

FAIRX FOCIX FAAFX

2020 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 2020

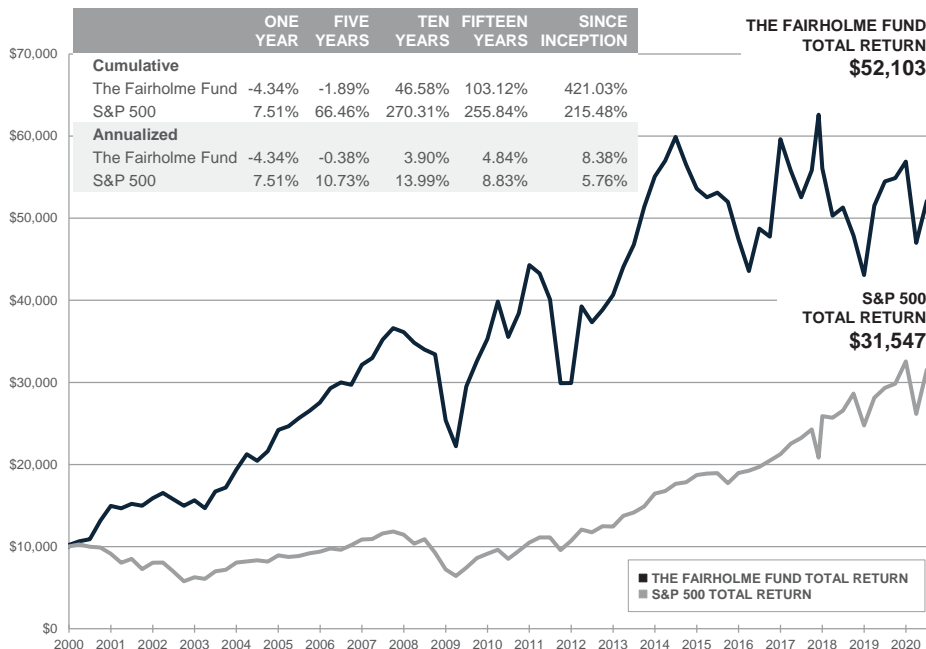
Mutual fund investing involves risks, including possible loss of principal. Past performance information quoted below does not guarantee future results. The investment return and principal value of an investment in The Fairholme Fund (the "Fund") will fluctuate so that the value of an investor's shares, 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 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 27, 2020, 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 27, 2020

The Fairholme Fund



TOP ISSUERS (% OF NET ASSETS)

The St. Joe Co.	45.5%
Cash and Cash Equivalents*	33.9%
Federal Home Loan Mortgage Corp.	7.5%
Federal National Mortgage Association	7.4%
Berkshire Hathaway, Inc.	4.7%
Imperial Metals Corp.	1.1%
Sears Holdings Corp.	0.1%

The chart on the left presents the performance of a \$10,000 investment from inception of The Fairholme Fund (December 29, 1999) through June 30, 2020. The top issuers listed in the chart above are as of June 30, 2020.

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

Dear Fellow Shareholders:

The Fairholme Fund decreased 8.42% versus a 3.08% decrease for the S&P 500 for the six-month period that ended June 30, 2020. The preceding 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, 2020. The value of a \$10,000 investment in The Fairholme Fund at its inception was worth \$52,103 (assumes reinvestment of distributions into additional Fund shares) compared to \$31,547 for the S&P 500 at June 30, 2020. Of the \$52,103, the value of reinvested distributions was \$33,943.

Of the 8.42% performance loss, St. Joe common stock accounted for 90 basis points, Fannie Mae and Freddie Mac preferred stock accounted for 760 basis points, Berkshire Hathaway common accounted for 90 basis points, and Imperial Metals common accounted for 10 basis points.

There are significant uncertainties surrounding the global outbreak of the respiratory disease caused by a novel coronavirus known as Covid-19. This pandemic is changing the demand and supply for goods and services, and forcing families and businesses to adapt to what I believe will be a new normal.

Covid-19 is accelerating work, education, and entertainment at home. There is a growing desire for single family homes and for less-dense, urban life. Flight from cities and early retirement are boosting home sales in St. Joe communities. Homes are selling before they are finished. Builder demand is at a record high. Latitude Margaritaville WaterSound is scheduled to open in April. A first phase of 3,500 homes has golf cart access to a marina, commercial village, and, eventually, to beaches, resorts, and airport. Apartments are leasing upon completion. Joe's top-rated beach resorts are near full. The Camp Creek Golf Club is transforming into a private resort and residential community. Boutique inns, hotels, and marinas are rising. You can view Joe's latest progress at <https://www.youtube.com/watch?v=Od6FMshu3wk>.

Interest rates at 50-year lows are creating record demand for conventional mortgages insured by Fannie Mae and Freddie Mac. Delinquencies are also rising with Covid-19, but remain manageable given conservative underwriting; pre-tax, pre-reserve earnings; and reinsurance. To assure safety and soundness, The Federal Housing Finance Agency (FHFA) is following Congress' direction in the Housing and Economic Recovery Act to recapitalize and release Fannie and Freddie from conservatorships. Legal advisers and investment bankers are working toward their reprivatizations. Taxpayers have been paid in full and received 80% ownership in each company for Government loans. The "Net Worth Sweep" third amendment to the U.S. Treasury's Preferred Stock Purchase Agreement should be terminated as quickly as it was executed with FHFA. If not, the U.S. Supreme Court will hear the matter in December or January.

Berkshire Hathaway is trading near book value, which Warren Buffett believes greatly underestimates fair market values. Berkshire is the 800-pound gorilla in insurance. Market participants perceive Covid-19 claims may bankrupt insurers. There will be significant costs and hits to portfolio companies. But, most insurance policies exclude pandemics and premiums are rising faster than risks. Meanwhile, Berkshire continues to invest no-cost insurance "float" in guaranteed cost-plus utilities and other critical enterprises. This makes sense when the Federal Reserve pays 0.25% and European Central Bank charges 0.50% to hold bank cash.

Imperial Metals owns 30% of Red Chris, all of Mt. Polley and Huckleberry, and more. Copper may be entering a new bull market with economies rebooting and green energy initiatives. Gold prices are up 50% from lows with increases in deficit spending by governments fighting Covid-19. Gold, like many tangible assets with limited supply, is a hedge against cheapening currencies. Majority owner and operator, Newcrest Mining, believes Red Chris is a world-class gold and copper resource and similar in composition to 100%-owned Cadia in Australia. The latest exploration results confirm one gold pod at Red Chris may be worth \$2 billion at today's prices.

Cash and cash equivalents compose 33.9% of assets at June 30, 2020 and are invested in U.S. Treasury Bills and Treasury money markets yielding de minimis income to assure instant liquidity and maximum safety. Great opportunities present themselves in tough times when few have ready cash. I and affiliates own 23.8% of The Fairholme Fund and remain optimistic about the future.

Respectfully submitted,



Bruce R. Berkowitz
Chief Investment Officer

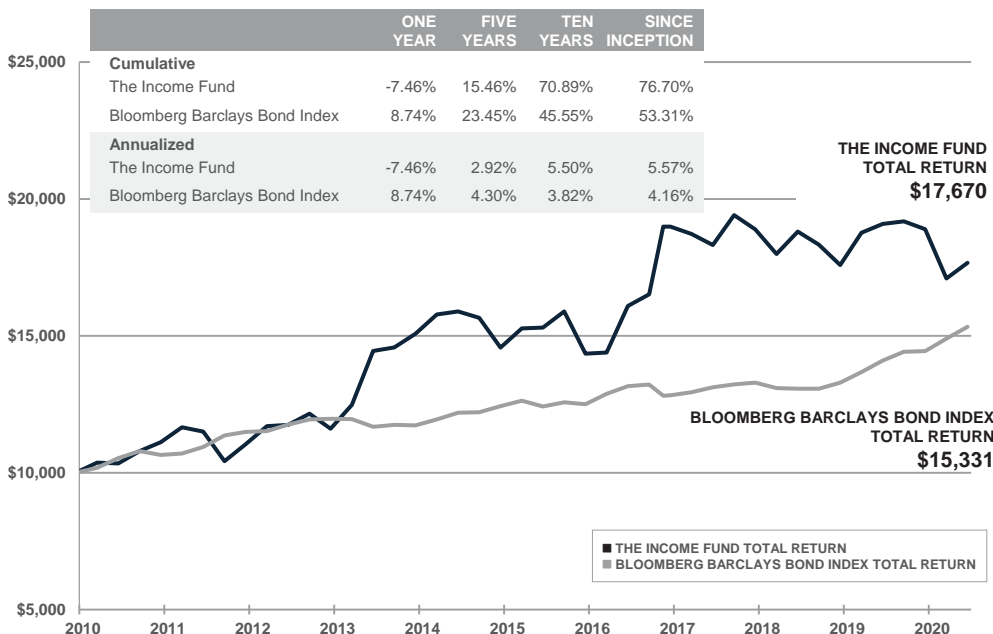
Mutual fund investing involves risks, including possible loss of principal. Past performance information quoted below does not guarantee future results. The investment return and principal value of an investment in The Fairholme Focused Income Fund ("The Income Fund" or the "Fund") will fluctuate so 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 27, 2020, is 1.02%, 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 27, 2020

The Fairholme Focused Income Fund



TOP ISSUERS (% OF NET ASSETS)

Cash and Cash Equivalents*	80.4%
The Kraft Heinz Co.	5.5%
Federal Home Loan Mortgage Corp.	4.7%
Occidental Petroleum Corp.	1.7%
Western Midstream Partners LP	1.7%
Simon Property Group, Inc.	1.5%
Bank of America Corp.	1.5%
JPMorgan Chase & Co.	1.4%
Federal National Mortgage Association	1.2%
Sears Holdings Corp.	0.2%

The Income Fund's 30-Day SEC Yield at June 30, 2020, was -0.46% (unsubsidized) and -0.26% (subsidized).**

The chart on the left presents the performance of a \$10,000 investment from inception of The Income Fund (December 31, 2009) through June 30, 2020. The top issuers listed in the chart above are as of June 30, 2020.

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

**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.

Dear Fellow Shareholders:

The Income Fund decreased 6.50% versus a 6.14% increase for the Bloomberg Barclays Bond Index for the six-month period that ended June 30, 2020. The preceding 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, 2020. The value of a \$10,000 investment in The Income Fund at its inception was worth \$17,670 (assumes reinvestment of distributions into additional Fund shares) compared to \$15,331 for the Bloomberg Barclays Bond Index at June 30, 2020. Of the \$17,670, the value of reinvested distributions was \$8,110.

Of the 6.5% Fund loss, Occidental Petroleum common stock accounted for 230 basis points, Fannie Mae and Freddie Mac preferred stocks accounted for 180 basis points, Chesapeake preferreds accounted for 140 basis points, Simon Properties REIT units accounted for 120 basis points, and Western Midstream LP units accounted for 50 basis points. Kraft Heinz accounted for a 50 basis point gain.

Cash and cash equivalents compose 80.4% of assets and yield de minimis income invested in U.S. Treasury Bills and Treasury money markets to assure maximum safety and liquidity during this current global pandemic known as Covid-19.

Fannie and Freddie preferred stocks have stated dividends that would yield 20% or more per annum at current prices when released from their federal conservatorships. The Federal Housing Finance Agency (FHFA) is following Congress' direction in the Housing and Economic Recovery Act to recapitalize and release Fannie and Freddie. Legal advisers and investment bankers are working toward their reprivatizations. Taxpayers have received 80% ownership in each company for Government loans that have been paid in full. The "Net Worth Sweep" third amendment to the U.S. Treasury's Preferred Stock Purchase Agreements with Fannie and Freddie should be terminated as quickly as it was executed by FHFA. If not, the U.S. Supreme Court will hear the matter in December or January. Covid-19 has delayed the process. The pandemic is also accelerating work, education, and entertainment at home. There is a growing desire for single family homes and less of a dense, urban life. Interest rates at 50-year record lows are creating record demand for conventional mortgages insured by Fannie Mae and Freddie Mac. Delinquencies are rising with coronavirus infection rates, but remain manageable given collateral values; policy underwriting terms and conditions; pre-tax, pre-reserve earnings; and held reinsurance.

Variable rate, preferred stocks issued by banks are recovering. Common stock dividends, and REIT and LP distributions are falling with operating earnings. Highly leveraged companies are restructuring in bankruptcy. There are winners from this pandemic, but many more losers and much is still unknown about the ultimate costs from Covid-19. There will be more obvious opportunities to deploy cash in higher yielding securities - when return of principal and return on principal are more certain in what may be a new normal environment.

I and affiliates own 32.9% of the Fund.

Respectfully submitted,



Bruce R. Berkowitz
Chief Investment Officer

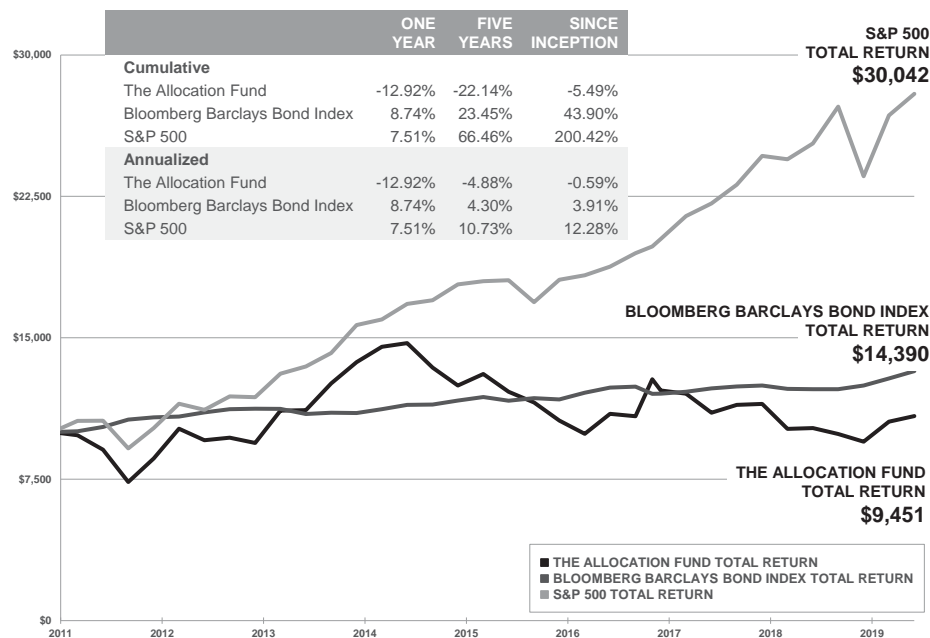
Mutual fund investing involves risks, including possible loss of principal. Past performance information quoted below does not guarantee future results. The investment return and principal value of an investment in The Allocation Fund ("The Allocation Fund" or the "Fund") will fluctuate so that the value 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 S&P 500 Index (the "S&P 500") is a widely recognized, unmanaged index of 500 of the largest companies in the United States as measured by market capitalization and the performance of the S&P 500 assumes the reinvestment of all dividends and distributions. The Bloomberg Barclays U.S. Aggregate Bond Index (the "Bloomberg Barclays Bond Index") is a broad-based flagship benchmark that measures the investment grade, U.S. dollar denominated, fixed-rate taxable bond market, and includes Treasuries, government-related and corporate securities, mortgage-backed securities (agency fixed rate and hybrid adjustable-rate mortgage pass-throughs), asset-backed securities and commercial mortgage backed securities (agency and non-agency). The S&P 500 and the Bloomberg Barclays Bond Index are used for comparative purposes only, and are not meant to be indicative of 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 27, 2020, is 1.03%, 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.

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July 27, 2020

The Fairholme Allocation Fund



TOP ISSUERS (% OF NET ASSETS)

Cash and Cash Equivalents*	52.3%
The St. Joe Co.	12.9%
Berkshire Hathaway, Inc.	7.1%
Federal Home Loan Mortgage Corp.	6.9%
Federal National Mortgage Association	6.7%
Imperial Metals Corp.	6.3%
The Kraft Heinz Co.	4.2%
Occidental Petroleum Corp.	2.3%
Western Midstream Partners LP	1.3%

The Allocation Fund's 30-Day SEC Yield at June 30, 2020, was -0.72% (unsubsidized) and -0.52% (subsidized). **

The chart on the left presents the performance of a \$10,000 investment from inception of The Allocation Fund (December 31, 2010) through June 30, 2020. The top issuers listed in the chart above are as of June 30, 2020.

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

**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.

Dear Fellow Shareholders:

The Allocation Fund decreased 11.11% versus a 6.14% increase for the Bloomberg Barclays Bond Index and a 3.08% decrease for the S&P 500 for the six-month period that ended June 30, 2020. The preceding 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, 2020. The value of a \$10,000 investment in The Allocation Fund at its inception was worth \$9,451 (assumes reinvestment of distributions into additional Fund shares) compared to \$14,390 and \$30,042 for the Bloomberg Barclays Bond Index and the S&P 500, respectively, at June 30, 2020. Of the \$9,451, the value of reinvested distributions was \$3,051.

Of the 11.1% loss, Fannie Mae and Freddie Mac preferred stocks accounted for 640 basis points, Occidental Petroleum common stock accounted for 230 basis points, Chesapeake preferreds accounted for 140 basis points, Berkshire Hathaway common for 120 basis points, St. Joe common accounted for 50 basis points, Imperial Metals common accounted for 50 basis points, and Western Midstream accounted for 50 basis points. Kraft Heinz common stock improved performance by 50 basis points.

Covid-19 is accelerating work, education, and entertainment at home. There is a growing desire for single family homes and less of a dense, urban life. St. Joe's WaterSound communities are expanding. Homes are selling before they are finished. Builder demand is at record highs. Latitude Margaritaville WaterSound is scheduled to open in April. A first phase of 3,500 homes has golf cart access to a marina, commercial village, and, eventually, to beaches, resorts, and airport. Apartments are leasing upon completion. Joe's top-rated beach resorts are near full. The Camp Creek Golf Club is transforming into a private resort and residential community. Boutique inns, hotels, and marinas are rising. You can view Joe's latest progress at <https://www.youtube.com/watch?v=Od6FMshu3wk>.

Interest rates at 50-year lows are creating record demand for conventional mortgages insured by Fannie Mae and Freddie Mac. Delinquencies are rising with Covid-19, but remain manageable given conservative underwriting; pre-tax, pre-reserve earnings; and reinsurance. The Federal Housing Finance Agency (FHFA) oversees Fannie and Freddie and its latest Director is following Congress' direction in the Housing and Economic Recovery Act to recapitalize and release Fannie and Freddie from conservatorships. Legal advisors and investment bankers are working toward their reprivatizations. Taxpayers have been paid in full and received 80% ownership in each company for Government loans. The "Net Worth Sweep" third amendment to the U.S. Treasury's Preferred Stock Purchase Agreement should be terminated as quickly as it was executed by FHFA. If not, the U.S. Supreme Court will hear the matter in December or January.

Berkshire Hathaway is trading near book value, which Warren Buffett believes greatly underestimates fair market values. Berkshire is the 800-pound gorilla in insurance. Market participants perceive Covid-19 claims may bankrupt insurers. There will be significant costs and hits to portfolio company. But, most insurance policies exclude pandemics and premiums are rising faster than risks. Meanwhile, Berkshire continues to invest no-cost, insurance "float" in guaranteed cost-plus utilities and other critical enterprises such as Apple. This makes sense when the Federal Reserve pays 0.25% and European Central Bank charges 0.50% to hold cash from banks.

Imperial Metals owns 30% of Red Chris, all of Mt. Polley and Huckleberry, and more. Copper may be entering a new bull market with economies rebooting and green energy initiatives. Gold prices are up 50% from lows with deficit spending by governments to fight Covid-19. Gold, like many tangible assets with limited supply, is a hedge against deficit spending that cheapens money. Majority owner and operator, Newcrest Mining, believes Red Chris to be a world-class gold and copper resource and similar in composition to 100%-owned Cadia in Australia. The latest exploration results confirm one gold pod at Red Chris may be worth \$2 billion at today's prices.

Demand for oil and gas is weak. Occidental Petroleum's market value was halved in a few months. Chesapeake Energy filed for bankruptcy. On the flip side, home goods and long-life foods have gained in popularity. Kraft Heinz' common stock is up. There are winners from this pandemic, but many more losers and great uncertainties remain.

Cash and cash equivalents compose 52.3% of assets and are invested in U.S. Treasury Bills and Treasury money markets yielding de minimis income to assure maximum safety and liquidity. I and affiliates own 56.4% of the Fund.

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, 2020

Managed by Fairholme Capital Management

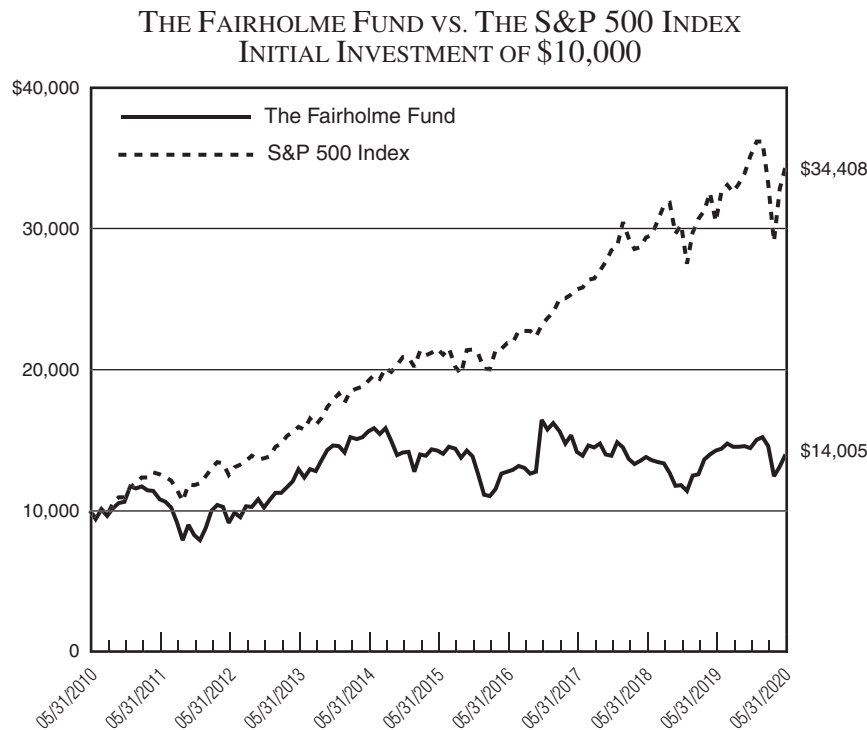
FAIRHOLME FUNDS, INC.

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FAIRHOLME FUNDS, INC.

FUND PERFORMANCE (unaudited)
May 31, 2010 — May 31, 2020



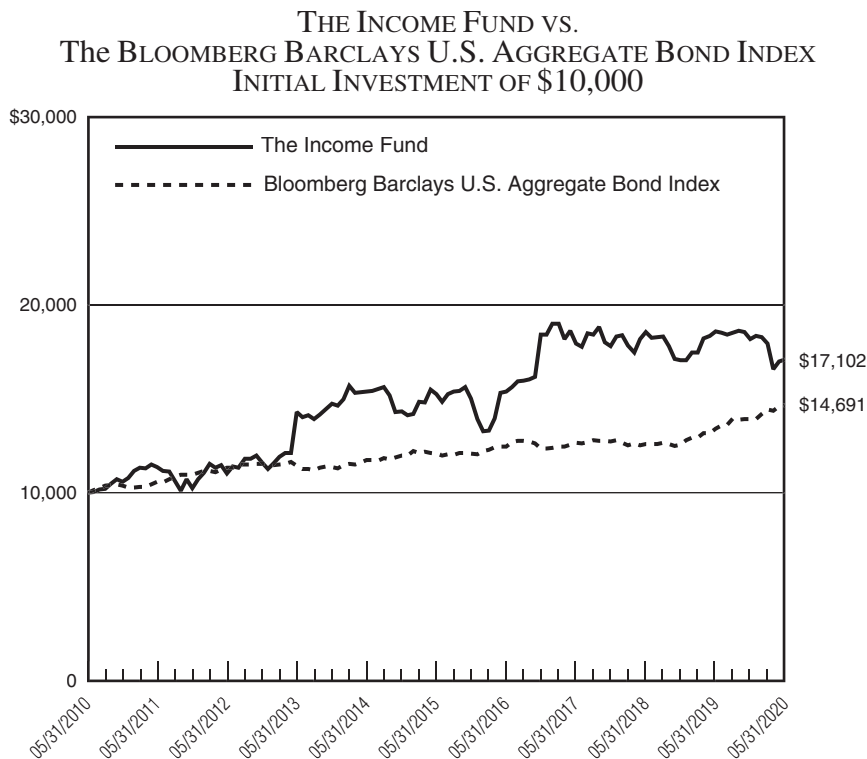
The Fairholme Fund (“The Fairholme Fund”) commenced operations on December 29, 1999. The chart above presents the performance of a \$10,000 investment for up to ten years to the latest semi-annual period ending May 31, 2020.

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.

FAIRHOLME FUNDS, INC.

FUND PERFORMANCE (unaudited)
May 31, 2010 — May 31, 2020



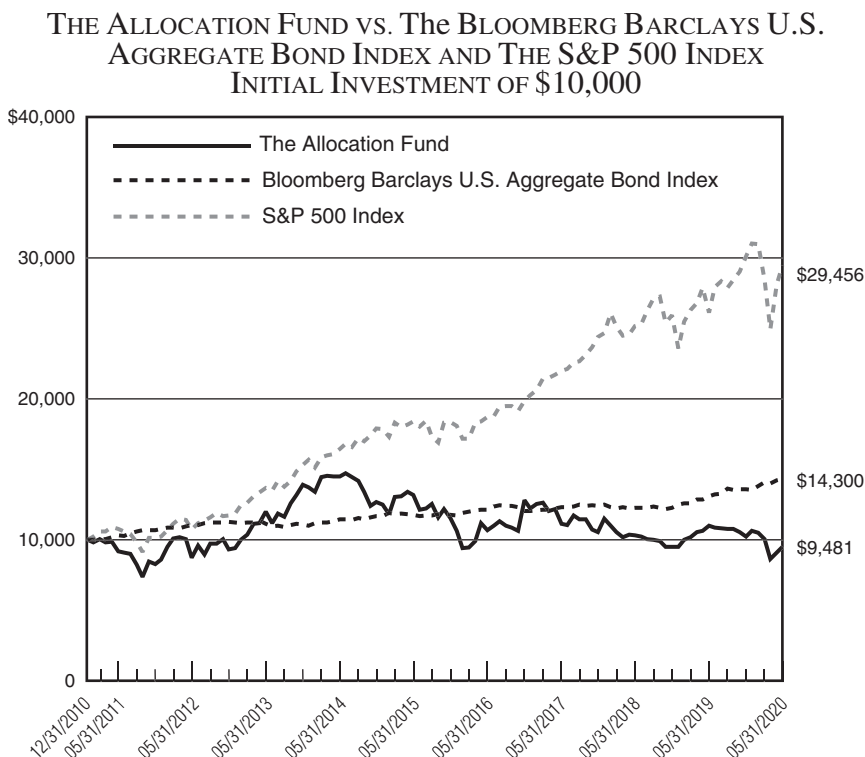
The Fairholme Focused Income Fund (“The Income Fund”) commenced operations on December 31, 2009. The chart above presents the performance of a \$10,000 investment for up to ten years to the latest semi-annual period ending May 31, 2020.

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.

FAIRHOLME FUNDS, INC.

FUND PERFORMANCE (unaudited)
Inception through May 31, 2020



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, 2020.

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, 2020

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, 2020, the end of the Funds’ semi-annual period, and NAVs at other pertinent dates, were as follows:

	05/31/2020 Shares Outstanding	05/31/2020 NAV (unaudited)	11/30/2019 NAV (audited)	05/31/2019 NAV (unaudited)
The Fairholme Fund	50,799,134	\$18.45	\$19.19	\$18.97
The Income Fund	18,383,067	\$ 9.53	\$10.23	\$10.61
The Allocation Fund	8,023,279	\$ 6.42	\$ 7.00	\$ 7.53

At June 30, 2020, the unaudited NAVs of The Fairholme Fund, The Income Fund, and The Allocation Fund were \$18.16, \$9.56, and \$6.40, respectively.

Performance figures below are shown for the Funds’ semi-annual period ended May 31, 2020, and do not match calendar year figures for the period ended June 30, 2020, cited in the Portfolio Manager’s report.

The Fairholme Fund Performance to 05/31/2020 (Unaudited)	Six Months	One Year	Five Years	Ten Years	Fifteen Years	Since Inception 12/29/1999
Cumulative:						
The Fairholme Fund	-3.07%	-1.94%	-1.93%	40.05%	109.65%	429.35%
S&P 500 Index	-2.10%	12.84%	60.05%	244.08%	249.39%	209.32%
Annualized:						
The Fairholme Fund		-1.94%	-0.39%	3.43%	5.06%	8.50%
S&P 500 Index		12.84%	9.86%	13.15%	8.70%	5.69%

For the six months ended May 31, 2020, The S&P 500 Index (“S&P 500”) outperformed the Fairholme Fund by 0.97 percentage points, while over the last year The Fairholme Fund was outperformed by the S&P 500 by 14.78 percentage points. From inception, The Fairholme Fund outperformed the S&P 500 by 2.81 percentage points per annum, or on a cumulative basis, 220.03 percentage points over twenty years and five months.

The Income Fund Performance to 05/31/2020 (Unaudited)	Six Months	One Year	Five Years	Ten Years	Since Inception 12/31/2009
Cumulative:					
The Income Fund	-5.93%	-8.02%	12.05%	71.03%	76.15%
Bloomberg Barclays Bond Index	5.40%	9.42%	21.34%	46.91%	52.35%
Annualized:					
The Income Fund		-8.02%	2.30%	5.51%	5.59%
Bloomberg Barclays Bond Index		9.42%	3.94%	3.92%	4.13%

For the six months ended May 31, 2020, The Bloomberg Barclays U.S. Aggregate Bond Index (“Bloomberg Barclays Bond Index”) outperformed The Income Fund by 11.33 percentage points, while over the last year The Income Fund was outperformed by the Bloomberg Barclays Bond Index by 17.44 percentage points. From inception, The Income Fund outperformed the Bloomberg Barclays Bond Index by 1.46 percentage points per annum, or on a cumulative basis, 23.80 percentage points over ten years and five months.

FAIRHOLME FUNDS, INC.

MANAGEMENT DISCUSSION & ANALYSIS (continued) For the six months ended May 31, 2020

The Allocation Fund Performance to 05/31/2020 (Unaudited)

	Six Months	One Year	Five Years	Since Inception 12/31/2010
Cumulative:				
The Allocation Fund	-7.04%	-13.58%	-28.01%	-5.19%
Bloomberg Barclays Bond Index	5.40%	9.42%	21.34%	43.00%
S&P 500 Index	-2.10%	12.84%	60.05%	194.56%
Annualized:				
The Allocation Fund		-13.58%	-6.36%	-0.56%
Bloomberg Barclays Bond Index		9.42%	3.94%	3.87%
S&P 500 Index		12.84%	9.86%	12.16%

For the six months ended May 31, 2020, The Allocation Fund was outperformed by the Bloomberg Barclays Bond Index and the S&P 500 by 12.44 and 4.94 percentage points, respectively, while over the last year The Allocation Fund was outperformed by the Bloomberg Barclays Bond Index by 23 percentage points and outperformed the S&P 500 by 26.42 percentage points. From inception, The Allocation Fund was outperformed by the Bloomberg Barclays Bond Index and the S&P 500 by 4.43 and 12.72 percentage points per annum, respectively, or on a cumulative basis, 48.19 and 199.75 percentage points over nine 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 has invested a significant portion of each Fund’s assets in cash. The Manager views liquidity as a strategic advantage. Due to the current outbreak of the respiratory disease caused by a novel coronavirus (known as COVID-19) and the corresponding market volatility and uncertainty arising from the outbreak and governmental responses to it, during the period ended May 31, 2020, the Manager reduced each Fund’s investments in commercial paper and increased each Fund’s investments in U.S. Treasury Bills. At May 31, 2020, cash and cash equivalents (consisting of cash, deposit accounts, U.S. Treasury Bills, and Treasury money-market funds) represented 31.7%, 86.3%, and 52.3% 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, 2020

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, 2020.

The most significant losses in each of the Funds’ portfolios were related to negative developments in the Mortgage Finance, Diversified Holding Companies, Integrated Oil & Gas, Real Estate Investment Trust, Oil & Natural Gas Exploration, and Oil & Gas Storage & Transportation sectors. Investments in the Real Estate Management & Development, and Food Products sectors saw some gains during the six months ended May 31, 2020.

The Manager made no changes to the core investment strategies and techniques it employed during the six months ended May 31, 2020.

For the six months ended May 31, 2020, The Fairholme Fund investment that was the biggest contributor to positive performance was The St. Joe Co. The biggest contributors to negative performance during the period were Federal Home Loan Mortgage Corp. (“Freddie”), Federal National Mortgage Association (“Fannie”), and Berkshire Hathaway Inc. The following charts show the top holdings by issuer and sector in descending order of net assets as of May 31, 2020.

The Fairholme Fund Top Holdings by Issuer* (% of Net Assets)		The Fairholme Fund Top Sectors (% of Net Assets)	
The St. Joe Co.	45.6%	Real Estate Management & Development	45.6%
Federal Home Loan Mortgage Corp.	8.5%	Cash and Cash Equivalents**	31.7%
Federal National Mortgage Association	8.4%	Mortgage Finance	16.9%
Berkshire Hathaway Inc.	4.9%	Diversified Holdings Companies	4.9%
Imperial Metals Corp.	1.0%	Metals & Mining	1.0%
Sears Holdings Corp.	0.1%	Retail Department Stores	0.1%
	<u>68.5%</u>		<u>100.2%</u>

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

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

For the six months ended May 31, 2020, The Income Fund investment that was the biggest contributor to positive performance was Kraft Heinz Co. The biggest contributors to negative performance were Occidental Petroleum Corp., Simon Property Group, Inc., Chesapeake Energy Corp., Freddie, and Western Midstream Partners, LP. The following charts show the top holdings by issuer and sector in descending order of net assets as of May 31, 2020.

FAIRHOLME FUNDS, INC.

MANAGEMENT DISCUSSION & ANALYSIS (continued) For the six months ended May 31, 2020

The Income Fund Top Holdings by Issuer* (% of Net Assets)		The Income Fund Top Sectors (% of Net Assets)	
The Kraft Heinz Co.	3.9%	Cash and Cash Equivalents**	86.3%
Federal Home Loan Mortgage Corp.	3.8%	Mortgage Finance	4.4%
Western Midstream Partners LP.	1.2%	Food Products	3.9%
Bank of America Corp.	1.1%	Diversified Banks	2.1%
JP Morgan Chase & Co.	1.0%	Oil & Gas Storage & Transportation	1.2%
Simon Property Group, Inc.	1.0%	Real Estate Investment Trust	1.0%
Occidental Petroleum Corp.	0.9%	Integrated Oil & Gas	0.9%
Federal National Mortgage Association	0.6%	Retail Department Stores	0.1%
Sears Holdings Corp.	0.1%	Oil & Natural Gas Exploration	0.1%
Chesapeake Energy Corp.	0.1%		
	<u>13.7%</u>		<u>100.0%</u>

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

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

For the six months ended May 31, 2020, The Allocation Fund investment that was the biggest contributor to negative performance was Occidental Petroleum Corp. There weren't any significant contributors to positive 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, 2020.

The Allocation Fund Top Holdings by Issuer* (% of Net Assets)		The Allocation Fund Top Sectors (% of Net Assets)	
The St. Joe Co.	12.6%	Cash and Cash Equivalents**	52.3%
Federal Home Loan Mortgage Corp.	7.7%	Mortgage Finance	15.2%
Federal National Mortgage Association	7.5%	Real Estate Management & Development	12.6%
Berkshire Hathaway, Inc.	7.3%	Diversified Holding Companies	7.3%
Imperial Metals Corp.	5.6%	Metals & Mining	5.6%
The Kraft Heinz Co.	4.0%	Food Products	4.0%
Occidental Petroleum Corp.	1.7%	Integrated Oil & Gas	1.7%
Western Midstream Partners LP.	1.2%	Oil & Gas Storage & Transportation	1.2%
Chesapeake Energy Corp.	0.1%	Oil & Natural Gas Exploration	0.1%
	<u>47.7%</u>		<u>100.0%</u>

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

** Includes cash, U.S. Treasury Bills and Treasury 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

FAIRHOLME FUNDS, INC.

MANAGEMENT DISCUSSION & ANALYSIS (continued)

For the six months ended May 31, 2020

beneficially own an aggregate 10,784,466, 8,638,802, and 4,386,538 shares of The Fairholme Fund, The Income Fund, and The Allocation Fund, respectively, at May 31, 2020. While there is no requirement that Mr. Berkowitz own shares of the Funds, such holdings are believed to help align the interests of the Manager with the interests of the shareholders.

The Board, including the Independent Directors, continues to believe that it is in the best interests of the Funds to have Mr. Berkowitz serve as Chairman of the Board given: his long-term relative performance; his experience, commitment, and significant personal investment in the Funds; the present 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, 2020, 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, 2019
through May 31, 2020 (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, 2019, and held for the entire six month period ending May 31, 2020.

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, 2019	Ending Account Value May 31, 2020	Annualized Expense Ratio*	Expenses Paid During the Period December 1, 2019 Through May 31, 2020**
The Fairholme Fund				
Actual	\$1,000.00	\$ 969.30	0.81%	\$3.99
Hypothetical (5% return before expenses)	\$1,000.00	\$1,020.95	0.81%	\$4.09
The Income Fund				
Actual	\$1,000.00	\$ 940.70	0.81%	\$3.93
Hypothetical (5% return before expenses)	\$1,000.00	\$1,020.95	0.81%	\$4.09
The Allocation Fund				
Actual	\$1,000.00	\$ 929.60	0.82%	\$3.96
Hypothetical (5% return before expenses)	\$1,000.00	\$1,020.90	0.82%	\$4.14

* 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 183 days/366 days (to reflect the one-half year period).

THE FAIRHOLME FUND

SCHEDULE OF INVESTMENTS May 31, 2020 (unaudited)

Shares		Value	Principal		Value
	DOMESTIC EQUITY			DOMESTIC CORPORATE	
	SECURITIES — 50.5%			BONDS — 0.1%	
	DIVERSIFIED HOLDING			RETAIL DEPARTMENT	
	COMPANIES — 4.9%			STORES — 0.1%	
248,100	Berkshire Hathaway, Inc., Class B ^(a)	\$ 46,042,398	\$97,022,000	Sears Holdings Corp. 8.000%, 12/15/2019 ^(d)	\$ 1,047,838
	REAL ESTATE MANAGEMENT			TOTAL DOMESTIC CORPORATE BONDS	
	& DEVELOPMENT — 45.6%			(COST \$97,385,904)	1,047,838
22,208,024	The St. Joe Co. ^{(a)(b)}	427,504,462		U.S. GOVERNMENT	
	TOTAL DOMESTIC EQUITY SECURITIES			OBLIGATIONS — 14.7%	
	(COST \$646,372,735)	473,546,860		U.S. Treasury Bills	
	FOREIGN EQUITY		50,000,000	1.523%, 06/04/2020 ^(e)	49,999,584
	SECURITIES — 1.0%		13,000,000	0.010%, 09/10/2020 ^(e)	12,994,119
	CANADA — 1.0%		13,000,000	0.060%, 12/31/2020 ^(e)	12,986,636
	METALS & MINING — 1.0%		13,000,000	0.085%, 01/28/2021 ^(e)	12,984,117
6,865,767	Imperial Metals Corp. ^{(a)(b)}	9,025,702	49,000,000	0.072%, 02/25/2021 ^(e)	48,935,010
	TOTAL FOREIGN EQUITY SECURITIES			TOTAL U.S. GOVERNMENT	
	(COST \$64,630,492)	9,025,702		OBLIGATIONS	
	DOMESTIC PREFERRED EQUITY			(COST \$137,954,851)	137,899,466
	SECURITIES — 16.9%			Shares	
	MORTGAGE FINANCE — 16.9%			MONEY MARKET	
8,955,013	Federal Home Loan Mortgage Corp. 7.875%, Series Z ^{(a)(c)}	80,147,366	159,085,096	Fidelity Investments Money Market Treasury Portfolio - Class I, 0.11% ^(f)	159,085,096
8,784,077	Federal National Mortgage Association 7.750%, Series S ^{(a)(c)}	78,617,489		TOTAL MONEY MARKET FUNDS	
		158,764,855		(COST \$159,085,096)	159,085,096
	TOTAL DOMESTIC PREFERRED			TOTAL INVESTMENTS — 100.2%	
	EQUITY SECURITIES			(COST \$1,180,716,396)	939,369,817
	(COST \$75,287,318)	158,764,855		LIABILITIES IN EXCESS	
				OF OTHER	
				ASSETS — (0.2)%	(2,026,226)
				NET ASSETS — 100.0%	\$ 937,343,591

^(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, 2020.

^(d) Security in default and no interest was accrued as of May 31, 2020.

^(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, 2020.

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

THE FAIRHOLME FUND

STATEMENT OF ASSETS & LIABILITIES May 31, 2020 (unaudited)

Assets

Investments, at Fair Value:

Unaffiliated Issuers (Cost — \$522,882,286) \$ 502,839,653

Affiliated Issuers (Cost — \$657,834,110) 436,530,164

Interest Receivable 25,217

Receivable for Capital Shares Sold 18,881

Total Assets 939,413,915

Liabilities

Payable for Capital Shares Redeemed 1,460,943

Accrued Management Fees 609,381

Total Liabilities 2,070,324

NET ASSETS \$ 937,343,591

Net Assets Consist of:

Paid-In Capital \$1,929,556,996

Total Accumulated Losses (992,213,405)

NET ASSETS \$ 937,343,591

Shares of Common Stock Outstanding* (\$0.0001 par value) 50,799,134

Net Asset Value, Offering and Redemption Price Per Share
(\$937,343,591 / 50,799,134 shares) \$ 18.45

* 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, 2020
Investment Income	
Interest	\$ 2,383,065
Total Investment Income	<u>2,383,065</u>
Expenses	
Management Fees	4,948,566
Legal Expenses	<u>64,936</u>
Total Expenses	<u>5,013,502</u>
Less: Voluntary Reduction of Management Fees	<u>(989,713)</u>
Net Expenses	<u>4,023,789</u>
Net Investment Loss	<u>(1,640,724)</u>
Realized and Unrealized Loss on Investments and Foreign Currency Related Transactions	
Net Realized Loss on Investments and Foreign Currency Related Transactions	
Unaffiliated Issuers	(540,886)
Net Change in Unrealized Appreciation/Depreciation on Investments and Foreign Currency Related Transactions	
Affiliated Issuers	5,790,683
Unaffiliated Issuers	<u>(35,175,433)</u>
Net Realized and Unrealized Loss on Investments and Foreign Currency Related Transactions	<u>(29,925,636)</u>
NET DECREASE IN NET ASSETS FROM OPERATIONS	<u><u>\$(31,566,360)</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, 2020 (Unaudited)	For the Fiscal Year Ended November 30, 2019
CHANGES IN NET ASSETS		
From Operations		
Net Investment Income (Loss)	\$ (1,640,724)	\$ 9,378,949
Net Realized Gain (Loss) on Investments and Foreign Currency Related Transactions	(540,886)	4,607,901
Net Change in Unrealized Appreciation (Depreciation) on Investments and Foreign Currency Related Translations	(29,384,750)	202,650,238
Net Increase (Decrease) in Net Assets from Operations	(31,566,360)	216,637,088
From Dividends and Distributions to Shareholders		
Net Decrease in Net Assets from Dividends and Distributions	(9,053,098)	(22,052,477)
From Capital Share Transactions		
Proceeds from Sale of Shares	13,468,104	27,873,325
Shares Issued in Reinvestment of Dividends and Distributions	6,693,804	20,660,229
Redemption Fees	8,532	37,027
Cost of Shares Redeemed	(98,747,931)	(238,279,392)
Cost of Shares Redeemed In-Kind	—	(13,200,907)
Net Decrease in Net Assets from Shareholder Activity	(78,577,491)	(202,909,718)
NET ASSETS		
Net Decrease in Net Assets	(119,196,949)	(8,325,107)
Net Assets at Beginning of Period	1,056,540,540	1,064,865,647
Net Assets at End of Period	<u>\$ 937,343,591</u>	<u>\$1,056,540,540</u>
SHARES TRANSACTIONS		
Issued	707,644	1,583,280
Reinvested	333,357	1,352,111
Redeemed	(5,300,889)	(13,466,927)
Redeemed In-Kind	—	(761,812)
Net Decrease in Shares	(4,259,888)	(11,293,348)
Shares Outstanding at Beginning of Period	55,059,022	66,352,370
Shares Outstanding at End of Period	<u>50,799,134</u>	<u>55,059,022</u>

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

THE FAIRHOLME FUND

FINANCIAL HIGHLIGHTS

	For the Six Months Ended May 31, 2020 (unaudited)	For the Fiscal Year Ended November 30,				
		2019	2018	2017	2016	2015
PER SHARE OPERATING PERFORMANCE						
NET ASSET VALUE, BEGINNING OF PERIOD	\$19.19	\$16.05	\$19.10	\$24.26	\$34.24	\$37.96
Investment Operations						
Net Investment Income ⁽¹⁾	(0.03)	0.16	0.29	0.23	0.33	0.46
Net Realized and Unrealized Gain (Loss) on Investments	(0.54)	3.32	(3.08)	(3.81)	2.60	(1.10)
Total from Investment Operations	(0.57)	3.48	(2.79)	(3.58)	2.93	(0.64)
Dividends and Distributions						
From Net Investment Income	(0.17)	(0.34)	(0.26)	(0.40)	(0.60)	—
From Realized Capital Gains	—	—	—	(1.18)	(12.31)	(3.08)
Total Dividends and Distributions	(0.17)	(0.34)	(0.26)	(1.58)	(12.91)	(3.08)
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	\$18.45	\$19.19	\$16.05	\$19.10	\$24.26	\$34.24
TOTAL RETURN	(3.07)% ⁽³⁾	22.20%	(14.85)%	(15.64)%	18.93%	(1.95)%
Ratio/Supplemental Data						
Net Assets, End of Period (in 000's)	\$937,344	\$1,056,541	\$1,064,866	\$1,871,480	\$3,155,709	\$4,612,354
Ratio of Gross Expenses to Average Net Assets	1.01% ⁽⁴⁾⁽⁵⁾	1.00% ⁽⁶⁾	1.00%	1.02% ⁽⁷⁾	1.02% ⁽⁷⁾	1.03% ⁽⁸⁾
Ratio of Net Expenses to Average Net Assets	0.81% ⁽⁴⁾⁽⁵⁾⁽⁹⁾	0.80% ⁽⁶⁾⁽⁹⁾	0.82% ⁽⁹⁾	1.02% ⁽⁷⁾	1.02% ⁽⁷⁾	1.03% ⁽⁸⁾
Ratio of Net Investment Income (Loss) to Average Net Assets	(0.33)% ⁽⁵⁾	0.86%	1.57%	1.14%	1.79%	1.31%
Portfolio Turnover Rate	0.24% ⁽³⁾	8.05%	16.29%	6.57%	19.19%	40.46%

⁽¹⁾ Based on average shares outstanding.

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

⁽³⁾ Not annualized.

⁽⁴⁾ 0.01% is attributable to legal expenses incurred outside of the 1.00% management fee.

⁽⁵⁾ Annualized.

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

⁽⁷⁾ 0.02% is attributable to legal expenses incurred outside of the 1.00% management fee.

⁽⁸⁾ 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.

⁽⁹⁾ 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, 2020 (unaudited)

Shares		Value	Principal		Value
DOMESTIC EQUITY SECURITIES — 7.0%			DOMESTIC CORPORATE BONDS — 2.2%		
FOOD PRODUCTS — 3.9%			DIVERSIFIED BANKS — 2.1%		
225,000	The Kraft Heinz Co.	\$ 6,855,750	\$ 2,000,000	Bank of America Corp. 5.200%, Series U ^{(d)(e)}	\$ 1,925,000
INTEGRATED OIL & GAS — 0.9%			2,000,000	JPMorgan Chase & Co. 4.487%, Series Z ^(d)	1,830,400
123,880	Occidental Petroleum Corp.	1,604,246			3,755,400
OIL & GAS STORAGE & TRANSPORTATION — 1.2%			RETAIL DEPARTMENT STORES — 0.1%		
224,000	Western Midstream Partners LP	2,092,160	17,595,500	Sears Holdings Corp. 8.000%, 12/15/2019 ^(f)	190,031
REAL ESTATE INVESTMENT TRUSTS — 1.0%			TOTAL DOMESTIC CORPORATE BONDS (COST \$20,694,227)		
29,000	Simon Property Group, Inc.	1,673,300			3,945,431
TOTAL DOMESTIC EQUITY SECURITIES (COST \$16,476,328)			U.S. GOVERNMENT OBLIGATIONS — 42.2%		
DOMESTIC PREFERRED EQUITY SECURITIES — 4.5%			U.S. Treasury Bills		
MORTGAGE FINANCE — 4.4%			9,000,000	1.523%, 06/04/2020 ^(g)	8,999,925
	Federal Home Loan Mortgage Corp.		4,000,000	0.010%, 09/10/2020 ^(g)	3,998,190
302,300	5.100%, Series H ^(a)	4,005,475	4,000,000	0.060%, 12/31/2020 ^(g)	3,995,888
260,924	6.550%, Series Y ^(a)	1,839,514	4,000,000	0.085%, 01/28/2021 ^(g)	3,995,113
88,500	7.875%, Series Z ^{(a)(b)}	792,075	26,000,000	0.075%, 02/25/2021 ^(g)	25,965,516
128,100	Federal National Mortgage Association 7.750%, Series S ^{(a)(b)}	1,146,495	27,000,000	0.116%, 03/25/2021 ^(g)	26,956,564
OIL & NATURAL GAS EXPLORATION — 0.1%			TOTAL U.S. GOVERNMENT OBLIGATIONS (COST \$73,954,530)		
42,416	5.000%	112,402			73,911,196
6,083	5.750%	33,458	Shares		
3,350	5.750%	28,475	MONEY MARKET FUNDS — 44.1%		
600	5.750% ^(c)	3,702	77,244,162	Fidelity Investments Money Market Treasury Portfolio - Class I, 0.11% ^(h)	77,244,162
100	5.750% ^(c)	717	TOTAL MONEY MARKET FUNDS (COST \$77,244,162)		
		178,754			77,244,162
TOTAL DOMESTIC PREFERRED EQUITY SECURITIES (COST \$14,600,790)			TOTAL INVESTMENTS — 100.0% (COST \$202,970,037)		
		7,962,313			175,288,558
			LIABILITIES IN EXCESS OF OTHER ASSETS — 0.0%		
					(37,766)
			NET ASSETS — 100.0%		
					\$ 175,250,792

^(a) Non-income producing security.

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

THE FAIRHOLME FOCUSED INCOME FUND

SCHEDULE OF INVESTMENTS (continued) May 31, 2020 (unaudited)

- ^(b) Variable rate security. Rates shown are the effective rates as of May 31, 2020.
- ^(c) Restricted security as set forth in Rule 144A under the Securities Act of 1933. The value of these investments totals \$4,419, which represents 0.00% of The Income Fund's net assets.
- ^(d) Security is perpetual in nature and has no stated maturity date.
- ^(e) 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.
- ^(f) Security in default and no interest was accrued as of May 31, 2020.
- ^(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, 2020.

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

THE FAIRHOLME FOCUSED INCOME FUND

STATEMENT OF ASSETS & LIABILITIES May 31, 2020 (unaudited)

Assets

Investments, at Fair Value (Cost — \$202,970,037)	\$175,288,558
Interest Receivable	163,285
Total Assets	<u>175,451,843</u>

Liabilities

Accrued Management Fees	118,519
Payable for Capital Shares Redeemed	82,532
Total Liabilities	<u>201,051</u>

NET ASSETS	<u><u>\$175,250,792</u></u>
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Net Assets Consist of:

Paid-In Capital	\$213,269,477
Total Accumulated Losses	<u>(38,018,685)</u>

NET ASSETS	<u><u>\$175,250,792</u></u>
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Shares of Common Stock Outstanding* (\$0.0001 par value)	<u>18,383,067</u>
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Net Asset Value, Offering and Redemption Price Per Share (\$175,250,792 / 18,383,067 shares)	<u><u>\$ 9.53</u></u>
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* 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, 2020
Investment Income	
Interest	\$ 1,160,534
Dividends	649,842
Total Investment Income	<u>1,810,376</u>
Expenses	
Management Fees	926,897
Legal Expenses	11,278
Total Expenses	<u>938,175</u>
Less: Voluntary Reduction of Management Fees	<u>(185,379)</u>
Net Expenses	<u>752,796</u>
Net Investment Income	<u>1,057,580</u>
Realized and Unrealized Gain on Investments	
Net Realized Loss on Investments	(4,285,047)
Net Change in Unrealized Appreciation (Depreciation) on Investments	<u>(8,750,718)</u>
Net Realized and Unrealized Loss on Investments	<u>(13,035,765)</u>
NET DECREASE IN NET ASSETS FROM OPERATIONS	<u><u>\$(11,978,185)</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, 2020 (Unaudited)	For the Fiscal Year Ended November 30, 2019
CHANGES IN NET ASSETS		
From Operations		
Net Investment Income	\$ 1,057,580	\$ 5,504,035
Net Realized Gain (Loss) on Investments	(4,285,047)	1,878,813
Net Change in Unrealized Appreciation (Depreciation) on Investments	(8,750,718)	4,512,746
Net Increase (Decrease) in Net Assets from Operations	(11,978,185)	11,895,594
From Dividends and Distributions to Shareholders		
Net Decrease in Net Assets from Dividends and Distributions	(1,722,888)	(5,286,649)
From Capital Share Transactions		
Proceeds from Sale of Shares	24,663,818	9,617,338
Shares Issued in Reinvestment of Dividends and Distributions	798,558	4,659,430
Cost of Shares Redeemed	(15,861,580)	(30,034,524)
Net Increase (Decrease) in Net Assets from Shareholder Activity	9,600,796	(15,757,756)
NET ASSETS		
Net Decrease in Net Assets	(4,100,277)	(9,148,811)
Net Assets at Beginning of Period	179,351,069	188,499,880
Net Assets at End of Period	<u>\$175,250,792</u>	<u>\$179,351,069</u>
SHARES TRANSACTIONS		
Issued	2,413,680	939,727
Reinvested	82,177	451,601
Redeemed	(1,642,756)	(2,932,519)
Net Increase (Decrease) in Shares	853,101	(1,541,191)
Shares Outstanding at Beginning of Period	17,529,966	19,071,157
Shares Outstanding at End of Period	<u>18,383,067</u>	<u>17,529,966</u>

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

THE FAIRHOLME FOCUSED INCOME FUND

FINANCIAL HIGHLIGHTS

	For the Six Months Ended May 31, 2020 (unaudited)	For the Fiscal Year Ended November 30,				
		2019	2018	2017	2016	2015
PER SHARE OPERATING PERFORMANCE						
NET ASSET VALUE, BEGINNING OF PERIOD	\$10.23	\$9.88	\$11.33	\$12.38	\$10.72	\$10.82
Investment Operations						
Net Investment Income ⁽¹⁾	0.06	0.30	0.49	0.60	0.57	0.45
Net Realized and Unrealized Gain (Loss) on Investments	(0.66)	0.34	(0.91)	(0.99)	1.72	0.03
Total from Investment Operations	(0.60)	0.64	(0.42)	(0.39)	2.29	0.48
Dividends and Distributions						
From Net Investment Income	(0.10)	(0.29)	(0.51)	(0.61)	(0.56)	(0.43)
From Realized Capital Gains	—	—	(0.52)	(0.05)	(0.07)	(0.15)
Total Dividends and Distributions	(0.10)	(0.29)	(1.03)	(0.66)	(0.63)	(0.58)
NET ASSET VALUE, END OF PERIOD	\$9.53	\$10.23	\$9.88	\$11.33	\$12.38	\$10.72
TOTAL RETURN	(5.93)% ⁽²⁾	6.49%	(4.19)%	(3.35)%	22.77%	4.60%
Ratio/Supplemental Data						
Net Assets, End of Period (in 000's)	\$175,251	\$179,351	\$188,500	\$223,432	\$240,195	\$243,072
Ratio of Gross Expenses to Average Net Assets:	1.01% ⁽³⁾⁽⁴⁾	1.02% ⁽⁵⁾	1.00%	1.00%	1.00%	1.00%
Ratio of Net Expenses to Average Net Assets	0.81% ⁽³⁾⁽⁴⁾⁽⁶⁾	0.82% ⁽⁵⁾⁽⁶⁾	0.82% ⁽⁶⁾	1.00%	1.00%	1.00%
Ratio of Net Investment Income to Average Net Assets	1.14% ⁽⁴⁾	2.94%	4.56%	5.02%	5.48%	4.14%
Portfolio Turnover Rate	54.50% ⁽²⁾	16.70%	45.78%	36.05%	28.81%	67.05%

⁽¹⁾ Based on average shares outstanding.

⁽²⁾ Not annualized.

⁽³⁾ 0.01% is attributable to legal expenses incurred outside the management fee.

⁽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 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, 2020 (unaudited)

Shares		Value	Shares		Value
	DOMESTIC EQUITY			OIL & NATURAL GAS	
	SECURITIES — 26.8%			EXPLORATION — 0.1%	
	DIVERSIFIED HOLDING		4,779	Chesapeake Energy Corp.	
	COMPANIES — 7.3%			5.750%	\$ 26,284
20,400	Berkshire Hathaway, Inc., Class B ^(a)	\$ 3,785,832	TOTAL DOMESTIC PREFERRED		
			EQUITY SECURITIES		
	FOOD PRODUCTS — 4.0%		(COST \$6,422,016)		7,871,496
67,400	The Kraft Heinz Co.	2,053,678	Principal		
	INTEGRATED OIL & GAS — 1.7%			U.S. GOVERNMENT	
65,600	Occidental Petroleum Corp.	849,520		OBLIGATIONS — 19.4%	
				U.S. Treasury Bills	
	OIL & GAS STORAGE & TRANSPORTATION — 1.2%		\$3,000,000	1.523%, 06/04/2020 ^(d)	2,999,975
66,000	Western Midstream Partners LP	616,440	1,000,000	0.010%, 09/10/2020 ^(d)	999,548
			1,000,000	0.060%, 12/31/2020 ^(d)	998,972
	REAL ESTATE MANAGEMENT & DEVELOPMENT — 12.6%		1,000,000	0.085%, 01/28/2021 ^(d)	998,778
348,267	The St. Joe Co. ^{(a)(b)}	6,516,075	4,000,000	0.071%, 02/25/2021 ^(d)	3,994,695
	TOTAL DOMESTIC EQUITY SECURITIES		TOTAL U.S. GOVERNMENT		
	(COST \$16,228,189)	13,821,545	OBLIGATIONS		
			(COST \$9,996,554)		9,991,968
	FOREIGN EQUITY		Shares		
	SECURITIES — 5.6%				
	CANADA — 5.6%			MONEY MARKET	
	METALS & MINING — 5.6%			FUNDS — 32.9%	
2,192,841	Imperial Metals Corp. ^(a)	2,882,698	16,974,987	Fidelity Investments Money	
				Market Treasury Portfolio -	
	TOTAL FOREIGN EQUITY SECURITIES			Class I, 0.11% ^(e)	16,974,987
	(COST \$25,958,539)	2,882,698			
			TOTAL MONEY MARKET FUNDS		16,974,987
	DOMESTIC PREFERRED EQUITY		(COST \$16,974,987)		
	SECURITIES — 15.3%				
	MORTGAGE FINANCE — 15.2%		TOTAL INVESTMENTS — 100.0%		
444,095	Federal Home Loan Mortgage Corp.		(COST \$75,580,285)		51,542,694
	7.875%, Series Z ^{(a)(c)}	3,974,650		OTHER ASSETS IN	
432,465	Federal National Mortgage Association			EXCESS OF	
	7.750%, Series S ^{(a)(c)}	3,870,562		LIABILITIES — 0.0%	82
		7,845,212	NET ASSETS — 100.0%		\$ 51,542,776

^(a) Non-income producing security.

^(b) Restricted/controlled security. The value of this security totals \$6,516,075, which represents 12.64% of The Allocation Fund's net assets. Information related to this security is as follows:

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

THE FAIRHOLME ALLOCATION FUND

SCHEDULE OF INVESTMENTS (continued) May 31, 2020 (unaudited)

<u>Shares</u>	<u>Issuer</u>	<u>Acquisition Date(s)</u>	<u>Acquisition Cost</u>	<u>05/31/2020 Carrying Value Per Unit</u>
348,267	The St. Joe Co.	08/09/2017-09/01/2017	\$6,615,792	\$18.71

^(c) Variable rate security. Rates shown are the effective rates as of May 31, 2020.

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

^(e) Annualized based on the 1-day yield as of May 31, 2020.

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

THE FAIRHOLME ALLOCATION FUND

STATEMENT OF ASSETS & LIABILITIES May 31, 2020 (unaudited)

Assets

Investments, at Fair Value (Cost — \$75,580,285)	\$ 51,542,694
Receivable for Capital Shares Sold	458
Interest Receivable	<u>33,482</u>
Total Assets	<u>51,576,634</u>

Liabilities

Accrued Management Fees	<u>33,858</u>
Total Liabilities	<u>33,858</u>

NET ASSETS	<u>\$ 51,542,776</u>
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Net Assets Consist of:

Paid-In Capital	\$123,668,381
Total Accumulated Losses	<u>(72,125,605)</u>

NET ASSETS	<u>\$ 51,542,776</u>
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Shares of Common Stock Outstanding* (\$0.0001 par value)	<u>8,023,279</u>
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Net Asset Value, Offering and Redemption Price Per Share (\$51,542,776 / 8,023,279 shares)	<u>\$ 6.42</u>
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* 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, 2020
Investment Income	
Interest	\$ 211,187
Dividends	174,442
Total Investment Income	385,629
Expenses	
Management Fees	273,890
Legal Expenses	4,355
Total Expenses	278,245
Less: Voluntary Reduction of Management Fees	(54,778)
Net Expenses	223,467
Net Investment Income	162,162
Realized and Unrealized Gain (Loss) on Investments and Foreign Currency Related Transactions	
Net Realized Gain on Investments and Foreign Currency Related Transactions	8,498
Net Change in Unrealized Appreciation (Depreciation) on Investments and Foreign Currency Related Transactions	(4,224,761)
Net Realized and Unrealized Gain (Loss) on Investments and Foreign Currency Related Transactions	(4,216,263)
NET DECREASE IN NET ASSETS FROM OPERATIONS	\$(4,054,101)

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, 2020 (Unaudited)	For the Fiscal Year Ended November 30, 2019
CHANGES IN NET ASSETS		
From Operations		
Net Investment Income	\$ 162,162	\$ 874,935
Net Realized Gain on Investments and Foreign Currency Related Transactions	8,498	1,424,615
Net Change in Unrealized Appreciation (Depreciation) on Investments and Foreign Currency Related Translations	(4,224,761)	3,765,875
Net Increase (Decrease) in Net Assets from Operations	(4,054,101)	6,065,425
From Dividends and Distributions to Shareholders		
Net Decrease in Net Assets from Dividends and Distributions	(820,275)	(791,785)
From Capital Share Transactions		
Proceeds from Sale of Shares	620,516	1,417,681
Shares Issued in Reinvestment of Dividends and Distributions	405,372	757,745
Redemption Fees	2,375	2,187
Cost of Shares Redeemed	(3,594,238)	(16,966,140)
Cost of Shares Redeemed In-Kind	—	(3,889,024)
Net Decrease in Net Assets from Shareholder Activity	(2,565,975)	(18,677,551)
NET ASSETS		
Net Decrease in Net Assets	(7,440,351)	(13,403,911)
Net Assets at Beginning of Period	58,983,127	72,387,038
Net Assets at End of Period	<u>\$51,542,776</u>	<u>\$ 58,983,127</u>
SHARES TRANSACTIONS		
Issued	92,385	202,579
Reinvested	56,459	118,029
Redeemed	(549,041)	(2,229,510)
Redeemed In-Kind	—	(675,384)
Net Decrease in Shares	(400,197)	(2,584,286)
Shares Outstanding at Beginning of Period	8,423,476	11,007,762
Shares Outstanding at End of Period	<u>8,023,279</u>	<u>8,423,476</u>

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

THE FAIRHOLME ALLOCATION FUND

FINANCIAL HIGHLIGHTS

	For the Six Months Ended May 31, 2020 (unaudited)	For the Fiscal Year Ended November 30,				
		2019	2018	2017	2016	2015
PER SHARE OPERATING PERFORMANCE						
NET ASSET VALUE, BEGINNING OF PERIOD	\$7.00	\$6.58	\$7.44	\$9.65	\$10.40	\$12.57
Investment Operations						
Net Investment Income ⁽¹⁾	0.02	0.09	0.09	0.10	0.14	0.35
Net Realized and Unrealized Gain (Loss) on Investments	(0.50)	0.40	(0.83)	(1.71)	0.75	(1.38)
Total from Investment Operations	(0.48)	0.49	(0.74)	(1.61)	0.89	(1.03)
Dividends and Distributions						
From Net Investment Income	(0.10)	(0.07)	(0.12)	(0.17)	(0.31)	—
From Realized Capital Gains	—	—	—	(0.43)	(1.33)	(1.14)
Total Dividends and Distributions	(0.10)	(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	\$6.42	\$7.00	\$6.58	\$7.44	\$9.65	\$10.40
TOTAL RETURN	(7.04)% ⁽³⁾	7.61%	(10.18)%	(17.59)%	11.06%	(8.88)%
Ratio/Supplemental Data						
Net Assets, End of Period (in 000's)	\$51,543	\$58,983	\$72,387	\$114,190	\$259,501	\$297,527
Ratio of Gross Expenses to Average Net Assets:	1.01% ⁽⁴⁾⁽⁵⁾	1.02% ⁽⁶⁾	1.00%	1.00%	1.00%	1.00%
Ratio of Net Expenses to Average Net Assets	0.82% ⁽⁴⁾⁽⁶⁾⁽⁷⁾	0.82% ⁽⁶⁾⁽⁷⁾	0.82% ⁽⁷⁾	1.00%	1.00%	1.00%
Ratio of Net Investment Income (Loss) to Average Net Assets	0.59% ⁽⁴⁾	1.21%	1.32%	1.19%	1.81%	3.09%
Portfolio Turnover Rate	2.28% ⁽³⁾	15.58%	23.52%	31.01%	13.65%	39.24%

⁽¹⁾ Based on average shares outstanding.

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

⁽³⁾ Not annualized.

⁽⁴⁾ Annualized.

⁽⁵⁾ 0.01% is attributable to legal expenses incurred outside the management fee.

⁽⁶⁾ 0.02% is attributable to legal expenses incurred outside the management fee.

⁽⁷⁾ 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 and modifications under ASU 2018-13. Management has early adopted the removals and modifications 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, 2020, 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, 2020, 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 is 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. Joe was classified as Level 2 at May 31, 2020.

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, 2020 (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, 2020, is as follows:

	Valuation Inputs			
	Level 1 – Quoted Prices	Level 2 – Other Significant Observable Inputs	Level 3 - Significant Unobservable Inputs	Total Fair Value at 5/31/20
THE FAIRHOLME FUND				
ASSETS:				
INVESTMENTS (Fair Value):				
Domestic Equity Securities*	\$473,546,860	\$ —	\$—	\$473,546,860
Foreign Equity Securities*	9,025,702	—	—	9,025,702
Domestic Preferred Equity Securities*	158,764,855	—	—	158,764,855
Domestic Corporate Bonds*	—	1,047,838	—	1,047,838
U.S. Government Obligations	—	137,899,466	—	137,899,466
Money Market Funds	159,085,096	—	—	159,085,096
TOTAL INVESTMENTS	\$800,422,513	\$138,947,304	\$—	\$939,369,817

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

THE INCOME FUND

ASSETS:

INVESTMENTS (Fair Value):

Domestic Equity Securities*	\$ 12,225,456	\$ —	\$—	\$ 12,225,456
Domestic Preferred Equity Securities				
Oil & Natural Gas Exploration	112,402	66,352	—	178,754
Other Industries*	7,783,559	—	—	7,783,559
Domestic Corporate Bonds*	—	3,945,431	—	3,945,431
U.S. Government Obligations	—	73,911,196	—	73,911,196
Money Market Funds	77,244,162	—	—	77,244,162
TOTAL INVESTMENTS	\$ 97,365,579	\$ 77,922,979	\$—	\$175,288,558

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

FAIRHOLME FUNDS, INC.

NOTES TO FINANCIAL STATEMENTS (continued) May 31, 2020 (unaudited)

	Valuation Inputs			
	Level 1 – Quoted Prices	Level 2 – Other Significant Observable Inputs	Level 3 - Significant Unobservable Inputs	Total Fair Value at 5/31/20
THE ALLOCATION FUND				
ASSETS:				
INVESTMENTS (Fair Value):				
Domestic Equity Securities				
Real Estate Management & Development	\$ —	\$ 6,516,075	\$—	\$ 6,516,075
Other Industries*	7,305,470	—	—	7,305,470
Foreign Equity Securities*	2,882,698	—	—	2,882,698
Domestic Preferred Equity Securities				
Mortgage Finance	7,845,212	—	—	7,845,212
Oil & Natural Gas Exploration	—	26,284	—	26,284
U.S. Government Obligations	—	9,991,968	—	9,991,968
Money Market Funds	16,974,987	—	—	16,974,987
TOTAL INVESTMENTS	<u>\$35,008,367</u>	<u>\$16,534,327</u>	<u>\$—</u>	<u>\$51,542,694</u>

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

There were no Level 3 investments for any of the Funds at May 31, 2020 or November 30, 2019.

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, 2020 and the year ended November 30, 2019, amounted to \$8,532 and \$37,027, and \$2,375 and \$2,187, respectively.

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

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

The market values of securities or other investments that a Fund holds may fall, sometimes rapidly or unpredictably, or fail to rise for various reasons including changes or potential or perceived changes in U.S. or foreign economies, financial markets, interest rates, the liquidity of investments and other factors including terrorism, war, natural disasters and public health events and crises, including disease/virus outbreaks and epidemics. The resulting short-term and long-term effects and consequences of such events and factors on global and local economies and specific countries, regions, businesses, industries, and companies cannot necessarily be foreseen or predicted. From time to time, certain market segments (such as equity or fixed income), investment styles (such as growth or value), or other investment categories, may fall out of favor which may impair the value of an investment in a Fund. An investment in a Fund could lose money over short or long periods.

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 the Fund. Subject to applicable waivers or limitations, the management fee is paid at an annual rate equal to 1.00% of the daily average net assets of 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, after the voluntary reduction of the management fees, \$3,958,853, \$741,518, and \$219,112, from The Fairholme Fund, The Income Fund, and The Allocation Fund, respectively, for its services during the six months ended May 31, 2020.

Bruce Berkowitz, both the Chief Investment Officer of the Manager and Chairman of the Funds' Board, and his affiliates beneficially own an aggregate 10,784,466 shares, 8,638,802 shares, and 4,386,538 shares of The Fairholme Fund, The Income Fund, and The Allocation Fund, respectively, at May 31, 2020.

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, 2020, 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	\$53,169,117	\$ 1,503,285
The Income Fund	27,620,481	13,892,858
The Allocation Fund	10,136,419	511,994

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, 2020, were as follows:

	<u>Cost</u>	<u>Gross Unrealized Appreciation</u>	<u>Gross Unrealized Depreciation</u>	<u>Net Unrealized Depreciation</u>
The Fairholme Fund	\$1,182,360,164	\$83,483,434	\$(326,473,781)	\$(242,990,347)
The Income Fund	202,979,065	3,105,155	(30,795,662)	(27,690,507)
The Allocation Fund	75,601,451	4,242,882	(28,301,639)	(24,058,757)

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, 2020.

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, 2019, net short-term and 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	\$ 771,446	—	\$ 287,406
Long-term capital loss carryforward	746,269,482	\$5,997,101	47,926,139
Total	<u>\$747,040,928</u>	<u>\$5,997,101</u>	<u>\$48,213,545</u>

For the fiscal year ended November 30, 2019, The Fairholme Fund, The Income Fund, and The Allocation Fund utilized capital loss carryforwards of \$4,371,254, \$1,965,235, and \$450,101, respectively.

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.

FAIRHOLME FUNDS, INC.

NOTES TO FINANCIAL STATEMENTS (continued) May 31, 2020 (unaudited)

Note 6. Dividends and Distributions to Shareholders

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

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

	The Fairholme Fund	
	For the Six Months Ended May 31, 2020	For the Fiscal Year Ended November 30, 2019
Dividends and Distributions paid from:		
Ordinary Income	<u>\$9,053,098</u>	<u>\$22,053,111*</u>

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

	The Income Fund	
	For the Six Months Ended May 31, 2020	For the Fiscal Year Ended November 30, 2019
Dividends and Distributions paid from:		
Ordinary Income	<u>\$1,722,888</u>	<u>\$5,286,649</u>

	The Allocation Fund	
	For the Six Months Ended May 31, 2020	For the Fiscal Year Ended November 30, 2019
Dividends and Distributions paid from:		
Ordinary Income	<u>\$820,275</u>	<u>\$791,785</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, 2020 amounted to \$436,530,164, representing approximately 46.57% of The Fairholme Fund's net assets.

FAIRHOLME FUNDS, INC.

NOTES TO FINANCIAL STATEMENTS (continued) May 31, 2020 (unaudited)

Transactions in The Fairholme Fund during the six months ended May 31, 2020, in which the issuer of the security was an affiliate are as follows:

	November 30, 2019	Gross Additions	Gross Deductions	May 31, 2020		Change in Unrealized Appreciation
	Shares/ Par Value	Shares/ Par Value	Shares/ Par Value	Shares/ Par Value	Fair Value	
Imperial Metals Corp.	6,865,767	—	—	6,865,767	\$ 9,025,702	\$ 238,678
The St. Joe Co.	22,208,024	—	—	22,208,024	427,504,462	5,552,005
Total					<u>\$436,530,164</u>	<u>\$5,790,683</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. On November 25, 2019, the plaintiffs filed an amended complaint, adding the Company and other parties not affiliated with the Manager or the Company as additional defendants and asserting new causes of action against the defendants.

Plaintiffs assert avoidance and other claims against certain defendants, including the Manager, for participation in two Sears corporate transactions: (i) the Lands' End spinoff; and (ii) 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. in connection with the Lands' End spinoff and Seritage rights offering that were allegedly actual and/or constructive fraudulent transfers. In the amended complaint, plaintiffs also assert avoidance and other claims seeking to recover amounts allegedly received by the Company from alleged related-party transactions with Sears and seek to avoid the release received by certain of the defendants, including the Manager and the Company, in connection with the Seritage derivative action. Plaintiffs also assert 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, and seek to subordinate the bankruptcy claims of the Company, the Manager and Bruce Berkowitz. On February 21, 2020, the Company moved to dismiss all of the claims against it, and all other defendants, include the Manager and Bruce Berkowitz, moved to dismiss all or parts of the complaint against them. The motions to dismiss are currently pending before the court.

Although the Manager and the Company believe that they have strong defenses to the foregoing complaint and intend to defend themselves vigorously against the allegations in the complaint, neither the Manager nor the Company is in a position to express an opinion about the ultimate outcome of the litigation or the range of potential loss, if any.

Operation and Effectiveness of the Funds' Liquidity Risk Management Program (unaudited)

Pursuant to Rule 22e-4 under the Investment Company Act of 1940, each of the Funds has adopted and implemented a liquidity risk management program (the "Program") designed to assess and manage the risk that the Fund could not meet requests to redeem Fund shares without significant dilution of remaining investors' interests in the Fund. In assessing, managing and reviewing liquidity risk under the Program, the Funds consider a variety of factors, including their investment strategies, portfolio investments, portfolio concentration, cash flow projections, redemption policy and redemption history. In addition, the Program requires each Fund to, among other things, classify its investments into specific liquidity categories and monitor compliance with its limit on illiquid investments.

During the one-year period ended November 30, 2019 (the "Covered Period"), each Fund maintained a high level of liquidity and primarily held assets that were "highly liquid investments" (defined as cash and any investment reasonably expected to be convertible to cash in current market conditions in three business days or less without the conversion to cash significantly changing the market value of the investment). During the Covered Period, there were no liquidity events that materially affected a Fund's performance or ability to timely meet redemptions without dilution to remaining investors' interests in the Fund.

The Manager, which the Board has designated to administer the Program, prepared a written report that addressed the operation of the Program and assessed the Program's adequacy and effectiveness of implementation during the Covered Period (the "Report"). The Board reviewed and accepted the Report, which determined that the Program operated adequately and effectively in managing the liquidity risk of each Fund during the Covered Period.

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, 2019, 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

Officers of Fairholme Funds, Inc.

BRUCE R. BERKOWITZ
President

FERNANDO M. FONT
Vice President

WAYNE KELLNER
Treasurer

ERICA K. KAPAH
Chief Compliance Officer & Secretary

Board of Directors of Fairholme Funds, Inc.

TERRY L. BAXTER

BRUCE R. BERKOWITZ

STEVEN J. GILBERT, *Esq.*

LEIGH WALTERS, *Esq.*

Investment Manager

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Fund Accountant & Administrator

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Custodian

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