

# Fidelity® Select Biotechnology Portfolio

## Investment Approach

- Fidelity® Select Biotechnology Portfolio is an industry-based, equity-focused strategy that seeks to outperform its benchmark through active management.
- Fundamental, bottom-up research leveraging our experienced global health care team is the primary source of idea generation. Our analysis is driven by a data and statistical approach that emphasizes valuation through free cash flow and risk-adjusted net present value of future earnings, the latter being the standard valuation method in the drug-development industry.
- Our investment approach includes evaluating a company's drug pipeline, the size of its market opportunity and its relative valuation. We position the fund around four major themes: long-term winners with strong product pipelines – our primary focus – turnaround situations, breakthrough innovations and early-stage firms with promising science.
- Sector and industry strategies could be used by investors as alternatives to individual stocks for either tactical- or strategic-allocation purposes.

## PERFORMANCE SUMMARY

	Cumulative		Annualized			
	3 Month	YTD	1 Year	3 Year	5 Year	10 Year/LOF <sup>1</sup>
Select Biotechnology Portfolio Gross Expense Ratio: 0.72% <sup>2</sup>	14.88%	10.08%	10.08%	-6.72%	8.83%	7.39%
S&P 500 Index	11.69%	26.29%	26.29%	10.00%	15.69%	12.03%
MSCI US IMI Biotechnology 25/50	12.20%	5.96%	5.96%	4.20%	11.27%	10.06%
Morningstar Fund Health	9.77%	3.22%	3.22%	-2.35%	8.65%	8.95%
% Rank in Morningstar Category (1% = Best)	--	--	12%	76%	60%	76%
# of Funds in Morningstar Category	--	--	176	158	135	113

<sup>1</sup> Life of Fund (LOF) if performance is less than 10 years. Fund inception date: 12/16/1985.

<sup>2</sup> This expense ratio is from the most recent prospectus and generally is based on amounts incurred during the most recent fiscal year, or estimated amounts for the current fiscal year in the case of a newly launched fund. It does not include any fee waivers or reimbursements, which would be reflected in the fund's net expense ratio.

Past performance is no guarantee of future results. Investment return and principal value of an investment will fluctuate; therefore, you may have a gain or loss when you sell your shares. Current performance may be higher or lower than the performance stated. Performance shown is that of the fund's Retail Class shares (if multiclass). You may own another share class of the fund with a different expense structure and, thus, have different returns. To learn more or to obtain the most recent month-end or other share-class performance, visit [fidelity.com/performance](https://www.fidelity.com/performance), [institutional.fidelity.com](https://www.institutional.fidelity.com), or [401k.com](https://www.401k.com). Total returns are historical and include change in share value and reinvestment of dividends and capital gains, if any. Cumulative total returns are reported as of the period indicated.

For definitions and other important information, please see the Definitions and Important Information section of this Fund Review.

## FUND INFORMATION

**Manager(s):**  
Rajiv Kaul

**Trading Symbol:**  
FBIOX

**Start Date:**  
December 16, 1985

**Size (in millions):**  
\$4,599.87

**Morningstar Category:**  
Fund Health

*Stock markets, especially foreign markets, are volatile and can decline significantly in response to adverse issuer, political, regulatory, market, or economic developments. The biotechnology industry can be significantly affected by patent considerations, intense competition, rapid technological change and obsolescence, and government regulation, and revenue patterns can be erratic. Foreign securities are subject to interest rate, currency exchange rate, economic, and political risks. The fund may have additional volatility because of its narrow concentration in a specific industry. Non-diversified funds that focus on a relatively small number of stocks tend to be more volatile than diversified funds and the market as a whole.*



Not FDIC Insured • May Lose Value • No Bank Guarantee

## Market Review

For the three months ending December 31, 2023, the biotechnology industry gained 12.20%, according to the MSCI U.S. IMI Biotechnology 25/50 Index, modestly ahead of the 11.69% advance of the broad-based S&P 500® index.

Following a weak third quarter for U.S. stocks overall, the market came roaring back in Q4, as the U.S. Federal Reserve seemed to be closer to cutting its key policy interest rate in the new year, assuming inflation remains on a constructive path. The S&P 500® posted a negative return (-2.10%) in October, but November (+9.13%) and December (+4.54%) were both solidly in the black.

In the biotech universe, many of the largest-cap groups recorded a relatively muted advance for the quarter, but smaller-cap shares solidly outperformed, reflecting a healthy speculative environment. The broader health care sector finished far back in the pack among the 11 S&P 500® sectors, in ninth place. However, biotechnology was one of the stronger groups within health care, along with medical equipment. All told, it was a promising end to a year in which biotechnology stocks struggled to remain above break-even.

Biotech investors enjoyed a friendly regulatory environment over the past 12 months. The U.S. Food and Drug Administration approved nearly 50% more novel drugs in 2023 than in 2022, putting it back on pace with historical levels, an improvement analysts suggested could lead to increased investment in biotech firms. On the other hand, layoffs were a fixture of the biotech industry this year, a symptom of higher interest rates and other economic troubles that hampered efforts to keep research and development efforts on track.

AbbVie, the largest index component, gained 5% this quarter, while Amgen, another benchmark heavyweight, was up 9%, as was Gilead Sciences. Regeneron Pharmaceuticals turned in a roughly 7% increase, while Moderna posted a roughly -4% result. Meanwhile, a number of smaller-cap shares recorded triple-digit gains in Q4. ■

### LARGEST CONTRIBUTORS VS. BENCHMARK

Holding	Market Segment	Average Relative Weight	Relative Contribution (basis points)*
AbbVie, Inc.	Biotechnology	-8.44%	66
Scholar Rock Holding Corp.	Biotechnology	0.67%	60
Biohaven Ltd.	Biotechnology	1.29%	57
Karuna Therapeutics, Inc.	Biotechnology	0.76%	57
Arcellx, Inc.	Biotechnology	1.16%	43

\* 1 basis point = 0.01%.

## Performance Review

For the quarter, the fund gained 14.88%, topping the MSCI U.S. IMI Biotechnology 25/50 Index and the broad-based S&P 500® index.

Relative strength in smaller-cap biotechnology stocks worked solidly in the fund's favor the past three months. Generally speaking, we see greater innovation and promise in smaller companies.

A sizable overweight in Karuna Therapeutics meaningfully contributed to the fund's result versus the biotech index. The stock was up 87% in the fourth quarter, despite the firm reporting weaker-than-expected Q3 earnings. On December 21, pharmaceutical giant Bristol-Myers Squibb announced that it had reached a deal to acquire the company, a neuroscience-drug developer, for \$14 billion. The focal point of the deal is Karuna's experimental treatment for schizophrenia, KarXT, currently being reviewed by the FDA. The treatment is in development for conditions related to Alzheimer's and bipolar disorder. The deal is expected to close in the first half of 2024. We notably reduced our stake in Karuna.

Overweighting Cytokinetics also notably helped, as the late-stage, specialty cardiovascular pharmaceutical company saw its shares gain roughly 183% in the fourth quarter. In the final days of the year, the firm announced positive results from a phase 3 trial for Aficamten, its experimental treatment for hypertrophic cardiomyopathy. Positioning in AbbVie (mentioned earlier), further aided our relative result. Despite being the fund's largest holding in Q4, the stock was a major underweight versus the index.

On the other hand, the fund's biggest relative detractor was its sizable non-index position in the stock of Dutch biotech firm argenx SE, which returned roughly -20% the past three months. The company is the maker of Vyvgart®, a treatment for autoimmune diseases; the intravenously administered drug is currently its sole product. On December 20, the shares lost about 25% of their value in one day after the company's subcutaneous (injected under the skin) version of Vyvgart® failed to show efficacy in a phase 3 trial for the skin disease pemphigus. We trimmed our position. ■

### LARGEST DETRACTORS VS. BENCHMARK

Holding	Market Segment	Average Relative Weight	Relative Contribution (basis points)*
Argenx SE ADR	Biotechnology	2.06%	-70
Adimab LLC	Diversified Financial Services	1.45%	-68
Taysha Gene Therapies, Inc.	Biotechnology	0.55%	-51
Ventyx Biosciences, Inc.	Pharmaceuticals	0.10%	-38
National Resilience, Inc. Series B	Biotechnology	1.07%	-36

\* 1 basis point = 0.01%.

## Outlook and Positioning

Recent concerns about inflation, Fed rate hikes and economic slowing have created attractive valuations in biotech stocks, in our view, especially in the small- and mid-cap areas. It is true that if the U.S. economy enters a recession, smaller-cap biotech stocks could encounter more volatility.

Regardless of what the economy has in store for us, however, we remain confident in our approach to selecting investments in this dynamic industry for investors who take the long view. In managing the fund, we prefer companies with attractive risk-adjusted net present value, based on their products or pipelines.

More than ever, we believe understanding the science is key to making successful investments in the biotech industry, and we're confident that we at Fidelity have some of the finest biotechnology investment professionals in the business.

The fund's top overweight as of December 31 was Krystal Biotech. The firm is focused on developing and commercializing genetic medicine for patients with rare diseases. Its wide-ranging pipeline is based on its proprietary, redosable HSV vector, a platform for direct and repeat delivery of therapeutic genes to the skin. We think Krystal has a good chance of launching products in both the European Union and the U.S. in 2024.

Moreover, the company has already received FDA approval for Vyjuvek®, the world's first-ever topical gene therapy. The drug was approved by the FDA in May to treat certain patients with dystrophic epidermolysis bullosa, a skin disease. As of November 2023, Wall Street's consensus sales estimate for the treatment in 2024 was \$163 million. Krystal Biotech was the fund's No. 3 holding at year-end.

The fund's largest out-of-index position as of December 31 was Ascendis Pharma. The company's medication for adults with chronic hypoparathyroidism, Yorvipath® (palopegteriparatide), won approval in the European Union in November after a past rejection in the U.S. from the FDA. Yorvipath® will first launch in Germany in January 2024, based on a recent press release.

Moreover, we believe that U.S. approval could follow in 2024, despite the disappointing FDA decision in 2023. We estimate this market to be \$6 billion, at peak, and we think this drug could be game-changing for the company, as it presently has zero competition in this market. Ascendis Pharma is the fund's No. 8 holding as of December 31.

Our three largest underweights were large-cap stocks AbbVie, Gilead Sciences and Amgen. With that said, AbbVie and Amgen were the fund's two largest holdings as of year-end. The flip side of emphasizing smaller companies in the fund is that we typically underweight large firms, including these three. During risk-off periods, this strategy can work against us, but in the long run we believe it is a sound way to invest. In particular, AbbVie is a huge part of the MSCI biotech index, with an average 23% weighting in Q4. We rarely see reasons to carry that much exposure to the stock.

As always, thank you for your confidence in the fund and Fidelity's investment-management capabilities. ■

## 10 LARGEST HOLDINGS

Holding	Market Segment
AbbVie, Inc.	Biotechnology
Amgen, Inc.	Biotechnology
Krystal Biotech, Inc.	Biotechnology
Vertex Pharmaceuticals, Inc.	Biotechnology
Regeneron Pharmaceuticals, Inc.	Biotechnology
Alnylam Pharmaceuticals, Inc.	Biotechnology
Biogen, Inc.	Biotechnology
Ascendis Pharma A/S sponsored ADR	Biotechnology
Biohaven Ltd.	Biotechnology
Apellis Pharmaceuticals, Inc.	Biotechnology
<b>10 Largest Holdings as a % of Net Assets</b>	<b>43.90%</b>
<b>Total Number of Holdings</b>	<b>216</b>

The 10 largest holdings are as of the end of the reporting period, and may not be representative of the fund's current or future investments. Holdings do not include money market investments.

## ASSET ALLOCATION

Asset Class	Portfolio Weight	Index Weight	Relative Weight	Relative Change From Prior Quarter
Domestic Equities	90.98%	100.00%	-9.02%	-0.92%
International Equities	7.07%	0.00%	7.07%	-0.87%
Developed Markets	6.38%	0.00%	6.38%	-0.40%
Emerging Markets	0.69%	0.00%	0.69%	-0.47%
Tax-Advantaged Domiciles	0.00%	0.00%	0.00%	0.00%
Bonds	0.00%	0.00%	0.00%	0.00%
Cash & Net Other Assets	1.95%	0.00%	1.95%	1.79%

Net Other Assets can include fund receivables, fund payables, and offsets to other derivative positions, as well as certain assets that do not fall into any of the portfolio composition categories. Depending on the extent to which the fund invests in derivatives and the number of positions that are held for future settlement, Net Other Assets can be a negative number.

"Tax-Advantaged Domiciles" represent countries whose tax policies may be favorable for company incorporation.

### LARGEST OVERWEIGHTS BY HOLDING

Holding	Market Segment	Relative Weight
Krystal Biotech, Inc.	Biotechnology	5.04%
Ascendis Pharma A/S sponsored ADR	Biotechnology	1.81%
Biohaven Ltd.	Biotechnology	1.39%
Arcellx, Inc.	Biotechnology	1.28%
Argenx SE ADR	Biotechnology	1.28%

### LARGEST UNDERWEIGHTS BY HOLDING

Holding	Market Segment	Relative Weight
AbbVie, Inc.	Biotechnology	-9.61%
Gilead Sciences, Inc.	Biotechnology	-8.31%
Amgen, Inc.	Biotechnology	-5.27%
Moderna, Inc.	Biotechnology	-1.84%
BioMarin Pharmaceutical, Inc.	Biotechnology	-1.74%

### 3-YEAR RISK/RETURN STATISTICS

	Portfolio	Index
Beta	1.04	1.00
Standard Deviation	20.85%	16.49%
Sharpe Ratio	-0.43	0.12
Tracking Error	11.79%	--
Information Ratio	-0.93	--
R-Squared	0.68	--

## Definitions and Important Information

Information provided in, and presentation of, this document are for informational and educational purposes only and are not a recommendation to take any particular action, or any action at all, nor an offer or solicitation to buy or sell any securities or services presented. It is not investment advice. Fidelity does not provide legal or tax advice.

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### IMPORTANT FUND INFORMATION

Relative positioning data presented in this commentary is based on the fund's primary benchmark (index) unless a secondary benchmark is provided to assess performance.

### INDICES

It is not possible to invest directly in an index. All indices represented are unmanaged. All indices include reinvestment of dividends and interest income unless otherwise noted.

**MSCI U.S. IMI Biotechnology 25/50 Index** represents the performance of the MSCI US IM Biotechnology 25/50 Index since January 1, 2010, and the MSCI US Investable Market Capital Goods Index prior to that date.

**S&P 500 Index** is a market capitalization-weighted index of 500 common stocks chosen for market size, liquidity, and industry group representation to represent U.S. equity performance.

### MARKET-SEGMENT WEIGHTS

Market-segment weights illustrate examples of sectors or industries in which the fund may invest, and may not be representative of the fund's current or future investments. They should not be construed or used as a recommendation for any sector or industry.

### RANKING INFORMATION

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% Rank in Morningstar Category is the fund's total-return percentile rank relative to all funds that have the same Morningstar Category. The highest (or most favorable) percentile rank is 1 and the lowest (or least favorable) percentile rank is 100. The top-performing fund in a category will always receive a rank of 1%. % Rank in Morningstar Category is based on total returns which

include reinvested dividends and capital gains, if any, and exclude sales charges. Multiple share classes of a fund have a common portfolio but impose different expense structures.

### RELATIVE WEIGHTS

Relative weights represents the % of fund assets in a particular market segment, asset class or credit quality relative to the benchmark. A positive number represents an overweight, and a negative number is an underweight. The fund's benchmark is listed immediately under the fund name in the Performance Summary.

### 3-YEAR RISK/RETURN STATISTICS

**Beta** is a measure of the volatility of a fund relative to its benchmark index. A beta greater (less) than 1 is more (less) volatile than the index.

**Information Ratio** measures a fund's active return (fund's average monthly return minus the benchmark's average monthly return) in relation to the volatility of its active returns.

**R-Squared** measures how a fund's performance correlates with a benchmark index's performance and shows what portion of it can be explained by the performance of the overall market/index. R-Squared ranges from 0, meaning no correlation, to 1, meaning perfect correlation. An R-Squared value of less than 0.5 indicates that annualized alpha and beta are not reliable performance statistics.

**Sharpe Ratio** is a measure of historical risk-adjusted performance. It is calculated by dividing the fund's excess returns (the fund's average annual return for the period minus the 3-month "risk free" return rate) and dividing it by the standard deviation of the fund's returns. The higher the ratio, the better the fund's return per unit of risk. The three month "risk free" rate used is the 90-day Treasury Bill rate.

**Standard Deviation** is a statistical measurement of the dispersion of a fund's return over a specified time period. Fidelity calculates standard deviations by comparing a fund's monthly returns to its average monthly return over a 36-month period, and then annualizes the number. Investors may examine historical standard deviation in conjunction with historical returns to decide whether a fund's volatility would have been acceptable given the returns it would have produced. A higher standard deviation indicates a wider dispersion of past returns and thus greater historical volatility. Standard deviation does not indicate how the fund actually performed, but merely indicates the volatility of its returns over time.

**Tracking Error** is the divergence between the price behavior of a position or a portfolio and the price behavior of a benchmark, creating an unexpected profit or loss.



***Before investing in any mutual fund, please carefully consider the investment objectives, risks, charges, and expenses. For this and other information, call or write Fidelity for a free prospectus or, if available, a summary prospectus. Read it carefully before you invest.***

**Past performance is no guarantee of future results.**

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