FAIRHOLME FUNDS
Reprint Disclaimer

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

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

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

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

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

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

SHARES OF THE FUNDS ARE DISTRIBUTED BY FAIRHOLME DISTRIBUTORS, LLC

FAIRHOLME

The Fairholme Fund

INVESTMENT OBJECTIVE

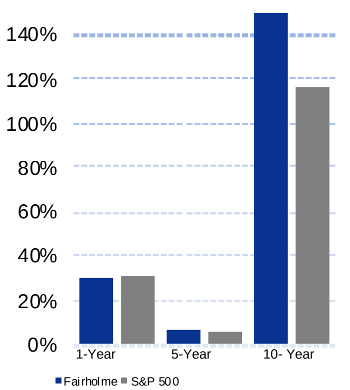
The Fairholme Fund seeks long-term growth of its shareholders' capital by investing in equity securities of public companies and by holding a focused portfolio. The Fund's preferred investment strategy is to silently partner with exceptional owner-managers who have demonstrated success, honesty, and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

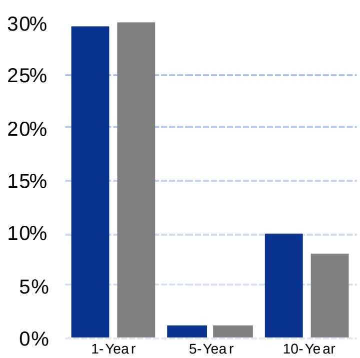
Investing in the Fairholme Fund involves risk including loss of principal. The Fairholme Fund is non-diversified, which means that it invests in a smaller number of securities when compared to more diversified funds. Therefore, the Fairholme Fund is exposed to greater individual stock volatility than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

FUND PERFORMANCE as of 9/30/12

Cumulative Returns	
1-Year	29.86%
5-Year	6.04%
10-Year	159.31%
Since Inception	288.26%

Average Annual Total Returns	
1-Year	29.86%
5-Year	1.18%
10-Year	10.00%
Since Inception	11.22%
Expense Ratio	1.02%*





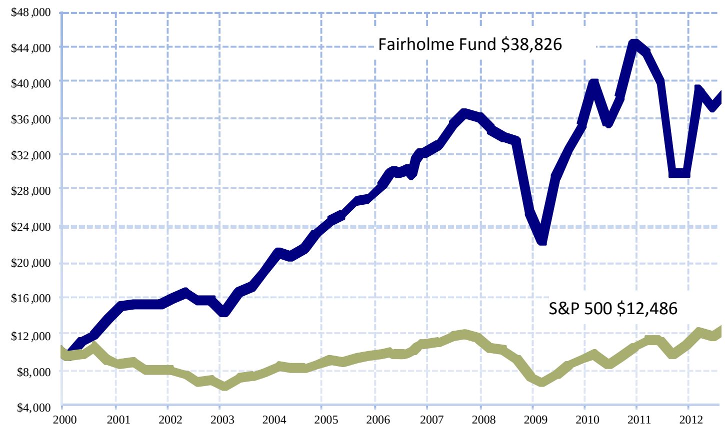
STATISTICS

YTD Return (9/30/12)	29.72%
NAV (9/28/12)	$30.03
12 Month Low-High	$22.87—$32.23
Net Assets ($Millions as of 9/28/12)	$7,276
30-Day SEC Yield	-0.87%
Fiscal Year End	November
Fund Inception	12/29/1999
CUSIP	304871106
Fund Symbol	FAIRX

FEATURES

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

GROWTH OF $10,000 from 12/29/99 to 9/30/12



Performance Details

The chart above covers the period from inception of The Fund (December 29, 1999) to September 30, 2012. Performance information quoted above represents past performance and does not guarantee future results. The investment return and principal value of an investment in the Fund will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance may be higher or lower than the performance information quoted above. Performance figures assume reinvestment of dividends and capital gains, but does not reflect the effect of a 2% redemption fee, which is imposed on shares held less than 60 days. If it did, total returns would be reduced. Any questions you may have, including most recent month-end performance, can be answered by calling Shareholder Services at 1-866-202-2263.

The S&P 500 Index is a broad based measurement of changes in the stock market, is used for comparative purposes only, and is not meant to be indicative of the Fund's performance, asset composition or volatility. Given the wide scope of securities held by S&P 500, it should be inherently less volatile. Our results may differ markedly from those of the S&P 500 in either up or down market trends. The performance of the S&P 500 is shown with all dividends reinvested into the index and does not reflect any reduction in performance for the effects of transaction costs or management fees. Investors cannot invest directly in an index.

TOP CATEGORIES

% of Total Portfolio as of 5/31/12

Multi-Line Insurance	36.8%
Retail Department Stores	10.0%
Life Insurance	8.8%
Diversified Banks	8.5%
Cash and Cash Equivalents**	7.2%
Commercial Finance	6.6%
Real Estate Investment Trust	6.3%
Real Estate Management & Development	5.8%
Diversified Holding Companies	3.5%
Surety Insurance	3.0%

TOP HOLDINGS BY ISSUER***

as of 5/31/12

	%of Total Net Assets
American International Group, Inc.	36.8%
Sears Holdings Corp.	10.0%
AIA Group Ltd.	8.8%
Bank of America Corp.	8.5%
CIT Group Inc.	6.6%
General Growth Properties, Inc.	6.3%
The St. Joe Co.	5.1%
Leucadia National Corp.	3.5%
MBIA, Inc.	3.0%
Howard Hughes Corp.	0.7%
Total	**89.3%**

* Includes acquired fund fees and expenses of .02% which are incurred indirectly by the Fairholme Fund as a result of investments in securities issued by one or more investment companies, including money market funds.

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

***Excludes cash and money market funds.

Fairholme Distributors, LLC (10/12)

TRANSFER AGENT

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Telephone: 1-866-202-2263
www.fairholmefunds.com

FUND MANAGER

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

FAIRHOLME

Ignore the crowd.

The Fairholme Focused Income Fund

INVESTMENT OBJECTIVE

The Fairholme Focused Income Fund seeks current income. The Fund attempts to achieve this objective by investing in a focused portfolio of cash distributing securities. To maintain maximum flexibility, the securities in which the Fund may invest include, but are not limited to, corporate debt securities of issuers in the U.S. and foreign countries, government and agency debt securities of U.S. and foreign countries, bank loans and loan participations, convertible bonds and other convertible securities, and equity securities, including preferred and common stock. The Fund will use Fairholme's focused, multi-sector, multi-strategy, value-based approach. There is no guarantee that the fund will meet its objectives.

Investing in the Fund involves risk including loss of principal. The Fairholme Focused Income Fund is a non-diversified mutual fund, which means that the Fund invests in a smaller number of securities when compared to more diversified funds. This strategy exposes the Fund and its shareholders to greater risk of loss from adverse developments affecting portfolio companies. The 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 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.

Please visit *www.fairholmefunds.com* for a prospectus, reports, and further details on the Fund's strategy.

TOP CATEGORIES

% of Total Portfolio as of 5/31/12

Surety Insurance	37.4%
Regional Banks	21.4%
Retail Department Stores	18.6%
Cash and Cash Equivalents**	11.0%
Commercial Services & Supplies	2.9%
Real Estate Investment Trust	1.7%
Diversified Banks	0.6%
Multi-Line Insurance	0.5%
Real Estate Management & Development	0.2%

TOP HOLDINGS BY ISSUER***

as of 5/31/12

	%of Total Net Assets
MBIA, Inc.	37.4%
Emigrant Bancorp, Inc.	19.3%
Sears Holdings Corp.	18.6%
International Lease Finance Corp.	2.9%
Regions Financial Corp.	2.1%
General Growth Properties, Inc.	1.7%
Wells Fargo & Co.	0.6%
American International Group, Inc.	0.5%
Howard Hughes Corp.	0.2%
Total	**83.3%**

FUND PERFORMANCE (as of 9/30/2012)

	Cumulative Return	Average Annual Total Return
1-Year	16.70%	16.70%
Since Inception	21.62%	7.38%

US AGG BOND INDEX (as of 9/30/2012)

	Cumulative Return	Average Annual Total Return
1-Year	5.16%	5.16%
Since Inception	19.48%	6.69%

STATISTICS

YTD Return (9/30/12)	10.21%
NAV (9/28/2012)	$10.18
12 Month Low-High	$9.42-$10.69
Net Assets ($Millions as of 9/28/12)	$261
30-Day SEC Yield	9.78%
Expense Ratio	1.01%*
Fiscal Year End	November 30
Fund Inception	12/31/2009
CUSIP	304871304
Fund Symbol	FOCIX

FEATURES

Minimum Initial Investment****	$25,000
Minimum Retirement****	$25,000
Minimum Subsequent Investment	$2,500
Minimum Subsequent Retirement	$1,000
Minimum Automatic Investment Plan	$250

Performance Details

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* Includes acquired fund fees and expenses of .01% which are incurred indirectly by the Income Fund as a result of investments in securities issued by one or more investment companies, including money market funds.

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

***Excludes cash and money market funds.

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

The Barclays Capital U.S. Aggregate Bond Index ("US AGG BOND INDEX") represents securities that are SEC-registered, taxable, and U.S. dollar denominated. The index covers the U.S. investment grade fixed rate bond market, with index components for government and corporate securities, mortgage pass-through securities, and asset-backed securities. These major sectors are subdivided into more specific indices that are calculated and reported on a regular basis. It is not possible to invest directly in an unmanaged index. Prior to November 1st, 2008, this index was published by Lehman Brothers. The index is not meant to be indicative of the Fund's performance, asset composition, or volatility. Our results may differ markedly from those of US AGG BOND INDEX in either up or down market trends and interest rate environments. The performance of US AGG BOND INDEX does not reflect any management fees, transaction costs, or expenses.

The fund's investment objectives, risks, charges, and expenses should be considered carefully before investing. The prospectus contains this and other important information about the Fairholme Focused Income Fund, and it may be obtained by calling Shareholder Services at 1-866-202-2263 or visiting our website www.fairholmefunds.com. Read it carefully before investing.

Shares of the Fairholme Focused Income Fund are not deposits or obligations of any bank, are not guaranteed by any bank, are not insured by the FDIC or any other agency, and involve investment risk, including possible loss of the principal amount invested. Automatic Investment Plans do not assure a profit and do not protect against a loss in declining markets.

Fairholme Distributors, LLC (10/12)

TRANSFER AGENT

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www.fairholmefunds.com

FUND MANAGER

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FAIRHOLME

Ignore the crowd.

FAIRHOLME

The Fairholme Allocation Fund

INVESTMENT OBJECTIVE

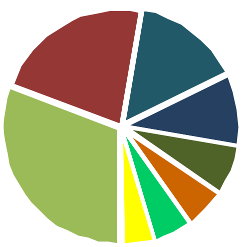
The Fairholme Allocation Fund seeks long-term total return from capital appreciation and income. The Fund attempts to achieve this investment objective by investing in a focused portfolio of investments in the equity, fixed-income and cash and cash-equivalent asset classes. The proportion of the Fund's portfolio invested in each asset class will vary from time to time based on Fairholme's assessment of relative fundamental values of securities and other investments in the class, the attractiveness of the investment opportunities within each asset class, general market and economic conditions, and expected future returns of investments. The Fund seeks to capitalize on anticipated fluctuations in the financial markets by changing the mix of the Fund's holdings in the targeted asset classes. The Fund will use Fairholme's focused, multi-sector, multi-strategy, value-based approach. There is no guarantee that the fund will meet its objectives.

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

Please visit www.fairholmefunds.com for a prospectus, reports, and further details on the Fund's strategy.

TOP CATEGORIES

% of Total Portfolio as of 5/31/12



Category	%
Surety Insurance	29.3%
Multi-Line Insurance	20.9%
Diversified Banks	14.3%
Retail Department Stores	9.5%
Cash and Cash Equivalents**	6.4%
Capital Markets	5.3%
Diversified Holding Companies	5.1%
Regional Banks	4.3%
Specialty Retail–Home Improvement	0.1%

TOP HOLDINGS BY ISSUER****

as of 5/31/12

	%of Total Net Assets
MBIA, Inc.	29.3%
American International Group, Inc.	20.4%
Sears Holdings Corp.	9.5%
Bank of America Corp.	7.6%
Jefferies Group, Inc.	5.3%
Leucadia National Corp.	5.1%
Wells Fargo & Co.	4.8%
Emigrant Bancorp, Inc.	4.3%
JPMorgan Chase & Co.	1.9%
The Hartford Financial Services Group, Inc.	0.5%
Total	**88.7%**

FUND PERFORMANCE (as of 9/30/2012)

	Cumulative Return	Average Annual Total Return
1-Year	31.97%	31.97%
Since Inception	-3.00%	-1.72%

US AGG BOND INDEX (as of 9/30/2012)

	Cumulative Return	Average Annual Total Return
1-Year	5.16%	5.16%
Since Inception	12.15%	6.77%

S&P 500 INDEX (as of 9/30/2012)

	Cumulative Return	Average Annual Total Return
1-Year	30.20%	30.20%
Since Inception	18.90%	10.39%

STATISTICS

YTD Return (9/30/2012)	12.79%
NAV (9/28/2012)	$9.70
12 Month Low-High	$6.98-$10.57
Net Assets ($Millions as of 9/28/2012)	$271
30-Day SEC Yield	-0.55%
Expense Ratio	1.01%*
Fiscal Year End	November 30
Fund Inception	12/31/2010
CUSIP	304871403
Fund Symbol	FAAFX

FEATURES

Minimum Initial Investment***	$25,000
Minimum Retirement***	$25,000
Minimum Subsequent Investment	$2,500
Minimum Subsequent Retirement	$1,000

Performance Details

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The Fund's investment objectives, risks, charges, and expenses should be considered carefully before investing. The prospectus contains this and other important information about the Fairholme Allocation Fund, and it may be obtained by calling Shareholder Services at 1-866-202-2263 or visiting our website www.fairholmefunds.com. Read it carefully before investing.

Fairholme Distributors, LLC (10/12)

TRANSFER AGENT

The Fairholme Allocation Fund
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Westborough, MA 01581-1722
Telephone: 1-866-202-2263
www.fairholmefunds.com

FUND MANAGER

Fairholme Capital Management, LLC
4400 Biscayne Boulevard
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FAIRHOLME
Ignore the crowd.

Program #916
Broadcast: October 12, 2012

On this week's ***Consuelo Mack WealthTrack***, a rare interview with Morningstar's Fund Manager of the Decade. Great Investor Bruce Berkowitz discusses Fairholme Fund's controversial concentration in financial stocks and other unloved securities.

<u>Guest</u>

Bruce Berkowitz
Portfolio Manager
The Fairholme Fund

Edited for Clarity and Accuracy

CONSUELO MACK: This week on WealthTrack, Fairholme Fund's Bruce Berkowitz explains why he is ignoring the crowd and swimming with financial stocks while other investors flee! An exclusive interview with Great Investor Bruce Berkowitz is next on Consuelo Mack WealthTrack.

Hello and welcome to this edition of WealthTrack, I'm Consuelo Mack. "Ignore the crowd" is the motto of this week's Great Investor guest, and Fairholme Fund's Bruce Berkowitz has had his work cut out for himself defending it, especially in 2011.

The roar of the crowd was deafening as Berkowitz heavily invested in a handful of stocks left for dead by most investors. The Fairholme Fund's largest holding by far is AIG, the global insurer brought to its knees and then resuscitated by the U.S. government. Next is Sears Holdings, the long out-of-favor retailer and corporate real estate behemoth. Fairholme is the second largest shareholder after Sears Chairman Eddie Lampert. The Fund's third biggest holding is Bank of America, which is still under legal assault related to its Merrill Lynch acquisition and mortgage business. The three companies account for over 50% of Fairholme's portfolio.

That concentration in then-declining unloved companies freaked out shareholders, who abandoned ship in droves last year. Assets under management had climbed to a high of $22.5 billion by early 2011, helped by Berkowitz being named Morningstar's first ever Domestic Equity Fund Manager of the Decade and his exceptional 13.2% annualized returns for the period; assets have since fallen to the $7 billion range. One of the shareholders who has not fled is Berkowitz himself, who has his wealth invested in the Fairholme Funds. As with the vast majority of our Great Investors, staying with them through thick and thin has proven to be a profitable decision. The Fairholme Fund's 10% annualized returns over the last decade place it in the top one percent of its large value category and have handily beaten the market.

Bruce Berkowitz is the sole owner of Fairholme Capital Management, its Chief Investment Officer, plus Portfolio Manager of the flagship Fairholme Fund, launched in 1999, and two much smaller and more recent funds. In addition to Manager of the Decade, Morningstar also named Berkowitz Domestic Equity Fund Manager of the Year in 2009. I began the interview by asking him why his Fairholme Fund remains so concentrated in so few companies.

BRUCE BERKOWITZ: It's the history of success. When you look at the Fortune 400, those who've really succeeded, they focused on few activities and most managed the activities. We have focused on companies with managers that do a better job than I could do. And the reason: Why would you possibly want to buy your tenth best idea if you can buy more of your best idea?

If you're not confident or you feel ignorant about what you're doing, then I could understand the need to have a lot of positions. But if you believe you've focused because the facts are telling you that you're right, then I don't believe there's a need for more than ten ideas. You could have a handful of significant positions and do quite well in this world. You only need a few ideas in a lifetime to do unbelievably well. And that's what we're trying to achieve. That's what we've promised. We've kept our word and we've stayed the course. And no matter how shareholders may feel after a decline, we're going to keep to what we said we would do.

CONSUELO MACK: So let's talk about the few good ideas. Of course your motto is "Ignore the crowd." You certainly have done that, in spades, no question. And you've ignored the crowd to the extent where a large portion of your limited holdings are in financial stocks – financial stocks which are hated and vilified by the crowd, no question about it. So why go looking for trouble? I mean, why invest in AIG and Bank of America, for instance? Why choose the financial stocks?

BRUCE BERKOWITZ: Well, the financials are just smack-dab in the middle of my circle of competence. The greatest performance I ever had was when I invested in the late 1980s/early 1990s in financials. It was a rocky road for a few years, and then we had—

CONSUELO MACK: So Wells Fargo, for instance, was one of your holdings back then.

BRUCE BERKOWITZ: Yes, Wells Fargo. In the accounts I managed, we made seven times our money. It was a decade of very good performance – abnormally high performance. And I was much younger then, and I always promised myself that if one day the financials would have another collapse, I hoped I would have enough money to really take advantage of it. And this is exactly what I've done. We have bought systemically important companies at a fraction of their liquidation values.

CONSUELO MACK: What's the opportunity versus the risk that you saw in going into the financial companies that you did in 2011?

BRUCE BERKOWITZ: We went into the financials after they were recapitalized by the government, after their business trends turned positive and still priced less than liquidation values. And today, they continue to be priced less than liquidation values. We had the situation in 2011 where our target businesses were all starting to improve, so we invested. But, their prices plummeted afterwards because "investors" did not believe the facts, what they were seeing reported by the companies. Obviously when you look back, you had the recent pain of these companies being decimated. You had the fear of the future, maybe a double-dip recession. And a lot of investors just couldn't go there. Even though when you look back today and see how they performed since we purchased the companies, they've done very well. They've made good money in a difficult environment. They're going to make great money in a more normal environment.

This is what I do. This is what I've always done. A lot of people look at the Fairholme Fund and they say, "Oh the Fund is down." The net asset value of the Fund doesn't tell the full story. We have made a lot of distributions. We made almost two billion dollars in distributions since inception. So when you take into account distributions, if you started out with ten dollars, we're at approximately $40 right now.

CONSUELO MACK: So you're talking about since inception.

BRUCE BERKOWITZ: Yes, from inception of The Fairholme Fund, from the beginning share price. If you compare that to the S&P, if you put $10 into the S&P Index, you'd have about $12.50. We have gone from $10 to approximately $40. Now people say we're very volatile, you've got to be careful. But you know what? You can pick any 60-month rolling period you like during our existence and the worst that we performed over those five year was down seven percent.

CONSUELO MACK: So it's interesting. Since inception, in the last five years, and in the last ten years you've beaten the market handily, no question about it. The last three years, again, for the most recent investors, you've actually trailed the market. So let me just put it this way: from a recent experience, shareholders have not benefited by being investors in The Fairholme Fund. So what do you say to them?

BRUCE BERKOWITZ: I say to them that we invest for the long-term. We talk about a five-year horizon. We ask you to look back at The Fairholme Fund, and look at any five-year horizon you'd like, any 60-month period. The Fund crushed the S&P on the worst 60 months and on the best 60 months; our best 60 months is up 160%. Multiples of the S&P. We ask you to look since inception, five years or longer, any five years. The Fund had a very difficult 2011, so you have to understand the facts. The facts are we bought portfolio companies after their businesses turned. Their values, their book values, liquidation values, bad debt ratios, ROEs, ROAs, whatever metric you want to look at, suggests they were improving.

CONSUELO MACK: Right, and you're talking about the fundamentals of the companies themselves.

BRUCE BERKOWITZ: The fundamentals, the facts.

CONSUELO MACK: You're talking about AIG and Bank of America.

BRUCE BERKOWITZ: AIG, Bank of America, CIT, all the financials that the Fund has invested in. And the ones we had before - the ones we had to sell because of redemptions. They were all turning. When we bought these companies, they were selling for half of liquidation values. And prices went further down, which created more opportunity, which allowed us to focus more. That's my job.

CONSUELO MACK: Right, so as a value investor, *a deep value investor*, this is just par for the course of what we should expect if I want to invest in The Fairholme Fund; just get used to the fact that you're going to be looking for deep values, which means that people don't like them, they're shunned, they're vilified.

BRUCE BERKOWITZ: Right.

CONSUELO MACK: And people are going to think you're nuts for a certain amount of time.

BRUCE BERKOWITZ: I think that's true. If I see a dollar bill and I can buy it for 20 cents or 30 cents, and I know that dollar bill is real; in fact, I believe that dollar bill will eventually become two dollars and then three dollars, and I can get it for a fraction of the dollar, I'm going to buy as much as I possibly can within the rules of being a mutual fund.

CONSUELO MACK: Okay. Your motto is "Ignore the crowd." But the crowd that did come into The Fairholme Fund, because you've had this superb track record, you were named Morningstar's first-ever Manager of the Decade. And so people basically flocked into the Fund, and then in 2011 they just fled the Fund, so you lost over half of your assets.

BRUCE BERKOWITZ: Yes.

CONSUELO MACK: In retrospect, would you have handled anything differently? Or were there lessons? What was the takeaway of that experience for you?

BRUCE BERKOWITZ: Well, if I knew the future, I would have waited to buy the financials and I would have held onto the healthcare companies longer. I would have waited for the financials if I knew what the prices were going to be. But I don't have a crystal ball. All I can judge are the facts – that our portfolio companies turned the corner. They were not going to die. They were unbelievably cheap. We had a huge opportunity and, over a five-year window, we were going to make a lot of money. This is what happened to me in the late '80s, and through the '90s, and I thought this was a replay. And it is turning out to be a replay.

CONSUELO MACK: That's the question. So it is turning out to be a replay, then.

BRUCE BERKOWITZ: It is, and we're back. The Fund's performance, when you take into account distributions, is approximately 10-15% from its all-time high. We're getting there. And based upon year-to-date performance, the Fund is up approximately 35% right now.

CONSUELO MACK: Right, year-to-date.

BRUCE BERKOWITZ: More than twice the S&P 500. And we believe many of our portfolio companies are still dirt cheap. That dollar bill may be worth $1.50 now and the market perceives it to be 75 cents on the $1.50. So, we believe we have a long run ahead of ourselves. And the facts, the evidence, the quarterly reports, are showing that it's going the way we thought it would. And for those who go back and read what I had to say a couple of years ago, I believe our thesis is correct.

CONSUELO MACK: It's starting to be reflected in the market.

BRUCE BERKOWITZ: Right, and the quarterly reports are proving it. The facts are proving it. And I wish I could figure out how prices go up and down in a six-month period, or a 12-month period, but I don't have that ability. So we look at book values – we look at more stable measures. We look at performance ratios and we know eventually the facts cannot be ignored. You can only ignore certain issues, like making a ton of money, for so long. It's right there, cash you can count in the bank.

CONSUELO MACK: And I know cash is very important to you. Give me the quick executive summary for AIG, your largest holding by far. You really have these terrific case studies that you have on The Fairholme Fund's website. We'll probably place a link on our website as well. So give me the rationale on AIG.

BRUCE BERKOWITZ: AIG: a victim of a set of circumstances, from Hank Greenberg leaving, to two small divisions that were no longer being watched by a smart manager almost blowing up the entire company because of liquidity issues. If Hank Greenberg was still there, it would not have happened.

CONSUELO MACK: And the government ended up owning like 90%, right?

BRUCE BERKOWITZ: Ninety-two percent. A very smart government. We're the largest owner after the government. So, you look at the company. Growing up in the insurance world, having served on the boards of insurance companies, you drooled about AIG. At one time, it was five, six times book value. And all of a sudden the price goes down to near zero. And you still have a very valuable global franchise and a large U.S. domestic life insurance segment. A huge amount of assets. You're buying tangible assets for less than 50 cents on the dollar and you're becoming a large owner of a systemically important company that has to exist - after it's been refurbished.

CONSUELO MACK: So right now, AIG still your largest holding, still a terrific buy?

BRUCE BERKOWITZ: Terrific buy.

CONSUELO MACK: And so when do you decide to get out? I mean, what's the decision that you start trimming back?

BRUCE BERKOWITZ: Well, I think the book value is near $70 per share. It's going to continue to grow. We believe the price, which is now less than $35 per share, will eventually reach book value. Maybe that happens in the $70s or the $80s, I don't know. But it gets about there. We'll see. And companies such as AIG can trade at a multiple of book value. But I don't want to go there yet. Just getting to our estimate of book value will be a very nice return for shareholders. It's a similar case for Bank of America. It's a very similar case in Sears.

CONSUELO MACK: So in the case of Bank of America, sticking with the financials. And again, you keep seeing these headlines, the New York State Attorney General's going to sue them as well, after J.P. Morgan Chase. So you keep getting this drumbeat of mortgage exposure and who-knows-what.

BRUCE BERKOWITZ: The big uncertainty with Bank of America is the legal issues related to mortgages. Clearly, the Bank has to work as hard as it can to resolve that uncertainty. That's the catalyst, removing the uncertainty. Bank of America has a $20 per share book value. It has $16 billion+ of reserves against those issues. It has earnings power of $20 billion a year. The Bank is burning through the issues. It is more than halfway through - now. But, no one's going to really touch Bank of America until the uncertainty diminishes.

I look at the issue as having a wide range of uncertainty and that the Bank can handle it. And it has. And you can see the results of settlements and you can see where it's heading. You've had a long period of time now to see how it's sorting out, to understand the tenure, and how the vintages are aging. And the Bank is making money. Its book value is going up. So here you have a company trading at less than nine dollars, which buys you a company with a book of $20 per share. The Bank's shares are trading for less than the cash it has in the bank. What am I missing?

And a company that is just a huge part of the financial system of the United States. So what more can an investor ask for?

Bank of America is absolutely hated. It's like not going to a restaurant with a new chef because of the bad meal you had with the old chef. It doesn't make any sense to me how people are behaving about a situation that no longer exists.

CONSUELO MACK: Alright, so this is definitely vintage Bruce Berkowitz strategy, there's no question about it.

BRUCE BERKOWITZ: This is what we look for.

CONSUELO MACK: The third case study I'm going to ask you about is Sears. It's not a financial stock. It's considered to be an old, mature retailer, and you've owned it for about five years.

BRUCE BERKOWITZ: Right.

CONSUELO MACK: And so what's the rationale for sticking with Sears? You're the second-largest shareholder of Sears.

BRUCE BERKOWITZ: Yes, I've tried to explain this several times.

CONSUELO MACK: Maybe this time it'll take.

BRUCE BERKOWITZ: And I'm trying a new way now.

CONSUELO MACK: Okay.

BRUCE BERKOWITZ: The largest mall operator, I believe in the United States, is Simon Properties. Sears owns or holds long-term leases, which is the equivalent to ownership, on more square footage than Simon. And, if you compare the values of the two companies, Sears is about one-tenth the enterprise value of Simon. Now, what's wrong with the picture? How can Sears equity plus debt be valued one way, and Simon's, with less space, be valued at almost ten times that value?

CONSUELO MACK: Well, I'll tell you how it can be valued differently, and it's because Sears is a retailer and it's not trading properties like Simon is. So people have a very different view of Sears because these are retail brand spaces.

BRUCE BERKOWITZ: If you look at what's happened in the past year and you see how Sears has sold properties and closed stores down, and how it has made money by closing stores, pulled in huge amounts of cash, then the facts tell you that it's true – there is a tremendous value in the real estate. Look at it another way. Today's market price of Sears is equivalent to the liquidation value of just the inventory within Sears and Kmart. So there's the inventory, there's the real estate, and we haven't even talked about the brands, Lands' End, or Sears Canada. So, any way you look at it, Sears shares are worth a multiple of what we paid and of where it's trading today. There is a fact set that shows that [our thesis] is correct.

CONSUELO MACK: So shouldn't Sears be doing more? Here you are the second-largest shareholder. Shouldn't it be doing more to unlock the values that you're talking about?

BRUCE BERKOWITZ: When it comes to real estate, you can't push on a string. In a real estate cycle, there's a time to sell, there's a time to buy and there's a time to do nothing. And I think Eddie Lampert will figure out at what point it makes more economic sense to close down a store and sell it to a company that needs it, whether it's a European chain or whatever. Malls are doing quite well. Rents are up, occupancy is up. And if you understand the history of malls in America, what it is to be the anchor, and the kinds of deals that you receive to be an anchor (in terms of owning the property, rights of first refusal, the price of long-term leases), then you have to come to the conclusion that the current stock price doesn't make any sense.

CONSUELO MACK: So looking at Fairholme, what place do you play in my portfolio if I want a well-diversified portfolio, and I want Fairholme to be part of it?

BRUCE BERKOWITZ: I believe it's dependent upon your emotional attitude toward the markets. And how you feel in terms of what fraction the Fairholme Fund should be of an overall portfolio. It's really up to the individual. I can't tell you.

CONSUELO MACK: Right.

BRUCE BERKOWITZ: I'm all in. I can tell you that, but...

CONSUELO MACK: You're all in. So what is it that it's going to deliver for me as an investment? What is it that I can expect if I stick with you for five years or more?

BRUCE BERKOWITZ: Before 2011, the Fund had mid to high teens annualized performance. And now the Fund is down to a measly 10% – 11% compared to less than 2% for the S&P 500. Today we look like bums. I think the Fund is going to get back in everyone's good graces because its portfolio companies now have the ability, in our view, to make a 10% return on equity, on shareholder's money. And if the companies are selling for half of their shareholders' equity, at half of book value, the Fund should be able to make 20% per annum on the investment. I expect we should get back to that high teens performance.

CONSUELO MACK: One investment for a long-term diversified portfolio?

BRUCE BERKOWITZ: Our largest position, by far, is AIG. Rumors of AIG's death were greatly exaggerated a few years back. The government is pretty much out. You're paying 50 cents on the dollar of tangible book. The company will grow, the franchise is still there. They're back. We're back, the economy's getting back. It's happening. I know it's been a long time and people are still traumatized from the past few years. But eventually you have to get over it and take a look around and see the reality of what's actually happening.

CONSUELO MACK: You heard it here first. Bruce Berkowitz and The Fairholme Fund are back. Bruce, thank you so much. You certainly are back on WealthTrack and we really appreciate you being here.

BRUCE BERKOWITZ: Thank you.

CONSUELO MACK: At the conclusion of every WealthTrack, we give you one suggestion to help you build and protect your wealth over the long term. This week's interview with Bruce Berkowitz reminded me of a timeless message that we have delivered to WealthTrack viewers since our launch eight years ago. It is: avoid the underperformance trap!

There have been numerous studies done comparing mutual fund performance with that of the shareholders who invest in those funds. Investors underperform even top funds they invest in by a huge margin because time after time they pour money into funds that have had a stretch of exceptional performance, as they did with The Fairholme Fund, and they bail out when the fund underperforms, thus missing any subsequent rebound: the infamous buy high and sell low mistake.

The solution: once you have chosen your funds based on their management, culture, long-term track records and just as important, matched their risk profile with your tolerance level, stick with them. We want you to beat the underperformance trap!

Consuelo Mack's Post Interview Q&A

CONSUELO MACK: Great investor Bruce Berkowitz, portfolio manager of The Fairholme Fund, is known for making big bets on a few unloved stocks. Among his most recent controversial wagers have been insurer AIG, retailer Sears, and Bank of America. But what most people don't know about Berkowitz, is that at one point in his teenage years, he interrupted his schooling to become a bookie. I asked him about the investment lessons learned.

BRUCE BERKOWITZ: Most of the lessons had to do with psychology. You could watch someone make a bet for a relatively large amount of money and then complain about paying 25 cents for a cup of coffee, which doesn't make sense. I feel that way with banks today, where people will easily go and buy a couple of cappuccinos, but if they get charged five dollars for the bank to protect their money, to have instant access to their money, to be insured, that's unacceptable. You learn a perverse psychology. People use shortcuts to make decisions and some of those shortcuts are good, like when you're driving, but some of those shortcuts are really bad. That really helped me in this environment, because in the past couple of years you really had to be more of a psychologist than an accountant to try and begin to comprehend what is going on.

CONSUELO MACK: So Bruce, what is the best investment advice that you've ever received?

BRUCE BERKOWITZ: The price you pay for a security determines most of your success. That is, what you pay is really 75 percent of success. The greatest company that you pay too much for will cause you to lose money. You can have a mediocre company, pay nothing for it, and make a considerable amount of money. Price paid determines much.

The opinions of Mr. Berkowitz expressed herein are those of Fairholme Capital Management, L.L.C. and should not be considered a guarantee of future events or future results, or investment advice. Any references to past performance should not be construed as an indicator of future performance. Any projections, market outlooks or estimates that may be included in this material are forward looking statements and based upon certain assumptions. Other events that were not taken into account may occur, and may significantly affect the returns or performance of the Funds. Any assumptions should not be construed to be indicative of the actual events which will occur.

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Each Fund's investment objective, risks, charges and expenses must be considered carefully before investing. The prospectus contains this and other important information about investing in the Fund, and it may be obtained by calling 866-202-2263, or visiting www.fairholmefunds.com. Please read it carefully before investing.

The investment returns and principal values of investments in the Fund will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the performance information quoted within. The Fairholme Fund imposes a 2.00% redemption fee on shares held less than 60 days. Performance data does not reflect the redemption fee, which if imposed, would reduce returns. Any questions you have regarding the latest month-end performance can be obtained by calling shareholder services at 1-866-202-2263.

Mutual fund investing involves risk. Principal loss is possible.

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