

# FAIRHOLME FUNDS

## Reprint Disclaimer

THIS DISCLAIMER ACCOMPANIES REPRINTS AND PRECEDES THE FAIRHOLME FUND, THE FAIRHOLME FOCUSED INCOME FUND, AND THE FAIRHOLME ALLOCATION FUND (EACH A "FUND" AND TOGETHER, THE "FUNDS") FACT SHEETS. THE FUNDS' INVESTMENT OBJECTIVES, RISKS, CHARGES AND EXPENSES SHOULD BE CONSIDERED CAREFULLY BEFORE INVESTING. THE FUNDS' PROSPECTUS CONTAINS THIS AND OTHER IMPORTANT INFORMATION ABOUT THE FUNDS. THE PROSPECTUS MAY BE OBTAINED BY CALLING 866-202-2263 OR BY ACCESSING THE "PROSPECTUS" LINK ON THE WEBSITE. READ IT CAREFULLY BEFORE INVESTING.

Investing involves risks including loss of principal. Performance information quoted represents past performance and does not guarantee future results. The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance may be higher or lower than the performance quoted in accompanied materials. A 2% redemption fee is imposed on Fairholme Fund shares or Fairholme Allocation Fund shares redeemed within 60 days of their purchase. Performance data does not reflect redemption fees, which would reduce total returns. Current performance, to the most recent month-end, may be obtained by calling Shareholder Services at 866-202-2263. Fund performance numbers include all expenses, including acquired fund fees and expenses incurred indirectly by the Funds in securities issued by investment companies. While the Funds do not impose sales charges and are not subject to 12b-1 fees, management fees and other expenses still apply.

The Funds are non-diversified, which means that the Funds invest in a smaller number of companies or issuers when compared to more diversified funds. The Funds are exposed to greater individual security volatility than diversified funds. The Funds also invest in foreign securities which may involve greater volatility; political, economic, and currency risks; and differences in accounting methods. These strategies may involve greater risks than other fund strategies. Investments in debt securities typically decrease in value when interest rates rise. This risk is usually greater for longer-term debt securities. Lower-rated and non-rated securities present greater loss to principal than higher-rated securities. Fund holdings and/or sector weighting are subject to change and should not be considered recommendations to buy or sell any securities. **Current and future portfolio holdings are subject to risk.**

Funds may hold both equities and/or fixed income securities of specific issuers. Cited top holdings exclude cash and cash equivalents, which include commercial paper, U.S. Treasury Bills, money market funds and deposit accounts. The S&P 500 Index is an unmanaged market index and should not be considered indicative of any investment in a Fund. It is not possible to directly invest in an index. Unlike a mutual fund, the performance of an index assumes no taxes, transaction costs, management fees or other expenses. The Barclays Capital U.S. Aggregate Bond Index ("US AGG BOND INDEX") represents securities that are SEC-registered, taxable, and U.S. dollar denominated. The index covers the U.S. investment grade fixed rate bond market, with index components for government and corporate securities, mortgage pass-through securities, and asset-backed securities. These major sectors are subdivided into more specific indices that are calculated and reported on a regular basis. It is not possible to invest directly in an unmanaged index. Prior to November 1st, 2008, this index was published by Lehman Brothers. The index is not meant to be indicative of the performance, asset composition, or volatility in a Fund. Our results may differ markedly from those of US AGG BOND INDEX in either up or down market trends and interest rate environments. Unlike a mutual fund, the performance of an index assumes no taxes, transaction costs, management fees or other expenses.

Interviews may cite Morningstar rating and awards. The Overall Morningstar Rating for a fund is derived from a weighted average of the performance figures associated with its three-, five- and ten-year (if applicable) Morningstar Rating metrics. Each Morningstar average represents a universe of funds with similar investment objectives. References to other mutual funds does not constitute an offer of these securities. Established in 1988, the Morningstar Fund Manager of the Year award recognizes portfolio managers who demonstrate excellent investment skill and the courage to differ from the consensus to benefit investors. To qualify for the award, managers' funds must have not only posted impressive returns for the year, but the managers also must have a record of delivering outstanding long-term performance and of aligning their interests with shareholders'. The Fund Manager of the Year award winners are chosen based on Morningstar's proprietary research and in-depth evaluation by its fund analysts. The Fund Manager of the Decade award, which was awarded for the first time in 2010, recognizes fund managers who have achieved superior risk-adjusted results over the past 10 years and have an established record of serving shareholders well. While the awards focus on performance over the past decade, Morningstar takes into consideration other factors, including the fund manager's strategy, approach to risk, size of the fund, and stewardship. Both individual fund managers and management teams are eligible, and being a previous winner of the Morningstar Fund Manager of the Year award isn't a prerequisite. Morningstar's fund analysts select the Fund Manager of the Decade award winners based on Morningstar's proprietary research and in-depth evaluation.

Certain terms may be used in reprints. "Price to earnings ratio" is a common tool for comparing the prices of different common stocks and is calculated by dividing the current market price of a stock by the earnings per share. "Book value" is the net asset value of a company, calculated by subtracting total liabilities from total assets. The investment adviser of the Funds defines "free cash flow" as the cash a company would generate annually from operations after all cash outlays necessary to maintain the business in its current condition. "Dividend yield" is the yield a company pays out to its shareholder in the form of dividends.

Opinions expressed are those of the author and/or Fairholme Capital Management, L.L.C. and should not be considered a forecast of future events, a guarantee of future results, or investment advice.

**SHARES OF THE FUNDS ARE DISTRIBUTED BY FAIRHOLME DISTRIBUTORS, LLC**

# The Fairholme Fund

## INVESTMENT OBJECTIVE

The Fairholme Fund seeks long-term growth of its shareholders' capital by investing in equity securities of public companies and by holding a focused portfolio. The Fund's preferred investment strategy is to silently partner with exceptional owner-managers who have demonstrated success, honesty, and integrity. The Fund buys when it finds such companies generating or holding significant cash when compared to market values. Purchases are made without regard to categorization. The Fund also intends to invest in special situations, including, but not limited to, Chapter 11 reorganizations.

Investing in the Fairholme Fund involves risk including loss of principal. The Fairholme Fund is non-diversified, which means that it invests in a smaller number of securities when compared to more diversified funds. Therefore, the Fairholme Fund is exposed to greater individual stock volatility than a diversified fund. The Fairholme Fund may also invest in "special situations" to achieve its objectives. These strategies may involve greater risks than other fund strategies. The Fairholme Fund's investments are also subject to interest rate risk, which is the risk that the value of a security will decline because of a change in general interest rates. Investments subject to interest rate risk will usually decrease in value when interest rates rise and rise in value when interest rates decline. Also, securities with long maturities typically experience a more pronounced change in value when interest rates change. The Fairholme Fund's investments are subject to credit risk. An issuer's credit quality depends on its ability to pay interest on and repay its debt and other obligations. Additionally, investments in fixed-income securities that are rated below investment grade by one or more nationally recognized statistical rating organization or that are unrated and are deemed to be of similar quality ("high yield securities") may be subject to greater risk of loss of principal and interest than investments in higher-rated fixed-income securities.

Please visit [www.fairholmefunds.com](http://www.fairholmefunds.com) for a prospectus, past reports and advisor letters, and further details on the Fund's philosophy and strategies.

## OVERALL MORNINGSTAR RATING

as of 12/31/2011



Among 1,127 Large Value Funds as of 12/31/11.

Based on Risk-Adjusted Returns.

## LIPPER RANKING AND % BEATEN

as of 12/31/2011

	1 YR	5 YR	10 YR
Rank	301	70	19
% Beaten	0%	67%	82%

As of 12/31/11 the number of funds within the Multi-Cap Value Funds tracked by Lipper was 301, 214, and 108 on a 1-, 5-, and 10-year basis, respectively. Lipper, Inc. is a nationally recognized organization that ranks the performance of mutual funds based on total return which includes reinvested dividends and capital gains, if any, and excludes sales charges. Each fund is ranked within a universe of funds with a similar investment objective.

## FUND PERFORMANCE

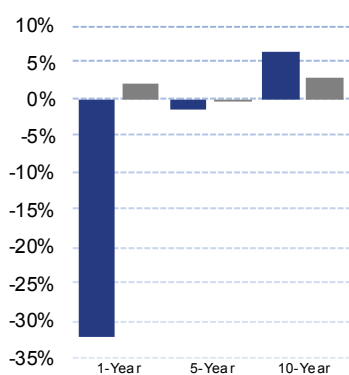
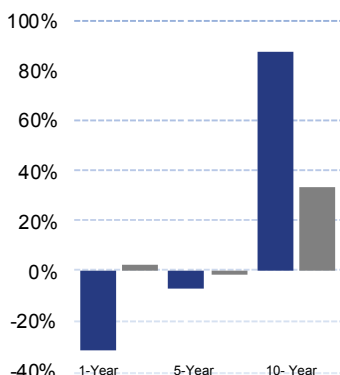
as of 12/31/11

### Cumulative Returns

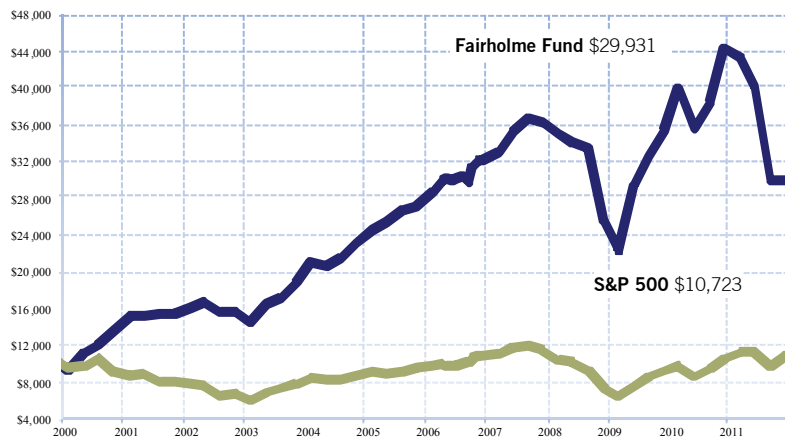
1-Year	-32.42%
5-Year	-6.89%
10-Year	88.40%
Since Inception	199.31%

### Average Annual Total Returns

1-Year	-32.42%
5-Year	-1.42%
10-Year	6.54%
Since Inception	9.56%
Expense Ratio	1.01%*



## GROWTH OF \$10,000 from 12/29/99 to 12/31/11



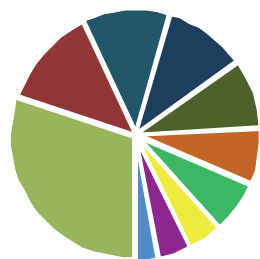
### Performance Details

The chart above covers the period from inception of The Fund (December 29, 1999) to December 31, 2011. Performance information quoted above represents past performance and does not guarantee future results. The investment return and principal value of an investment in the 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 higher or lower than the performance information quoted above. Performance figures assume reinvestment of dividends and capital gains, but does not reflect the effect of a 2% redemption fee, which is imposed on shares held less than 60 days. If it did, total returns would be reduced. Any questions you may have, including most recent month-end performance, can be answered 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 Fund's performance, asset composition or volatility. Given the wide scope of securities held by S&P 500, it should be inherently less volatile. Our results may differ markedly from those of the S&P 500 in either up or down market trends. The performance of the S&P 500 is shown with all dividends reinvested into the index and does not reflect any reduction in performance for the effects of transaction costs or management fees. Investors cannot invest directly in an index.

## TOP CATEGORIES

% of Total Portfolio as of 11/30/11



Multi-Line Insurance	30.0%
Diversified Holding Companies	12.9%
Life Insurance	11.4%
Retail Department Stores	10.7%
Cash and Cash Equivalents**	8.9%
Diversified Banks	7.3%
Commercial Finance	6.9%
Real Estate Management & Development	4.5%
Real Estate Investment Trusts	4.2%
Surety Insurance	2.9%

## TOP HOLDINGS BY ISSUER \*\*\*

as of 11/30/2011

	% of Total Net Assets
American International Group, Inc.	26.2%
AIA Group Ltd.	11.4%
Sears Holdings Corp.	10.7%
Berkshire Hathaway, Inc.	9.3%
CIT Group Inc.	6.9%
Bank of America Corp.	5.5%
General Growth Properties, Inc.	4.2%
The St. Joe Co.	4.0%
China Pacific Insurance (Group) Co., Ltd.	3.8%
Leucadia National Corp.	3.6%
<b>Total</b>	<b>85.6%</b>

\* Includes acquired fund fees of .01%. Acquired fund fees and expenses are those expenses incurred indirectly by the Fund as a result of investments in securities issued by one or more investment companies.

\*\*Cash and Cash Equivalents include investable cash and money market funds.

\*\*\*Excludes cash and money market funds.

\*\*\*\*The minimum initial investment may be waived by the Manager in its discretion.

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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 Fairholme Fund, and it may be obtained by calling shareholder services at 1-866-202-2263 or visiting our website [www.fairholmefunds.com](http://www.fairholmefunds.com). Read it carefully before investing.

Shares of the Fairholme Fund are not deposits or obligations of any bank, are not guaranteed by any bank, are not insured by the FDIC or any other agency, and involve investment risk, including possible loss of the principal amount invested. Automatic Investment Plans do not assure a profit and do not protect against a loss in declining markets. The composition of the Fund's portfolio holdings and sector weighting are subject to change and should not be considered recommendations to buy or sell any securities.

Fairholme Distributors, LLC (1/12)

## STATISTICS

YTD Return (12/31/11)	-32.42%
NAV (12/30/11)	\$23.15
12 Month Low-High	\$22.87—\$36.53
Net Assets (\$Millions as of 12/30/11)	\$6,962
30-Day SEC Yield	-0.75%
Fiscal Year End	November
Fund Inception	12/29/1999
CUSIP	304871106
Fund Symbol	FAIRX

## FEATURES

Minimum Initial Investment	\$10,000
Minimum Retirement****	\$10,000
Minimum Subsequent Investment	\$1,000
Minimum Subsequent Retirement	\$1,000
Minimum Automatic Investment Plan	\$250

## TRANSFER AGENT

The Fairholme Fund  
4400 Computer Drive  
Westborough, MA 01581-1722  
Telephone: 1-866-202-2263  
[www.fairholmefunds.com](http://www.fairholmefunds.com)

## FUND ADVISOR

Fairholme Capital Management, LLC  
4400 Biscayne Boulevard  
Miami, FL 33137

**FAIRHOLME**

Ignore the crowd.