

# FOCIX

2022 SEMI-ANNUAL REPORT

**FAIRHOLME**

*Ignore the crowd.*



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*Ignore the crowd.*

PORTFOLIO MANAGER'S REPORT  
THE FAIRHOLME FOCUSED INCOME FUND

**July 2022**

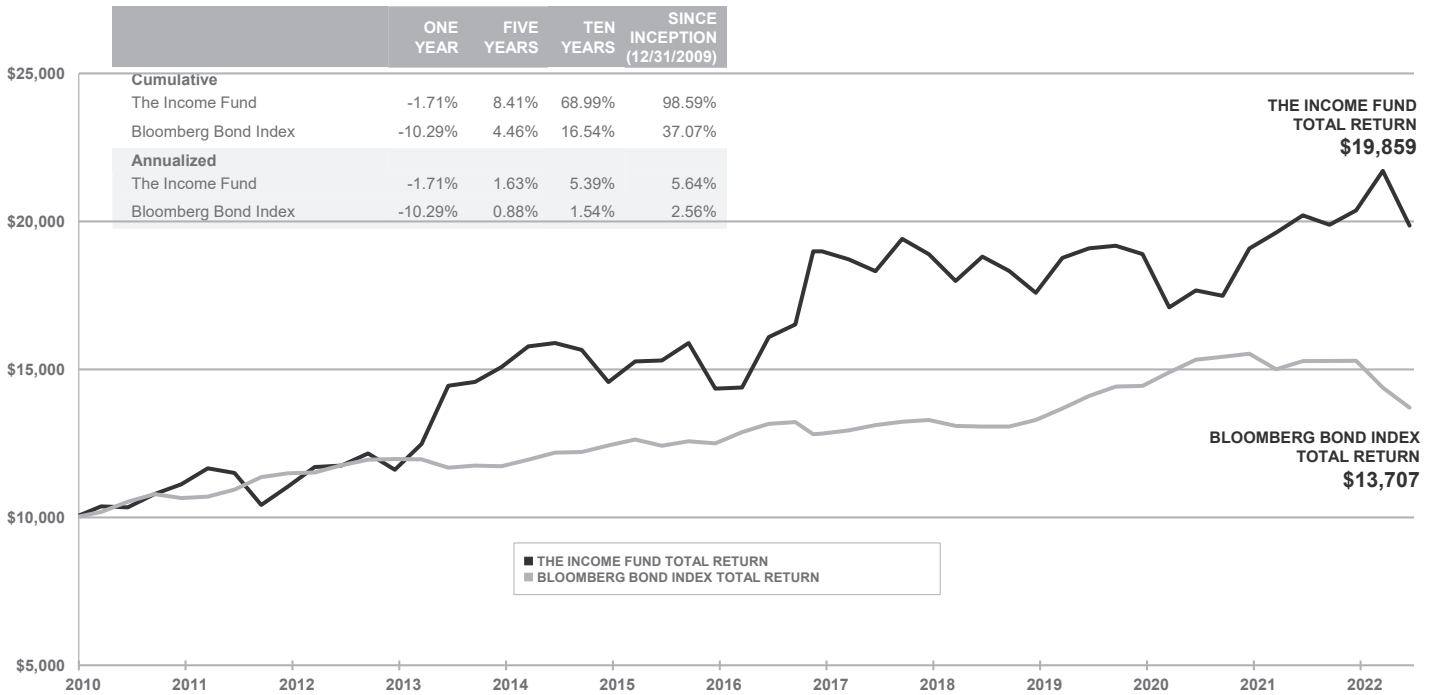
Mutual fund investing involves risks, including possible loss of principal. Unless otherwise specified, all information is shown as of June 30, 2022. Past performance information quoted below does not guarantee future results. The investment return and principal value of an investment in The Fairholme 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 the 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 U.S. Aggregate Bond Index (the "Bloomberg 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 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 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 30, 2022, 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 Income 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. Please see the Schedule of Investments included in the Semi-Annual Report for a full list of holdings.

The following graph and performance table compare The Income Fund's unaudited performance (after expenses) with that of the Bloomberg Bond Index, with dividends and distributions reinvested, for various periods ended June 30, 2022. The value of a \$10,000 investment in The Income Fund at its inception was worth \$19,859 compared to \$13,707 for the Bloomberg Bond Index at June 30, 2022. The Income Fund's 30-Day SEC Yield at June 30, 2022, was 0.51% (unsubsidized) and 0.72% (subsidized).\*

**The Fairholme Focused Income Fund**



\*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.

July 29, 2022

Dear Fellow Shareholders:

Enterprise Products Partners L.P. (Enterprise) is the largest position in the Fund. Enterprise provides processing and transportation services to producers and consumers of natural gas, natural gas liquids, and oil. These hydrocarbons are critical for modern life and have few, if any, ready substitutes. Commodity prices do not greatly affect the company's toll road fees. Enterprise is priced at less than nine times distributable cash flows and pays a 7.5% cash distribution.

Commercial Metals Company (CMC) recycles scrap into rebar essential for the strengthening of concrete found everywhere. CMC is priced at five times estimated earnings and pays a 1.6% dividend that I expect to grow with profits. To better understand the Fund's recent infrastructure investments, I recommend Vaclav Smil's *How the World Really Works*.

Old Republic International, Intel Corp., Citicorp, and DR Horton each pay about a 4% current dividend yield and are priced at less than ten times earnings.

With Covid giveaways and supply chain constraints, more cash is chasing fewer goods and services. Inflation is at multi-decade highs. There have been few places to hide from recent headwinds. Yet, the worst may be over and the Fund has weathered the storm.

As Fairholme Capital Management celebrates its 25th Anniversary, I continue to search for investment income ideas that may also generate capital gains. U.S. Treasury Bills and Treasury money market funds comprise 31% of Fund assets. I and affiliates own 37.5% of the Fund's shares. The Fund has outperformed its benchmark index since inception.

Respectfully submitted,



Bruce R. Berkowitz  
Chief Investment Officer

*Please consider the investment objectives, risks and charges and expenses of the Fund carefully before investing. The prospectus and summary prospectus contain this and other information about the Fund and are available at [www.fairholmefunds.com](http://www.fairholmefunds.com) or by calling Shareholder Services at 866-202-2263. The prospectus and summary prospectus should be read carefully before investing.*

*Shares of the Fund are distributed by Foreside Funds Distributors LLC (07/22)*

**FAIRHOLME**

*Ignore the crowd.*

The Fairholme Focused Income Fund (FOCIX)  
Seeking current income

## Semi-Annual Report

May 31, 2022

Managed by Fairholme Capital Management

# THE FAIRHOLME FOCUSED INCOME FUND

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May 31, 2022

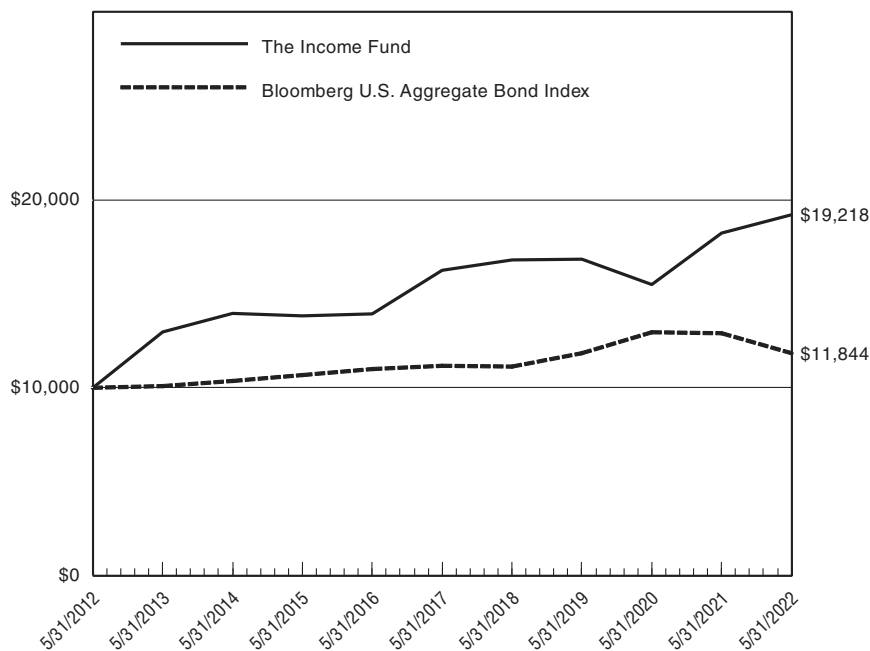
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# THE FAIRHOLME FOCUSED INCOME FUND

FUND PERFORMANCE (unaudited)  
May 31, 2012 — May 31, 2022

## THE INCOME FUND VS. THE BLOOMBERG U.S. AGGREGATE BOND INDEX INITIAL INVESTMENT OF \$10,000



The Fairholme Focused Income Fund (“The Income Fund”) commenced operations on December 31, 2009. The chart above presents the performance of a hypothetical \$10,000 investment for up to ten years to the latest semi-annual period ended May 31, 2022.

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 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 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 U.S. Aggregate Bond Index does not reflect any investment management fees or transaction expenses, nor the effects of taxes, fees, or other charges. It is not possible to invest directly in an index.



# THE FAIRHOLME FOCUSED INCOME FUND

## MANAGEMENT DISCUSSION & ANALYSIS For the six months ended May 31, 2022

The Income Fund shares outstanding and unaudited net asset value per share (“NAV”) at May 31, 2022, the end of The Income Fund’s semi-annual period, and NAVs at other pertinent dates, were as follows:

	<u>5/31/2022</u> Shares <u>Outstanding</u>	<u>05/31/2022</u> NAV <u>(unaudited)</u>	<u>11/30/2021</u> NAV <u>(audited)</u>	<u>05/31/2021</u> NAV <u>(unaudited)</u>
The Income Fund	12,018,130	\$ 11.62	\$ 10.62	\$ 11.17

At June 30, 2022, the unaudited NAV of The Income Fund was \$10.51.

Performance figures below are shown for The Income Fund’s semi-annual period ended May 31, 2022, and do not match calendar year figures for the period ended June 30, 2022, cited in the Portfolio Manager’s report.

<u>The Income Fund</u> <u>Performance to</u> <u>5/31/2022 (Unaudited)</u>	<u>Six</u> <u>Months</u>	<u>One</u> <u>Year</u>	<u>Five</u> <u>Years</u>	<u>Ten</u> <u>Years</u>	<u>Since</u> <u>Inception</u> <u>12/31/2009</u>
<b>Cumulative:</b>					
The Income Fund	10.03%	5.35%	18.19%	92.18%	118.42%
Bloomberg Bond Index	-9.15%	-8.22%	6.02%	18.44%	39.26%
<b>Annualized:</b>					
The Income Fund		5.35%	3.40%	6.75%	6.50%
Bloomberg Bond Index		-8.22%	1.18%	1.71%	2.70%

For the six months ended May 31, 2022, The Income Fund outperformed the Bloomberg U.S. Aggregate Bond Index (“Bloomberg Bond Index”) by 19.18 percentage points. Over the last fiscal year, The Income Fund also outperformed the Bloomberg Bond Index by 13.57 percentage points. From inception, The Income Fund outperformed the Bloomberg Bond Index by 3.80 percentage points per annum, or on a cumulative basis, 79.16 percentage points.

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 Bloomberg Bond Index is unmanaged index incurring no fees, expenses, or tax effects and are shown solely to compare The Income Fund’s performance to that of unmanaged and diversified index of securities. As of the prospectus dated March 30, 2022, the gross expense ratio for The Income Fund is 1.00%. Shareholders are also cautioned that it is possible that some securities mentioned in this discussion may no longer be held by The Income Fund subsequent to the end of the fiscal period, and that The Income Fund may have made new investments that are not yet required to be disclosed. It is The Income Fund’s general policy not to disclose portfolio holdings other than when required by relevant law or regulation. Portfolio holdings are subject to change without notice and are not a recommendation to buy or sell any security.

Not all Fund portfolio dispositions or additions are material, and, while The Income Fund 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 The Income Fund’s assets in securities to the extent the Manager finds reasonable investment opportunities in accordance with The Income Fund’s investment strategies, policies and restrictions, as stated in The Income Fund’s Prospectus and may invest a significant portion of The Income Fund’s assets in cash and cash equivalents. The Manager views liquidity as a strategic advantage. Due to the continued uncertainty caused by the spread of COVID-19 and the corresponding market

# THE FAIRHOLME FOCUSED INCOME FUND

MANAGEMENT DISCUSSION & ANALYSIS (continued)  
For the six months ended May 31, 2022

volatility and governmental responses to it, during the period ended May 31, 2022, the Manager has continued to hold U.S. Treasury Bills as part of The Income Fund's investments. At May 31, 2022, cash and cash equivalents (consisting of cash, deposit accounts, U.S. Treasury Bills, and Treasury money-market funds) represented 31.8% of The Income Fund total assets. Since inception, The Income Fund has held varying levels of cash and cash equivalents for periods without, in the Manager's view, negatively influencing performance.

The Income Fund is considered to be "non-diversified" under the Investment Company Act of 1940. Accordingly, The Income 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 Income 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 Income Fund may also have a greater percentage of assets invested in a particular sector than a diversified fund, exposing The Income Fund to the risk of an unanticipated event or condition and risks affecting a single company, sector or security.

The commentary below provides details of The Income 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, 2022.

The most significant gains in The Income Fund's portfolio were related to positive developments in the Oil & Gas Storage & Transformation and Steel sectors. Investments in Semiconductors and Diversified Banks sectors saw some losses during the six months ended May 31, 2022.

The Manager made no changes to the core investment strategies and techniques it employed during the six months ended May 31, 2022.

For the six months ended May 31, 2022, The Income Fund investments that contributed to performance were Enterprise Products Partners, LP, Commercial Metals Co., and Energy Transfer, LP. The detractors to performance during the period were Intel Corp. and Citigroup, Inc. The following charts show the top holdings by issuer and sector in descending order of percentage of net assets as of May 31, 2022.

The Income Fund Top Holdings by Issuer* (% of Net Assets)		The Income Fund Top Sectors (% of Net Assets)	
Enterprise Products Partners LP	25.7%	Cash and Cash Equivalents**	31.8%
Commercial Metals Co.	19.2%	Oil & Gas Storage & Transportation	25.7%
Old Republic International Corp.	6.4%	Steel	19.2%
Intel Corp.	4.5%	Insurance - Property & Casualty	6.4%
Citigroup, Inc.	4.2%	Semiconductors	4.5%
DR Horton, Inc.	3.8%	Diversified Banks	4.2%
Walgreens Boots Alliance, Inc.	2.2%	Homebuilding	3.8%
Federal Home Loan Mortgage Corp.	1.6%	Drug Retail	2.2%
Federal National Mortgage Association	0.5%	Mortgage Finance	2.1%
	<u>68.1%</u>		<u>99.9%</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.

## THE FAIRHOLME FOCUSED INCOME FUND

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MANAGEMENT DISCUSSION & ANALYSIS (continued)  
For the six months ended May 31, 2022

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A more complete discussion and description of the principal risks of investing in The Income Fund can be found in its Prospectus and Statement of Additional Information.

Large cash inflows or outflows may adversely affect The Income Fund's 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 Income Fund has been advised by the Manager. Bruce Berkowitz, both the Chief Investment Officer of the Manager and Chairman of The Income Fund's Board of Directors (the "Board" or the "Directors"), and his affiliates beneficially own an aggregate 4,584,728, shares of The Income Fund at May 31, 2022. While there is no requirement that Mr. Berkowitz own shares of The Income Fund, 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 Income Fund to have Mr. Berkowitz serve as Chairman of the Board given: his long-term relative performance; his experience, commitment, and significant personal investments in The Income Fund; the present composition of the Board; and current rules and regulations. A Director and Officers of the Fund are also Officers of the Manager. Nevertheless, at May 31, 2022, a majority of Directors were independent of the Manager, no stock option or restricted stock plans exist, Officers received no direct compensation from The Income Fund, and the Director affiliated with the Manager received no compensation for being a Director.

For more complete information about The Income Fund, or to obtain a current Prospectus, please visit [www.fairholmefunds.com](http://www.fairholmefunds.com) or call Shareholder Services at (866) 202-2263.

## THE FAIRHOLME FOCUSED INCOME FUND

### EXPENSE EXAMPLE

For the Six Month Period from December 1, 2021 through May 31, 2022 (unaudited)

As a shareholder of The Income 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, 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 Income Fund 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 Income Fund at December 1, 2021, and held for the entire six month period ending May 31, 2022.

#### 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 The Income Fund’s actual expense ratio and an assumed rate of return of 5% per year before expenses, which is not The Income 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 Income Fund 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.

	<u>Beginning Account Value December 1, 2021</u>	<u>Ending Account Value May 31, 2022</u>	<u>Annualized Expense Ratio*</u>	<u>Expenses Paid During the Period December 1, 2021 Through May 31, 2022**</u>
<b>The Income Fund</b>				
Actual	\$1,000.00	\$1,100.30	0.80%	\$4.19
Hypothetical (5% return before expenses)	\$1,000.00	\$1,020.94	0.80%	\$4.03

\* 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 Income Fund’s daily average net asset value. This undertaking may be terminated by the Manager upon 60 days’ written notice to The Income Fund.

\*\* Expenses are equal to The Income Fund’s annualized expense ratio, multiplied by the average account value over the period, multiplied by 182 days/ 365 days (to reflect the one-half year period).

# THE FAIRHOLME FOCUSED INCOME FUND

SCHEDULE OF INVESTMENTS  
May 31, 2022 (unaudited)

Shares		Value	Principal		Value
	<b>DOMESTIC EQUITY SECURITIES — 66.0%</b>			<b>U.S. GOVERNMENT OBLIGATIONS— 27.5% (CONTINUED)</b>	
	<b>DIVERSIFIED BANKS — 4.2%</b>				
110,600	Citigroup, Inc.	\$ 5,907,146		U.S. Treasury Bills	
			\$ 13,000,000	2.125%, 05/18/2023 <sup>(c)</sup>	\$ 12,745,951
	<b>DRUG RETAIL — 2.2%</b>				
69,000	Walgreens Boots Alliance, Inc.	3,024,270		<b>TOTAL U.S. GOVERNMENT OBLIGATIONS (COST \$38,514,822)</b>	<b>38,487,936</b>
	<b>HOMEBUILDING — 3.8%</b>				
71,000	DR Horton, Inc.	5,335,650	<b>Shares</b>		
	<b>INSURANCE - PROPERTY &amp; CASUALTY — 6.4%</b>			<b>MONEY MARKET FUNDS — 4.3%</b>	
371,100	Old Republic International Corp.	8,876,712		6,019,715	Fidelity Investments Money Market Treasury Portfolio - Class I, 0.62% <sup>(d)</sup>
	<b>OIL &amp; GAS STORAGE &amp; TRANSPORTATION — 25.7%</b>				6,019,715
1,307,700	Enterprise Products Partners LP	35,857,134		<b>TOTAL MONEY MARKET FUNDS (COST \$6,019,715)</b>	<b>6,019,715</b>
	<b>SEMICONDUCTORS — 4.5%</b>			<b>TOTAL INVESTMENTS — 99.9% (COST \$132,729,999)</b>	<b>139,613,224</b>
141,100	Intel Corp.	6,267,662		<b>OTHER ASSETS IN EXCESS OF LIABILITIES — 0.1%</b>	<b>88,121</b>
	<b>STEEL — 19.2%</b>			<b>NET ASSETS — 100.0%</b>	<b>\$ 139,701,345</b>
676,600	Commercial Metals Co.	26,881,318			
	<b>TOTAL DOMESTIC EQUITY SECURITIES (COST \$83,580,811)</b>	<b>92,149,892</b>			
	<b>DOMESTIC PREFERRED EQUITY SECURITIES — 2.1%</b>				
	<b>MORTGAGE FINANCE — 2.1%</b>				
	Federal Home Loan Mortgage Corp.				
302,300	5.100%, Series H <sup>(a)</sup>	1,511,500			
260,924	6.550%, Series Y <sup>(a)</sup>	785,381			
180,000	Federal National Mortgage Association				
	7.750%, Series S <sup>(a)(b)</sup>	658,800			
		2,955,681			
	<b>TOTAL DOMESTIC PREFERRED EQUITY SECURITIES (COST \$4,614,651)</b>	<b>2,955,681</b>			
	<b>Principal</b>				
	<b>U.S. GOVERNMENT OBLIGATIONS — 27.5%</b>				
	U.S. Treasury Bills				
\$ 13,000,000	1.273%, 10/20/2022 <sup>(c)</sup>	12,932,705			
13,000,000	1.497%, 03/23/2023 <sup>(c)</sup>	12,809,280			

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

# THE FAIRHOLME FOCUSED INCOME FUND

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SCHEDULE OF INVESTMENTS (continued)  
May 31, 2022 (unaudited)

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- <sup>(a)</sup> Non-income producing security.
- <sup>(b)</sup> Variable rate security. Rates shown are the effective rates as of May 31, 2022.
- <sup>(c)</sup> Rates shown are the effective yields based on the purchase price. The calculation assumes the security is held to maturity.
- <sup>(d)</sup> Annualized based on the 1-day yield as of May 31, 2022.

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

# THE FAIRHOLME FOCUSED INCOME FUND

STATEMENT OF ASSETS & LIABILITIES  
May 31, 2022 (unaudited)

## Assets

Investments, at Fair Value (Cost — \$132,729,999)	\$ 139,613,224
Dividends and Interest Receivable	88,951
Receivable for Capital Shares Sold	91,955
Total Assets	<u>139,794,130</u>

## Liabilities

Accrued Management Fees	92,785
Total Liabilities	<u>92,785</u>

## NET ASSETS

\$ 139,701,345

## Net Assets consist of:

Paid-In Capital	\$ 153,896,030
Total Accumulated Losses	(14,194,685)

## NET ASSETS

\$ 139,701,345

Shares of Common Stock Outstanding\* (\$0.0001 par value) 12,018,130

Net Asset Value, Offering and Redemption Price Per Share  
(\$139,701,345 / 12,018,130 shares) \$ 11.62

\* 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)

	<b>For the Six Months Ended May 31, 2022</b>
<b>Investment Income</b>	
Interest	\$ 76,015
Dividends	762,424
Total Investment Income	838,439
<b>Expenses</b>	
Management Fees	650,099
Total Expenses	650,099
Less: Voluntary Reduction of Management Fees	(130,032)
Net Expenses	520,067
Net Investment Income	318,372
<b>Realized and Unrealized Gain (Loss) on Investments and Foreign Currency Related Transactions</b>	
Net Realized Gain (Loss) on:	
Investments	7,208,123
Foreign Currency Related Transactions	(1,526)
Net Change in Unrealized Appreciation (Depreciation) on:	
Investments	4,756,465
Foreign Currency Related Transactions	1,204
Net Realized and Unrealized Gain (Loss) on Investments and Foreign Currency Related Transactions	11,964,266
<b>NET INCREASE IN NET ASSETS FROM OPERATIONS</b>	<b>\$ 12,282,638</b>

*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, 2022 (Unaudited)	For the Fiscal Year Ended November 30, 2021
<b>CHANGES IN NET ASSETS</b>		
<b>From Operations</b>		
Net Investment Income	\$ 318,372	\$ 1,449,440
Net Realized Gain (Loss) on Investments and Foreign Currency Related Transactions	7,206,597	(15,954,749)
Net Change in Unrealized Appreciation (Depreciation) on Investments and Foreign Currency Related Translations	<u>4,757,669</u>	<u>19,497,503</u>
Net Increase in Net Assets from Operations	<u>12,282,638</u>	<u>4,992,194</u>
<b>From Dividends and Distributions to Shareholders</b>		
Net Decrease in Net Assets from Dividends and Distributions	<u>(753,757)</u>	<u>(1,325,088)</u>
<b>From Capital Share Transactions</b>		
Proceeds from Sale of Shares	24,450,350	16,173,086
Shares Issued in Reinvestment of Dividends and Distributions	382,247	739,562
Cost of Shares Redeemed	<u>(15,547,555)</u>	<u>(8,801,077)</u>
Net Increase in Net Assets from Shareholder Activity	<u>9,285,042</u>	<u>8,111,571</u>
<b>NET ASSETS</b>		
Net Increase in Net Assets	20,813,923	11,778,677
Net Assets at Beginning of Period	<u>118,887,422</u>	<u>107,108,745</u>
Net Assets at End of Period	<u>\$ 139,701,345</u>	<u>\$ 118,887,422</u>
<b>SHARES TRANSACTIONS</b>		
Issued	2,186,234	1,553,599
Reinvested	33,760	69,514
Redeemed	<u>(1,399,296)</u>	<u>(817,841)</u>
Net Increase in Shares	820,698	805,272
Shares Outstanding at Beginning of Period	<u>11,197,432</u>	<u>10,392,160</u>
Shares Outstanding at End of Period	<u>12,018,130</u>	<u>11,197,432</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, 2022 (Unaudited)	For the Fiscal Year Ended November 30,				
		2021	2020	2019	2018	2017
<b>PER SHARE OPERATING PERFORMANCE</b>						
<b>NET ASSET VALUE, BEGINNING OF PERIOD</b>	\$10.62	\$10.31	\$10.23	\$9.88	\$11.33	\$12.38
<b>Investment Operations</b>						
Net Investment Income <sup>(1)</sup>	0.03	0.13	0.07	0.30	0.49	0.60
Net Realized and Unrealized Gain (Loss) on Investments	0.99	0.30	0.11 <sup>(2)</sup>	0.34	(0.91)	(0.99)
Total from Investment Operations	1.02	0.43	0.18	0.64	(0.42)	(0.39)
<b>Dividends and Distributions</b>						
From Net Investment Income	(0.02)	(0.12)	(0.10)	(0.29)	(0.51)	(0.61)
From Realized Capital Gains	—	—	—	—	(0.52)	(0.05)
Total Dividends and Distributions	(0.02)	(0.12)	(0.10)	(0.29)	(1.03)	(0.66)
<b>NET ASSET VALUE, END OF PERIOD</b>	\$11.62	\$10.62	\$10.31	\$10.23	\$9.88	\$11.33
<b>TOTAL RETURN</b>	10.03% <sup>(3)</sup>	4.16%	1.78%	6.49%	(4.19)%	(3.35)%
<b>Ratio/Supplemental Data</b>						
Net Assets, End of Period (in 000's)	\$139,701	\$118,887	\$107,109	\$179,351	\$188,500	\$223,432
Ratio of Gross Expenses to Average Net Assets	1.00% <sup>(4)</sup>	1.00%	1.02% <sup>(5)</sup>	1.02% <sup>(5)</sup>	1.00%	1.00%
Ratio of Net Expenses to Average Net Assets	0.80% <sup>(4)(6)</sup>	0.80% <sup>(6)</sup>	0.82% <sup>(5)(6)</sup>	0.82% <sup>(5)(6)</sup>	0.82% <sup>(6)</sup>	1.00%
Ratio of Net Investment Income to Average Net Assets	0.49% <sup>(4)</sup>	1.20%	0.74%	2.94%	4.56%	5.02%
Portfolio Turnover Rate	40.96% <sup>(3)</sup>	118.05%	100.67%	16.70%	45.78%	36.05%

<sup>(1)</sup> Based on average shares outstanding.

<sup>(2)</sup> The amount shown for a share outstanding does not correspond with the aggregate net gain (loss) on investments for the period due to the timing of sales and redemptions of shares in relation to fluctuating market values of the investments of The Income Fund.

<sup>(3)</sup> Not annualized.

<sup>(4)</sup> Annualized.

<sup>(5)</sup> 0.02% is attributable to legal expenses incurred outside the management fee.

<sup>(6)</sup> 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 FOCUSED INCOME FUND

NOTES TO FINANCIAL STATEMENTS  
May 31, 2022 (unaudited)

## 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. 200,000,000 shares have been allocated to The Fairholme Focused Income Fund ("The Income Fund"). The Income Fund is a non-diversified fund. The Income Fund may have a greater percentage of its assets invested in particular securities than a diversified fund, exposing The Income Fund to the risk of unanticipated industry conditions as well as risks specific to a single company or the securities of a single company. The Income 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 The Income 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 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 of issuers in the U.S. and foreign countries, interests in publicly traded partnerships, and interests in real estate investment trusts. 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. Fairholme Capital Management, L.L.C. (the "Manager") serves as investment adviser to The Income Fund.

There is no guarantee that The Income Fund will meet its objectives.

## Note 2. Significant Accounting Policies

As an investment company, The Income Fund follows the investment company accounting and reporting guidance, which is part of U.S. generally accepted accounting principles ("U.S. GAAP"). The Income Fund's investments are reported at fair value as defined by U.S. GAAP. The Income Fund calculates its 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.

A description of the valuation techniques applied to The Income Fund's 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)

## THE FAIRHOLME FOCUSED INCOME FUND

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NOTES TO FINANCIAL STATEMENTS (continued)  
May 31, 2022 (unaudited)

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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, 2022, 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, 2022, 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 Fund's 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.

The Income Fund uses several recognized industry third-party pricing services (TPPS), which are approved by the Board and unaffiliated with the Manager, to provide prices for some of The Income Fund's securities. The Income Fund also uses 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.

The inputs and valuation techniques used to measure fair value of The Income Fund's 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 Income Fund's investments by inputs used to value The Income Fund's investments as of May 31, 2022, is as follows:

# THE FAIRHOLME FOCUSED INCOME FUND

NOTES TO FINANCIAL STATEMENTS (continued)  
May 31, 2022 (unaudited)

	Valuation Inputs			Total Fair Value at 05/31/22
	Level 1 - Quoted Prices	Level 2 - Other Significant Observable Inputs	Level 3 - Significant Observable Inputs	
<b>THE INCOME FUND</b>				
<b>ASSETS:</b>				
<b>INVESTMENTS (Fair Value):</b>				
Domestic Equity Securities*	\$ 92,149,892	\$ —	\$ —	\$ 92,149,892
Domestic Preferred Equity Securities*	2,955,681	—	—	2,955,681
U.S. Government Obligations	—	38,487,936	—	38,487,936
Money Market Funds	6,019,715	—	—	6,019,715
<b>TOTAL INVESTMENTS</b>	<u>\$ 101,125,288</u>	<u>\$ 38,487,936</u>	<u>\$ —</u>	<u>\$ 139,613,224</u>

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

There were no Level 3 investments for The Income Fund at May 31, 2022 or November 30, 2021.

*Dividends and Distributions:* The Income Fund records dividends and distributions to its shareholders on the ex-dividend date. The Income Fund intends to declare and pay net investment income distributions, if any, quarterly in March, June, September, and December. The Income Fund intends 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 Income Fund 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 Income Fund does 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 Income Fund 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.

*Other:* The Income Fund accounts 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 Income Fund 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 Income Fund paid commissions and other brokerage fees during the period.

### 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, The Income Fund pays a management fee to the Manager for its provision of investment advisory and operating services to The Income Fund. Subject to applicable waivers or

# THE FAIRHOLME FOCUSED INCOME FUND

NOTES TO FINANCIAL STATEMENTS (continued)  
May 31, 2022 (unaudited)

limitations, the management fee is paid at an annual rate equal to 1.00% of the daily average net assets of The Income Fund. Effective January 1, 2018, the Manager has agreed to waive, on a voluntary basis, a portion of the management fees of The Income Fund to the extent necessary to limit the management fee of The Income Fund to the annual rate of 0.80% of The Income Fund's daily average net asset value ("Undertaking"). This Undertaking may be terminated by the Manager upon 60 days' written notice to The Income Fund. The Manager is not responsible pursuant to the Investment Management Agreement for paying The Income 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 The Income Fund: commissions, brokerage fees, issue and transfer taxes, and other costs chargeable to The Income Fund in connection with securities transactions or in connection with securities owned by The Income Fund, taxes, interest, acquired fund fees and related expenses, expenses in connection with litigation by or against The Income Fund, and any other extraordinary expenses.

The Manager earned, after the voluntary reduction of the management fees \$520,067 from The Income Fund for its services during the six months ended May 31, 2022.

Bruce Berkowitz, both the Chief Investment Officer of the Manager and Chairman of The Income Fund's Board, and his affiliates beneficially own an aggregate 4,584,728 shares of The Income Fund at May 31, 2022.

A Director and Officers of The Income Fund are also Officers of the Manager or its affiliates.

## Note 4. Investments

For the six months ended May 31, 2022, 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 Income Fund	\$ 54,128,045	\$ 32,570,340

## Note 5. Tax Matters

*Federal Income Taxes:* The Income 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, The Income 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 appreciation/(depreciation) of investments at May 31, 2022, were as follows:

	<u>Cost</u>	<u>Gross Unrealized Appreciation</u>	<u>Gross Unrealized Depreciation</u>	<u>Net Unrealized Appreciation/ (Depreciation)</u>
The Income Fund	\$132,729,999	\$11,153,426	\$(4,270,201)	\$6,883,225

The difference between book basis and tax basis for The Income Fund's net unrealized depreciation is attributable to capitalized cost and basis adjustments on investments in partnerships.

The Income Fund's 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, 2022.

The Income Fund is 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

# THE FAIRHOLME FOCUSED INCOME FUND

NOTES TO FINANCIAL STATEMENTS (continued)  
May 31, 2022 (unaudited)

short-term or long-term capital losses. As of November 30, 2021, net short-term and long-term capital loss carryforwards were as follows:

	<u>The Income Fund</u>
Short-term capital loss carryforward	\$—
Long-term capital loss carryforward	27,988,050
Total	<u>\$27,988,050</u>

The Manager has analyzed The Income Fund’s 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 Income Fund’s 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 Income Fund is 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.

## 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 The Income Fund were as follows:

	<u>The Income Fund</u>	
	<u>For the Six Months Ended May 31, 2022</u>	<u>For the Fiscal Year Ended November 30, 2021</u>
<b>Dividends and Distributions paid from:</b>		
Ordinary Income	<u>\$ 213,274</u>	<u>\$ 1,325,088</u>

## Note 7. 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 Income Fund. In the normal course of business the Company or The Income Fund enter into contracts that contain a variety of representations and customary indemnifications. The Income Fund’s maximum exposure under these arrangements is unknown as this would involve future claims that may be made against The Income Fund that have not yet occurred. However, based on its experience to date, The Income Fund expects the risk of loss to be remote.

## Note 8. 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 (the “First Action”).



## THE FAIRHOLME FOCUSED INCOME FUND

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NOTES TO FINANCIAL STATEMENTS (continued)  
May 31, 2022 (unaudited)

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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.

In the amended complaint, 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, among other things, claims for the avoidance of consideration received from Sears Holdings Corp. in connection with the Lands' End spinoff and Seritage rights offering that were allegedly actual and/or constructive fraudulent transfers. 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, including the Manager and Bruce Berkowitz, moved to dismiss all or parts of the complaint against them. The Court held extensive oral argument on the motions to dismiss, which are currently pending before the Court.

On October 15, 2020, Sears Holdings Corp., Sears, Roebuck and Co., and The Official Committee of Unsecured Creditors of Sears Holdings Corporation, et al. commenced a second adversary proceeding in the United States Bankruptcy Court for the Southern District of New York against certain former shareholders of Sears Holdings Corporation that were not named in the First Action (the "Second Action"). In the Second Action, the plaintiffs assert claims for the avoidance of alleged consideration received in connection with the Lands' End spinoff and the Seritage rights offering. Certain defendants in the Second Action have moved to dismiss all claims against them, and the motions to dismiss are currently pending before the Court. On March 15, 2021, the Court consolidated the Second Action into the First Action. Pursuant to Order entered April 6, 2022, the parties have engaged in a mediation which, to date, has not resulted in resolution of the First or Second Actions.

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.

### **Note 9. Subsequent Events**

Management has evaluated the impact on The Income Fund of all subsequent events occurring through the date the financial statement was issued and has determined that there were no subsequent events requiring recognition or disclosure in the financial statements.



## **Operation and Effectiveness of the Fund’s Liquidity Risk Management Program (unaudited)**

Pursuant to Rule 22e-4 under the Investment Company Act of 1940, The Income Fund has adopted and implemented a liquidity risk management program (the “Program”) designed to assess and manage the risk that The Income Fund could not meet requests to redeem The Income Fund shares without significant dilution of remaining investors’ interests in The Income Fund. In assessing, managing and reviewing liquidity risk under the Program, The Income Fund considers a variety of factors, including its investment strategies, portfolio investments, portfolio concentration, cash flow projections, redemption policy (if any), and redemption history. In addition, the Program requires The Income 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, 2021 (the “Covered Period”), The Income 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 The Income Fund’s performance or ability to timely meet redemptions without dilution to remaining investors’ interests in The Income 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 The Income 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 The Income Fund’s portfolio. A description of these policies and procedures, and records of how The Income Fund voted proxies relating to its portfolio securities during the most recent twelve month period ended June 30, 2021, 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](http://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 Income Fund’s 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](http://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*

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## Board of Directors of Fairholme Funds, Inc.

TERRY L. BAXTER

BRUCE R. BERKOWITZ

STEVEN J. GILBERT, *Esq.*

LEIGH WALTERS, *Esq.*

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## Investment Manager

FAIRHOLME CAPITAL MANAGEMENT, L.L.C.  
*5966 South Dixie Highway, Suite 300, South Miami, FL 33143*

## Transfer Agent

BNY MELLON INVESTMENT SERVICING (US) INC.  
*4400 Computer Drive, Westborough, MA 01581-1722*

## Fund Accountant & Administrator

THE BANK OF NEW YORK MELLON  
*103 Bellevue Parkway, Wilmington, DE 19809*

## Custodian

THE BANK OF NEW YORK MELLON  
*240 Greenwich Street, New York, NY 10286*

## Independent Registered Public Accounting Firm

DELOITTE & TOUCHE LLP  
*200 Berkeley Street, Boston, MA 02116*

## Legal Counsel

SEWARD & KISSEL LLP  
*901 K Street NW, Washington, DC 20001*

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