Fidelity® Select Software and IT Services Portfolio

Key Takeaways

- For the fiscal year ending February 29, 2024, the fund gained 49.47%, outpacing the 46.36% advance of the MSCI U.S. IMI Software & Services 25/50 Index and the 30.45% result of the broad-based S&P 500® index.
- The software and IT services segment produced very strong performance the past 12 months, bolstered by excitement about artificial intelligence and led by a small number of large companies with exposure to this powerful trend, according to Portfolio Manager Ali Khan.
- Stock selection drove the fund's outperformance of the MSCI industry index this period, especially in internet services & infrastructure, transaction & payment processing services, and application software.
- The fund's biggest individual contributor relative to the MSCI industry index was a longtime holding in Salesforce (+89%), a cloud-based provider of customer relationship management software.
- Conversely, security selection in IT consulting & other services modestly detracted from the fund's result relative to the industry index, as did stock choices in interactive home entertainment.
- Avoiding three strong-performing index components – ServiceNow (+78%), MicroStrategy (+290%) and Palantir Technologies (+220%) – detracted most from the fund's relative performance.
- As of February 29, Ali is optimistic about long-term prospects for the software and IT services industry, especially because trends he considers to be the most important – cloud computing, digital transformation and artificial intelligence – remain vital.
- In particular, he is paying close attention to how AI can translate into use cases that can monetize and drive revenue for companies in the software and IT services industry.

MARKET RECAP

U.S. equities gained 30.45% for the 12 months ending February 29, 2024, according to the S&P 500® index, as robust earnings, a slowing in the pace of inflation and resilient late-cycle expansion of the U.S. economy aided risk assets. The index ended February at a record high. Notably, the rally has been driven by a narrow set of firms in the information technology and communication services sectors, largely due to excitement for generative artificial intelligence. This is mostly reflected in semiconductor-related stocks (+113%) and media & entertainment (+68%) names. A likely shift in monetary policy also provided a boost. Aggressive rate hikes by the U.S. Federal Reserve continued until late July, when the Fed decided to pause a series of increases that began in March 2022 at a 22-year high while it observed the effect on inflation and the economy. Following the Fed's November 1 meeting, when the central bank hinted it might be done raising rates, the S&P 500® reversed a three-month decline and gained 14.09% through year-end and added 1.68% in January and 5.34% in February. By sector for the full 12 months, information technology (+61%) and communication services (+58%) were standouts, with AI a major tailwind. In sharp contrast, the defensive-oriented utilities sector (-1%) fared worst. Other notable laggards included real estate (+7%) and consumer staples (+8%), each also considered defensive, and energy (+6%).

Ali Khan
Portfolio Manager

Fund Facts

Trading Symbol:	FSCSX
Start Date:	July 29, 1985
Size (in millions):	$12,398.24

Investment Approach

- Fidelity® Select Software and IT Services Portfolio is an industry-based, equity-focused strategy that seeks to outperform its benchmark through active management.
- The fund's investment process is predicated on finding above-average businesses with above-average growth rates and that trade at below-average valuations, in an effort to generate strong risk-adjusted portfolio returns for the long term. Our preference is to purchase good businesses at the right prices.
- The portfolio is constructed stock by stock from the bottom up, seeking capital appreciation from both earnings growth and valuation expansion over the long run. The fund favors self-funding business models with significant barriers to entry and strong management teams – especially if the stocks can be purchased at a favorable price.
- Stock selection and idea generation come from fundamental research that leverages Fidelity's deep and experienced global technology team. We consider attractive technology stocks outside of the benchmark that offer the potential for favorable risk-adjusted returns.
- Sector and industry strategies could be used by investors as alternatives to individual stocks for either tactical- or strategic-allocation purposes.

Q&A

An interview with Portfolio Manager Ali Khan

Q: Ali, how did the fund perform for the fiscal year ending February 29, 2024?

The fund gained 49.47% the past 12 months, outpacing the 46.36% advance of the MSCI U.S. IMI Software & Services 25/50 Index and the 30.45% result of the broad-based S&P 500® index. The fund handily topped its peer group average, which tracks the broader the information technology sector.

In a strong up market, I am proud of the fund's recent performance, and I believe it remains well-positioned for the most powerful trends in technology, namely cloud computing, digital transformation and artificial intelligence.

Q: What factors notably influenced the market environment for software and IT services stocks the past 12 months?

While software and IT services stocks posted very strong performance this period, I believe it's important to note that many growth-oriented technology stocks, including those in the software and IT services segment, had retreated into negative territory at the start of this period. On the heels of strong, pandemic-stoked demand, a number of factors, including high inflation, rising interest rates and a slowing domestic economy, put strong pressure on high-growth companies. In addition, valuations for software and IT services stocks began this period low, giving them a long runway for improvement.

As the 12 months evolved, we saw some reversion to this trend, mainly due to excitement about artificial intelligence and clear market recognition that technology companies will be the driving forces and beneficiaries of the push among companies to develop AI capabilities. The stocks of firms with the most exposure to AI anchored the segment's strong performance the past 12 months. Additionally, in an environment of higher interest rates, many companies took a closer look at their cost structure and cut costs, which helped revenue and profitability. The market seemed encouraged by these efforts. In all, a high concentration of larger companies predominantly drove the segment this period, with many smaller companies still lagging by February 29. That said, the most influential trends in the segment – specifically, cloud computing, digital transformation and AI – not only remained intact but appeared to be supercharged this period. Companies and consumers continued to turn to software and IT services firms in an increasingly digital world, driving earnings growth across the segment, albeit at a slower pace compared to the peak pandemic-era period.

Q: What factors notably contributed to the fund's return versus the MSCI industry index?

Security selection was particularly helpful, led by investments in the internet services & infrastructure group. Stock picking in transaction & payment processing services also helped. Stock choices in application software and in interactive media & services also boosted the fund's relative result.

In application software, the fund's longtime holding in Salesforce (+89%), a cloud-based provider of customer relationship management software, was the fund's top individual relative contributor. Coming into the period, investor concerns about slowing revenue growth weighed on Salesforce's stock price. To bolster its profit margin, the company reduced the number of employees, cut costs and paused large acquisitions, and the stock rebounded solidly. Additionally, on February 29 Salesforce announced its first-ever dividend, as well as a $10 billion share buyback to boost its earnings-per-share. Salesforce was the fund's second-largest holding and a top overweight at period end.

Also in application software, an overweight position in search technology company Elastic gained about 126%, supported by stronger-than-anticipated earnings and revenue. The past 12 months, Elastic expanded its customer base amid enthusiasm for the company's AI-powered data analytics platform, Elasticsearch. This innovative platform helps AI experts collect, manage and analyze data or train large language models and other generative AI systems.

In interactive media & services, a non-index position in Meta Platforms (+180%), another longtime fund holding, contributed. Like Salesforce, Meta began the period hampered by concerns about its slowing growth on the heels of lapping strong pandemic-influenced results and posting negative earnings revisions in 2022. As the calendar turned to 2023, Meta's outlook skewed more positively. To lift its earnings, the company reduced its operating costs. Improvement in its digital advertising business and advancements in artificial intelligence propelled Meta's revenue over the course of the period. After such a strong run, I chose to reduce the fund's position to take profits.

The fund's outsized stake in Microsoft gained 67% for the 12 months. The company continued to execute very well, reporting favorable financial results, including higher revenue and net income, propelled by its Azure cloud-computing business. The company is investing billions of dollars in generative AI, including in Open AI, the company behind the viral chatbot ChatGPT, as well as in Microsoft's own Bing search engine and across its suite of business applications, powered by its new Copilot chatbot software. After such a strong run, I trimmed the fund's position to take profits and manage risk, but Microsoft was the fund's largest holding, at about 25% of assets, as of February 29.

Q: What detracted most?

Security selection in IT consulting & other services modestly detracted from the fund's result relative to the industry index, as did choices in interactive home entertainment. Our cash holdings, at about 3% of assets, also notably detracted in an up market. Among individual stocks, avoiding three strong-performing index components – ServiceNow, MicroStrategy and Palantir Technologies – were the largest individual detractors. ServiceNow (+78%) is a cloud-computing firm that helps businesses automate and manage their workflow. The company executed well and grew its revenue, but I believed its valuation was too high. I chose to invest in other larger firms with more visibility on their growth, including Alphabet, Microsoft and Salesforce.

MicroStrategy (+290%) had been a data software company, but recently pivoted its business strategy to acquiring cryptocurrency bitcoin, which surged in valuation this period. While MicroStrategy still maintains its software business, I was skeptical about the speculative nature of bitcoin and chose to invest elsewhere. As for Palantir (+220%), this big-data software firm has been a beneficiary of the generative AI boom, as its software synthesizes large amounts of data for government entities and a growing number of commercial firms. The company executed well this period, but I considered its valuation to be high, so I maintained my focus on owning shares of firms at what I considered to be a more reasonable valuation.

Q: Any final thoughts for shareholders, Ali?

As of February 29, I remain optimistic about the long-term prospects among software and IT services companies, which are at the center of digital transformation, cloud computing and AI, and are increasingly vital. I am paying close attention to how AI can translate into use cases that can monetize and drive revenue for companies within the industry.

After such strong performance among the largest software and IT services companies, I am consistently evaluating other companies within the industry that have not yet participated in the most recent market rally, fueled by enthusiasm for AI. Here, I'm specifically looking to own shares of solid firms when I have confidence in their longer-term outlook based on their fundamentals, but the market may be undervaluing their prospects. In line with my investment philosophy, I am focusing on businesses with above-average, long-term revenue growth and sustainable competitive advantages. I also prefer companies that have durable cash flow and a strong management team. ■

Ali Khan on artificial intelligence:

"Artificial intelligence was the primary driver of the software and IT services industry's strong performance the past 12 months. As I look ahead, I continue to see AI as a promising technology that has the potential to drive solid revenue growth for many firms in the industry in the coming years.

"Given the promise of AI, in which machine-driven technology performs tasks with human-like intelligence, there is understandably a lot of hype about the potential of not only the technology itself, but also the beneficiaries.

"While it is early days for AI, I believe it does have the potential to transform the day-to-day workflows of every company in every industry. We are already seeing applications of it in areas such as customer service, marketing and learning.

"In an effort to separate hype from reality, to evaluate investments for the fund that could benefit from AI, I am specifically focusing on companies that have access to large data sets and customer bases, which give them the leverage to train their AI-based systems and roll this technology out to their customers for quick adoption.

"I am also taking a closer look at companies that have substantial access to capital to invest in computing technology that will continue to drive innovation in AI and develop use cases that can be monetized and produce revenue.

"As of February 29, I believe the fund's largest holdings not only meet these criteria, but also have the greatest potential.

While I believe there will be multiple industry leaders that benefit from their investments in AI, I maintain confidence in the portfolio's largest holdings, including Alphabet and Microsoft, both of which I believe will be able to leverage their data, customer bases and capital to rapidly innovate within this area of technology.

Microsoft was the fund's largest position and biggest overweight versus the industry index at period end. Alphabet was the fund's fifth-largest holding and largest out-of-index position."

LARGEST CONTRIBUTORS VS. BENCHMARK

Holding	Market Segment	Average Relative Weight	Relative Contribution (basis points)*
Salesforce, Inc.	Application Software	1.63%	77
Meta Platforms, Inc. Class A	Interactive Media & Services	0.70%	70
Elastic NV	Application Software	0.69%	60
Microsoft Corp.	Systems Software	2.26%	60
MongoDB, Inc. Class A	Internet Services & Infrastructure	1.00%	58

** 1 basis point = 0.01%.*

LARGEST DETRACTORS VS. BENCHMARK

Holding	Market Segment	Average Relative Weight	Relative Contribution (basis points)*
ServiceNow, Inc.	Systems Software	-2.57%	-70
MicroStrategy, Inc. Class A	Application Software	-0.31%	-70
Palantir Technologies, Inc.	Application Software	-0.76%	-69
Bill Holdings, Inc.	Application Software	0.15%	-56
AppLovin Corp.	Application Software	-0.30%	-45

** 1 basis point = 0.01%.*

ASSET ALLOCATION

Asset Class	Portfolio Weight	Index Weight	Relative Weight	Relative Change From Six Months Ago
Domestic Equities	93.62%	100.00%	-6.38%	-1.24%
International Equities	2.50%	0.00%	2.50%	0.12%
Developed Markets	2.50%	0.00%	2.50%	0.12%
Emerging Markets	0.00%	0.00%	0.00%	0.00%
Tax-Advantaged Domiciles	0.00%	0.00%	0.00%	0.00%
Bonds	0.00%	0.00%	0.00%	0.00%
Cash & Net Other Assets	3.88%	0.00%	3.88%	1.12%

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.

MARKET-SEGMENT DIVERSIFICATION

Market Segment	Portfolio Weight	Index Weight	Relative Weight	Relative Change From Six Months Ago
Application Software	37.97%	44.92%	-6.95%	2.94%
Systems Software	32.33%	38.34%	-6.01%	0.57%
Internet Services & Infrastructure	7.58%	5.95%	1.63%	-1.46%
It Consulting & Other Services	5.97%	10.79%	-4.82%	-2.81%
Transaction & Payment Processing Services	5.94%	--	5.94%	0.15%
Interactive Media & Services	4.27%	--	4.27%	0.15%
Human Resource & Employment Services	0.83%	--	0.83%	0.31%
Data Processing & Outsourced Services	0.56%	--	0.56%	0.22%
Interactive Home Entertainment	0.51%	--	0.51%	-0.93%
Health Care Technology	0.16%	--	0.16%	0.01%
Other	0.00%	0.00%	0.00%	0.00%

10 LARGEST HOLDINGS

Holding	Market Segment	Portfolio Weight	Portfolio Weight Six Months Ago
Microsoft Corp.	Systems Software	24.61%	23.43%
Salesforce, Inc.	Application Software	7.27%	6.10%
Adobe, Inc.	Application Software	6.65%	7.65%
Workday, Inc. Class A	Application Software	2.72%	2.59%
Alphabet, Inc. Class A	Interactive Media & Services	2.59%	3.04%
Autodesk, Inc.	Application Software	2.56%	2.50%
Palo Alto Networks, Inc.	Systems Software	2.30%	2.46%
Oracle Corp.	Systems Software	2.11%	2.68%
HubSpot, Inc.	Application Software	1.95%	1.60%
Cognizant Technology Solutions Corp. Class A	It Consulting & Other Services	1.93%	2.07%
10 Largest Holdings as a % of Net Assets		**54.68%**	**55.50%**
Total Number of Holdings		**55**	**70**

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.

FISCAL PERFORMANCE SUMMARY: Periods ending February 29, 2024

	Cumulative		Annualized			
	6 Month	YTD	1 Year	3 Year	5 Year	10 Year/ LOF[1]
Select Software and IT Services Portfolio Gross Expense Ratio: 0.64%[2]	19.34%	5.38%	49.47%	9.94%	18.64%	17.24%
S&P 500 Index	13.93%	7.11%	30.45%	11.91%	14.76%	12.70%
MSCI US IMI Software & Services 25/50	20.77%	6.57%	46.36%	8.27%	16.58%	16.78%
Morningstar Fund Technology	17.40%	7.18%	38.84%	1.94%	15.30%	15.58%
% Rank in Morningstar Category (1% = Best)	--	--	39%	23%	34%	38%
# of Funds in Morningstar Category	--	--	267	232	203	158

[1] Life of Fund (LOF) if performance is less than 10 years. Fund inception date: 07/29/1985.
[2] This expense ratio is from the prospectus in effect as of the date shown above and generally is based on amounts incurred during that 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, institutional.fidelity.com, or 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. **Please see the last page(s) of this Q&A document for most-recent calendar-quarter performance.**

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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FUND RISKS

The value of the fund's domestic and foreign investments will vary from day to day in response to many factors. Stock values fluctuate in response to issuer, political, regulatory, market, or economic developments. You may have a gain or loss when you sell your shares. Investments in foreign securities, especially those in emerging markets, involve risks in addition to those of U.S. investments, including increased political and economic risk, as well as exposure to currency fluctuations. Because FMR concentrates the fund's investments in a particular industry, the fund's performance could depend heavily on the performance of that industry and could be more volatile than the performance of less concentrated funds and the market as a whole. The fund is considered non-diversified and can invest a greater portion of assets in securities of individual issuers than a diversified fund; thus changes in the market value of a single investment could cause greater fluctuations in share price than would occur in a more diversified fund. The software and computer services industry can be significantly affected by intense competition, aggressive pricing, technological innovations, and product obsolescence.

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 Software & Services 25/50 Index is a modified market-capitalization-weighted index of stocks designed to measure the performance of Software & Services companies in the MSCI U.S. Investable Market 2500 Index. The MSCI U.S. Investable Market 2500 Index is the aggregation of the MSCI U.S. Large Cap 300, Mid Cap 450, and Small Cap 1750 Indices.

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

 The Morningstar information contained herein: (1) is proprietary to Morningstar and/or its content providers; (2) may not be copied or redistributed; and (3) is not warranted to be accurate, complete or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information. Fidelity does not review the Morningstar data and, for mutual fund performance, you should check the fund's current prospectus for the most up-to-date information concerning applicable loads, fees and expenses.

% 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.

Manager Facts

Ali Khan is a research analyst, portfolio manager, and sector leader in the Equity division at Fidelity Investments. Fidelity Investments is a leading provider of investment management, retirement planning, portfolio guidance, brokerage, benefits outsourcing, and other financial products and services to institutions, financial intermediaries, and individuals.

In this role, Mr. Khan provides research coverage for the software industry, including Apple, Microsoft, Oracle, Adobe, and Salesforce.com. Additionally, he manages the Fidelity Select Software & IT Services Portfolio and co-manages the technology sleeves of the Fidelity Balanced Fund, Fidelity Advisor Balanced Fund, Fidelity VIP Balanced Fund, Fidelity Balanced K6 Fund, Strategic Advisers Fidelity U.S. Total Stock Fund, Strategic Advisers Large Cap Fund, as well as, Fidelity US Equity Central Fund, Fidelity Stock Selector Mid Cap Portfolio, and the FIAM Small/Mid Cap Core strategy. As a member of Fidelity's Stock Selector Large Cap Group, he is also responsible for managing the information technology sleeves for various diversified sector-based portfolios. On top of these responsibilities, he is co-sector leader of the Technology team.

Prior to assuming his current responsibilities, Mr. Khan covered the enterprise networking, telecommunications equipment, and internet infrastructure sectors, and managed Fidelity Select Communications Equipment Portfolio and Fidelity Advisor Communications Equipment Portfolio. Before that, he covered the semiconductor, hard disk drive, and LED sectors as a research associate. Mr. Khan has been in the financial industry since joining Fidelity in 2007 as a summer intern.

Mr. Khan earned his bachelor of arts degree in economics and political science from Amherst College.

PERFORMANCE SUMMARY:
Quarter ending March 31, 2024

	Annualized			
	1 Year	3 Year	5 Year	10 Year/ LOF[1]
Select Software and IT Services Portfolio Gross Expense Ratio: 0.64%[2]	35.60%	9.40%	17.56%	17.49%
% Rank in Morningstar Category (1% = Best)	47%	29%	36%	41%
# of Funds in Morningstar Category	267	232	204	158

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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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Diversification does not ensure a profit or guarantee against a loss.

Information included on this page is as of the most recent calendar quarter.

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