddie’s board of directors agreed to federal conservatorship and U.S. Treasury investments earning 10% of principal, \$1 billion in fees, and an 80% ownership stake. Since then, Freddie has earned and paid \$120 billion to our U.S. Treasury, which is \$12 billion more than promised. It is now time for Freddie, like all others forced to take U.S. Treasury money during the last financial crisis, to keep what is rightly earned, recapitalize, and exit conservatorship. Such a course would follow established laws, maximize taxpayer safety and returns, and allow a reasonable, risk-adjusted return on the Fund’s junior preferred shares.

Portfolio

The Fund generates interest income via a portfolio of bank preferred shares, investment grade commercial paper, and U.S. Treasury bills. Fund liquidity is high and credit exposure is modest given tight credit spreads. The Fund is well prepared for future opportunities.

Respectfully submitted,



Bruce R. Berkowitz
Chief Investment Officer

Mutual fund investing involves risks, including possible loss of principal. Unless otherwise specified, all information is shown as of July 26, 2019. Past performance information quoted below does not guarantee future results. The investment return and principal value of an investment in The Allocation Fund ("The Allocation Fund" or the "Fund") 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 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. The Fund maintains a focused portfolio of investments in a limited number of issuers and does not seek to diversify its investments. This exposes the Fund to the risk of unanticipated industry conditions and risks particular to a single company or the securities of a single company within its portfolio. Current and future portfolio holdings are subject to change and risk. 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 the Fund's performance, asset composition, or volatility. The 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 ratio for the Fund reflected in the current prospectus dated March 29, 2019, is 1.01%, and may differ from the actual expenses incurred by the Fund for the period covered by the Fund's Semi-Annual Report. The expense ratio includes any acquired fund fees and expenses which are incurred indirectly by the Fund as a result of investments in securities issued by one or more investment companies, including money market funds.

Effective January 1, 2018, the Manager agreed to waive, on a voluntary basis, a portion of the management fee of the Fund to the extent necessary to limit the management fee paid to the Manager by the Fund to an annual rate of 0.80% of the Fund's daily average net asset value. This undertaking may be terminated by the Manager upon 60 days' written notice to the Fund.

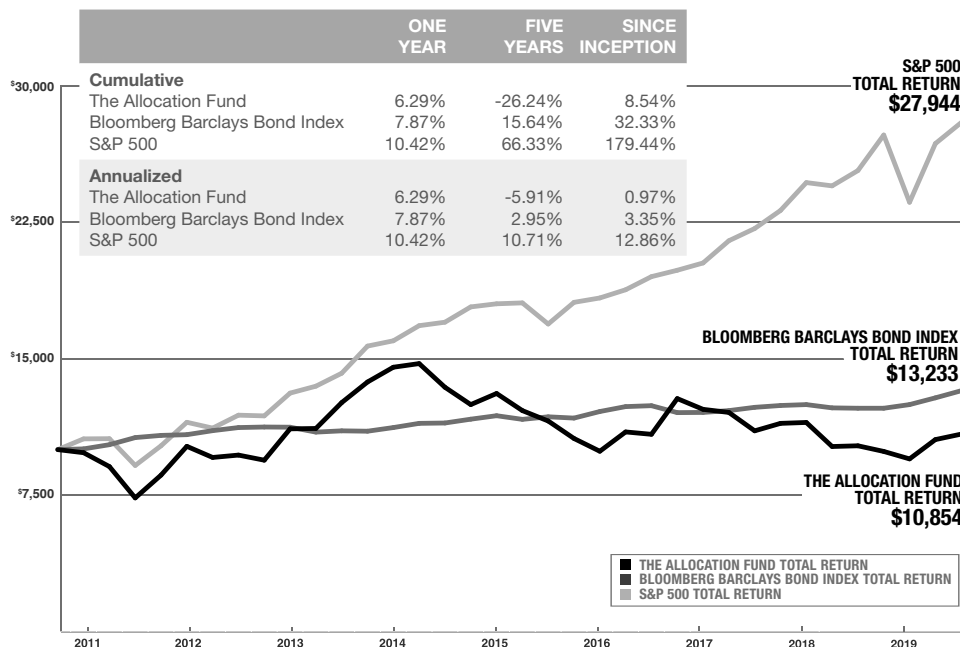
The Portfolio Manager's Report is not part of The Fairholme Funds, Inc. Semi-Annual Report due to forward-looking statements that, by their nature, cannot be attested to, as required by regulation. The Portfolio Manager's Report is based on calendar-year performance. A more formal Management Discussion 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.

July 26, 2019

To the Shareholders and Directors of The Fairholme Allocation Fund:

The Fund increased 14.44% for the six-month period that ended June 30, 2019 with a majority of assets in cash and cash equivalents. The strong returns were driven by investments in Fannie Mae and Freddie Mac preferred shares, St. Joe common stock, and Imperial Metals common stock. I expect further performance from these core investments.

The Fairholme Allocation Fund



TOP ISSUERS (% OF NET ASSETS)

Cash and Cash Equivalents*	63.4%
The St. Joe Co.	9.1%
Federal Home Loan Mortgage Corp.	8.6%
Federal National Mortgage Association	8.4%
Imperial Metals Corp.	6.7%
Chesapeake Energy Corp.	3.0%
Vista Outdoor, Inc.	0.8%

The Allocation Fund's 30-Day SEC Yield at June 30, 2019, was 1.06% (unsubsidized) and 1.26% (subsidized).**

The chart on the left covers the period from inception of The Allocation Fund (December 31, 2010) through June 30, 2019.

The Allocation Fund increased 14.44% versus a 6.11% increase for the Bloomberg Barclays Bond Index and a 18.54% increase for the S&P 500 for the six-month period that ended June 30, 2019. 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, 2019. The value of a \$10,000 investment in The Allocation Fund at its inception was worth \$10,854 (assumes reinvestment of distributions into additional Allocation Fund shares) compared to \$13,233 and \$27,944 for the Bloomberg Barclays Bond Index and the S&P 500, respectively, at June 30, 2019. Of the \$10,854, the value of reinvested distributions was \$3,404.

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

**The 30-Day SEC Yield represents net investment income earned by The Allocation Fund over the 30-Day period, expressed as an annual percentage rate based on The Allocation Fund's share price at the end of the 30-Day period. The 30-Day unsubsidized SEC Yield does not reflect any fee waivers/reimbursements/limits in effect.

Fannie Mae and Freddie Mac (“Fannie” and “Freddie”)

In 2008, Fannie and Freddie’s boards of directors agreed to federal conservatorship and U.S. Treasury investments earning 10% of principal, \$2 billion in fees, and 80% ownership stakes. Since then, Fannie and Freddie have earned and paid \$300 billion to our U.S. Treasury, which is \$24 billion more than promised. It is now time for Fannie and Freddie, like all others forced to take U.S. Treasury money during the last financial crisis, to keep what is rightly earned, recapitalize, and exit conservatorship. Such a course would follow established laws, maximize taxpayer safety and returns, and allow a reasonable, risk-adjusted return on the Fund’s Fannie and Freddie junior preferred shares.

St. Joe Company (“JOE”)

By 2021, JOE, with project partners, hopes to reach a run rate of 1,000 home and home lot sales per year; rent over 1,300 apartments, 900 hotel rooms, and 1.5 million square feet of commercial space; and register more than 1,400 *The Clubs by JOE* full-time members. Thirty residential, commercial, and hospitality projects are expected to start this year. Each project is based on pent-up demand, stands on its own, and is expected to increase company operating earnings and asset values. I continue to chair JOE’s board of directors.

Imperial Metals Corporation (“Imperial”)

In March, Imperial entered into an agreement to sell 70% of Red Chris, its flagship copper and gold mine, to Newcrest Mining for \$807 million. Proceeds will be used to pay down maturing debt. Imperial’s common stock offers further appreciation with such de-leveraging, Newcrest managing Red Chris, and rising copper and gold prices.

Outlook

There is room for further portfolio gains. Fannie and Freddie preferred stocks trade for less than half of stated liquidation prices. JOE is accelerating growth while diversifying risks. Imperial is about to complete the Red Chris transaction. Gold prices are up. The Fund holds cash and investment grade cash equivalents totaling more than 60% of net assets in preparation for expected opportunities.

Respectfully submitted,



Bruce R. Berkowitz
Chief Investment Officer

FAIRHOLME

Ignore the crowd.

FAIRHOLME FUNDS, INC.

The Fairholme Fund (FAIRX)

Seeking long-term growth of capital

The Fairholme Focused Income Fund (FOCIX)

Seeking current income

The Fairholme Allocation Fund (FAAFX)

Seeking long-term total return

Semi-Annual Report

May 31, 2019

Managed by Fairholme Capital Management

FAIRHOLME FUNDS, INC.

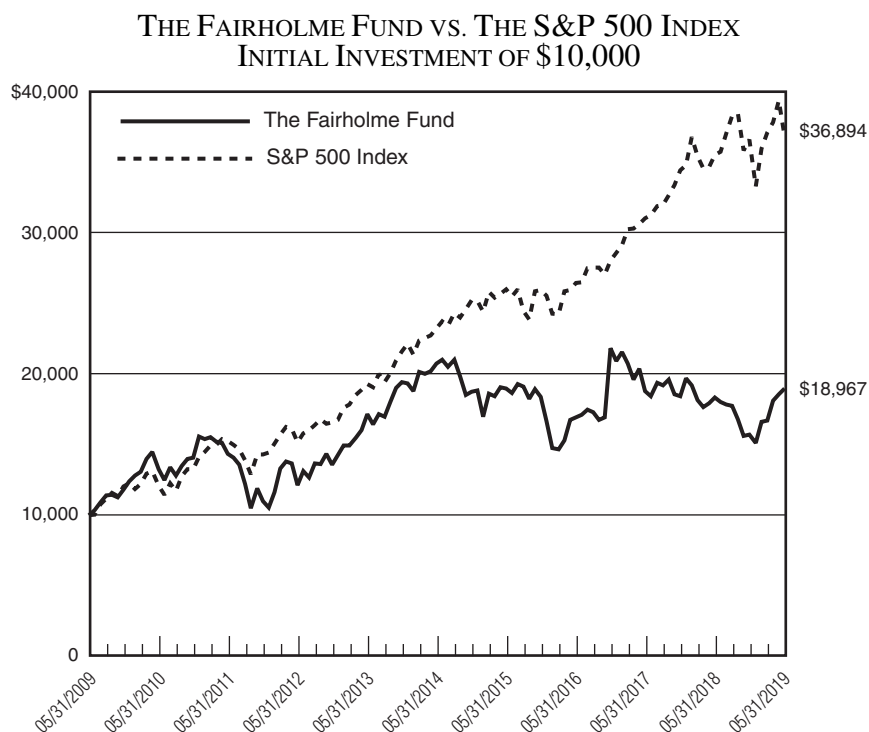
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FAIRHOLME FUNDS, INC.

FUND PERFORMANCE (unaudited)
May 31, 2008 — May 31, 2019

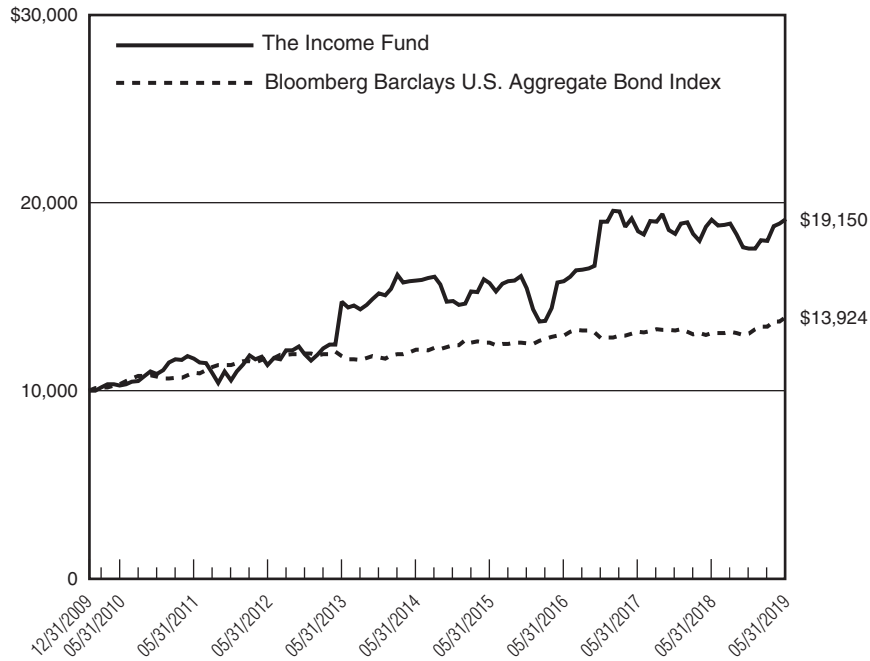


The Fairholme Fund (“The Fairholme Fund”) commenced operations on December 29, 1999. The chart above presents the performance of a \$10,000 investment for up to ten years to the latest semi-annual period ending May 31, 2019.

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**

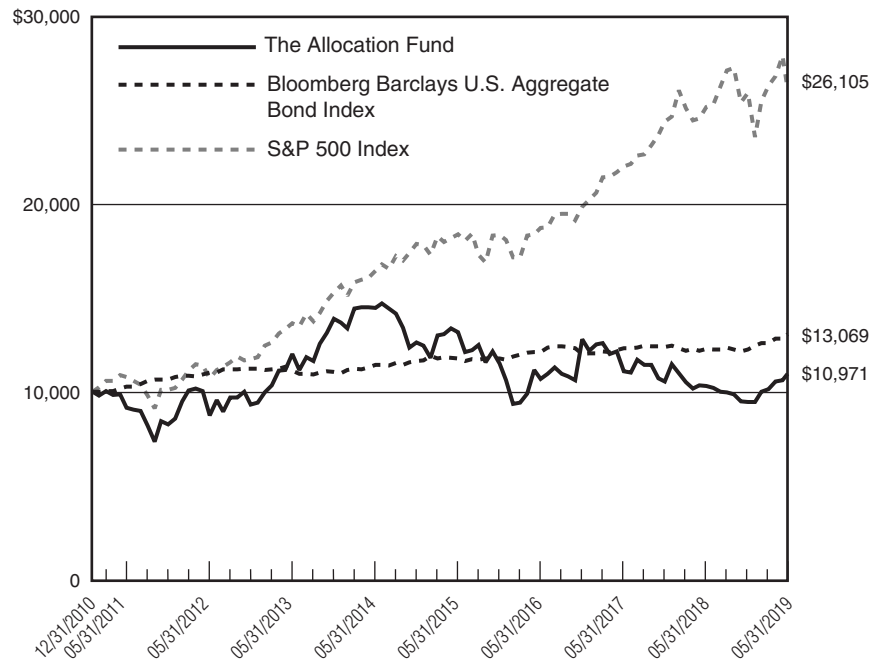


The Fairholme Focused Income Fund (“The Income Fund”) commenced operations on December 31, 2009. The chart above presents the performance of a \$10,000 investment from inception to the latest semi-annual period ending May 31, 2019.

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, 2019.

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, 2019

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, 2019, the end of the Funds’ semi-annual period, and NAVs at other pertinent dates, were as follows:

	05/31/2019 Shares Outstanding	05/31/2019 NAV (unaudited)	11/30/2018 NAV (audited)	05/31/2018 NAV (unaudited)
The Fairholme Fund	60,400,383	\$18.97	\$16.05	\$18.77
The Income Fund	18,293,596	\$10.61	\$ 9.88	\$11.00
The Allocation Fund	10,491,860	\$ 7.53	\$ 6.58	\$ 7.17

At June 30, 2019, the unaudited NAVs of The Fairholme Fund, The Income Fund, and The Allocation Fund were \$19.14, \$10.50, and \$7.45, respectively.

Performance figures below are shown for the Funds’ semi-annual period ended May 31, 2019, and do not match calendar year figures for the period ended June 30, 2019, cited in the Portfolio Manager’s report.

The Fairholme Fund Performance to 05/31/2019 (Unaudited)	Six Months	One Year	Five Years	Ten Years	Fifteen Years	Since Inception 12/29/1999
Cumulative:						
The Fairholme Fund	20.80%	3.30%	-8.59%	89.67%	163.96%	439.82%
S&P 500 Index	0.74%	3.78%	58.59%	268.94%	235.15%	174.13%
Annualized:						
The Fairholme Fund		3.30%	-1.78%	6.61%	6.68%	9.07%
S&P 500 Index		3.78%	9.66%	13.95%	8.40%	5.33%

For the six months ended May 31, 2019, The Fairholme Fund outperformed the S&P 500 Index (“S&P 500”) by 20.06 percentage points, while over the last year The Fairholme Fund was outperformed by the S&P 500 by 0.48 percentage points. From inception, The Fairholme Fund outperformed the S&P 500 by 3.74 percentage points per annum, or on a cumulative basis, 265.69 percentage points over nineteen years and five months.

The Income Fund Performance to 05/31/2019 (Unaudited)	Six Months	One Year	Five Year	Since Inception 12/31/2009
Cumulative:				
The Income Fund	8.91%	0.24%	20.66%	91.50%
Bloomberg Barclays Bond Index	6.72%	6.40%	14.27%	39.24%
Annualized:				
The Income Fund		0.24%	3.83%	7.15%
Bloomberg Barclays Bond Index		6.40%	2.70%	3.58%

For the six months ended May 31, 2019, The Income Fund outperformed the Bloomberg Barclays U.S. Aggregate Bond Index (“Bloomberg Barclays Bond Index”) by 2.19 percentage points, while over the last year The Income Fund was outperformed by the Bloomberg Barclays Bond Index by 6.16 percentage points. From inception, The Income Fund outperformed the Bloomberg Barclays Bond Index by 3.57 percentage points per annum, or on a cumulative basis, 52.26 percentage points over nine years and five months.

FAIRHOLME FUNDS, INC.

MANAGEMENT DISCUSSION & ANALYSIS (continued)

For the six months ended May 31, 2019

The Allocation Fund Performance to 05/31/2019 (Unaudited)	Six Months	One Year	Five Year	Since Inception 12/31/2010
Cumulative:				
The Allocation Fund	15.76%	6.23%	-24.25%	9.71%
Bloomberg Barclays Bond Index	6.72%	6.40%	14.27%	30.69%
S&P 500 Index	0.74%	3.78%	58.59%	161.05%
Annualized:				
The Allocation Fund		6.23%	-5.40%	1.11%
Bloomberg Barclays Bond Index		6.40%	2.70%	3.23%
S&P 500 Index		3.78%	9.66%	12.08%

For the six months ended May 31, 2019, The Allocation Fund outperformed the Bloomberg Barclays Bond Index and the S&P 500 by 9.04 and 15.02 percentage points, respectively, while over the last year The Allocation Fund was outperformed by the Bloomberg Barclays Bond Index by 0.17 percentage points and outperformed the S&P 500 by 2.45 percentage points. From inception, The Allocation Fund was outperformed by the Bloomberg Barclays Bond Index and the S&P 500 by 2.12 and 10.97 percentage points per annum, respectively, or on a cumulative basis, 20.98 and 151.34 percentage points over eight 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 new investments 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, respectively, relative intrinsic values and the Manager’s assessment of certain attractive characteristics of a company, general market conditions and expected future returns of an investment.

The Manager invests each Fund’s assets in securities to the extent the Manager finds reasonable investment opportunities in accordance with the Fund’s respective investment strategies, policies and restrictions, as stated in the Fund’s Prospectus and may invest a significant portion of each Fund’s assets in cash. The Manager views liquidity as a strategic advantage. At May 31, 2019, cash and cash equivalents (consisting of cash, commercial paper, deposit accounts, U.S. Treasury Bills, and money-market funds) represented 32.7%, 65.7%, and 62.5% of The Fairholme Fund, The Income Fund, and The Allocation Fund total assets, respectively. Since inception, the Funds have held varying levels of cash and cash equivalents for periods without, in the Manager’s view, negatively influencing performance.

FAIRHOLME FUNDS, INC.

MANAGEMENT DISCUSSION & ANALYSIS (continued)

For the six months ended May 31, 2019

Each Fund is considered to be “non-diversified” under the Investment Company Act of 1940. Accordingly, each Fund can invest a greater percentage of its assets in fewer securities than a diversified fund, and can invest a significant portion of cash and liquid assets held by the Fund in one or more higher-risk securities at any time, including periods when a market is weak or a particular security declines sharply. The Funds may also have a greater percentage of assets invested in a particular sector than a diversified fund, exposing the Funds to the risk of an unanticipated event or condition and risks affecting a single company, sector 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, 2019.

The most significant gains in each of the Funds’ portfolios related to positive developments in the Mortgage Finance, Metals & Mining, and Real Estate Management and Development sectors. Investments in the Retail Department Stores and Leisure Products sectors saw some losses during the six months ended May 31, 2019.

The Manager made no changes to the core investment strategies and techniques it employed during the six months ended May 31, 2019.

For the six months ended May 31, 2019, The Fairholme Fund investments that were the biggest contributors to positive performance were Federal Home Loan Mortgage Corp. (“Freddie”), Federal National Mortgage Association (“Fannie”), Imperial Metals Corp. (“Imperial”), and The St. Joe Co. There weren’t any significant contributors to negative performance during the period. The following charts show the top holdings by issuer and sector in descending order of net assets as of May 31, 2019.

The Fairholme Fund Top Holdings by Issuer* (% of Net Assets)		The Fairholme Fund Top Sectors (% of Net Assets)	
The St. Joe Co.	31.6%	Cash and Cash Equivalents**	32.7%
Imperial Metals Corp.	13.5%	Real Estate Management & Development	31.6%
Federal Home Loan Mortgage Corp.	10.8%	Mortgage Finance	21.6%
Federal National Mortgage Association	10.8%	Metals & Mining	13.5%
Sears Holdings Corp.	0.3%	Retail Department Stores	0.3%
Vista Outdoor, Inc.	0.3%	Leisure Products	0.3%
	<u>67.3%</u>		<u>100.0%</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, 2019, The Income Fund investments that were the biggest contributors to positive performance were Imperial and Freddie. There weren’t any significant contributors to negative performance during the period. The following charts show the top holdings by issuer and sector in descending order of net assets as of May 31, 2019.

FAIRHOLME FUNDS, INC.

MANAGEMENT DISCUSSION & ANALYSIS (continued)

For the six months ended May 31, 2019

The Income Fund Top Holdings by Issuer* (% of Net Assets)		The Income Fund Top Sectors (% of Net Assets)	
Imperial Metals Corp.	12.5%	Cash and Cash Equivalents**	66.4%
Federal Home Loan Mortgage Corp.	5.2%	Metals & Mining	12.5%
GMAC Capital Trust I, Inc.	3.6%	Diversified Banks	6.2%
The Goldman Sachs Group, Inc.	3.4%	Mortgage Finance	5.2%
Citigroup, Inc.	2.7%	Consumer Finance	3.6%
Bank of America Corp.	2.2%	Capital Markets	3.4%
Chesapeake Energy Corp.	2.1%	Oil & Natural Gas Exploration	2.1%
Wells Fargo & Co.	1.3%	Oil & Gas Storage & Transportation	1.1%
Energy Transfer Operating LP	1.1%	Retail Department Stores	0.3%
Sears Holdings Corp.	0.3%		
	<u>34.4%</u>		<u>100.8%</u>

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

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

For the six months ended May 31, 2019, The Allocation Fund investments that were the biggest contributors to positive performance were Freddie, Fannie, and Imperial. There weren't any significant contributors to negative performance during the period. The following charts show the top holdings by issuer and sector in descending order of net assets as of May 31, 2019.

The Allocation Fund Top Holdings by Issuer* (% of Net Assets)		The Allocation Fund Top Sectors (% of Net Assets)	
Federal Home Loan Mortgage Corp.	9.3%	Cash and Cash Equivalents**	62.6%
Federal National Mortgage Association	9.2%	Mortgage Finance	18.5%
The St. Joe Co.	8.3%	Real Estate Management & Development	8.3%
Imperial Metals Corp.	6.8%	Metals & Mining	6.8%
Chesapeake Energy Corp.	3.1%	Oil & Natural Gas Exploration	3.1%
Vista Outdoor, Inc.	0.8%	Leisure Products	0.8%
	<u>37.5%</u>		<u>100.1%</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 long-term performance.

A more complete discussion and description of the principal risks of investing in the Funds can be found in the Funds' Prospectus and Statement of Additional Information.

Large cash inflows or outflows may adversely affect the Funds' performance. Such flows are monitored and actions deemed appropriate by the Manager 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 of Directors (the "Board" or the "Directors"), and his affiliates beneficially own an aggregate 10,784,408, 6,691,382, and 4,382,931 shares of The Fairholme Fund, The Income Fund, and The Allocation Fund, respectively, at May 31, 2019. 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.

FAIRHOLME FUNDS, INC.

MANAGEMENT DISCUSSION & ANALYSIS (continued)

For the six months ended May 31, 2019

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 composition of the Board; and current rules and regulations. A Director and Officers of the Funds are also Officers of the Manager. Nevertheless, at May 31, 2019, 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, 2018
through May 31, 2019 (unaudited)

As a shareholder of a Fund, you incur two types of costs: (1) transaction costs including, but not limited to, transaction fees at some broker-dealers, custodial fees for retirement accounts, redemption fees (on The Fairholme Fund and The Allocation Fund shares redeemed or exchanged within 60 days of purchase), and wire transfer fees; and (2) ongoing costs including, but not limited to, management fees paid to the Manager. The following examples are intended to help you understand your ongoing costs (in dollars) of 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, 2018, and held for the entire six month period ending May 31, 2019.

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 account during this period.

Hypothetical Example for Comparison Purposes

The second line of the tables below 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% hypothetical examples that appear in the shareholder reports of other funds.

Please note that the expenses shown in the table are 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 transactional costs were included, your total costs would be higher.

	Beginning Account Value December 1, 2018	Ending Account Value May 31, 2019	Annualized Expense Ratio*	Expenses Paid During the Period December 1, 2018 Through May 31, 2019**
The Fairholme Fund				
Actual	\$1,000.00	\$1,208.00	0.80%	\$4.40
Hypothetical (5% return before expenses)	\$1,000.00	\$1,020.94	0.80%	\$4.03
The Income Fund				
Actual	\$1,000.00	\$1,089.10	0.82%	\$4.27
Hypothetical (5% return before expenses)	\$1,000.00	\$1,020.84	0.82%	\$4.13
The Allocation Fund				
Actual	\$1,000.00	\$1,157.60	0.82%	\$4.41
Hypothetical (5% return before expenses)	\$1,000.00	\$1,020.84	0.82%	\$4.13

* Effective January 1, 2018, the Manager has agreed to waive, on a voluntary basis, a portion of the management fee of The Fairholme Fund, The Income Fund and The Allocation Fund to the extent necessary to limit the management fee paid to the Manager by The Fairholme Fund, The Income Fund and The Allocation Fund, respectively, to an annual rate of 0.80% of that Fund's daily average net asset value. This undertaking may be terminated by the Manager upon 60 days' written notice to the applicable Fund.

**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, 2019 (unaudited)

Shares	Value	Principal	Value
DOMESTIC EQUITY SECURITIES — 31.9%		DOMESTIC CORPORATE BONDS — 0.3%	
LEISURE PRODUCTS — 0.3%		RETAIL DEPARTMENT STORES — 0.3%	
411,100	Vista Outdoor, Inc. ^(a) \$ 3,153,137	\$ 99,306,000	Sears Holdings Corp. 8.000%, 12/15/2019 ^(d) \$ 3,783,559
REAL ESTATE MANAGEMENT & DEVELOPMENT — 31.6%		TOTAL DOMESTIC CORPORATE BONDS (COST \$99,677,915)	
22,730,687	The St. Joe Co. ^{(a)(b)} 362,099,844		3,783,559
TOTAL DOMESTIC EQUITY SECURITIES (COST \$606,876,186)		FOREIGN CORPORATE BONDS — 12.3%	
	365,252,981	CANADA — 12.3%	
FOREIGN EQUITY SECURITIES — 1.2%		METALS & MINING — 12.3%	
CANADA — 1.2%		143,223,000	Imperial Metals Corp. 7.000%, 09/15/2019 ^{(b)(c)} 140,544,730
METALS & MINING — 1.2%		TOTAL FOREIGN CORPORATE BONDS (COST \$143,218,368)	
7,027,352	Imperial Metals Corp. ^{(a)(b)} 14,038,065		140,544,730
TOTAL FOREIGN EQUITY SECURITIES (COST \$65,617,874)			
	14,038,065		
DOMESTIC PREFERRED EQUITY SECURITIES — 21.6%		COMMERCIAL PAPER — 25.0%	
MORTGAGE FINANCE — 21.6%		AUTO MANUFACTURERS — 1.9%	
9,165,768	Federal Home Loan Mortgage Corp. 7.875%, Series Z ^{(a)(c)} 124,196,156	22,000,000	Ford Motor Credit Co. 2.708%, 07/01/2019 ^{(f)(g)} 21,944,265
8,990,809	Federal National Mortgage Association 7.750%, Series S ^{(a)(c)} 123,084,175	AUTOMOTIVE RETAIL — 3.6%	
TOTAL DOMESTIC PREFERRED EQUITY SECURITIES (COST \$76,989,385)		3,500,000	AutoZone, Inc. 2.604%, 06/03/2019 ^{(f)(g)} 3,499,255
	247,280,331	38,000,000	2.522%, 06/14/2019 ^{(f)(g)} 37,961,223
	247,280,331	TOTAL DOMESTIC PREFERRED EQUITY SECURITIES (COST \$76,989,385)	
	247,280,331		
		BEVERAGES — 4.2%	
		17,000,000	Anheuser-Busch Inbev NV 2.656%, 06/19/2019 ^{(f)(g)} 16,976,466
		19,000,000	Constellation Brands, Inc. 2.807%, 06/03/2019 ^{(f)(g)} 18,995,606
		12,200,000	2.743%, 06/14/2019 ^{(f)(g)} 12,186,507
		TOTAL BEVERAGES — 4.2%	
		48,158,579	
		CHEMICALS — 1.2%	
		13,700,000	Albemarle Corp. 2.582%, 06/03/2019 ^{(f)(g)} 13,696,729

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

THE FAIRHOLME FUND

SCHEDULE OF INVESTMENTS (continued)
May 31, 2019 (unaudited)

<u>Principal</u>		<u>Value</u>	<u>Principal</u>		<u>Value</u>
	COMMERCIAL PAPER			COMMERCIAL PAPER	
	(CONTINUED) — 25.0%			(CONTINUED) — 25.0%	
	DIVERSIFIED HOLDING			TECHNOLOGY HARDWARE &	
	COMPANIES — 2.4%			EQUIPMENT — 0.1%	
\$ 2,500,000	Berkshire Hathaway Energy Co.	\$ 2,497,638	\$ 1,600,000	Arrow Electronics, Inc.	\$ 1,597,577
25,000,000	2.606%, 06/13/2019 ^{(f)(g)}	24,963,236		2.905%, 06/19/2019 ^{(f)(g)}	
	2.554%, 06/20/2019 ^{(f)(g)}	27,460,874			
				WIRELESS TELECOMMUNICATION	
				SERVICES — 0.2%	
	DIVERSIFIED		2,400,000	Bell Canada	2,397,481
	TELECOMMUNICATIONS — 1.1%			2.666%, 06/14/2019 ^{(f)(g)}	
12,500,000	AT&T, Inc.	12,475,923			
	2.625%, 06/26/2019 ^{(f)(g)}			TOTAL COMMERCIAL PAPER	
				(COST \$286,648,923)	286,622,245
	ENERGY SERVICES — 3.0%				
26,000,000	Duke Energy Corp.	25,986,957		U.S. GOVERNMENT	
8,000,000	2.592%, 06/07/2019 ^{(f)(g)}	7,980,921		OBLIGATIONS — 6.9%	
	2.659%, 07/02/2019 ^{(f)(g)}	33,967,878		U.S. Treasury Bills	
			29,500,000	2.360%, 08/15/2019 ^(g)	29,363,537
			50,000,000	2.400%, 10/24/2019 ^(g)	49,542,946
	FOOD PRODUCTS — 1.1%			TOTAL U.S. GOVERNMENT	
12,000,000	Mondelez International, Inc.	11,990,485		OBLIGATIONS	
	2.635%, 06/11/2019 ^{(f)(g)}			(COST \$78,878,133)	78,906,483
	HOTEL, RESORTS & CRUISE LINES — 1.0%			Shares	
11,650,000	Marriott International, Inc.	11,638,112		MONEY MARKET	
	2.714%, 06/14/2019 ^{(f)(g)}			FUNDS — 0.8%	
			9,719,840	Fidelity Investments Money	
	INSURANCE BROKERS — 0.7%			Market Treasury Portfolio -	
8,000,000	Marsh & McLennan Co., Inc.	7,997,148		Class I, 2.31% ^(h)	9,719,840
	2.581%, 06/05/2019 ^{(f)(g)}				
				TOTAL MONEY MARKET FUNDS	
	OIL & GAS STORAGE &			(COST \$9,719,840)	9,719,840
	TRANSPORTATION — 0.6%				
5,000,000	Enterprise Products Partners LP	4,998,935		TOTAL INVESTMENTS — 100.0%	
2,000,000	2.686%, 06/03/2019 ^{(f)(g)}	1,996,301		(COST \$1,367,626,624)	1,146,148,234
	2.605%, 06/25/2019 ^{(f)(g)}	6,995,236			
				LIABILITIES IN EXCESS	
	PACKAGED FOODS — 3.9%			OF OTHER	
10,000,000	Campbell Soup Co.	9,987,548		ASSETS — 0.0%	(527,593)
34,900,000	2.654%, 06/17/2019 ^{(f)(g)}	34,853,932		NET ASSETS — 100.0%	\$1,145,620,641
	2.655%, 06/18/2019 ^{(f)(g)}	44,841,480			

^(a) Non-income producing security.

^(b) Affiliated Company. See Note 7.

^(c) Variable rate security. Rates shown are the effective rates as of May 31, 2019.

^(d) Security in default and no interest was accrued as of May 31, 2019.

^(e) Restricted security as set forth in Rule 144A under the Securities Act of 1933. The value of this investment totals \$140,544,730, which represents 12.27% of The Fairholme Fund's net assets.

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

THE FAIRHOLME FUND

SCHEDULE OF INVESTMENTS (continued)
May 31, 2019 (unaudited)

- ^(f) Restricted security as set forth in Rule 144(a) under the Securities Act of 1933. The value of these investments totals \$286,622,245, which represents 25.02% of The Fairholme 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, 2019.

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

THE FAIRHOLME FUND

STATEMENT OF ASSETS & LIABILITIES
May 31, 2019 (unaudited)

Assets

Investments, at Fair Value:

Unaffiliated Issuers (Cost — \$557,477,073)	\$ 629,465,595
Affiliated Issuers (Cost — \$810,149,551)	516,682,639
Interest Receivable	2,152,432
Receivable for Capital Shares Sold	<u>13,010</u>
Total Assets	<u>1,148,313,676</u>

Liabilities

Payable for Capital Shares Redeemed	1,846,285
Accrued Management Fees	781,403
Accrued Legal Expenses	<u>65,347</u>
Total Liabilities	<u>2,693,035</u>

NET ASSETS

\$1,145,620,641

Net Assets Consist of:

Paid-In Capital	\$2,108,898,397
Total Accumulated Losses	<u>(963,277,756)</u>

NET ASSETS

\$1,145,620,641

Shares of Common Stock Outstanding* (\$0.0001 par value)	<u>60,400,383</u>
Net Asset Value, Offering and Redemption Price Per Share (\$1,145,620,641 / 60,400,383 shares)	<u>\$ 18.97</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, 2019
Investment Income	
Interest — Unaffiliated Issuers	\$ 5,339,844
Interest — Affiliated Issuers	5,841,479
Total Investment Income	<u>11,181,323</u>
Expenses	
Management Fees	<u>5,408,536</u>
Total Expenses	<u>5,408,536</u>
Less: Voluntary Reduction of Management Fees	<u>(1,081,707)</u>
Net Expenses	<u>4,326,829</u>
Net Investment Income	<u>6,854,494</u>
Realized and Unrealized Gain on Investments and Foreign Currency Related Transactions	
Net Realized Gain on Investments and Foreign Currency Related Transactions	
Unaffiliated Issuers	3,630,012
Net Change in Unrealized Appreciation (Depreciation) on Investments and Foreign Currency Related Translations	<u>193,133,677</u>
Net Realized and Unrealized Gain on Investments and Foreign Currency Related Transactions	<u>196,763,689</u>
NET INCREASE IN NET ASSETS FROM OPERATIONS	<u><u>\$203,618,183</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, 2019 (Unaudited)	For the Fiscal Year Ended November 30, 2018
CHANGES IN NET ASSETS		
From Operations		
Net Investment Income	\$ 6,854,494	\$ 23,034,554
Net Realized Gain (Loss) on Investments and Foreign Currency Related Transactions	3,630,012	(745,845,681)
Net Change in Unrealized Appreciation (Depreciation) on Investments and Foreign Currency Related Translations	<u>193,133,677</u>	<u>524,777,058</u>
Net Increase (Decrease) in Net Assets from Operations	<u>203,618,183</u>	<u>(198,034,069)</u>
From Dividends and Distributions to Shareholders		
Net Decrease in Net Assets from Dividends and Distributions	<u>(22,052,478)</u>	<u>(24,854,774)</u>
From Capital Share Transactions		
Proceeds from Sale of Shares	16,574,652	90,282,215
Shares Issued in Reinvestment of Dividends and Distributions	20,660,230	23,181,634
Redemption Fees	23,629	33,620
Cost of Shares Redeemed	<u>(138,069,222)</u>	<u>(697,223,062)</u>
Net Decrease in Net Assets from Shareholder Activity	<u>(100,810,711)</u>	<u>(583,725,593)</u>
NET ASSETS		
Net Increase (Decrease) in Net Assets	80,754,994	(806,614,436)
Net Assets at Beginning of Period	<u>1,064,865,647</u>	<u>1,871,480,083</u>
Net Assets at End of Period	<u>\$1,145,620,641</u>	<u>\$1,064,865,647</u>
SHARES TRANSACTIONS		
Issued	991,513	4,864,645
Reinvested	1,352,111	1,184,549
Redeemed	<u>(8,295,611)</u>	<u>(37,685,937)</u>
Net Decrease in Shares	<u>(5,951,987)</u>	<u>(31,636,743)</u>
Shares Outstanding at Beginning of Period	<u>66,352,370</u>	<u>97,989,113</u>
Shares Outstanding at End of Period	<u>60,400,383</u>	<u>66,352,370</u>

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

THE FAIRHOLME FUND

FINANCIAL HIGHLIGHTS

	For the Six Months Ended May 31, 2019 (unaudited)	For the Fiscal Year Ended November 30,				
		2018	2017	2016	2015	2014
PER SHARE OPERATING PERFORMANCE						
NET ASSET VALUE, BEGINNING OF PERIOD	\$16.05	\$19.10	\$24.26	\$34.24	\$37.96	\$42.76
Investment Operations						
Net Investment Income (Loss) ⁽¹⁾	0.11	0.29	0.23	0.33	0.46	(0.19)
Net Realized and Unrealized Gain (Loss) on Investments	3.15	(3.08)	(3.81)	2.60	(1.10)	(1.21)
Total from Investment Operations	3.26	(2.79)	(3.58)	2.93	(0.64)	(1.40)
Dividends and Distributions						
From Net Investment Income	(0.34)	(0.26)	(0.40)	(0.60)	—	—
From Realized Capital Gains	—	—	(1.18)	(12.31)	(3.08)	(3.40)
Total Dividends and Distributions	(0.34)	(0.26)	(1.58)	(12.91)	(3.08)	(3.40)
Redemption Fees⁽¹⁾	0.00 ⁽²⁾	0.00 ⁽²⁾	0.00 ⁽²⁾	0.00 ⁽²⁾	0.00 ⁽²⁾	0.00 ⁽²⁾
NET ASSET VALUE, END OF PERIOD	\$18.97	\$16.05	\$19.10	\$24.26	\$34.24	\$37.96
TOTAL RETURN	20.80% ⁽³⁾	(14.85)%	(15.64)%	18.93%	(1.95)%	(3.50)%
Ratio/Supplemental Data						
Net Assets, End of Period (in 000's)	\$1,145,621	\$1,064,866	\$1,871,480	\$3,155,709	\$4,612,354	\$6,776,885
Ratio of Gross Expenses to Average Net Assets	1.00% ⁽⁴⁾	1.00%	1.02% ⁽⁵⁾	1.02% ⁽⁵⁾	1.03% ⁽⁶⁾	1.06% ⁽⁷⁾
Ratio of Net Expenses to Average Net Assets	0.80% ⁽⁴⁾⁽⁸⁾	0.82% ⁽⁸⁾	1.02% ⁽⁵⁾	1.02% ⁽⁵⁾	1.03% ⁽⁶⁾	1.06% ⁽⁷⁾
Ratio of Net Investment Income (Loss) to Average Net Assets	1.27% ⁽⁴⁾	1.57%	1.14%	1.79%	1.31%	(0.48)%
Portfolio Turnover Rate	6.48% ⁽³⁾	16.29%	6.57%	19.19%	40.46%	1.62%

⁽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⁾ Effective January 1, 2018, the Manager has agreed to waive, on a voluntary basis, a portion of the management fee of The Fairholme Fund to the extent necessary to limit the management fee paid to the Manager by The Fairholme Fund to an annual rate of 0.80% of the daily average net asset value of The Fairholme Fund.

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

THE FAIRHOLME FOCUSED INCOME FUND

SCHEDULE OF INVESTMENTS
May 31, 2019 (unaudited)

Shares		Value	Principal		Value
	DOMESTIC PREFERRED EQUITY SECURITIES — 12.0%			DOMESTIC CORPORATE BONDS — 9.9%	
	CONSUMER FINANCE — 3.6%			CAPITAL MARKETS — 3.4%	
268,500	GMAC Capital Trust I, Inc. 8.303%, Series 2 ^(a)	\$ 6,932,670	\$ 6,600,000	The Goldman Sachs Group, Inc. 6.429%, Series L ^{(d)(e)}	\$ 6,623,100
	MORTGAGE FINANCE — 5.2%			DIVERSIFIED BANKS — 6.2%	
	Federal Home Loan Mortgage Corp.		4,172,000	Bank of America Corp. 5.125%, Series V ^{(d)(f)}	4,167,828
302,300	5.100%, Series H ^(b)	6,831,980	5,290,000	Citigroup, Inc. 5.800%, Series N ^{(d)(f)}	5,320,682
260,924	6.550%, Series Y ^(b)	3,261,550	2,450,000	Wells Fargo & Co. (3 mo. LIBOR + 3.770%) 6.380%, Series K ^{(d)(e)}	2,460,535
		<u>10,093,530</u>			<u>11,949,045</u>
	OIL & GAS STORAGE & TRANSPORTATION — 1.1%			RETAIL DEPARTMENT STORES — 0.3%	
90,000	Energy Transfer Operating LP 7.375%, Series C ^(a)	2,100,600	17,595,500	Sears Holdings Corp. 8.000%, 12/15/2019 ^(g)	670,389
	OIL & NATURAL GAS EXPLORATION — 2.1%			TOTAL DOMESTIC CORPORATE BONDS (COST \$35,592,219)	<u>19,242,534</u>
	Chesapeake Energy Corp.			FOREIGN CORPORATE BONDS — 12.5%	
42,416	5.000%	2,067,780		METALS & MINING — 12.5%	
3,633	5.750% ^(c)	1,740,425	24,725,000	Imperial Metals Corp. 7.000%, 09/15/2019 ^(e)	24,262,643
600	5.750% ^(c)	287,436		TOTAL FOREIGN CORPORATE BONDS (COST \$24,723,985)	<u>24,262,643</u>
100	5.750% ^(c)	47,355			
		<u>4,142,996</u>			
TOTAL DOMESTIC PREFERRED EQUITY SECURITIES (COST \$18,947,452)		<u>23,269,796</u>			

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

THE FAIRHOLME FOCUSED INCOME FUND

SCHEDULE OF INVESTMENTS (continued)
May 31, 2019 (unaudited)

<u>Principal</u>		<u>Value</u>	<u>Principal</u>		<u>Value</u>
	COMMERCIAL PAPER — 55.9%			COMMERCIAL PAPER (CONTINUED) — 55.9%	
	AUTO MANUFACTURERS — 2.1%			HOTEL, RESORTS & CRUISE LINES — 5.1%	
\$4,000,000	Ford Motor Credit Co. 2.708%, 07/01/2019 ^{(h)(i)}	\$ 3,989,866	\$4,000,000	Marriott International, Inc. 2.732%, 07/18/2019 ^{(h)(i)}	\$ 3,985,579
	AUTOMOTIVE RETAIL — 3.6%		6,000,000	Royal Caribbean Cruises Ltd. 2.886%, 06/18/2019 ^{(h)(i)}	5,992,080
7,000,000	AutoZone, Inc. 2.522%, 06/14/2019 ^{(h)(i)}	6,992,857			9,977,659
	BEVERAGES — 5.2%			INSURANCE BROKERS — 3.6%	
3,000,000	Anheuser-Busch Inbev NV 2.632%, 07/25/2019 ^{(h)(i)}	2,987,808	7,000,000	Marsh & McLennan Co., Inc. 2.676%, 06/04/2019 ^{(h)(i)}	6,998,008
3,000,000	Constellation Brands, Inc. 2.807%, 06/03/2019 ^{(h)(i)}	2,999,306		OIL & GAS STORAGE & TRANSPORTATION — 2.3%	
900,000	2.743%, 06/14/2019 ^{(h)(i)}	899,005	4,500,000	Enterprise Products Partners LP 2.675%, 06/24/2019 ^{(h)(i)}	4,492,020
3,100,000	2.756%, 06/21/2019 ^{(h)(i)}	3,094,796		OIL & NATURAL GAS EXPLORATION — 2.8%	
		9,980,915		Suncor Energy, Inc. 2.696%, 06/05/2019 ^{(h)(i)}	3,498,752
	CHEMICALS — 3.6%		2,000,000	2.603%, 06/17/2019 ^{(h)(i)}	1,997,510
7,000,000	Sherwin-Williams Co. 2.612%, 06/04/2019 ^{(h)(i)}	6,998,105			5,496,262
	DIVERSIFIED HOLDING COMPANIES — 3.6%			PACKAGED FOODS — 6.0%	
2,000,000	Berkshire Hathaway Energy Co. 2.606%, 06/13/2019 ^{(h)(i)}	1,998,110	7,700,000	Campbell Soup Co. 2.655%, 06/18/2019 ^{(h)(i)}	7,689,836
5,000,000	2.605%, 06/14/2019 ^{(h)(i)}	4,994,974	4,000,000	McCormick & Co., Inc. 2.552%, 06/11/2019 ^{(h)(i)}	3,996,706
		6,993,084			11,686,542
	DIVERSIFIED TELECOMMUNICATIONS — 3.6%			TECHNOLOGY HARDWARE & EQUIPMENT — 3.6%	
7,000,000	AT&T, Inc. 2.625%, 06/26/2019 ^{(h)(i)}	6,986,517	7,000,000	Arrow Electronics, Inc. 2.855%, 06/18/2019 ^{(h)(i)}	6,989,976
	ENERGY SERVICES — 3.6%			WIRELESS TELECOMMUNICATION SERVICES — 3.6%	
7,000,000	Duke Energy Corp. 2.614%, 06/05/2019 ^{(h)(i)}	6,997,504	7,000,000	Bell Canada 2.666%, 06/14/2019 ^{(h)(i)}	6,992,653
	FOOD PRODUCTS — 3.6%			TOTAL COMMERCIAL PAPER (COST \$108,569,893)	108,560,354
3,000,000	Mondelez International, Inc. 2.635%, 06/11/2019 ^{(h)(i)}	2,997,621			
4,000,000	2.606%, 07/01/2019 ^{(h)(i)}	3,990,765			
		6,988,386			

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

THE FAIRHOLME FOCUSED INCOME FUND

SCHEDULE OF INVESTMENTS (continued)
 May 31, 2019 (unaudited)

<u>Principal</u>	<u>Value</u>		<u>Value</u>
		TOTAL INVESTMENTS — 100.8%	
		(COST \$208,166,058)	\$ 195,672,853
		LIABILITIES IN EXCESS	
		OF OTHER	
		ASSETS — (0.8)%	(1,598,660)
		NET ASSETS — 100.0%	<u>\$ 194,074,193</u>
		TOTAL U.S. GOVERNMENT	
		OBLIGATIONS	
		(COST \$15,900,190)	<u>15,905,207</u>
		Shares	
		MONEY MARKET	
		FUNDS — 2.3%	
4,432,319		Fidelity Investments Money	
		Market Treasury Portfolio -	
		Class I, 2.31% ⁽ⁱ⁾	<u>4,432,319</u>
		TOTAL MONEY MARKET FUNDS	
		(COST \$4,432,319)	<u>4,432,319</u>

^(a) Variable rate security. Rates shown are the effective rates as of May 31, 2019.

^(b) Non-income producing security.

^(c) Restricted security as set forth in Rule 144A under the Securities Act of 1933. The value of these investments totals \$24,597,434, which represents 12.67% of The Income Fund's net assets.

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

^(e) Floating rate security. Rate shown is the effective rate as of May 31, 2019.

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

^(g) Security in default and no interest was accrued as of May 31, 2019.

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

⁽ⁱ⁾ Restricted security as set forth in Rule 144(a) under the Securities Act of 1933. The value of these investments totals \$108,560,354, which represents 55.94% of The Income Fund's net assets.

^(j) Annualized based on the 1-day yield as of May 31, 2019.

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

THE FAIRHOLME FOCUSED INCOME FUND

STATEMENT OF ASSETS & LIABILITIES
May 31, 2019 (unaudited)

Assets

Investments, at Fair Value (Cost — \$208,166,058)	\$195,672,853
Interest Receivable	550,185
Receivable for Capital Shares Sold	<u>76</u>
Total Assets	<u>196,223,114</u>

Liabilities

Payable for Investments Purchased	1,997,978
Accrued Management Fees	131,123
Payable for Capital Shares Redeemed	<u>19,820</u>
Total Liabilities	<u>2,148,921</u>

NET ASSETS

\$194,074,193

Net Assets Consist of:

Paid-In Capital	\$211,637,922
Total Accumulated Losses	<u>(17,563,729)</u>

NET ASSETS

\$194,074,193

Shares of Common Stock Outstanding* (\$0.0001 par value) 18,293,596

Net Asset Value, Offering and Redemption Price Per Share
(\$194,074,193 / 18,293,596 shares) \$ 10.61

* 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, 2019
Investment Income	
Interest	\$ 3,363,319
Dividends	<u>597,760</u>
Total Investment Income	<u>3,961,079</u>
Expenses	
Management Fees	940,265
Legal Expenses	<u>20,349</u>
Total Expenses	<u>960,614</u>
Less: Voluntary Reduction of Management Fees	<u>(188,053)</u>
Net Expenses	<u>772,561</u>
Net Investment Income	<u>3,188,518</u>
Realized and Unrealized Gain on Investments and Foreign Currency Related Transactions	
Net Realized Gain on Investments and Foreign Currency Related Transactions	1,869,432
Net Change in Unrealized Appreciation (Depreciation) on Investments and Foreign Currency Related Translations	<u>10,950,302</u>
Net Realized and Unrealized Gain on Investments and Foreign Currency Related Transactions	<u>12,819,734</u>
NET INCREASE IN NET ASSETS FROM OPERATIONS	<u><u>\$16,008,252</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, 2019 (Unaudited)	For the Fiscal Year Ended November 30, 2018
CHANGES IN NET ASSETS		
From Operations		
Net Investment Income	\$ 3,188,518	\$ 10,275,115
Net Realized Gain (Loss) on Investments and Foreign Currency Related Transactions	1,869,432	(7,956,448)
Net Change in Unrealized Appreciation (Depreciation) on Investments and Foreign Currency Related Translations	<u>10,950,302</u>	<u>(11,226,394)</u>
Net Increase (Decrease) in Net Assets from Operations	<u>16,008,252</u>	<u>(8,907,727)</u>
From Dividends and Distributions to Shareholders		
Net Decrease in Net Assets from Dividends and Distributions	<u>(2,645,424)</u>	<u>(20,470,612)</u>
From Capital Share Transactions		
Proceeds from Sale of Shares	5,694,550	82,350,172
Shares Issued in Reinvestment of Dividends and Distributions	2,337,932	18,536,050
Cost of Shares Redeemed	<u>(15,820,997)</u>	<u>(106,440,303)</u>
Net Decrease in Net Assets from Shareholder Activity	<u>(7,788,515)</u>	<u>(5,554,081)</u>
NET ASSETS		
Net Increase (Decrease) in Net Assets	5,574,313	(34,932,420)
Net Assets at Beginning of Period	<u>188,499,880</u>	<u>223,432,300</u>
Net Assets at End of Period	<u>\$194,074,193</u>	<u>\$ 188,499,880</u>
SHARES TRANSACTIONS		
Issued	563,285	7,580,742
Reinvested	230,317	1,734,291
Redeemed	<u>(1,571,163)</u>	<u>(9,968,013)</u>
Net Decrease in Shares	<u>(777,561)</u>	<u>(652,980)</u>
Shares Outstanding at Beginning of Period	<u>19,071,157</u>	<u>19,724,137</u>
Shares Outstanding at End of Period	<u>18,293,596</u>	<u>19,071,157</u>

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

THE FAIRHOLME FOCUSED INCOME FUND

FINANCIAL HIGHLIGHTS

	For the	For the Fiscal Year Ended November 30,				
	Six Months Ended May 31, 2019 (unaudited)	2018	2017	2016	2015	2014
PER SHARE OPERATING PERFORMANCE						
NET ASSET VALUE, BEGINNING OF PERIOD	\$9.88	\$11.33	\$12.38	\$10.72	\$10.82	\$11.98
Investment Operations						
Net Investment Income ⁽¹⁾	0.17	0.49	0.60	0.57	0.45	0.22
Net Realized and Unrealized Gain (Loss) on Investments	0.70	(0.91)	(0.99)	1.72	0.03	(0.51)
Total from Investment Operations	0.87	(0.42)	(0.39)	2.29	0.48	(0.29)
Dividends and Distributions						
From Net Investment Income	(0.14)	(0.51)	(0.61)	(0.56)	(0.43)	(0.19)
From Realized Capital Gains	—	(0.52)	(0.05)	(0.07)	(0.15)	(0.68)
Total Dividends and Distributions	(0.14)	(1.03)	(0.66)	(0.63)	(0.58)	(0.87)
NET ASSET VALUE, END OF PERIOD	\$10.61	\$9.88	\$11.33	\$12.38	\$10.72	\$10.82
TOTAL RETURN	8.91% ⁽²⁾	(4.19)%	(3.35)%	22.77%	4.60%	(2.67)%
Ratio/Supplemental Data						
Net Assets, End of Period (in 000's)	\$194,074	\$188,500	\$223,432	\$240,195	\$243,072	\$216,047
Ratio of Gross Expenses to Average Net Assets:	1.02% ⁽³⁾⁽⁴⁾	1.00%	1.00%	1.00%	1.00%	1.00%
Ratio of Net Expenses to Average Net Assets	0.82% ⁽³⁾⁽⁴⁾⁽⁵⁾	0.82% ⁽⁵⁾	1.00%	1.00%	1.00%	1.00%
Ratio of Net Investment Income to Average Net Assets	3.39% ⁽³⁾	4.56%	5.02%	5.48%	4.14%	1.94%
Portfolio Turnover Rate	0.03% ⁽²⁾	45.78%	36.05%	28.81%	67.05%	38.86%

⁽¹⁾ Based on average shares outstanding.

⁽²⁾ Not annualized.

⁽³⁾ Annualized.

⁽⁴⁾ 0.02% is attributable to legal expenses incurred outside the management fee.

⁽⁵⁾ Effective January 1, 2018, the Manager has agreed to waive, on a voluntary basis, a portion of the management fee of The Income Fund to the extent necessary to limit the management fee paid to the Manager by The Income Fund to an annual rate of 0.80% of the daily average net asset value of The Income Fund.

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

THE FAIRHOLME ALLOCATION FUND

SCHEDULE OF INVESTMENTS
May 31, 2019 (unaudited)

Shares		Value	Principal		Value
	DOMESTIC EQUITY SECURITIES — 9.1%			COMMERCIAL PAPER — 47.4%	
	LEISURE PRODUCTS — 0.8%			AUTOMOTIVE RETAIL — 2.5%	
74,700	Vista Outdoor, Inc. ^(a)	\$ 572,949		AutoZone, Inc.	
	REAL ESTATE MANAGEMENT & DEVELOPMENT — 8.3%		\$1,000,000	2.604%, 06/03/2019 ^{(d)(e)}	\$ 999,787
426,748	The St. Joe Co. ^{(a)(b)}	6,580,454	1,000,000	2.522%, 06/14/2019 ^{(d)(e)}	998,980
	TOTAL DOMESTIC EQUITY SECURITIES (COST \$9,153,024)	<u>7,153,403</u>			<u>1,998,767</u>
	FOREIGN EQUITY SECURITIES — 6.8%			BEVERAGES — 7.6%	
	CANADA — 6.8%		3,000,000	Anheuser-Busch Inbev NV	
	METALS & MINING — 6.8%			2.625%, 06/12/2019 ^{(d)(e)}	2,997,384
2,686,983	Imperial Metals Corp. ^(a)	5,367,605	2,000,000	Constellation Brands, Inc.	
	TOTAL FOREIGN EQUITY SECURITIES (COST \$27,105,770)	<u>5,367,605</u>	1,000,000	2.743%, 06/14/2019 ^{(d)(e)}	1,997,788
	DOMESTIC PREFERRED EQUITY SECURITIES — 21.6%			2.756%, 06/21/2019 ^{(d)(e)}	998,321
	MORTGAGE FINANCE — 18.5%				<u>5,993,493</u>
544,169	Federal Home Loan Mortgage Corp.		2,500,000	DIVERSIFIED TELECOMMUNICATIONS — 3.1%	
	7.875%, Series Z ^{(a)(c)}	7,373,490		AT&T, Inc.	
529,918	Federal National Mortgage Association			2.625%, 06/26/2019 ^{(d)(e)}	2,495,185
	7.750%, Series S ^{(a)(c)}	7,254,577		ENERGY SERVICES — 3.2%	
	TOTAL DOMESTIC PREFERRED EQUITY SECURITIES (COST \$7,472,859)	<u>17,081,333</u>		Duke Energy Corp.	
	OIL & NATURAL GAS EXPLORATION — 3.1%			2.614%, 06/05/2019 ^{(d)(e)}	2,499,109
5,121	Chesapeake Energy Corp.	2,453,266		FOOD PRODUCTS — 3.8%	
				Mondelez International, Inc.	
			2,000,000	2.593%, 06/04/2019 ^{(d)(e)}	1,999,437
			1,000,000	2.635%, 06/11/2019 ^{(d)(e)}	999,207
					<u>2,998,644</u>
				HOTEL, RESORTS & CRUISE LINES — 6.3%	
			2,000,000	Marriott International, Inc.	
				2.732%, 07/18/2019 ^{(d)(e)}	1,992,789
			3,000,000	Royal Caribbean Cruises Ltd.	
				2.886%, 06/18/2019 ^{(d)(e)}	2,996,040
					<u>4,988,829</u>
				INSURANCE BROKERS — 3.2%	
			2,500,000	Marsh & McLennan Co., Inc.	
				2.676%, 06/04/2019 ^{(d)(e)}	2,499,289

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

THE FAIRHOLME ALLOCATION FUND

SCHEDULE OF INVESTMENTS (continued)
May 31, 2019 (unaudited)

<u>Principal</u>	<u>Value</u>	<u>Principal</u>	<u>Value</u>
		U.S. GOVERNMENT	
		OBLIGATIONS — 12.6%	
		\$10,000,000 U.S. Treasury Bills	
		2.360%, 08/15/2019 ^(e)	\$ 9,953,741
		TOTAL U.S. GOVERNMENT	
		OBLIGATIONS	<u>9,953,741</u>
		(COST \$9,951,094)	
		<u>Shares</u>	
		MONEY MARKET	
		FUNDS — 2.6%	
		2,031,430 Fidelity Investments Money	
		Market Treasury Portfolio -	
		Class I, 2.31% ^(f)	<u>2,031,430</u>
		TOTAL MONEY MARKET FUNDS	
		(COST \$2,031,430)	<u>2,031,430</u>
		TOTAL INVESTMENTS — 100.1%	
		(COST \$93,173,037)	79,043,852
		LIABILITIES IN EXCESS	
		OF OTHER	
		ASSETS — (0.1)%	<u>(64,634)</u>
		NET ASSETS — 100.0%	<u>\$ 78,979,218</u>
COMMERCIAL PAPER			
(CONTINUED) — 47.4%			
OIL & GAS STORAGE &			
TRANSPORTATION — 3.1%			
\$2,500,000 Enterprise Products Partners LP			
2.675%, 06/24/2019 ^{(d)(e)}	\$ 2,495,567		
OIL & NATURAL GAS			
EXPLORATION — 3.2%			
2,500,000 Suncor Energy, Inc.			
2.696%, 06/05/2019 ^{(d)(e)}	<u>2,499,109</u>		
PACKAGED FOODS — 3.8%			
3,000,000 Campbell Soup Co.			
2.655%, 06/18/2019 ^{(d)(e)}	<u>2,996,040</u>		
TECHNOLOGY HARDWARE &			
EQUIPMENT — 3.8%			
3,000,000 Arrow Electronics, Inc.			
2.905%, 06/19/2019 ^{(d)(e)}	<u>2,995,457</u>		
WIRELESS TELECOMMU-			
NICATION			
SERVICES — 3.8%			
3,000,000 Bell Canada			
2.666%, 06/14/2019 ^{(d)(e)}	<u>2,996,851</u>		
TOTAL COMMERCIAL PAPER			
(COST \$37,458,860)	<u>37,456,340</u>		

^(a) Non-income producing security.

^(b) Restricted/controlled security. The value of this security totals \$6,580,454, which represents 8.33% of The Allocation Fund's net assets. Information related to this security is as follows:

<u>Shares</u>	<u>Issuer</u>	<u>Acquisition Date(s)</u>	<u>Acquisition Cost</u>	<u>05/31/2019 Carrying Value Per Unit</u>
426,748	The St. Joe Co.	08/08/2017-09/05/2017	\$8,066,747	\$15.42

^(c) Variable rate security. Rates shown are the effective rates as of May 31, 2019.

^(d) Restricted security as set forth in Rule 144(a) under the Securities Act of 1933. The value of these investments totals \$37,456,340, which represents 47.43% of The Allocation Fund's net assets.

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

^(f) Annualized based on the 1-day yield as of May 31, 2019.

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

THE FAIRHOLME ALLOCATION FUND

STATEMENT OF ASSETS & LIABILITIES
May 31, 2019 (unaudited)

Assets

Investments, at Fair Value (Cost — \$93,173,037)	\$ 79,043,852
Interest Receivable	9,498
Total Assets	<u>79,053,350</u>

Liabilities

Accrued Management Fees	52,795
Payable for Capital Shares Redeemed	21,337
Total Liabilities	<u>74,132</u>

NET ASSETS

\$ 78,979,218

Net Assets Consist of:

Paid-In Capital	\$140,319,437
Total Accumulated Losses	<u>(61,340,219)</u>

NET ASSETS

\$ 78,979,218

Shares of Common Stock Outstanding* (\$0.0001 par value) 10,491,860

Net Asset Value, Offering and Redemption Price Per Share
(\$78,979,218 / 10,491,860 shares) \$ 7.53

* 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, 2019
Investment Income	
Interest	\$ 650,519
Dividends	147,229
Total Investment Income	<u>797,748</u>
Expenses	
Management Fees	372,334
Legal Expenses	7,857
Total Expenses	<u>380,191</u>
Less: Voluntary Reduction of Management Fees	<u>(74,466)</u>
Net Expenses	<u>305,725</u>
Net Investment Income	<u>492,023</u>
Realized and Unrealized Gain on Investments and Foreign Currency Related Transactions	
Net Realized Gain on Investments and Foreign Currency Related Transactions	973,353
Net Change in Unrealized Appreciation (Depreciation) on Investments and Foreign Currency Related Translations	<u>9,449,520</u>
Net Realized and Unrealized Gain on Investments and Foreign Currency Related Transactions	<u>10,422,873</u>
NET INCREASE IN NET ASSETS FROM OPERATIONS	<u><u>\$10,914,896</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, 2019 (Unaudited)	For the Fiscal Year Ended November 30, 2018
CHANGES IN NET ASSETS		
From Operations		
Net Investment Income	\$ 492,023	\$ 1,223,907
Net Realized Gain (Loss) on Investments, and Foreign Currency Related Transactions	973,353	(48,412,833)
Net Change in Unrealized Appreciation (Depreciation) on Investments and Foreign Currency Related Transactions	<u>9,449,520</u>	<u>38,497,966</u>
Net Increase (Decrease) in Net Assets from Operations	<u>10,914,896</u>	<u>(8,690,960)</u>
From Dividends and Distributions to Shareholders		
Net Decrease in Net Assets from Dividends and Distributions	<u>(791,785)</u>	<u>(1,817,020)</u>
From Capital Share Transactions		
Proceeds from Sale of Shares	757,316	1,433,796
Shares Issued in Reinvestment of Dividends and Distributions	757,745	1,779,557
Redemption Fees	2,142	285
Cost of Shares Redeemed	<u>(5,048,134)</u>	<u>(34,508,769)</u>
Net Decrease in Net Assets from Shareholder Activity	<u>(3,530,931)</u>	<u>(31,295,131)</u>
NET ASSETS		
Net Increase (Decrease) in Net Assets	6,592,180	(41,803,111)
Net Assets at Beginning of Period	<u>72,387,038</u>	<u>114,190,149</u>
Net Assets at End of Period	<u>\$78,979,218</u>	<u>\$ 72,387,038</u>
SHARES TRANSACTIONS		
Issued	113,462	197,013
Reinvested	118,029	234,152
Redeemed	<u>(747,393)</u>	<u>(4,778,281)</u>
Net Decrease in Shares	<u>(515,902)</u>	<u>(4,347,116)</u>
Shares Outstanding at Beginning of Period	<u>11,007,762</u>	<u>15,354,878</u>
Shares Outstanding at End of Period	<u>10,491,860</u>	<u>11,007,762</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, 2019 (unaudited)	2018	2017	2016	2015	2014
PER SHARE OPERATING PERFORMANCE						
NET ASSET VALUE, BEGINNING OF PERIOD	\$6.58	\$7.44	\$9.65	\$10.40	\$12.57	\$13.82
Investment Operations						
Net Investment Income (Loss) ⁽¹⁾	0.05	0.09	0.10	0.14	0.35	(0.10)
Net Realized and Unrealized Gain (Loss) on Investments	0.97	(0.83)	(1.71)	0.75	(1.38)	(1.15)
Total from Investment Operations	1.02	(0.74)	(1.61)	0.89	(1.03)	(1.25)
Dividends and Distributions						
From Net Investment Income	(0.07)	(0.12)	(0.17)	(0.31)	—	—
From Realized Capital Gains	—	—	(0.43)	(1.33)	(1.14)	—
Total Dividends and Distributions	(0.07)	(0.12)	(0.60)	(1.64)	(1.14)	—
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	\$7.53	\$6.58	\$7.44	\$9.65	\$10.40	\$12.57
TOTAL RETURN	15.76% ⁽³⁾	(10.18)%	(17.59)%	11.06%	(8.88)%	(9.04)%
Ratio/Supplemental Data						
Net Assets, End of Period (in 000's)	\$78,979	\$72,387	\$114,190	\$259,501	\$297,527	\$378,750
Ratio of Gross Expenses to Average Net Assets:	1.02% ⁽⁴⁾⁽⁵⁾	1.00%	1.00%	1.00%	1.00%	1.00%
Ratio of Net Expenses to Average Net Assets	0.82% ⁽⁴⁾⁽⁵⁾⁽⁶⁾	0.82% ⁽⁶⁾	1.00%	1.00%	1.00%	1.00%
Ratio of Net Investment Income (Loss) to Average Net Assets	1.32% ⁽⁴⁾	1.32%	1.19%	1.81%	3.09%	(0.73)%
Portfolio Turnover Rate	11.69% ⁽³⁾	23.52%	31.01%	13.65%	39.24%	33.15%

⁽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 the management fee.

⁽⁶⁾ Effective January 1, 2018, the Manager has agreed to waive, on a voluntary basis, a portion of the management fee of The Allocation Fund to the extent necessary to limit the management fee paid to the Manager by The Allocation Fund to an annual rate of 0.80% of the daily average net asset value of The Allocation Fund.

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 assets in cash and cash-equivalent securities and investments. 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.

New Accounting Pronouncements: To improve the effectiveness of fair value disclosure requirements, the Financial Accounting Standards Board issued Accounting Standard Update (ASU) 2018-13, Fair Value Measurement Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement (ASU 2018-13), which adds, removes, and modifies certain aspects relating to fair value disclosure. ASU 2018-13 is effective for interim and annual reporting periods beginning after December 15, 2019; early adoption of the additions relating to ASU 2018-13 is not required, even if early adoption is elected for the removals under ASU 2018-13. Management has early adopted the removals set forth in ASU 2018-13 in these financial statements and has not early adopted the additions set forth in ASU 2018-13.

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. Subject to the oversight of the Board, the Manager may determine the fair valuation of a security when market quotations are insufficient or not readily available, when securities are determined to be illiquid or restricted, or when in the judgment of the Manager the prices or values available do not represent the fair value of the instrument. In these situations, if the inputs are observable, the valuation will be classified in Level 2 of the fair value hierarchy, otherwise they would be classified in Level 3.

Fixed-income securities (U.S. government obligations, corporate bonds, convertible bonds, and asset backed securities): The fair value of fixed-income securities is determined using market quotations when readily available, but may also be 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) fixed income securities will be fair valued in good faith following consideration by, and conclusion of, the Manager's Valuation and Liquidity Risk Management Committee. As of May 31, 2019, 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, 2019, in instances where significant unobservable inputs are used, they would be classified in Level 3.

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

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

Restricted securities: The Manager was deemed to be an affiliate of The St. Joe Co. ("Joe") 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 Joe by certain of the Funds and other advisory clients advised by the Manager. Shares of Joe owned by The Allocation Fund are considered control securities under Rule 144 and are treated as restricted securities for purposes of The Allocation Fund's valuation 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 provide prices for some of the Funds' securities. The Funds also use other independent market trade data sources (such as TRACE, the FINRA developed mandatory reporting of over-the-counter secondary market transactions), as well as broker quotes provided by market makers. The data within these feeds is ultimately sourced from major stock exchanges and trading systems where these securities trade. If a price obtained from the pricing source is deemed unreliable, it may be discarded and/or challenged. In these cases the pricing decision is made by reference to the reliable market data from the other market data sources.

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

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

FAIRHOLME FUNDS, INC.

NOTES TO FINANCIAL STATEMENTS (continued)
May 31, 2019 (unaudited)

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).

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, 2019, is as follows:

	Valuation Inputs			Total Fair Value at 5/31/19
	Level 1 – Quoted Prices	Level 2 – Other Significant Observable Inputs	Level 3 - Significant Unobservable Inputs	
THE FAIRHOLME FUND				
ASSETS:				
INVESTMENTS (Fair Value):				
Domestic Equity Securities*	\$365,252,981	\$ —	\$—	\$ 365,252,981
Foreign Equity Securities*	14,038,065	—	—	14,038,065
Domestic Preferred Equity Securities*	247,280,331	—	—	247,280,331
Domestic Corporate Bonds*	—	3,783,559	—	3,783,559
Foreign Corporate Bonds*	—	140,544,730	—	140,544,730
Commercial Paper*	—	286,622,245	—	286,622,245
U.S. Government Obligations	—	78,906,483	—	78,906,483
Money Market Funds	9,719,840	—	—	9,719,840
TOTAL INVESTMENTS	<u>\$636,291,217</u>	<u>\$509,857,017</u>	<u>\$—</u>	<u>\$1,146,148,234</u>

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

THE INCOME FUND

ASSETS:

INVESTMENTS (Fair Value):

Domestic Preferred Equity Securities				
Oil & Natural Gas Exploration	\$ 2,067,780	\$ 2,075,216	\$—	\$ 4,142,996
Other Industries*	19,126,800	—	—	19,126,800
Domestic Corporate Bonds*	—	19,242,534	—	19,242,534
Foreign Corporate Bonds*	—	24,262,643	—	24,262,643
Commercial Paper*	—	108,560,354	—	108,560,354
U.S. Government Obligations	—	15,905,207	—	15,905,207
Money Market Funds	4,432,319	—	—	4,432,319
TOTAL INVESTMENTS	<u>\$ 25,626,899</u>	<u>\$170,045,954</u>	<u>\$—</u>	<u>\$ 195,672,853</u>

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

FAIRHOLME FUNDS, INC.

NOTES TO FINANCIAL STATEMENTS (continued)
May 31, 2019 (unaudited)

	Valuation Inputs			Total Fair Value at 5/31/19
	Level 1 – Quoted Prices	Level 2 – Other Significant Observable Inputs	Level 3 - Significant Unobservable Inputs	
THE ALLOCATION FUND				
ASSETS:				
INVESTMENTS (Fair Value):				
Domestic Equity Securities				
Leisure Products	\$ 572,949	\$ —	\$—	\$ 572,949
Real Estate Management & Development	—	6,580,454	—	6,580,454
Foreign Equity Securities*	5,367,605	—	—	5,367,605
Domestic Preferred Equity Securities				
Mortgage Finance	14,628,067	—	—	14,628,067
Oil & Natural Gas Exploration	—	2,453,266	—	2,453,266
Commercial Paper*	—	37,456,340	—	37,456,340
U.S. Government Obligations	—	9,953,741	—	9,953,741
Money Market Funds	2,031,430	—	—	2,031,430
TOTAL INVESTMENTS	<u>\$22,600,051</u>	<u>\$56,443,801</u>	<u>\$—</u>	<u>\$79,043,852</u>

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

There were no Level 3 investments at May 31, 2019 or November 30, 2018.

Dividends and Distributions: Each Fund records dividends and distributions to its 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 or exchanged 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, 2019 and the year ended November 30, 2018, amounted to \$23,629 and \$33,620, and \$2,142 and \$285, respectively.

FAIRHOLME FUNDS, INC.

NOTES TO FINANCIAL STATEMENTS (continued)
May 31, 2019 (unaudited)

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 and other brokerage fees during the period. The Funds also paid legal expenses in connection with certain of their investments.

Note 3. Related Party Transactions

The Manager is a Delaware limited liability company and is registered with the SEC as an investment adviser. The Manager's principal business 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. Effective January 1, 2018, the Manager has agreed to waive, on a voluntary basis, a portion of the management fees of The Fairholme Fund, The Income Fund, and The Allocation Fund to the extent necessary to limit the management fee of each Fund to the annual rate of 0.80% of that Fund's daily average net asset value ("Undertaking"). This Undertaking may be terminated by the Manager upon 60 days' written notice to the applicable 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 the Fund in connection with securities transactions or in connection with securities owned by each Fund, taxes, interest, acquired fund fees and related expenses, expenses in connection with litigation by or against each Fund, and any other extraordinary expenses.

The Manager earned \$4,326,829, \$752,212, and \$297,868, from The Fairholme Fund, The Income Fund, and The Allocation Fund, respectively, for its services during the six months ended May 31, 2019.

Bruce Berkowitz, both the Chief Investment Officer of the Manager and Chairman of the Funds' Board, and his affiliates beneficially own an aggregate 10,784,408 shares, 6,691,382 shares, and 4,382,931 shares of The Fairholme Fund, The Income Fund, and The Allocation Fund, respectively, at May 31, 2019.

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, 2019, 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	\$43,759,786	\$49,549,054
The Income Fund	16,455	16,706,177
The Allocation Fund	2,999,867	7,446,664

FAIRHOLME FUNDS, INC.

NOTES TO FINANCIAL STATEMENTS (continued)
May 31, 2019 (unaudited)

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, 2019, were as follows:

	<u>Cost</u>	<u>Gross Unrealized Appreciation</u>	<u>Gross Unrealized Depreciation</u>	<u>Net Unrealized Depreciation</u>
The Fairholme Fund	\$1,369,270,392	\$170,321,168	\$(393,443,326)	\$(223,122,158)
The Income Fund	208,175,086	7,170,682	(19,672,915)	(12,502,233)
The Allocation Fund	93,198,386	10,166,562	(24,321,096)	(14,154,534)

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

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, 2019.

The Funds are permitted to carry forward for an unlimited period capital losses incurred to reduce future required distributions of net capital gains to shareholders. Capital losses that are carried forward will retain their character as either short-term or long-term capital losses. As of November 30, 2018, net long-term capital loss carryforwards were as follows:

	<u>The Fairholme Fund</u>	<u>The Income Fund</u>	<u>The Allocation Fund</u>
Short-term capital loss carryforward	—	\$ 130,583	\$ 217,213
Long-term capital loss carryforward	\$750,640,736	7,831,753	48,376,240
Total	<u>\$750,640,736</u>	<u>\$7,962,336</u>	<u>\$48,593,453</u>

The Manager has analyzed the Funds’ tax positions taken on tax returns for all open tax years (current and prior three tax years) and has concluded that there are no uncertain tax positions that require recognition of a tax liability. The Funds’ federal and state income and federal excise tax returns for tax years for which the applicable statutes of limitations have not expired (the current year and prior three years) are subject to examination by the Internal Revenue Service and state departments of revenue. Additionally, the Funds are not aware of any tax position for which it is reasonably possible that the total amounts of unrecognized tax benefits will change materially in the next twelve months.

Note 6. Dividends and Distributions to Shareholders

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

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

	<u>The Fairholme Fund</u>	
	<u>For the Six Months Ended May 31, 2019</u>	<u>For the Fiscal Year Ended November 30, 2018</u>
Dividends and Distributions paid from:		
Ordinary Income	<u>\$22,052,478</u>	<u>\$24,854,774</u>

FAIRHOLME FUNDS, INC.

NOTES TO FINANCIAL STATEMENTS (continued)
May 31, 2019 (unaudited)

	The Income Fund	
	For the Six Months Ended May 31, 2019	For the Fiscal Year Ended November 30, 2018
Dividends and Distributions paid from:		
Ordinary Income	\$2,645,424	\$11,237,769*
Long-Term Capital Gain	—	9,232,843
	<u>\$2,645,424</u>	<u>\$ 20,470,612</u>

* Inclusive of short-term capital gains.

	The Allocation Fund	
	For the Six Months Ended May 31, 2019	For the Fiscal Year Ended November 30, 2018
Dividends and Distributions paid from:		
Ordinary Income	<u>\$791,785</u>	<u>\$1,817,020</u>

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 by The Fairholme Fund as of May 31, 2019 amounted to \$516,682,639, representing approximately 45.10% of The Fairholme Fund's net assets.

Transactions in The Fairholme Fund during the six months ended May 31, 2019, in which the issuer was an affiliate are as follows:

	<u>November 30, 2018</u>	<u>Gross Additions</u>	<u>Gross Deductions</u>	<u>May 31, 2019</u>		<u>Investment Income</u>	<u>Change in Unrealized Appreciation</u>
	<u>Shares/ Par Value</u>	<u>Shares/ Par Value</u>	<u>Shares/ Par Value</u>	<u>Shares/ Par Value</u>	<u>Fair Value</u>		
Imperial Metals Corp.	7,027,352	—	—	7,027,352	\$ 14,038,065	\$ —	\$ 7,638,264
The St. Joe Co.	22,730,687	—	—	22,730,687	362,099,844	—	21,139,539
Imperial Metals Corp. 7.000%, 09/15/2019	\$143,223,000	\$—	\$—	\$143,223,000	140,544,730	5,841,479	39,925,066
Total					<u>\$516,682,639</u>	<u>\$5,841,479</u>	<u>\$68,702,869</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.

Note 9. Subsequent Events

Management has evaluated the impact on the Funds of all subsequent events occurring through the date the financial statements were issued and has determined that there were no subsequent events requiring recognition or disclosure in the financial statements.

Note 10. Legal Proceedings

On April 17, 2019, Sears Holdings Corporation, Sears Roebuck and Co., Sears Development Co., Kmart Corporation and Kmart of Washington LLC commenced an adversary proceeding in the United States Bankruptcy Court for the Southern District of New York against Edward Scott “Eddie” Lampert; ESL Investments, Inc.; RBS Partners LP; CRK Partners LLC; SPE Master I L.P.; ESL Partners L.P.; SPE I Partners L.P.; RBS Investment Management LLC; ESL Institutional Partners L.P.; ESL Investors, L.L.C.; JPP LLC; JPP II LLC; Fairholme Capital Management, L.L.C.; Cesar L. Alvarez; Bruce Berkowitz; Alesia Haas; Kunal Kamrani; Steven Mnuchin; Thomas J. Tisch; Seritage Growth Properties, Inc.; Seritage Growth Properties, L.P.; Seritage KMT Mezzanine Finance LLC; Seritage SRC Mezzanine Finance LLC; Seritage KMT Finance LLC; Seritage SRC Finance LLC; Seritage GS Holdings LLC; Seritage SPS Holdings LLC; and Seritage MS Holdings LLC (collectively, “Defendants”). The complaint asserts avoidance and other claims against certain Defendants, including the Manager, for participation in certain Sears corporate transactions, including (i) the spinoff of Orchard Supply Hardware Stores Corp; (ii) the Sears Hometown and Outlet Stores rights offering; (iii) the Sears Canada partial spinoff; (iv) the Lands’ End spinoff; and (v) the Seritage rights offering. The avoidance claims against the Manager include claims for the avoidance of consideration received by The Fairholme Fund and The Allocation Fund from Sears Holdings Corp. that were allegedly actual and/or constructive fraudulent transfers. The complaint also asserts claims for breach of fiduciary duty and aiding and abetting breach of fiduciary duty arising out of certain related-party transactions against certain Defendants, including the Manager and Bruce Berkowitz. The Restructuring Subcommittee of Sears Holdings Corporation has served on the Manager a subpoena for documents relating to the transactions at issue in the adversary proceeding and has indicated that it intends to file an amended complaint.

Although the Manager believes that it has strong defenses to the foregoing complaint and intends to defend itself vigorously against the allegations in the complaint, the Manager is not in a position to express an opinion about the ultimate outcome of the litigation or the range of potential loss, if any.

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, 2018, 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 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.

Quarterly Filing (unaudited)

The Company files a complete schedule of the Funds' portfolio holdings on Form N-PORT for the fiscal quarters ending February 28 (February 29 during leap year) and August 31. The Forms N-PORT are available on the SEC's website at www.sec.gov.

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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