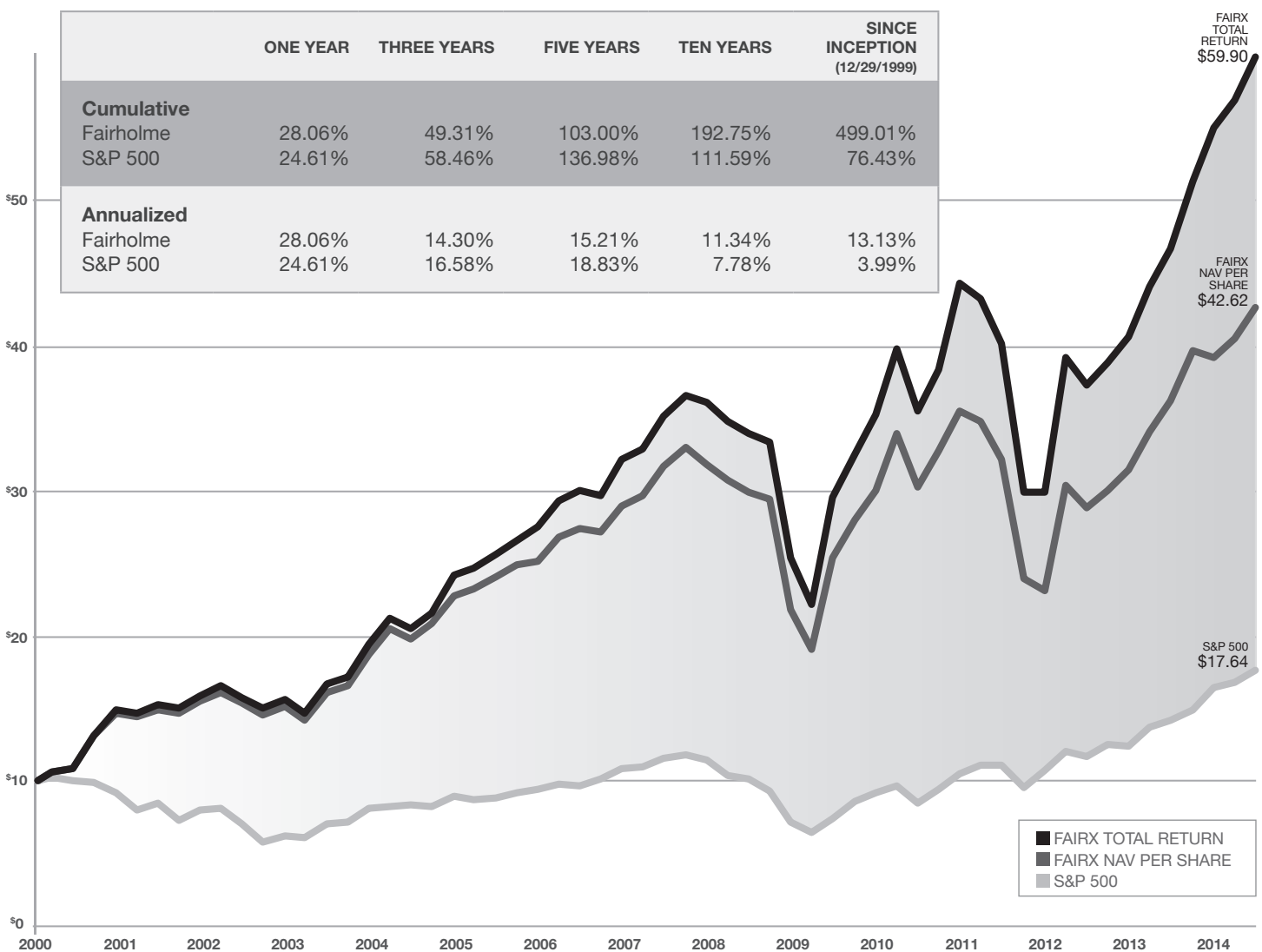


Mutual fund investing involves risks, including loss of principal. The chart below covers the period from inception of The Fairholme Fund (December 29, 1999) to June 30, 2014. Past performance information quoted below does not guarantee future results. The investment return and principal value of an investment in The Fairholme Fund will fluctuate; 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 are after expenses and 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 Fund's performance, asset composition, or volatility. The Fairholme 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 Fund to the risk of unanticipated industry conditions and risks particular to a single company or the securities of a single company. The Fairholme Fund's performance may differ markedly from the performance of the S&P 500 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. Investors cannot invest directly in an index. The Fairholme Fund's total expense ratio reflected in its prospectus dated March 28, 2014, was 1.02%.

**July 29, 2014**

To the Shareholders and the Directors of The Fairholme Fund:

The Fairholme Fund (the "Fund" or "FAIRX" or "Fairholme") gained 8.72% versus 7.14% for the S&P 500 Index (the "S&P 500") 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 S&P 500, with dividends and distributions reinvested, for various periods ending June 30, 2014.



At June 30, 2014, the value of a \$10.00 investment in the Fund at its inception was worth \$59.90 (calculated by assuming reinvestment of distributions into additional fund shares) compared to \$17.64 for the S&P 500. FAIRX returned six and a half times more than the S&P 500 on a \$10.00 investment over fourteen and a half years. Of the \$59.90, the share price (net asset value per share) was \$42.62 and the value of distributions reinvested was \$17.28. This difference, more than anything, demonstrates how the Fund has outperformed the market (as represented by the S&P 500) over the long run.

The potential advantages of our long-term focused investment approach are most evident when evaluating our performance over any 5-year period since the inception of FAIRX. Fairholme has achieved 111 positive 5-year return periods and only 4 negative 5-year return periods, compared with 88 positive 5-year return periods and 27 negative 5-year return periods for the S&P 500. The Fund's average rolling 5-year return was 72.41% versus 27.26% for the S&P 500. The Fund has outperformed the S&P 500 in 96 of 115 5-year periods, calculated after each month's end. The Fund's worst 5-year-period return was (6.89)% versus (29.05)% for the S&P 500. In its best 5-year period, the Fund's return was 185.26% versus the S&P 500's best return of 181.57%.

### Rolling 5-Year-Period Returns\*

	FAIRX	S&P 500
<b>Best</b>	+185.26%	+181.57%
<b>Worst</b>	(6.89)%	(29.05)%
<b>Average</b>	+72.41%	+27.26%
<b>Positive Performance Periods</b>	111 (96.5%)	88 (76.5%)

AIG common stock and warrants are nearly one-half the value of the Fund's portfolio due to appreciation of these securities – even after realizing profits on the sale of millions of shares of AIG common stock.

Fannie Mae and Freddie Mac preferred stocks and common shares constitute approximately 15% of the Fund's portfolio. We believe that the two companies may be the most important financial institutions in the United States – perhaps the world – and directly support housing affordability and accessibility, including the uniquely American 30-year fixed-rate mortgage. They are a major reason why our country did not enter a second Great Depression, and are proving to be the most successful taxpayer investments of the Great Recession.

Bank of America common stock is the Fund's third largest position. Acquiring and then fixing Countrywide Financial has cost the bank tens of billions. Finishing the task will, in our view, allow much more to drop to the bank's bottom line.

Sears remains the Fund's least successful investment, yet has the highest potential based on our estimates of tangible values.

Tailwinds are building at St. Joe!

Patience will pay.

Onward and upward,



Bruce R. Berkowitz  
 Managing Member  
 Fairholme Capital Management

\*Represents the cumulative percentage total returns over a five-year rolling period (calculated after each month's end) since inception through June 30, 2014. Monthly rolling 5-year performance is a period of 60 consecutive months determined on a rolling basis, with a new 60-month period beginning on the first day of each calendar month since the inception of the Fund.

The Portfolio Manager's Report is not part of The Fairholme 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. 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. All references to portfolio investments of The Fairholme Fund are as of the latest public filing of The Fairholme Fund with respect to such holdings at the time of publication, unless specified.

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

Fairholme Distributors, LLC (7/14)