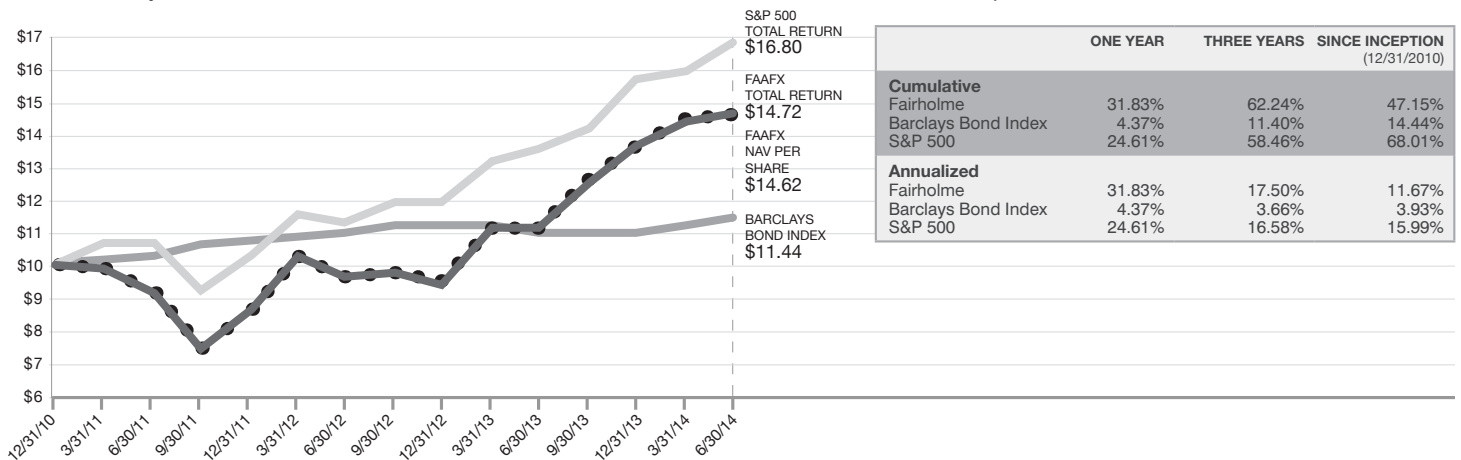


Mutual fund investing involves risks, including loss of principal. The chart below covers the period from inception of The Fairholme Allocation Fund (December 31, 2010) to June 30, 2014. Past performance information quoted below does not guarantee future results. The investment return and principal value of an investment in The Fairholme 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 information quoted below. Performance figures assume reinvestment of dividends and capital gains, but do not reflect a 2.00% redemption fee on shares redeemed within 60 days of purchase. 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. The S&P 500 Index is a broad-based measurement of changes in the stock market, is used for comparative purposes only, and is not meant to be indicative of The Fairholme Allocation Fund's performance, asset composition, or volatility. The Fairholme Allocation Fund maintains a focused portfolio of investments in a limited number of issuers and does not seek to diversify its investments. This exposes The Fairholme Allocation Fund to the risk of unanticipated industry conditions and risks particular to a single company or the securities of a single company. The Fairholme Allocation Fund's performance may differ markedly from the performance of the S&P 500 Index or the Barclays Capital U.S. Aggregate Bond Index in either up or down market trends. The performance of the S&P 500 Index is shown with all dividends reinvested and does not reflect any reduction in performance for the effects of transaction costs or management fees. The Barclays Capital U.S. Aggregate Bond Index is an unmanaged market-weighted index comprised of investment-grade (rated Baa3/BBB-/BBB- or higher) taxable bonds, mortgage-backed securities, asset-backed securities, corporate securities, and government-related securities, including U.S. Treasury and government agency issues, with at least one year to maturity. Because indices cannot be invested in directly, these index returns do not reflect a deduction for fees, expenses, or taxes. The Fairholme Allocation Fund's expense ratio reflected in its prospectus dated March 28, 2014, was 1.02%, which included acquired fund fees and expenses that are incurred indirectly by The Fairholme Allocation Fund as a result of investments in securities issued by one or more investment companies. Effective as of the close of business on February 28, 2013, the sale of shares of The Fairholme Allocation Fund has been suspended to new investors, subject to certain exceptions.

July 29, 2014

To the Shareholders and Directors of The Fairholme Allocation Fund:

The Fairholme Allocation Fund (the "Fund" or "FAAFX" or "Fairholme") increased 7.34% versus an increase of 3.93% for the Barclays Capital U.S. Aggregate Bond Index (the "Barclays Bond Index") and an increase of 7.14% for the S&P 500 Index (the "S&P 500"), respectively, for the six-month period that ended June 30, 2014. The following table compares the Fund's unaudited performance (after expenses) with that of the Barclays Bond Index and S&P 500, with dividends and distributions reinvested, for the period that ended June 30, 2014.



At June 30, 2014, the Fund is composed of 37% common stock, 17% preferred stock, and 31% warrants – all securities of issuers harmed by the still memorable debacle in residential real estate. Heading toward the finish of the Fund's fourth year, underlying companies and portfolio securities are recovering as expected. We remain optimistic about future performance of the Fund's holdings and hold 15% of the Fund in cash and cash equivalents.

Respectfully submitted,

Bruce R. Berkowitz
Managing Member
Fairholme Capital Management

The Portfolio Manager's Report is not part of The Fairholme Allocation Fund's 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 and precedes a more formal Management Discussion and Analysis. Opinions of the Portfolio Manager are intended as such, and not as statements of fact requiring attestation. All references to portfolio investments of The Fairholme Allocation Fund are as of the latest public filing of The Fairholme Allocation Fund with respect to such holdings at the time of publication, unless specified.

For a copy of the top holdings for The Fairholme Allocation Fund, please [click here](#). Portfolio holdings are subject to risk and may change at any time.

Fairholme Distributors, LLC (7/14)