Mutual fund investing involves risks, including possible loss of principal. Unless otherwise specified, all information is shown as of June 30, 2018. Past performance information quoted below does not guarantee future results. The investment return and principal value of an investment in The Fairholme Fund ("Fund") will fluctuate so that the value of an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than 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 S&P 500 is used for comparative purposes only, and is not meant to be indicative of the Fund's performance, asset composition, or volatility. The Fund's performance may differ markedly from the performance of the S&P 500 in either up or down market trends. Because an index cannot be invested in directly, the index returns do not reflect a deduction for fees, expenses, or taxes. The expense ratio for the Fund reflected in the current prospectus dated March 29, 2018, 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.

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.

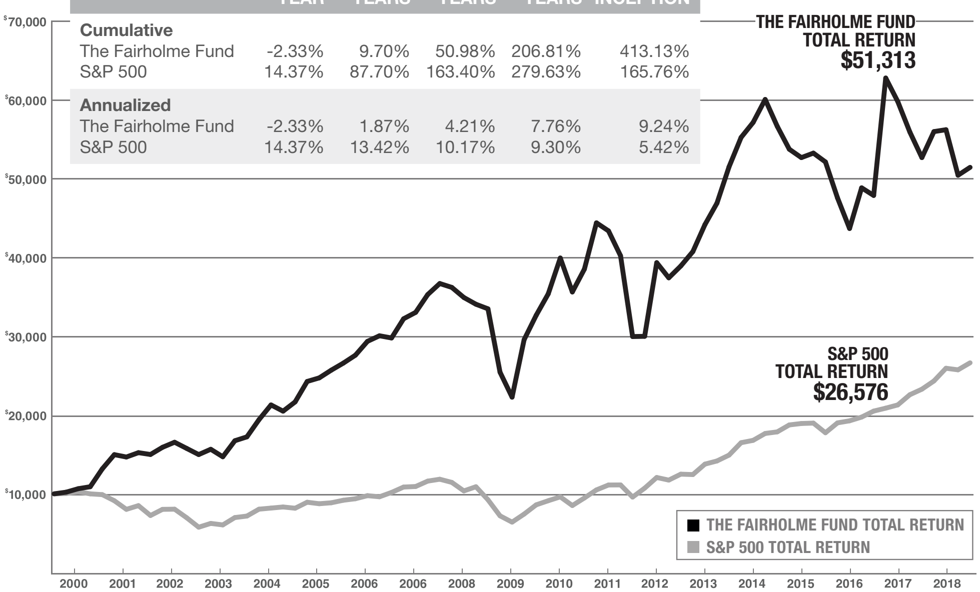
July 30, 2018

To the Shareholders and Directors of The Fairholme Fund:

Fund performance was disappointing in the first half of the year mostly due to the decline in the preferred shares of Fannie Mae and Freddie Mac even though the enterprises' businesses are stronger than ever. Consistent with our value-oriented criteria, we initiated new investments in cash generative businesses at discounted prices. Since year end, I have substantially added to my family's holdings of the Fund, reflecting a view on the attractiveness of the Fund's holdings and future.

The Fairholme Fund

	ONE YEAR	FIVE YEARS	TEN YEARS	FIFTEEN YEARS	SINCE INCEPTION
Cumulative					
The Fairholme Fund	-2.33%	9.70%	50.98%	206.81%	413.13%
S&P 500	14.37%	87.70%	163.40%	279.63%	165.76%
Annualized					
The Fairholme Fund	-2.33%	1.87%	4.21%	7.76%	9.24%
S&P 500	14.37%	13.42%	10.17%	9.30%	5.42%



TOP 10 ISSUERS (% OF NET ASSETS)	
The St. Joe Co.	28.2%
Cash and Cash Equivalents*	25.3%
Imperial Metals Corp.	9.5%
Federal Home Loan Mortgage Corp.	8.4%
Federal National Mortgage Association	8.2%
Sears Holdings Corp.	6.5%
Vista Outdoor, Inc.	4.5%
International Wire Group, Inc.	2.3%
AT&T, Inc.	1.9%
Vistra Energy Corp.	1.4%

The chart on the left covers the period from inception of The Fairholme Fund (December 29, 1999) through June 30, 2018.

The Fairholme Fund decreased 8.49% versus a 2.65% gain for the S&P 500 for the six-month period that ended June 30, 2018. The above graph and performance table compare The Fairholme Fund's unaudited performance (after expenses) with that of the S&P 500, with dividends and distributions reinvested, for various periods ending June 30, 2018. The value of a $10,000 investment in The Fairholme Fund at its inception was worth $51,313 (assumes reinvestment of distributions into additional Fairholme Fund shares) compared to $26,576 for the S&P 500 at June 30, 2018. Of the $51,313, the value of reinvested distributions was $32,883.

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

The St. Joe Company

St. Joe's entitled land, resort assets, commercial properties, and ample cash pile are presently priced below a reasonable estimate of intrinsic value. As important, St. Joe is more focused than ever on increasing shareholder value in the coming years through expanding its portfolio of income producing assets. Currently, the market values all of St. Joe at $6,800 per acre of owned land or about $5,100 per acre net of the company's cash and short-term liquidity portfolio. We are hard pressed to find cheaper comparables considering:

- St. Joe's increasing growth initiatives, including Latitude Margaritaville, a joint venture with Minto Communities and Margaritaville Holdings to create a 55-and-better community located about six miles off the coast and just north on the Inter Coastal Waterway, with the first phase of 3,000 homes projected to open in early 2020.

- St. Joe's leasable commercial property has grown over 44% to 813,000 square feet over the past few years, with occupancy now up to 87% leased.

- Airport capacity at Northwest Florida Beaches International Airport has increased from one airline carrier in 2009 to four, with passenger traffic up 300% as the airport soon approaches the one million annual passenger mark.

For these reasons and others, you can begin to understand why St. Joe has repurchased nearly one-third of its outstanding shares over the past few years and why St. Joe is the largest position in The Fairholme Fund.

Fannie Mae and Freddie Mac

We remain confident in our preferred equity ownership. For evidence, look no further than the latest developments.

Last month, the White House released a paper advocating for a series of government reforms, including ending the conservatorship of Fannie and Freddie, with the goal for these mission critical institutions to remain shareholder-owned. Secretary Mnuchin believes 2019 is the year to resolve remaining issues.

This month, the Fifth Circuit Court of Appeals ruled that the Federal Housing Finance Agency (FHFA), Fannie and Freddie's conservator, is unconstitutionally structured, as the court concluded that a variety of factors unlawfully sheltered the FHFA from presidential oversight. Although the Net Worth Sweep was not vacated, this is a positive development for shareholders, as it increases the odds of further review by the en banc Fifth Circuit, the Supreme Court, or both. However, by a two-to-one vote, the Fifth Circuit rejected the plaintiffs' argument that the FHFA exceeded its statutory authority under HERA and that the Net Worth Sweep agreement violated the Administrative Procedure Act. Judge Don Willett, the lone dissenter, provided a powerful and highly persuasive dissent concluding that "*the net worth sweep strips the GSEs of their capital reserves, and it is thus antithetical to the FHFA's statutory command that it 'preserve and conserve the assets and property' of the GSEs"*. When acting as conservator, HERA does not authorize the FHFA "*to bleed the GSEs profits in perpetuity*." We agree and the Eighth Circuit, which has yet to rule on *Saxton v. FHFA*, was notified of Judge Willett's sound analysis.

Meanwhile, Fannie and Freddie continue to report strong quarterly profits, highlighting the strength of the core operating franchises. Had the Net Worth Sweep never been implemented, Fannie and Freddie would have retained earnings well over $100 billion, which highlights how quickly capital can be restored. Trading at approximately one-quarter of their intrinsic value, we continue to view the preferred shares as an excellent investment.

Imperial Metals Corporation

The securities of Imperial are backed by substantial asset value, notably the copper and gold deposits at the Red Chris mine in northern British Columbia. Imperial is only a few years into operating Red Chris, which has the resource depth to be a multi-generational asset. Continuous operational improvements and improving copper fundamentals provide tailwinds. Given current prices, Imperial bonds provide double digit yields with near term maturities, and we also expect a favorable return on the company's equity over the next few years.

Sears Holdings Corporation

Sears continues to reduce its operating footprint. Its pension liability has been greatly diminished and the maturity date of most debt obligations have been extended beyond our senior bonds, which mature December 2019. Over the past few quarters, liquidity has been enhanced from a new credit card agreement with Citigroup and further monetizations of real estate assets. Sears securities are priced for doom, but we continue to expect additional asset sales and continued cost cutting will fuel outperformance in our remaining Sears investments.

International Wire Group Debt

The secured notes of International Wire Group are backed by a low-cost manufacturer of copper wire and wire-related products with a diverse set of customers across industrial, energy, telecom, defense, and medical segments. The company has a long history with many of its customers, and the largest customer accounts for less than 9% of total revenue. The bonds, which mature April 2021, offer an attractive equity-like return.

New Investments

The Fund has initiated several new investments during the year.

Vista Outdoors Inc.

Vista Outdoors, originally owned by Honeywell until the early 1990s, is a dominant producer of ammunition that is purchased by military, police, and governments around the world, in addition to U.S. consumers. Vista's product portfolio spans 50+ brands. We believe that Vista's bottom-cycle profitability has largely been clouded by the temporary oversupply of the U.S. consumer ammunitions market. We expect a return to equilibrium this year and that the company will further recover to past profit levels by selling non-core brands and reducing debt outstanding.

Spectrum Brands Holdings

Spectrum Brands Holdings is a global consumer products company with leading brands, including Armor All, Kwikset, and Nature's Miracle to name a few. The company just completed an all-stock merger with its controlling shareholder, HRG. We expect that the combined company will generate much higher levels of cash, sell non-core assets, and apply proceeds to reduce debt and repurchase common shares.

Vistra Energy Corp.

Vistra Energy, the merger of a reorganized Energy Future Holdings and Dynegy, is a uniquely positioned generator and retailer of electricity. The combination of its diversified portfolio of power plants, well-regarded TXU Energy consumer brand, focus on the growing Texas market, and a strong balance sheet results in an attractive business profile with significant free cash flow generation. Shares were purchased at a double-digit free cash flow yield.

AT&T Inc.

AT&T offers substantial free cash flow providing ample coverage for a large dividend. This is an attractive proposition for a firm endowed with historical advantages and diversified wireless, wired, and media business lines.

Citigroup Inc.

Citigroup was purchased at approximately ten times earnings and a discount to book value, a modest valuation for an essential, global financial institution. Recently approved by the Federal Reserve, Citigroup's capital allocation plan calls for substantially all earnings to be used for share repurchases, which should drive per share earnings growth.

Sold Investments

Seritage Growth Properties

The Fund exited its position in Seritage Growth Properties as we became concerned that the cash flows from developed properties no longer covered a below-industry average dividend in a raising rate environment.

General Outlook

It has been nearly ten years since the financial crisis. The U.S. economy has prospered with the help of low interest rates and low inflation. The result has been new highs in the stock market with low volatility. As we monitor our portfolio and research new opportunities, we are keenly aware that these conditions can quickly turn, providing opportunities to those with liquidity.

Respectfully submitted,

Bruce

Bruce R. Berkowitz
Chief Investment Officer

The Fund's investment objectives, risks, charges, and expenses should be considered carefully before investing. The prospectus contains this and other important information about the Fund, and it may be obtained by calling Shareholder Services at (866) 202-2263 or visiting our website www.fairholmefunds.com. Read it carefully before investing. 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.

Fairholme Distributors, LLC (7/18)