Case Study IV

This presentation uses MBIA, Inc. ("MBIA" or the "Company") as a case study to illustrate Fairholme Capital Management's investment strategy for each of The Fairholme Fund, The Fairholme Focused Income Fund ("The Income Fund"), and The Fairholme Allocation Fund ("The Allocation Fund"), (each a "Fund" and collectively, the "Funds"). In the pages that follow, we show the Funds' shareholders why we "Ignore the crowd" with regard to our portfolio positions that are currently out of favor in the market.

However, nothing in this presentation should be taken as a recommendation to anyone to buy, hold, or sell certain securities or any other investment mentioned herein. Our opinion of a company's prospects should not be considered a guarantee of future events. **Investors are reminded that there can be no assurance that past performance will continue, and that a mutual fund's current and future portfolio holdings always are subject to risk.** As with all mutual funds, investing in the Funds involves risk including potential loss of principal. Opinions expressed are those of the author and/or Fairholme Capital Management, L.L.C. and should not be considered a forecast of future events, a guarantee of future results, nor investment advice.

The Funds' holdings and sector weightings are subject to change. As of May 31, 2012, MBIA securities comprised 3.0% of The Fairholme Fund's total net assets, 37.4% of The Income Fund's total net assets, and 29.3% of The Allocation Fund's total net assets. The Funds' portfolio holdings are generally disclosed as required by law or regulation on a quarterly basis through reports to shareholders or filings with the SEC within 60 days after quarter end. A complete list of the Funds top ten holdings is available on our website at www.fairholmefunds.com.

The Fairholme Fund is non-diversified, which means that it invests in a smaller number of securities when compared to more diversified funds. Therefore, The Fairholme Fund is exposed to greater individual stock volatility than a diversified fund. The Fairholme Fund also invests in foreign securities which involve greater volatility and political, economic and currency risks and differences in accounting methods. The Fairholme Fund may also invest in "special situations" to achieve its objectives. These strategies may involve greater risks than other fund strategies.

The Income Fund is a non-diversified mutual fund, which means that the Income Fund invests in a smaller number of securities when compared to more diversified funds. This strategy exposes the Income Fund and its shareholders to greater risk of loss from adverse developments affecting portfolio companies. The Income Fund's investments are also subject to interest rate risk, which is the risk that the value of a security will decline because of a change in general interest rates. Investments subject to interest rate risk will usually decrease in value when interest rates rise and rise in value when interest rates decline. Also, securities with long maturities typically experience a more pronounced change in value when interest rates change. Debt securities are subject to credit risk (potential default by the issuer). The Income Fund may invest without limit in lower-rated securities. Compared to higher-rated fixed income securities, lower-rated debt may entail greater risk of default and market volatility.

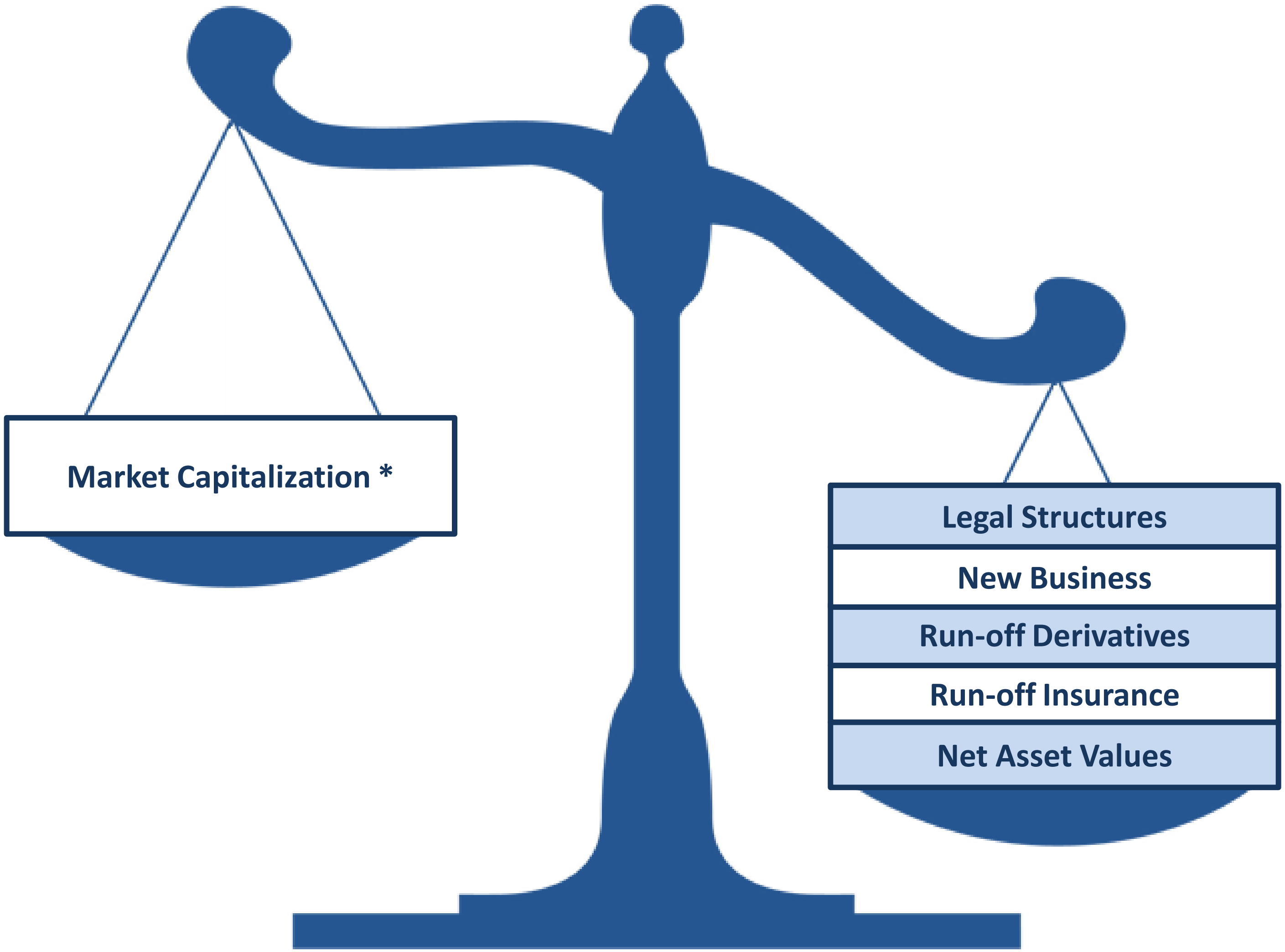
The Allocation Fund is a non-diversified mutual fund, which means that the Allocation Fund can invest in a smaller number of securities when compared to more diversified funds. This strategy exposes the Allocation Fund and its shareholders to greater risk of loss from adverse developments affecting portfolio companies. The allocation of investments among the different asset classes, such as equity or fixed-income asset classes, may have a more significant effect on the Allocation Fund's net asset value when one of these classes is performing more poorly than others.

The Funds' investment objectives, risks, charges, and expenses should be considered carefully before investing. The Prospectus contains this and other important information about the Funds, and may be obtained by calling shareholder services at (866) 202-2263 or by visiting our website at www.fairholmefunds.com. Read it carefully before investing.

Fairholme Distributors, LLC (08/12)

Market Price ≠ Intrinsic Value *

"Investing is all about what you give versus what you get." **



* Please see last slide for definition and terms.
** Bruce R. Berkowitz, FAIRHOLME, June 9, 2011.

MBIA Inc.

Corporate Structure

Corporate Operations

Wind-Down Operations

MBIA Incorporated

Advisory Services
Cutwater

U.S. Public Finance Insurance

Structured Finance & International Insurance

National Public Finance Guarantee Corporation
(Non-Recourse to MBIA Inc.)

- ✓ $5.7 billion in claims paying resources *
- ✓ $3.0 billion in statutory capital *
- ✓ $352 million in liquidity *
- ✓ Cumulative loss experience on U.S. Public Finance exposure of 0.03% since inception
- ✓ $100+ billion per year market potential for new business

MBIA Insurance Corporation
(Non-Recourse to MBIA Inc.)

- ✓ $5.2 billion in claims paying resources
- ✓ $1.7 billion in statutory capital
- ✓ $534 million in liquidity
- ✓ Mitigating remaining future loss volatility
- ✓ Litigation upside

* Please see last slide for definition and terms.

CATALYST #1

NATIONAL PUBLIC FINANCE GUARANTEE CORPORATION
A STAND ALONE SUBSIDIARY OF MBIA INC.

National is legally, financially, and operationally separate from MBIA Insurance Corporation.

Judicial Confirmation of MBIA Inc.'s Transformation Could Lead to:

An Increase in Credit Ratings

↓

Lower Expenses

↓

Capital Raise

↓

New Municipal Business

PLAINTIFFS OPPOSING MBIA TRANSFORMATION

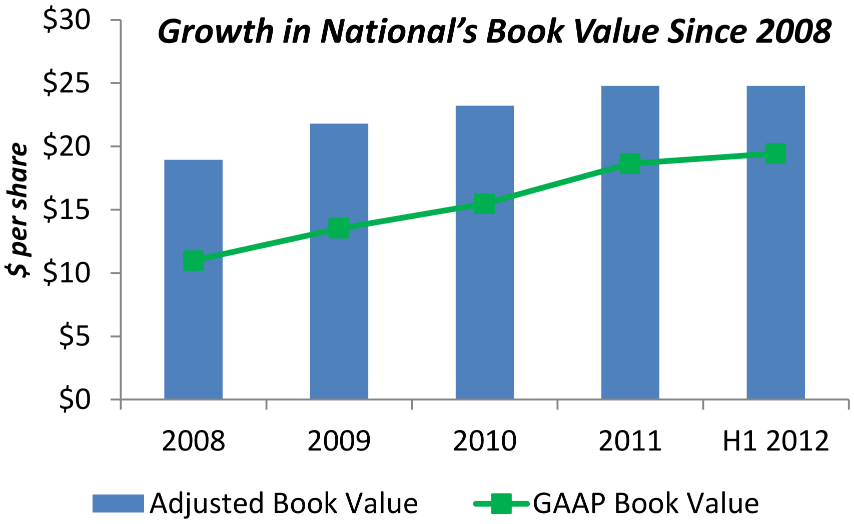
As of August 2012

Party	Status
Rabobank	Withdrawn
SMBC Capital Markets	Withdrawn
Canadian Imperial Bank of Commerce	Withdrawn
JP Morgan Chase	Withdrawn
Barclays Bank	Withdrawn
Royal Bank of Canada	Withdrawn
Citibank	Withdrawn
KBC Investments	Withdrawn
Credit Agricole	Withdrawn
Wells Fargo (f/k/a Wachovia)	Withdrawn
Royal Bank of Scotland (also f/k/a ABN Amro)	Withdrawn
HSBC Bank	Withdrawn
Morgan Stanley	Withdrawn
BNP Paribas	Withdrawn
UBS	Withdrawn
Natixis	Withdrawn
Societe Generale	Ongoing
Bank of America	Ongoing

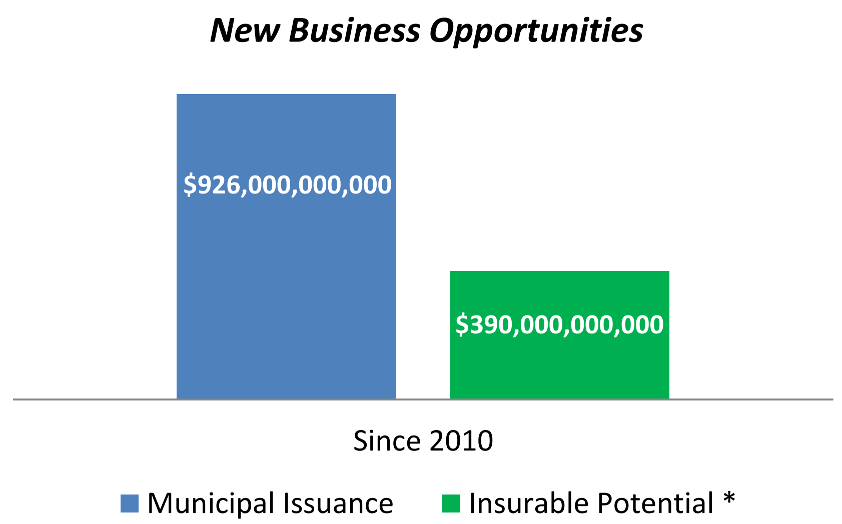
Catalyst #1 (Continued)

National Public Finance Guarantee Corporation

A Profitable, Stable, and Valuable Enterprise



- MBIA Inc.'s common stock currently trades at 44% of National's Adjusted Book Value. *
- GAAP Book Value for National has grown at an average of 15% per year since 2008. *



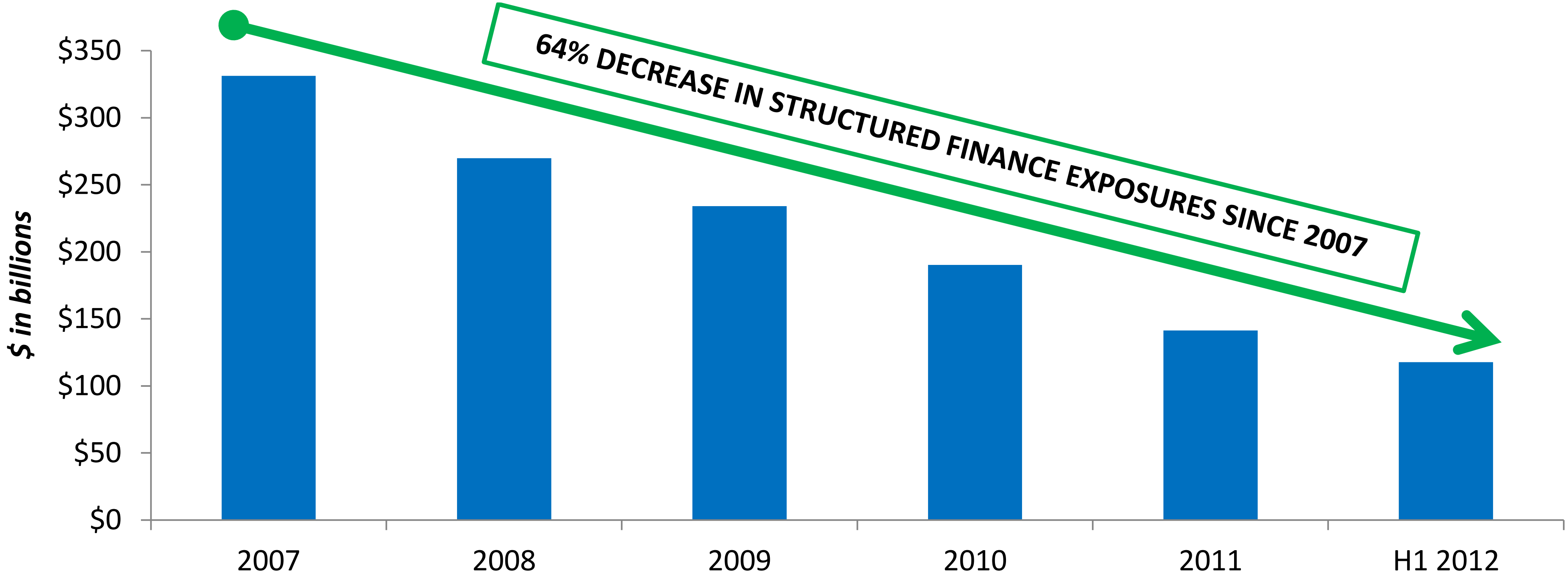
- "2012 insured penetration remains reasonable given only one active insurer." ** During Q2 2012, Assured Guaranty underwrote $4.7 billion in public finance policies.
- National is poised to provide much needed supply of financial guarantee insurance to the municipal market.

* As of 8/24/2012, MBIA Inc. stock price was $10.55. Please see last slide for definition and terms.
** National Public Finance Guarantee Corporation, *Investor Presentation,* August 2012.

CATALYST #2

MBIA INSURANCE CORPORATION

DE-RISKING



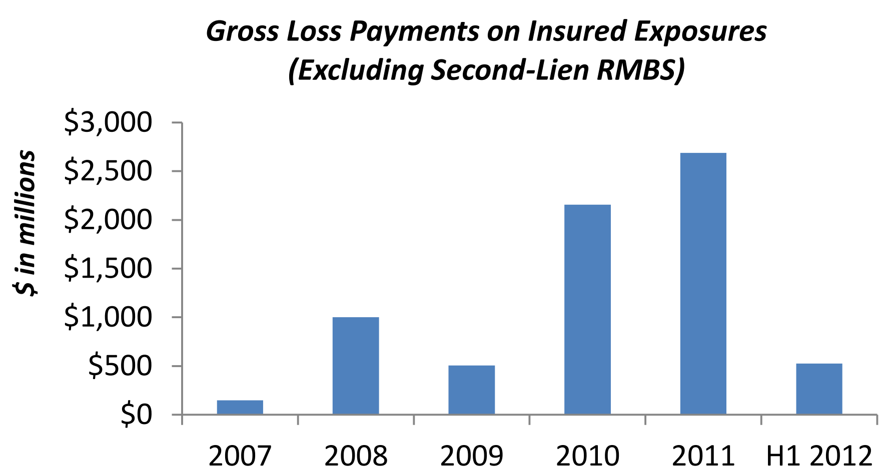
"As a result of commutation activity, our exposures to the riskiest CMBS pools and ABS CDOs have been reduced substantially. At this point, the CMBS exposures with the most significant potential future claims are with a single counterparty — a Bank of America subsidiary — whose affiliate, Countrywide, is currently in default of its contractual obligations to repurchase billions of dollars of ineligible mortgages from securitizations insured by MBIA Corp."

- C. Edward Chaplin, *Chief Financial Officer*, MBIA Inc., August 8, 2012

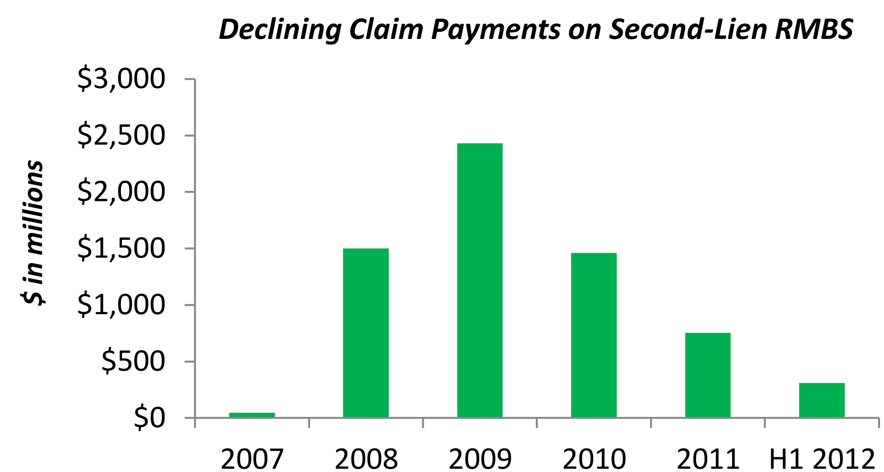
Catalyst #2 (Continued)

MBIA Insurance Corporation

De-Risking



- MBIA Insurance exchanges cash in order to terminate CMBS, CRE CDO, ABS CDO and subprime RMBS insurance contracts, which reduces volatility. *
- Since 2007, MBIA Insurance has paid $5 billion to terminate $68 billion insurance policies.
- Within MBIA's current loss expectations for insured CMBS, Bank of America constitutes the largest remaining loss exposure.



- As an insurer of financial obligations, MBIA Insurance pays defaulted obligations as they come due.
- Claims paid on Second-Lien RMBS have declined by 69% since 2009.
- Bank of America and its subsidiaries represent over 60% of the total claims paid since 2007.

* Please see last slide for definition and terms.

CATALYST #3

MBIA INSURANCE CORPORATION

REIMBURSEMENT FOR CLAIMS PAID

- ***Since 2007, MBIA Insurance has paid $6.5 billion of gross claims on policies insuring second-lien RMBS securitizations.***
  - ***Within those securitizations that have incurred insurable losses, MBIA believes that the vast majority (in some cases over 90%) of the underlying mortgage loans failed to comply with the representations and warranties made by the seller/servicers of the securitizations to which those mortgage loans were sold. ****
- ***MBIA carries $3.2 billion of the $6.5 billion of gross claims paid as a receivable. This expected recovery amount – which is conservatively recorded when compared to the reality of recovery expectations – is reviewed and approved by the New York State Department of Financial Services and PricewaterhouseCoopers on a quarterly basis.***
- ***Fairholme expects MBIA to recover at least half of the gross claims paid to date in a 2012 settlement or all in a 2013 trial.***

"Recent legal settlements paid and reserves taken by defendants are convincing skeptics of the company's ability to more than just survive."

- Bruce R. Berkowitz, FAIRHOLME, January 26, 2012

* Jay Brown, *Chief Executive Officer*, MBIA Inc., March 20, 2012, & August 8, 2012.

CATALYST #3 (CONTINUED)

MBIA INSURANCE

REIMBURSEMENT FOR CLAIMS PAID

COUNTERPARTY RESPONSIBILITY TO INSURERS

Insurance is the business of pricing risk; and it cannot function efficiently if the insured conceals or misrepresents the risks a policy covers. State of New York law provides than an insurer has an interest in receiving complete and accurate information before deciding whether to issue a policy. *

FAVORABLE LEGAL PRECEDENT

On June 19, 2012, the Southern District of New York ruled in *Syncora Guarantee v. EMC Mortgage Corporation* that a residential mortgage originator that securitized mortgage-backed securities ("MBS") could be liable for alleged breaches of representations and warranties it made to the insurance company that insured principal and interest payments to investors in the MBS, and could be forced to repurchase mortgages even if (a) the breaches did not cause the underlying mortgages to default and (b) the underlying mortgages have not yet defaulted.

INCREASED PRESSURE ON MORTGAGE ORIGINATORS

On July 27, 2012, O'Melveny & Myers LLP (legal counsel to Bank of America) circulated a "Client Alert" noting that institutions involved in lawsuits similar to Syncora ***"may wish to re-evaluate their exposure, and possibly adjust reserves set aside to cover such risks, based on the type of plaintiff and the specific language in the securitization agreements at issue."***

* *Syncora Guarantee v. EMC Mortgage Corporation*, Opinion & Order, June 19, 2012.

CHECKS AND BALANCES

Who is Examining MBIA Inc.?

- ✓ Securities and Exchange Commission
- ✓ New York State Department of Financial Services
- ✓ PricewaterhouseCoopers
- ✓ Credit Rating Agencies

Who is Examining the Counterparties?

- ✓ Securities and Exchange Commission
- ✓ Federal Reserve Bank of New York
- ✓ Federal Deposit Insurance Corporation
- ✓ U.S. Department of the Treasury
- ✓ Office of The Special Inspector General for the Troubled Asset Relief Program
- ✓ Auditors
- ✓ Credit Rating Agencies

Judicial Review

- ✓ New York Supreme Court Appellate Division, First Department
- ✓ United States Federal Court System
- ✓ Expert Third Party Testimonies
- ✓ Outside Consultants

Precedent Outcomes

- ✓ Government Sponsored Entity Settlement (December 2010)
- ✓ Assured Guaranty Settlement (April 2011)
- ✓ Bank of New York Mellon/Bank of America Settlement (June 2011)
- ✓ State Attorney General Settlement (February 2012)
- ✓ Syncora Guarantee Settlement (July 2012)
- ✓ Increased Counterparty Representation and Warranty Reserves (2010-2012)

Market Price ≠ Intrinsic Value

OWNERS' EQUITY

- ✓ Non-Guarantor Divisions
- ✓ Intact Franchise
- ✓ Intact Business Models

CONTINGENCY RESERVES

- ✓ $1.8 Billion of Statutory Capital Not in Owners' Equity Between National and MBIA Insurance.

RUN-OFF EARNINGS

- ✓ $3.5 Billion+ of Unearned Premiums & Mark-To-Market Reversals Not in Owners' Equity

TRENDS

- ✓ Stable Municipal Insurer
- ✓ Stabilizing Asset Guarantor
- ✓ Winning Every Meaningful Legal Decision to Date
- ✓ Potential New Business in 2013
- ✓ Improving Macro Environment

Adjusted Book Value (ABV): ABV, a non-GAAP measure, is used by the Company to supplement its analysis of GAAP book value. The Company uses ABV as a measure of fundamental value and considers the change in ABV an important measure of periodic financial performance. ABV adjusts GAAP book value to remove the impact of certain items which the Company believes will reverse over time, as well as to add in the impact of certain items which the Company believes will be realized in GAAP book value in future periods. The Company has limited such adjustments to those items that it deems to be important to fundamental value and performance and which the likelihood and amount can be reasonably estimated. ABV assumes no new business activity. The Company has presented ABV to allow investors and analysts to evaluate the Company using the same measure that MBIA's management regularly uses to measure financial performance. ABV is not a substitute for and should not be viewed in isolation from GAAP book value.

ABV is calculated on a consolidated basis and a segment basis. ABV by segment provides information about each segment's contribution to consolidated ABV and is calculated using the same formula.

ABV per share represents that amount of ABV allocated to each common share outstanding at the measurement date.

Collateralized Debt Obligations (CDO): A debt instrument that is secured (collateralized) by a pool of other securities, typically loans and bonds. CDOs can include all types of loans and bonds, including high-yield bonds, emerging market bonds, asset-backed transactions and middle-market bank loans. Collateralized Bond Obligations (CBOs), Collateralized Loan Obligations (CLOs), and Collateralized Mortgage Obligations (CMOs) are types of CDOs.

CDO-Commercial Real Estate (CRE): Transactions secured by a diversified pool of commercial real estate-oriented loans and/or bonds. Transactions are actively managed pools of collateral with a Collateralized Debt Obligation (CDO) structure with first loss positions provided by subordinated tranches. Transactions are usually managed pools with reinvestment permitted subject to Eligibility Criteria.

Claims-Paying Resources (CPR): CPR is a key measure of the resources available to National and MBIA Corp. to pay claims under their respective insurance policies. CPR consists of total financial resources and reserves calculated on a statutory basis. CPR has been a common measure used by financial guarantee insurance companies to report and compare resources and continues to be used by MBIA's management to evaluate changes in such resources. The Company has provided CPR to allow investors and analysts to evaluate National and MBIA Corp. using the same measure that MBIA's management uses to evaluate their resources to pay claims under their respective insurance policies. There is no directly comparable GAAP measure.

Commercial Mortgage Backed Securities (CMBS): A type of mortgage-backed security, the word is used to distinguish it from residential mortgage-backed securities (RMBS). Commercial mortgages represent mortgage loans for non-residential properties such as office buildings, retail stores, etc.

Contingency Reserves: Reserve in excess of legal requirements to provide for unexpected contingencies

GAAP Book Value: The net asset value of a company, calculated by total assets minus total liabilities.

Insurable Potential: Total insurable amount of municipal issuances.

Intrinsic Value: The value of a security based on an underlying analysis of all aspects of the business distinct from market value.

Liquidity: MBIA Inc. defines liquidity as beginning cash and cash equivalents plus or minus the surplus or deficit from operations within the fiscal year plus other assets with expected maturities of less than 12 months deemed to be liquid but not included in cash and cash equivalents.

Market Capitalization: The total value of a company's publicly-traded shares outstanding.

Residential Mortgage Backed Securities (RMBS): A type of mortgage-backed security composed of a wide array of different noncommercial mortgage debts. It securitizes the mortgage payments of noncommercial real estate. Different residential mortgages with varying credit ratings are pooled together and sold in tranches to investors looking to diversify their portfolios or hedge against certain types of risks.

Statutory Capital: Statutory capital and surplus differs from stockholder's equity determined under GAAP principally due to statutory accounting rules that treat loss reserves, premiums earned, policy acquisition costs, deferred income taxes and investment carrying values differently. Statutory capital consists of net income plus capital and surplus as well as contingency reserves.