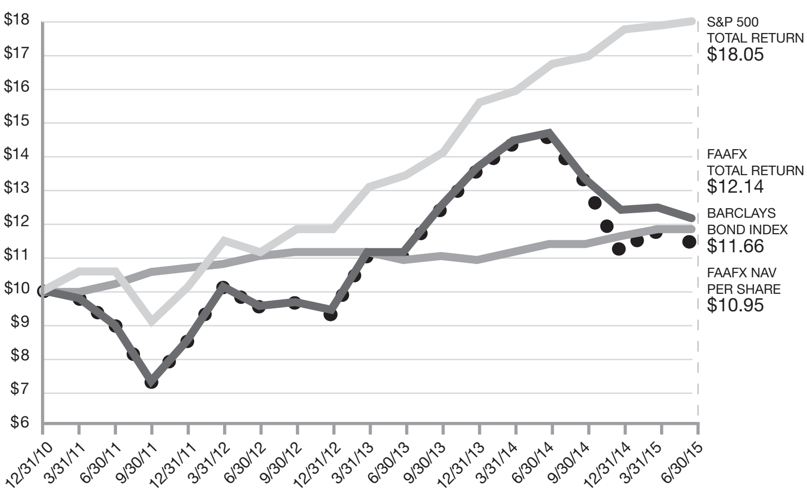
Mutual fund investing involves risks, including loss of principal. The chart below covers the period from inception of The Fairholme Allocation Fund (December 31, 2010) to June 30, 2015. Past performance information quoted below does not guarantee future results. The investment return and principal value 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 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 S&P 500 Index is a broad-based measurement of changes in the stock market and 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. The S&P 500 Index and the Barclays Capital U.S. Aggregate Bond Index are used for comparative purposes only, and are not meant to be indicative of The Fairholme Allocation Fund's performance, asset composition, or volatility. 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 27, 2015, was 1.01%, 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. Since 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 27, 2015

To the Shareholders and Directors of The Fairholme Allocation Fund:

The Fairholme Allocation Fund (the "Fund" or "FAAFX") decreased 2.67% versus a decrease of 0.10% for the Barclays Capital U.S. Aggregate Bond Index (the "Barclays Bond Index") and a 1.23% increase for the S&P 500 Index (the "S&P 500"), for the six-month period that ended June 30, 2015. 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 various periods ending June 30, 2015.



	ONE YEAR	THREE YEARS	SINCE INCEPTION (12/31/2010)
Cumulative			
FAAFX	(17.51)%	26.84%	21.39%
Barclays Bond Index	1.86%	5.58%	16.56%
S&P 500	7.42%	61.43%	80.48%
Annualized			
FAAFX	(17.51)%	8.25%	4.40%
Barclays Bond Index	1.86%	1.83%	3.47%
S&P 500	7.42%	17.31%	14.03%

The Fund spent much of 2015 in positive territory, but those double-digit gains were reversed in May and June due to dramatic price declines in Sears Holdings and Imperial Metals. At June 30, 2015, the value of a $10.00 investment in the Fund at its inception was worth $12.14 (calculated by assuming reinvestment of distributions into additional Fund shares), compared to $11.66 and $18.05 for the Barclays Bond Index and the S&P 500, respectively.

Mr. Market's negative outlook on Sears Holdings Corporation (common, warrants, and notes, which comprise 23.4% of the Fund portfolio) dented the company's stock price in the second quarter, but it has not changed our fundamental thesis one iota. To the contrary, earlier this month the company completed a separation transaction of 235 properties, plus joint venture interests in 31 additional properties, for $3.1 billion in cash proceeds. For a company with a current market capitalization of $2.4 billion, a cash infusion of that magnitude is rather noteworthy, but seemingly disregarded by the market. This sale should provide visibility to the substantial value that Sears retains in its 430 owned properties and 1,031 leased properties, particularly because the remaining locations bear very similar characteristics to those that were spun off. Eventually, market participants will find these facts indisputable.

An astute analyst will also discover that the company's non-real estate assets have significant value as well. Indeed, we believe these assets – cash, receivables, and net inventory; leading brands such as Kenmore, Craftsman, and DieHard; an integrated retail platform and Shop Your Way loyalty program that generates 70% of the company's revenues; the largest national delivery and home repair service in America; an e-commerce and logistics solutions business; coast-to-coast auto centers for repair and maintenance; and a product protection business, to name a few – easily offset the company's liabilities.

We are encouraged by the accelerating pace of Sears' transformation from a traditional store-based retailer to a membership company offering an integrated retail platform, and believe that the following excerpt from the company's Q1 2015 public filing is worth highlighting:

> The Company expects to recognize a significant gain upon completion of this [separation] transaction, which will also trigger a significant tax benefit that would be realized on the deferred taxes related to indefinite-life assets related to the property sold to the REIT, in amounts indeterminable at this time . . . With the expected completion of the REIT transaction and the amendment and extension of our Domestic Credit Facility, we expect to have successfully enhanced our financial flexibility, recapitalized our balance sheet and secured a solid financial foundation to accelerate the investment in our transformation . . . As we progress in our transformation, we are primarily focusing on profitability instead of revenues, market share and other metrics which relate to, but do not necessarily drive profit . . . We believe that our focus on profitability will contribute to a meaningful performance in 2015 and beyond.

Seritage Growth Properties (10.6% of the Fund portfolio), a newly formed real estate investment trust that purchased the properties from Sears and began trading this month, is the Fund's most recent addition. Seritage and its joint venture partners – GGP, Macerich, and Simon Property Group – intend to reconfigure or redevelop a substantial portion of the 266 properties acquired in order to generate additional operating income and diversify the tenant mix. A recent analyst report noted that "the demographic profile of the [Seritage] owned portfolio is surprisingly good, with 10-mile density and incomes of 692k and $77k, respectively, slightly better than the mall REIT portfolio averages of 680k and $77k." We believe that as Seritage recaptures and repurposes the excess Sears and Kmart real estate and recycles the below-market rents into new rents, the company will deliver an above-average long-term return including dividend growth.

Notwithstanding recent volatility in global copper markets, Imperial Metals (6.2% of the Fund portfolio) is on the mend. Its flagship Red Chris mine has received all necessary permits and is fully operational. We observed the mill running at capacity during our site visit in May, and expect management to remain focused on consistently improving recovery rates. Earlier this month, the company received a permit from provincial authorities in British Columbia to partially recommence operations at Mount Polley, which should help the company generate additional cash flow.

Fannie Mae and Freddie Mac (4.9% and 4.6% of the Fund portfolio, respectively) are the largest providers of liquidity to our mortgage markets. The financial services they provide benefit American renters, buyers, and existing homeowners in good economic times and in bad. Contrary to popular misconception, neither Fannie nor Freddie ever had a "funding" problem. As one shrewd observer has noted, "Because each GSE's balance sheet was comprised of highly liquid Mortgage Backed Securities (MBS) that pay off on a monthly basis, it should have been easy for either to pledge securities to raise money or to shrink their balance sheet and meet their financial obligations as they came due." Indeed, the claims-paying ability of each mortgage insurer has never, ever been in doubt.

But political vendettas and ulterior motives (e.g., a keen desire by the administration to avoid negotiating with Congressional Republicans over the debt ceiling) have caused these two companies to be held captive in a perpetual conservatorship that precludes the preservation and accumulation of capital. Every three months the proverbial cash register at each of these mortgage insurers is looted by a repeat offender – the United States Treasury – unlawfully claiming entitlement to all of Fannie and Freddie's profits in perpetuity while disclaiming any allegations that it has effected the largest nationalization in American history. One need not be a legal scholar to recognize that this illicit scheme is antithetical to the basic notion of a C-O-N-S-E-R-V-A-T-O-R-S-H-I-P. While the significant progress that litigants are making before the third branch of government is not being reflected in recent prices of Fannie and Freddie preferred securities, we remain cognizant of Mr. Market's propensity for sudden mood swings.

Bank of America (10.4% of the Fund portfolio) remains our largest double-ratchet TARP warrant investment, and the company's focus on growing revenues while reducing operating costs should help it rise above its recent trading range. With a robust Tier 1 capital ratio of 12.5% and almost $500 billion in "global excess liquidity sources," Bank of America has regained the financial strength to support much higher earnings, yet is still priced well below book value. We expect it to close the gap with its peers.

We remain optimistic about prospects for the long-term outperformance by this high-octane portfolio, and the Fund's ample cash reserve (17.9% of the Fund portfolio) enables us to be sufficiently patient.

Respectfully submitted,

Bruce R. Berkowitz
Chief Investment Officer
Fairholme Capital Management

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. Investors should consider the investment objectives, risks, charges, and expenses of the Fund carefully before investing. The Fund's prospectus contains this and other information about the Fund. To obtain a copy of the Fund's prospectus, please visit *www.fairholmefunds.com* or call *1-866-202-2263.* Please read the prospectus carefully before investing. 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.

Fairholme Distributors, LLC (07/15)