

FAIRHOLME CAPITAL MANAGEMENT, L.L.C.
BROCHURE
5 MAY 2015

This brochure provides information about the qualifications and business practices of Fairholme Capital Management, L.L.C. ("Fairholme" or the "Adviser"), an investment adviser registered with the United States Securities and Exchange Commission (the "SEC"). If you have any questions about the contents of this brochure, please contact us at 305-358-3000 or fcminfo@fairholme.net. This information has not been approved or verified by the SEC or by any state securities authority. Additional information about Fairholme is available on the SEC's website at www.adviserinfo.sec.gov. Registration with the SEC or with any state securities authority does not imply a certain level of skill or training.

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ITEM 2. MATERIAL CHANGES.....

In addition to making routine annual updated changes to the Brochure, the Brochure was amended materially since the last annual update of the Brochure to reflect the addition of the Fairholme Partnership group to the trade allocation policy of the Adviser.

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ITEM 4. ADVISORY BUSINESS.....

Fairholme is an investment adviser with its principal place of business in Miami, Florida. Fairholme commenced operations as an investment adviser in June 1997 and has been registered with the SEC since August 21, 1997. Fairholme is a wholly-owned subsidiary of Fairholme Holdings LLC. Fairholme Holdings LLC is owned by East Lane, LLC, Gables Investment Partnership, LLLP, and Bruce R. Berkowitz. East Lane, LLC and Gables Investment Partnership, LLLP are controlled by entities owned and controlled by Bruce R. Berkowitz and family.

Fairholme provides continuous and regular investment management services on a discretionary basis to various types of clients and client accounts (each, an "Account" and collectively, the "Accounts"), including: high net worth individuals; pensions and profit sharing plans; trusts, estates and charitable organizations; corporations and other business entities; multiple series of a registered investment company; and pooled investment vehicles (private funds) intended for accredited investors and qualified purchasers. These services are provided to separately managed accounts through the Fairholme Managed Account Program ("MAP"); Fairholme Offshore Partners Fund, Ltd. ("FOPF") and The Fairholme Partnership, LP ("FPLP", and together, the "Fairholme Private Funds") and other private funds; and to each series (each, a "Mutual Fund" and collectively, the "Mutual Funds") of Fairholme Funds, Inc. (the "Company"). As of February 28, 2015, Fairholme had approximately \$8.9 billion of client assets under management, all of which are managed on a discretionary basis.

Fairholme provides advice to the Fairholme Private Funds and the Mutual Funds based on each of their respective investment objectives and strategies. Subject to reasonable restrictions imposed on a MAP Account, each MAP Account is managed, under normal circumstances, in accordance with Fairholme's overall investment objectives and strategies, which seek investments with potential for above-average total returns over time. Under certain circumstances, Fairholme may agree to tailor advisory services to the individual needs of a client. Clients may impose restrictions on investing in certain securities or certain types of securities.

Fairholme may determine to invest all or a substantial portion of the assets in a MAP Account in shares of one or more of the Mutual Funds. Unless otherwise provided in its investment management agreement ("Agreement"), the Account holder authorizes Fairholme to make such investments in shares of one or more of the Mutual Funds. Such authorization may be revoked at any time in writing by the Account holder. Each MAP Account invested in shares of a Mutual Fund should review the Mutual Fund's Prospectus for information about the Mutual Fund and its fees, which include an investment management fee to Fairholme. Fairholme does not charge investment management fees on any assets in a MAP Account invested in the Mutual Funds. Each Mutual Fund pays an investment management fee to Fairholme, and MAP Accounts indirectly pay to Fairholme their pro rata portion of that investment management fee if assets in the MAP Account are invested in the Mutual Fund.

ITEM 5. FEES AND COMPENSATION.....

MAP Accounts

Fairholme charges each MAP Account an investment management fee based on the value of the Account’s assets under management. Fairholme offers an unbundled fee arrangement for MAP clients. Under this arrangement, an Account is charged an annual management fee, which is payable quarterly in advance, and in some cases monthly in arrears, and calculated as a percentage of the market value of the managed assets in the Account, that covers Fairholme’s investment management services only. The management fee does not cover brokerage commissions or custodial and administrative costs associated with the Account. Accordingly, Accounts are responsible for paying for brokerage commissions and transaction fees, custodial fees and other fees that are expenses associated with their Accounts. Effective January 31, 2013, Fairholme stopped accepting new MAP Accounts (subject to certain exceptions and in its sole discretion).

The standard investment management fee for MAP Accounts is set forth below:

<u>Account Minimum</u>	<u>Investment Management Fee</u> (As an Annual % of Account Assets)
\$25 million	1.0%

The investment management fee is non-negotiable, but may be reduced or waived in Fairholme’s sole discretion.

In general, the first quarterly fee payment is due upon execution of the Agreement and will be assessed pro rata in the event the Agreement is executed at any time other than the first business day of a calendar quarter. Thereafter, with limited exceptions, the fee is payable quarterly in advance and is based on the managed total gross assets in the Account as of the last trading day of the previous calendar quarter. If assets in excess of \$50,000 are deposited in the Account after the inception of a quarter, the fee with respect to such MAP assets will be prorated and charged based on the market value of the assets at close of business on the day of deposit and the number of days remaining in such quarter. Unless otherwise provided in the Agreement, Fairholme has been authorized by each Account to instruct the Account’s custodian to deduct the fee from the Account and to pay the fee directly to Fairholme on a quarterly basis. If the fee is not deducted from the Account, Fairholme bills the Account on a quarterly basis.

MAP Accounts are also subject to other expenses such as custodial charges, brokerage fees, commissions and related costs; interest expenses; taxes, duties and other governmental charges; transfer and registration fees or similar expenses; costs associated with foreign exchange transactions; other portfolio expenses; and costs, expenses and fees (including investment advisory and other fees charged by investment advisers with, or funds in, which the client’s account invests) associated with products or services that may be necessary or incidental to such investments or accounts.

The Agreement may be terminated at any time by either party. If the Agreement is terminated during a quarter, the pro rata fee paid in advance to Fairholme on the assets calculated based from the termination date to the end of the quarter is refunded to the Account. If the Account Agreement is terminated within five business days of its execution, the Account will receive a full refund of the fee. If the Agreement is terminated after five business days of its execution, the Account will receive a pro rata refund of any prepaid fee as described above.

As noted above, Fairholme does not charge a management fee on any assets in a MAP Account invested in one or more Mutual Funds. Each Mutual Fund pays an investment management fee to Fairholme, and an Account will indirectly pay its pro rata portion of the Mutual Fund’s management fee to Fairholme to the extent assets in the Account are invested in the Mutual Fund.

Fairholme Private Funds

Fairholme provides investment management services to the Fairholme Private Funds. A related person of Fairholme is generally eligible to receive an allocation of performance-based compensation with respect to these private funds in an amount equal to up to 25% of the net profits (including realized and unrealized gains and losses) previously allocated to investors' capital accounts or shares, as applicable, in the funds. The rate at which each fund investor is subject to the performance-based compensation depends upon the duration of the withdrawal lock-up period elected by the investor. The amount of the performance-based compensation is re-allocated from investors' capital accounts or shares to the related person on an annual basis. In each case, the performance-based compensation will be subject to a loss carryforward provision. The related person, in its sole discretion, may waive or reduce the amount of performance-based compensation that would otherwise be allocated from investors that are principals, employees or affiliates of the related person or Fairholme, relatives of such persons, and for certain large or strategic investors.

In addition, investors in the Fairholme Private Funds will bear their pro rata share of the funds' operating and other expenses, including legal, accounting (including third party accounting services), audit, administration and other professional fees and expenses, compensation of advisory board members, organizational expenses, investment expenses (such as commissions), custodial fees, bank service fees, insurance (including D&O and E&O insurance), research fees (if any) and other expenses related to the purchase, sale, preservation or transmittal of the fund's assets.

Registered Investment Company

Fairholme provides investment management services to the Mutual Funds, which are series of the Company. The Company is registered with the Securities and Exchange Commission as an open-end management investment company under the Investment Company Act of 1940, as amended (the "1940 Act"). Fairholme is entitled to receive an annual asset-based investment management fee of 1.0% from each Mutual Fund. These fees are payable monthly on the last day of the month and may be reduced or waived by Fairholme. Account assets (other than assets of the Fairholme Private Funds) may be invested in the Mutual Funds.

ITEM 6. PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT.....

Fairholme and its investment personnel provide investment management services to Accounts with differing fee arrangements and investment strategies and restrictions. As described in Item 5, a related person of Fairholme is entitled to receive performance-based compensation from accounts of Fairholme Private Fund investors or shares held by those Fairholme Private Funds investors, as applicable.

Certain Accounts may have higher management fees, or compensation arrangements more favorable to Fairholme, than other Accounts engaging in the same or similar investment activities. When managing more than one Account, a potential exists for one Account to be favored over another Account. Fairholme and its investment personnel have an incentive to favor Accounts that pay Fairholme higher fees.

Fairholme has adopted and implemented policies and procedures intended to address conflicts of interest relating to the management of Accounts, including Accounts with differing fee arrangements, and the allocation of investment opportunities. Fairholme periodically reviews investment decisions for the purpose of ensuring that all Accounts with substantially similar investment objectives are treated equitably. The performance of similarly managed Accounts is also regularly compared to determine whether there are any unexplained significant discrepancies. In addition, Fairholme has compliance procedures and controls addressing the allocation of investment opportunities, including securities made

available to Fairholme in initial public offerings and private placements. These activities are monitored by Fairholme's Chief Compliance Officer ("CCO"). Items 12 and 16 provide additional information concerning Fairholme's brokerage and trading policies, and allocation policies.

ITEM 7. TYPES OF CLIENTS.....

As described in Item 4, Accounts consist of high net worth individuals; Mutual Funds; Fairholme Private Funds and other private funds; pension and profit sharing plans; trusts, estates and charitable organizations; and corporations and other business entities.

Effective January 31, 2013, Fairholme stopped accepting new MAP Accounts. Prior thereto, Fairholme had required that an Account holder invest a minimum of \$25 million to open a MAP Account, which amount may have been waived at the discretion of Fairholme.

The initial and additional subscription or investment minimums for the Fairholme Private Funds and the Mutual Funds are disclosed in the applicable offering documents.

ITEM 8. METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS.....

Fairholme uses bottom-up fundamental analysis in formulating investment advice and managing Account assets. Fundamental analysis of issuers involves identifying certain characteristics of companies, including expected free cash flow yields in relation to market values and risk-free rates, capital allocation policies, competitive positions, balance sheet, liquidity and leverage, stress-tested owners/managers, stressed industries having reasonable prospects for recovery, potential for long-term growth, tangible assets in relation to enterprise values, expected returns on invested equity and capital, and the production of essential services and products.

Subject to Account restrictions, each Account is managed, under normal circumstances, in accordance with Fairholme's overall investment objective and strategies, which seek investments with potential for above-average total returns over time. Fairholme expects, for example, that each Account managed in accordance with this investment objective and strategies will normally hold a focused portfolio of securities and other investments, which means that the Account may hold fewer securities and investments than a diversified portfolio. In addition, Accounts may be invested in securities of issuers primarily in one industry or sector. Weightings in different investments will depend on many factors, including those specific to individual securities, to the investment objectives and strategies and to Account restrictions, if any. In addition, an Account may, from time to time, not be fully invested and may hold significant amounts of cash, money-market funds, short-term U.S. Government bonds, commercial paper or similar securities.

In connection with implementing its overall investment objective and strategies, Fairholme employs the following investment strategies, subject to Account restrictions and other factors:

- *Focused Portfolio/Non-diversification.* Fairholme typically focuses its investments on a limited number of issuers and does not seek to diversify investments among types of securities, countries or industry sectors.
- *Buy and Hold.* Fairholme typically engages in a buy and hold investment strategy wherein it buys securities and holds them for relatively longer periods of time, regardless of short-term factors such as fluctuations in the market or volatility of the stock price.
- *Equity.* Fairholme's equity strategy focuses on a broad range of equity investment styles, including what is popularly considered "core" and value. In addition, Fairholme may invest in particular geographic regions or specific countries based upon global, multi-national developments.

- *Fixed-Income.* Fairholme's fixed-income strategy includes investing in a wide-range of securities including U.S. corporate debt, non-U.S. corporate debt, bank debt (including bank loans and participations), U.S. government and agency debt, short-term debt obligations of foreign governments and foreign money market instruments, convertible bonds and other convertible securities without regard to maturity or the rating of the issuer of the security, and in lower-rated securities believed mis-rated by the market.
- *Distressed/Special Situations.* Fairholme may invest in "special situations," which involve the securities of a company that are expected to appreciate within a reasonable time due to company-specific developments rather than general business conditions or movements of the market as a whole.
- *Fundamental Value.* Fairholme engages in a fundamental value investment strategy wherein Fairholme attempts to invest in asset-oriented securities that Fairholme believes are undervalued by the market.
- *Leverage.* The private funds may utilize a moderate amount of leverage from time to time which involves the borrowing of funds from brokerage firms, banks and other institutions in order to be able to increase the amount of capital available for marketable securities investments.

Fairholme may from time to time employ additional strategies, including strategies involving investments in illiquid or restricted securities and strategies utilizing margin, short sales or options and derivatives.

The methods, strategies and investments involve risk of loss to Account holders, and Account holders must be prepared to bear the loss of their entire investment. There are substantial risks related to Fairholme's investment objective and strategies. The material risks relating to the foregoing investment strategies include:

- *Focused Portfolio/Lack of Diversification.* Accounts will not be diversified among a wide range of types of securities, issuers, markets, asset classes, regions, countries or industry sectors, accordingly, they may have more volatility and are considered to have more risk than accounts that are invested in a greater number of securities, issuers, markets, asset classes, regions, countries or industry sectors. Changes in the value of a single security in an Account may have a more significant effect, either negative or positive, on the portfolio than such changes in a diversified portfolio. Accounts are also subject to more rapid change in value than would be the case if Fairholme were required to maintain a wider diversification among types of securities and other instruments.
- *Buy and Hold.* Buy and hold investment strategies bring specific risks to a securities portfolio. Under a buy and hold investment strategy, Fairholme may not take advantage of short-term gains in a security that could be profitable to the Account. Moreover, if Fairholme's predictions are incorrect, a security may decline sharply in value before the security is sold.
- *Distressed/Special Situation Risk.* Investment in distressed or special situations exposes an Account to significant risks, including: the difficulty in obtaining information as to the issuer's true condition; regulatory risk, and bankruptcy; litigation risk; liquidity risk; and collection risk.
- *Leverage.* Account performance may be more volatile if Fairholme employs leverage. The use of leverage increases exposure to additional levels of risk including (i) greater losses from investments than would otherwise have been the case, (ii) margin calls or changes in margin requirements may force premature liquidations of investment positions, (iii) losses on investments where the investment fails to earn a return that equals or exceeds the cost of the leverage related to such investments and (iv) fluctuations in interest rates on borrowings, which may have a negative effect on profitability. If assets may not be liquidated quickly enough to repay borrowings, losses may be further magnified.

The following risks are those most associated with the types of securities that are primarily recommended to Accounts.

- *Equity Securities.* The value of equity securities fluctuates in response to issuer, political, market, and economic developments. Account price volatility can be dramatic over the short as well as long term, and different parts of the market and different types of equity securities can react differently to these developments. For example, large cap stocks can react differently from small cap stocks, and "growth" stocks can react differently from "value" stocks. Issuer, political, or economic developments can affect a single issuer, issuers within an industry or economic sector or geographic region, or the market as a whole. Changes in the financial condition of a single issuer can impact the market as a whole. Terrorism and related geo-political risks have led, and may in the future lead, to increased short-term market volatility and may have adverse long-term effects on world economies and markets generally.
- *Fixed-Income and Debt Securities.* Investment in fixed-income and debt securities such as bonds, notes and asset-backed securities, subject Accounts to interest rate risk. Generally, the value of fixed-income securities changes inversely with changes in interest rates. As interest rates rise, the market value of fixed-income securities tends to decrease. Conversely, as interest rates fall, the market value of fixed-income securities tends to increase. This risk is greater for long-term securities than for short-term securities. Investments in these types of securities will also be subject to the credit risk created when a debt issuer fails to pay interest and principal in a timely manner, or that negative perceptions of the issuer's ability to make such payments will cause the price of that debt to decline. Lastly, investments in debt securities will also subject Account investments to the risk that the securities may fluctuate more in price, and are less liquid than higher-rated securities because issuers of such lower-rated debt securities are not as strong financially, and are more likely to encounter financial difficulties and be more vulnerable to adverse changes in the economy.
- *Non-U.S. Securities.* Foreign securities, foreign currencies, and securities issued by U.S. entities with substantial foreign operations can involve additional Account risks relating to political, economic, or regulatory conditions in foreign countries. These risks include fluctuations in foreign currencies; withholding or other taxes; trading, settlement, custodial, and other operational risks; and the less stringent investor protection and disclosure standards of some foreign markets. All of these factors can make foreign investments, especially those in emerging markets, more volatile and potentially less liquid than U.S. investments. In addition, foreign markets can perform differently from the U.S. market.
- *Issuer-Specific Changes.* Changes in the financial condition of an issuer or counterparty, changes in specific economic or political conditions that affect a particular type of security or issuer, and changes in general economic or political conditions can increase the risk of default by an issuer or counterparty, which can affect a security's or instrument's value.
- *Distressed Securities.* Investments in unrated or low grade debt securities of distressed companies are subject to greater risk of loss of principal and interest than higher-rated debt securities. Also, securities of distressed companies are generally more likely to become worthless than the securities of more financially stable companies.
- *REITs.* REITs are affected by underlying real estate values, which may have an exaggerated effect to the extent that REITs in which Fairholme invests concentrate investments in particular geographic regions or property types. Investments in REITs are also subject to the risk of interest rate volatility. Further, rising interest rates will cause investors in REITs to demand a higher annual yield from future distributions, which will in turn decrease market prices for equity securities issued by REITs. REITs are subject to risks inherent in operating and financing a limited number of projects because they are dependent upon specialized management skills, and have limited diversification. REITs depend generally on their ability to generate cash flow to make distributions to investors.

- *Illiquid/Restricted Securities Instruments.* Certain securities or instruments may have no readily available market or third-party pricing or may be subject to restrictions on resale, including restrictions applicable to Fairholme and its Account holders arising from Fairholme's or its Account holder's status as affiliates of the issuer of the security or instrument or control positions with respect to the issuer of the security or instrument. Reduced liquidity may have an adverse impact on market price and Fairholme's ability to sell particular securities when necessary to meet liquidity needs or in response to a specific economic event, such as the deterioration of creditworthiness of an issuer. Reduced liquidity in the secondary market for certain securities may also make it more difficult for Fairholme to obtain market quotations based on actual trades for the purpose of valuing an Account's portfolio.
- *Asset-Backed Securities.* Asset-backed securities are subject to interest rate risk and, to a lesser degree, prepayment risk. Asset-backed securities are subject to additional risks in that, unlike mortgage-backed securities, asset-backed securities generally do not have the benefit of a security interest in the related collateral. Each type of asset-backed security also entails unique risks depending on the type of assets involved and the legal structure used. In addition, asset-backed securities experience credit risk. There is also the possibility that recoveries on repossessed collateral may not be available to support payments on these securities because of the inability to perfect a security interest in such collateral.
- *Mortgage-Backed Securities.* Mortgage-backed securities are subject to credit risk associated with the performance of the underlying mortgage properties. Factors such as consumer spending habits, local economic and competitive conditions, tenant occupancy rates and regulatory or zoning restrictions, or the loss of a major tenant may adversely affect the economic viability of a mortgaged property. In addition, these securities are subject to prepayment risk. Some securities have a structure that makes their reaction to interest rates and other factors difficult to predict, making their value highly volatile.
- *Derivatives.* Swaps, and certain options and other custom derivative or synthetic instruments are subject to the risk of nonperformance by the counterparty to such instrument, including risks relating to the financial soundness and creditworthiness of the counterparty. In addition, investments in derivative instruments require a high degree of leverage, meaning the overall contract value (and, accordingly, the potential for profits or losses in that value) is much greater than the modest deposit used to buy the position in the derivative contract. Derivative securities can also be highly volatile. The prices of derivative instruments and the investments underlying the derivative instruments may fluctuate rapidly and over wide ranges and may reflect unforeseeable events or changes in conditions, none of which can be controlled by Fairholme. Further, transactions in derivative instruments are not undertaken on recognized exchanges, and will expose an Account to greater risks than regulated exchange transactions that provide greater liquidity and more accurate valuation of securities.
- *Security Futures and Options.* In connection with the use of futures contracts and options for the Accounts, Mutual Funds, or Fairholme Private Funds, there may be an imperfect correlation between the change in market value of a security and the prices of the futures contracts and options in the client's account. In addition, Fairholme's investments in security futures and options may encounter a lack of a liquid secondary market for a futures contract and the resulting inability to close a futures position prior to its maturity date.
- *Tax exempt Securities.* Tax exempt securities are obligations whose interest is exempt from federal, state, and/or local authorities. Such securities are frequently called municipal bonds or municipal notes. Municipal bonds are intended to meet longer-term capital needs while municipal notes are intended to fulfill short-term capital needs. Investments in tax exempt securities are subject to credit risk, interest rate risk, market risk and liquidity risk.

Investors in the Fairholme Private Funds or any Mutual Fund should refer to the applicable offering documents for additional information about the material risks associated with the investment strategies and methods of analysis used by Fairholme to manage the Fairholme Private Funds or Mutual Funds.

ITEM 9. DISCIPLINARY INFORMATION.....

This Item is not applicable.

ITEM 10. OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS.....

Fairholme provides discretionary investment management services to the Fairholme Private Funds, and a related person of Fairholme serves as general partner of at least one of the Fairholme Private Funds. The Fairholme Private Funds may enter into agreements, or "side letters," with certain prospective or existing investors whereby such investors may be subject to terms and conditions that are more advantageous than those set forth in the applicable offering memorandum. For example, such terms and conditions may provide for special rights to make future investments in a private fund, other investment vehicles or managed accounts; special liquidity rights, relating to frequency or notice; a waiver, reduction or rebate in fees to be paid by the investor and/or other terms; rights to receive reports from the Fairholme Private Funds on a more frequent basis or that include information not provided to other investors (including, without limitation, more detailed information regarding portfolio positions) and such other rights as may be negotiated by the Fairholme Private Funds and investors.

Fairholme provides discretionary investment management services to the Mutual Funds, which are series of the Company. The Company is registered with the SEC as an open-end, management investment company under the 1940 Act. Mr. Berkowitz serves as President and a Director of the Company. Mr. Berkowitz also serves as a Director and Chairman of the Board of one of the Fairholme Private Funds and a New York Stock Exchange-listed company in which Accounts may currently invest.

Fairholme may determine to invest all or a substantial portion of the assets of an Account in shares of one or more of the Mutual Funds. This arrangement represents a conflict of interest because it provides a different economic incentive for Fairholme and its affiliates, employees, and owners to investment in the Mutual Funds. Unless otherwise provided in its Agreement, the Account holder authorizes Fairholme to make such investments in shares of one or more of the Mutual Funds. Such authorization may be revoked at any time in writing by the Account holder. Fairholme does not charge its managed account fee on any assets of an Account invested in the Mutual Funds. Each Mutual Fund pays an investment management fee to Fairholme, and the Account will indirectly pay to Fairholme its pro rata portion of that investment management fee if assets in the Account are invested in the Mutual Fund.

ITEM 11. CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING

Fairholme has adopted a Code of Ethics (the "Code") that requires its access persons to obtain preclearance of personal securities transactions. Securities holdings and transactions of access persons and their immediate family members are reviewed to determine compliance with the requirements of the Code. The Code also contains other restrictions and reporting requirements designed to limit potential conflicts of interest. These provisions apply to all employees of Fairholme. All personnel are also required to comply with applicable federal securities laws. Clients or prospective clients may obtain a copy of the Code by contacting Fairholme Client Services by email at clientservices@fairholme.net. See below for further provisions of the Code as they relate to the preclearing and reporting of securities transactions.

Fairholme, in the course of its investment management and other activities (e.g., board or creditor committee service), may come into possession of confidential or material nonpublic information about issuers, including issuers in which Fairholme or its related persons have invested or seek to invest on behalf of Accounts. Fairholme is prohibited from improperly disclosing or using such information for its own benefit or for the benefit of any other person, regardless of whether such other person has an Account. Fairholme maintains and enforces written policies and procedures that prohibit the communication of such information to persons who do not have a legitimate need to know such information and to assure that Fairholme is meeting its obligations to Accounts and remains in compliance with applicable law. In certain circumstances, Fairholme may possess certain confidential or material, nonpublic information that, if disclosed, might be material to a decision to buy, sell or hold a security, but Fairholme will be prohibited from communicating such information to the Account holder or using such information for the Account holder's benefit. In such circumstances, Fairholme will have no responsibility or liability to the Account holder for not disclosing such information to the Account holder (or the fact that Fairholme possesses such information), or not using such information for the Account holder's benefit, as a result of following Fairholme's policies and procedures designed to provide reasonable assurances that it is complying with applicable law.

Fairholme may, by providing written notice to the Account holder, relinquish to the Account holder any delegated investment discretion and proxy voting authority for any particular security held in an Account due to conflicts of interest, including those described below with respect to board service. Thereafter, the Account holder, or the Account holder's authorized agent, will have investment discretion and proxy voting authority for the securities identified in the notice. Fairholme may seek the Account holder's authorization to regain investment discretion and proxy voting authority for any security for which Fairholme has previously relinquished such discretion or authority to the Account holder by notifying the client in accordance with applicable terms of the Agreement of the security for which Fairholme seeks to regain investment discretion and informing the Account holder that the conflict circumstances previously requiring Fairholme to relinquish such discretion and authority have changed and are no longer applicable to Fairholme's management of the security. Fairholme may seek to regain investment discretion and proxy voting authority for the security by use of a negative consent process. During the time that investment discretion and proxy voting authority is relinquished for a particular security, the security will not be included in the Account assets on which the management fee is calculated. Upon regaining investment discretion and proxy voting authority for a particular security, the security will once again be included in the Account assets on which the fee is calculated.

A portfolio manager, officer or employee of Fairholme may from time to time serve as an officer, director or trustee of a company in which Fairholme or its related persons have invested, or seek to invest, on behalf of Accounts. In such circumstances, Fairholme may elect to relinquish delegated investment discretion and proxy voting authority as described above. Alternatively, Fairholme may elect to retain delegated investment discretion and proxy voting authority in which case it will be subject to the restrictions and limitations described herein.

When a portfolio manager, officer or employee of Fairholme serves as an officer, director or trustee of a publicly-traded company, that portfolio manager, officer or employee will likely obtain material, nonpublic information about the company as a result of such service. When Fairholme or one of its employees possesses material, nonpublic information about a company, Fairholme includes the securities of that company on a restricted list maintained by it pursuant to the Code. In general, Fairholme and its employees are prohibited from transacting in securities on the restricted list and from recommending the purchase or sale of securities on the restricted list. This prohibition applies to potential transactions for Accounts as well as personal accounts and would, for example, restrict Fairholme from selling the securities of a company on the restricted list that are held in Accounts when it may otherwise desire to do so. In addition, when a portfolio manager, officer or employee of Fairholme serves as an officer, director or trustee of a company or Fairholme obtains a controlling interest in the securities of the company, or otherwise has the ability to control the policies and management of the company, that company's policies that are applicable to Fairholme or such portfolio manager, officer or employee, and the statutes and regulations applicable to any of them, could restrict activities contemplated by Fairholme with respect to the company or limit the timing, manner and volume of transactions in such company's securities (including hedging transactions) for the accounts of clients. Further, certain investments in private securities by Fairholme on behalf of certain Accounts may prevent public trading in related or other securities by other Accounts.

Fairholme may determine to invest all or a substantial portion of the assets in an Account in shares of one or more of the Mutual Funds. This arrangement represents a conflict of interest because it provides a different economic incentive for Fairholme and its portfolio manager to recommend investments in shares of the Mutual Funds. Items 4 and 10 provide additional information concerning this practice, the associated conflicts and the procedures employed by Fairholme to address the conflicts.

Fairholme and its related persons invest in the same securities (or related securities, e.g., warrants, options or futures) that Fairholme and its related person recommend to Accounts. Such practice presents a conflict because Fairholme or its related persons are in a position to trade in a manner that could adversely affect Accounts (e.g., place their own trades before or after client trades are executed in order to benefit from any price movements due to the clients' trades). In addition to affecting Fairholme's or its related person's objectivity, this practice may also harm clients by adversely affecting the price at which the Account's trades are executed. Fairholme has adopted the following procedures in an effort to minimize such conflicts:

- Fairholme requires its access persons to preclear all transactions in their personal accounts with the CCO, who may deny permission to execute a personal securities transaction if such transaction will have any adverse economic impact on MAP Accounts, the Fairholme Private Funds, or Mutual Funds. All of Fairholme's access persons are required to disclose their securities transactions on a quarterly basis and holdings on an annual basis.
- The Code and Fairholme's insider trading procedures prohibit Fairholme and its access persons from executing personal securities transactions of any kind in any securities on a restricted securities list maintained by the CCO.
- Fairholme has adopted policies concerning aggregating employee personal trades in a security with client trades in the same security on the same day. Please see the last paragraph of the response to Item 12 for further explanation.
- Personal trading is reviewed by the CCO and compared with transactions for Accounts and reviewed against the restricted securities list.

Fairholme from time to time recommends securities to Accounts, or buys or sells securities for Accounts, at or about the same time that Fairholme or related person buys or sells the same securities for its own account in accordance with the procedures described above in order to minimize the conflicts stemming from situations where the contemporaneous trading results in an economic benefit for Fairholme or its related person to the detriment of the Account. In addition, Fairholme has adopted the aggregation policies and procedures discussed in Item 12.

ITEM 12. BROKERAGE PRACTICES.....

When it has discretion to select the broker, dealer or other financial intermediary used to execute transactions for Accounts, Fairholme Private Funds and the Mutual Funds, Fairholme considers a number of factors in selecting a broker-dealer to execute transactions (or series of transactions) and determining the reasonableness of the broker-dealer's compensation. Such factors include the size and difficulty of the order, confidentiality and the nature of the market for the security, as well as the full range and quality of a broker's services, including the broker's ability to secure the best price for a complete transaction over the contemplated time period, the broker's execution capability and willingness to commit capital, the broker's creditworthiness and financial stability, the broker's clearance and settlement capability and the broker's provision of research and brokerage services. In selecting a broker-dealer to execute transactions (or series of transactions) and determining the reasonableness of the broker-dealer's compensation, Fairholme need not solicit competitive bids and does not have an obligation to seek the lowest available commission cost. Accordingly, transactions will not always be executed at the lowest available price or commission. The CCO and traders meet regularly to evaluate the broker-dealers used by Fairholme to execute client trades using the foregoing factors.

Fairholme may purchase or sell securities on behalf of Accounts for which it has brokerage discretion in agency or principal transactions depending upon security type and market. In agency transactions, an Account generally pays brokerage commissions. In principal transaction, an Account generally does not pay commissions. However, the price paid for the security may include an undisclosed commission, markup or selling concession.

In connection with its best execution obligations to its Mutual Funds, Fairholme is prohibited from considering the promotion and sale of shares of a Mutual Fund when selecting a broker-dealer to effect portfolio securities transactions on behalf of the Mutual Fund. This prohibition is in accordance with the provisions of Rule 12b-1(h) under the 1940 Act.

Fairholme may select a broker-dealer that furnishes Fairholme, directly or through correspondent relationships, with research services that provide, in Fairholme's view, appropriate assistance to Fairholme in its investment decision-making process. Such research services may include: research reports on companies, industries, and securities; economic and financial data; financial publications; computer data bases; and other research oriented services. The use of Account commissions (or markups or markdowns) to obtain research and brokerage products and services raises conflicts of interest. For example, Fairholme will not have to pay for the products and services itself. This creates an incentive for Fairholme to select or recommend a broker-dealer based on its interest in receiving those products and services, rather than on an Account's interest in receiving most favorable execution. Research and other services obtained in this manner may be used in servicing any or all Accounts and may be used in connection with Accounts other than those that pay commissions to the broker-dealer relating to the research or other service arrangements. Furthermore, Fairholme does not attempt to allocate among its Accounts the relative costs or benefits of the services obtained, believing that the services, in the aggregate, assist Fairholme in fulfilling its overall duty to its Account holders. Fairholme periodically determines in good faith that the commissions paid for the services are reasonable in relation to the value of the services provided by the broker-dealers, viewed either in terms of a particular transaction or Fairholme's overall duty to its Account holders. Fairholme may endeavor to direct sufficient commissions to broker-dealers who, pursuant to such arrangements, provide research or other services in order to ensure the continued receipt of research or other services Fairholme believes is useful in its investment decision-making process.

From time to time, Fairholme may participate in capital introduction programs arranged by broker-dealers, including firms that serve as prime brokers to the Fairholme Private Funds or recommend investments in the Fairholme Private Funds as investments to the clients of the broker-dealer. Fairholme may place client portfolio transactions with firms that have made such recommendations or provided capital introduction opportunities, if Fairholme determines that it is otherwise consistent with seeking best execution. In no event will Fairholme select a broker-dealer as a means of remuneration for recommending Fairholme or any other product managed by Fairholme (or an affiliate) or affording Fairholme with the opportunity to participate in capital introduction programs.

A MAP Account holder may limit Fairholme's discretionary authority in executing securities transactions by directing Fairholme to use a particular broker-dealer to execute portfolio transactions for the Account ("Directed Accounts"). When an Account holder directs Fairholme to use a particular broker-dealer, Fairholme generally has not negotiated the terms and conditions (including, but not limited to, commission rates) of the broker-dealer's services. Therefore, Fairholme may not be able freely to negotiate commission rates or spreads, and the Account may not obtain as favorable prices or commission rates as it might otherwise have obtained if Fairholme had selected the broker-dealer. In addition, the Accounts may receive execution prices and pay commission rates that differ from the execution prices received and commissions paid by Accounts that have given Fairholme discretion to select broker-dealers ("Non-Directed Account").

Fairholme cannot aggregate orders for Directed Accounts with orders for the same securities or instruments for Non-Directed Accounts. Therefore, when different brokers are used to execute orders for Directed and Non-Directed Accounts, it is Fairholme's policy to rotate the orders on an equitable basis. It is possible that the priority of an order may affect the quality of execution each Account receives.

Accounts that, in whole or in part, direct Fairholme to use a certain broker/dealer to execute transactions should be aware that they may adversely affect Fairholme's ability, among other things, to negotiate commissions and to obtain volume discounts on aggregated orders or best execution with respect to their trades. In addition, a disparity in commission charges may exist between the commissions charged to Directed Accounts and directed transactions may be delayed relative to transactions for Non-Directed Accounts.

Fairholme has adopted written policies and procedures that govern investment allocation and trade allocation and aggregation. Fairholme transacts in securities and other investments based on several factors including the market price of a security, general market conditions, the economic conditions of the business underlying the security, the perceived value of the security and other factors. In general, investment decisions for each Account are made independently from those of other Accounts and are made with specific reference to the circumstances and objectives of each Account. A particular Account may or may not participate in any specific transaction, or may receive allocations of securities or investments that differ from those provided to other Accounts, based on a number of factors including, but not limited to, the trade rotation policy, previous transactions, Account restrictions, broker/dealers, custodian, Account size, tax status, risk tolerance, cash and liquidity. Although Fairholme generally will seek to be consistent in its investment approach for all Accounts with the same or substantially similar investment objectives, strategies and restrictions, the act of purchasing, selling or holding a security for one Account does not mean it will be purchased, sold or held for another Account. Fairholme will transact for some Accounts in securities already owned by other Accounts. Due to differing market conditions and factors previously cited, Fairholme may purchase (or sell) a security on behalf of some Accounts that Fairholme has sold (or purchased) on behalf of other Accounts.

For purposes of its investment allocation and trade rotation and aggregation policies, Fairholme groups Accounts into the following groups: (i) MAP Accounts, (ii) Fairholme Private Funds; and (iii) Mutual Funds (each, a "Group" and collectively, the "Groups"). Fairholme's portfolio manager identifies investment opportunities that might meet or advance the investment objectives of one or more Groups and accounts within each Group. After identifying a particular investment opportunity, the portfolio manager determines whether each Group is eligible to participate in the investment opportunity and the level of participation of each Group. If an investment opportunity is eligible and appropriate for two or more Groups, the portfolio manager determines whether orders for Accounts in the participating Groups should be aggregated.

Trade orders that are anticipated to be completed in one trading day for accounts in participating Groups are typically aggregated and executed that day. Trade allocations within the participating Groups are made on a pro rata basis or in accordance with other methods that are designed to treat participating accounts fairly. Accounts receiving an odd lot or a de minimis amount (less than 1%) may be allocated securities over accounts that receive sufficient securities.

Trade orders that are anticipated to take two or more trading days to be completed for accounts in participating Groups are typically executed in accordance with Fairholme's trade rotation procedures. Under those procedures, trades are executed by Group in accordance with a trade rotation sequence for the Groups. This sequence is determined daily by referencing an independent selection source. For example, the sequence may be randomly determined as follows: (1) the Fairholme Private Funds, (2) the Mutual Funds, and (3) the MAP Accounts. Under the procedures, trades for participating accounts within the first Group in the priority sequence are aggregated, executed and filled so that each participating account in that Group has received up to 1% of the value of the account. Once these trades are completed, trades for accounts in the next Group are aggregated, executed and filled so that each participating account in that Group has received up to 1% of the value of the account. Trades are executed in the same order and in the same manner for as many cycles as necessary to fully complete the trades for participating Accounts in each Group.

Trades entered by employees of Fairholme prior to the determination of Account participation in an investment opportunity are aggregated with participating Account trades in accordance with the foregoing. All other employee trades are executed only after all Account trades have been executed. If such executed price will better the aggregate price for all Accounts, then the transaction

will be aggregated. If such executed price will not, then the transaction will not be aggregated. Accounts participating in each aggregated order at a broker receive the average price for the security. Under the trade rotation procedures, an Account may receive a more favorable or less favorable price compared with prices received by other Accounts

ITEM 13. REVIEW OF ACCOUNTS.....

Each Account is reviewed by the portfolio manager of Fairholme, at least on a monthly basis to determine whether securities positions should be maintained in view of current market conditions, unless Fairholme believes an interim review is warranted. Matters reviewed include specific securities held, adherence to investment guidelines and the performance of each Account. Prior to each asset allocation, the Account is reviewed by the trade administration team and the portfolio manager. Trade confirmations for each client are reconciled daily by members of the trade administration team to records maintained by Fairholme with respect to each client. Custodial records are reviewed and reconciled to internal records on a monthly basis by members of the financial accounting team.

Account holders receive a confirmation for each transaction effected for their Account and monthly statements reflecting all Account activity directly from their custodians via postal mail, or if requested, electronically. Subject to the applicable Agreement, Fairholme also issues quarterly appraisal and performance reports by electronic means for Accounts and may report on a more customized basis if requested by the client and accepted by Fairholme. Performance reports reflect the realized and unrealized gains and losses in an Account and compare the performance in the Account to at least one index.

Investors in the Fairholme Private Funds and investors in the Mutual Funds receive reports in the manner described in the applicable offering document.

ITEM 14. CLIENT REFERRAL AND OTHER COMPENSATIONS.....

Please see response to Item 12, which includes information regarding Fairholme’s brokerage practices.

ITEM 15. CUSTODY.....

Each Account receives account statements from the broker-dealer, bank or other institution that serves as the qualified custodian for the Account. Account holders should carefully review those statements.

Fairholme also sends quarterly statements directly to Accounts in addition to those sent by the qualified custodian. Accounts holders should compare statements received from Fairholme with those received from the Account’s custodian.

ITEM 16. INVESTMENT DISCRETION.....

Fairholme provides investment advisory services on a discretionary basis to Accounts. Please see Item 4 for a description of any limitations clients may place on Fairholme’s discretionary authority. Prior to assuming full discretion in managing Account assets, Fairholme enters into an investment management agreement or other agreement that sets forth the scope of Fairholme’s discretion.

Unless otherwise instructed or directed by Account holders, Fairholme has the authority to determine (i) the securities to be purchased and sold for Accounts (subject to restrictions on its activities set forth in the applicable investment management agreement and any written investment guidelines) and (ii) the amount of securities to be purchased or sold for Accounts. Please see Item 12 for a discussion of Fairholme's written policies and procedures governing investment allocations and trade allocation and aggregation.

In addition, allocations will be made among Accounts eligible to participate in initial public offerings (IPOs) and secondary offerings on a pro rata basis, except when Fairholme determines in its discretion that a pro rata allocation is not appropriate, which may include an Account holder's investment guidelines explicitly prohibiting participation in IPOs or secondary offerings and an Account holder's status as a "restricted person" under applicable regulations.

Securities acquired by Fairholme for Accounts through a limited offering will be allocated pursuant to the procedures set forth in Fairholme's allocation policy. The policy provides that Fairholme will determine the proposed allocation of limited offering securities after considering the factors described above with respect to general allocations of securities and determining those Accounts eligible to hold such securities. Eligibility will be based on the legal status of the clients and the client's investment objectives and strategies.

Fairholme may effect cross transactions between Accounts, except as otherwise noted below. Cross transactions enable Fairholme to effect a trade between two Accounts for the same security at a set price, thereby possibly avoiding an unfavorable price movement that may be created through entrance into the market and saving commission costs for both Accounts. Cross transactions may include rebalancing transactions that are undertaken so that, after withdrawals or contributions have occurred, the portfolio compositions of similarly managed Accounts remain substantially similar. Fairholme has a potentially conflicting division of loyalties and responsibilities regarding both parties to cross transactions. Cross transactions between Accounts are not permitted if they would constitute principal trades or trades for which Fairholme or its affiliates are compensated as a broker unless Account holder consent has been obtained based upon written disclosure to the Account holder of the capacity in which Fairholme or its affiliates will act. In addition, cross transactions are not permitted for benefit plan or other similar Accounts that are subject to ERISA. Cross transactions involving a registered investment company for which Fairholme serves as adviser are permitted only in accordance with the Company's procedures pursuant to Rule 17a-7 under the 1940 Act.

ITEM 17. VOTING CLIENT SECURITIES.....

To the extent Fairholme has been delegated proxy voting authority on behalf of its Account holders, Fairholme complies with its proxy voting policies and procedures that are designed to ensure that in cases where Fairholme votes proxies with respect to Account securities, such proxies are voted in the best interests of its Account holders. Fairholme will vote against proposals that make it more difficult to replace members of a board of directors. For all other proposals, Fairholme will determine whether a proposal is in the best interests of its Account holders and may take into account the following factors, among others: (i) whether the proposal was recommended by management and Fairholme's opinion of management; (ii) whether the proposal acts to entrench existing management; and (iii) whether the proposal fairly compensates management for past and future performance. Accounts that have delegated proxy voting authority to Fairholme may obtain from Fairholme information on how Fairholme voted proxies and a copy of Fairholme's proxy voting policies, procedures and guidelines by contacting the Compliance Department by email at fcminfo@fairholme.net.

As previously disclosed, there may be circumstances in which Fairholme relinquishes the proxy voting authority provided to it by an Account. Those circumstances include when Fairholme has obtained material, non-public information about the company to which a proxy relates or when Fairholme has a conflict of interest with respect to that company.

ITEM 18. FINANCIAL INFORMATION.....

This Item is not applicable.

ITEM 19. REQUIREMENTS FOR STATE-REGISTERED ADVISERS.....

This Item is not applicable.