Fidelity® Select Health Care Services Portfolio

Key Takeaways

- For the fiscal year ending February 29, 2024, the fund gained 8.32%, modestly lagging the 8.86% advance of the MSCI U.S. IMI Health Care Providers & Services 25/50 Index and significantly trailing the 30.45% result of the broad-based S&P 500® index.
- Portfolio Manager Justin Segalini says health care services stocks significantly underperformed the broader market the past 12 months because the managed health care (+5%) and health care services (-4%) groups – which represented about 75% of the MSCI industry index this period – lagged amid an increase in health care utilization, which drove up costs for health insurers.
- However, higher health care utilization helped support the robust performance of health care distributors (+41%) and health care facilities (+25%), two notable, but smaller, components of the industry index, Justin says.
- Justin adhered to his investment approach for the fund the past 12 months, which includes investing in high-quality companies with durable competitive advantages.
- The fund's biggest individual detractor versus the MSCI industry index was an overweight stake in agilon health (-71%), which provides a value-based health care platform to primary care physicians. Not owning drug distributor and index component Cardinal Health (+51%) also hurt relative performance.
- Conversely, the top individual relative contributors were a non-index stake in outpatient mental health care provider LifeStance Health Group (+63%) and an overweight in government-sponsored health plan provider Molina Healthcare (+43%).
- As of February 29, Justin notes that the upcoming 2024 election may cause some short-term turbulence for health care services stocks that provide Medicare/Medicaid coverage, but amid a highly polarized political environment and no clear party majority or mandate, he believes the probability of highly disruptive structural reform being enacted over the next two years is diminished.

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%).

Fidelity INVESTMENTS

Justin Segalini
Portfolio Manager

Fund Facts

Trading Symbol:	FSHCX
Start Date:	June 30, 1986
Size (in millions):	$1,545.02

Investment Approach

- Fidelity® Select Health Care Services Portfolio is an industry-based, equity-focused strategy that seeks to outperform its benchmark through active management.
- Stock picking is at the core of our investment process and relies on in-depth, fundamental research that leverages Fidelity's deep and experienced global health care team.
- Our investment approach gravitates towards high ROIC (return on invested capital), cash-generative businesses run by high-quality management teams.
- Specifically, we look for stocks where the long-term earnings trajectory is mispriced on an NPV (net present value) basis, and is supported by competitive barriers to entry. Additionally, we seek cheap companies that are cheap as a result of a transitory issue, where there is a clear path towards resolution and eventual resumption of growth and/or multiple expansion.
- 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 Justin Segalini

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

The fund gained 8.32% the past 12 months, modestly lagging the 8.86% result of the MSCI U.S. IMI Health Care Providers & Services 25/50 Index and significantly trailing the 30.45% advance of the broad-based S&P 500® index. The fund also underperformed the peer group average, which represents a broad group of health care funds.

Q: What influenced the performance of health care services stocks the past 12 months?

The category significantly underperformed the broader U.S. equity market due largely to the defensive characteristics of the industry's underlying businesses, as lower inflation and the U.S. Federal Reserve's signal that it was nearing the end of its aggressive campaign to raise interest rates provided a favorable backdrop for higher-risk assets.

Within the MSCI industry index, managed health care and health care services – which represented about 75% of the index this period – returned 5% and -4%, respectively. An increase in health care utilization this period, which drove up costs for health insurers, weighed on these groups. Another headwind to managed care stocks emerged in the second half of the period when Centers for Medicare & Medicaid Services, the government entity responsible for setting the reimbursement levels for Medicare Advantage, provided a below-inflation rate increase for 2025. These factors have challenged companies in the industry's ability to achieve their target profit margin. On the other hand, the uptick in utilization helped support the robust performance of stocks in the health care distributors (+41%) and health care facilities (+25%) groups, two notable, but smaller, components of the industry index.

Q: How did you position the fund?

My goal is to build a portfolio with below-average volatility that can outperform the benchmark over multiyear periods. In pursuit of this, I continued to invest the fund in high-quality companies with durable competitive advantages.

This period, I increased the fund's exposure to health care distributors, particularly pharma distributors that have benefited from a stable pricing environment, solid volume growth related to utilization, increasing prevalence of specialty generics and biosimilars, and rapid market adoption of glucagon-like peptide 1 drugs. Also, I notably pared our position in managed care companies with Medicare Advantage exposure, given profit-margin pressure in that space. Medicare Advantage remains a key area for long-term value creation in the health care services industry, but the near-term remains murky, in my view. In place of Medicare Advantage exposure, I favor Medicaid managed care providers, including Centene (+14%) and Molina Healthcare (+43%), which stand to benefit from the completion of the re-verification process that is nearing an end, removing a substantial overhang on growth and investor sentiment. Both were among the fund's largest holdings and overweights at period end, even though I reduced each. I added to CVS Health (-8%), making it the fund's second-largest position and overweight on February 29, as I believe the firm's discounted valuation, robust free cash flow and improved strategic positioning has set it up for a multiyear turnaround.

Q: What notably hurt the fund's performance versus the MSCI industry index this period?

The fund's biggest individual detractor by far this period was an overweight position in agilon health (-71%), which provides a value-based health care platform to primary care physicians in the U.S. In early November, the company's shares fell sharply after it reported a Q3 net loss that exceeded the loss from the same quarter a year earlier. At the same time, agilon reduced its revenue outlook for 2023. Part of the stock's underperformance may have been tied to agilon's sale of legacy asset MDX Hawaii in late October. The stock dipped markedly lower again in January after management slashed its 2023 revenue guidance even further and announced the departure of its CFO. I significantly added to our stake this period when the stock's valuation looked attractive, making agilon a top-20 holding by the end of February.

Noteworthy relative detractors also included drug distributor Cardinal Health and hospital operator Tenet Healthcare, two lower-quality stocks and index components I chose not to own because they do not fit my longer-term investment criteria. That said, shares of Cardinal gained roughly 51% on strong sales of GLP-1 treatments used for diabetes and obesity, while Tenet advanced 59% amid strong volume growth attributed to deferred patient care during the pandemic, as well as improved labor costs.

Q: What investment decisions helped?

The top individual relative contributor the past 12 months was outpatient mental health care provider LifeStance Health Group (+63%), a stock that was not in the industry index. The COVID-19 pandemic bought awareness to the increasing need for mental health care providers/resources, and spending on this unit of health care has grown. The company also benefited from higher visit volume, an increase in physicians and higher net revenue per visit. As a result, the company posted solid quarterly financial results this period. LifeStance was a sizable fund holding at period end.

I chose to overweight Molina Healthcare, the second-biggest individual relative contributor. Molina is the country's largest health insurer that exclusively provides government-sponsored health plans, such as Medicaid and Medicare. The stock rose due to increasing premiums for its plans, as well as solid subscriber growth fueled by favorable demographic trends. In June, Molina agreed to acquire struggling startup and Medicare plan provider Bright HealthCare in a deal that was completed in January.

The fund's sizable stake in Cencora (+53%), which until August 2023 was known as AmerisourceBergen, helped relative performance. The drug wholesale company and contract research organization benefited from increased utilization, along with the broader health care distributors industry. I pared our stakes in Molina and Cencora this period, but they were the fund's No. 7 and No. 6 holdings, respectively, as of February 29.

Q: What's your outlook as of February 29?

The direction of short-term policy changes is a constant risk for the industry, and the upcoming 2024 election may cause some near-term turbulence for health care services stocks that provide Medicare/Medicaid coverage. However, with a highly polarized political environment, no clear party majority or mandate, and a moderate Democratic administration in the White House, I believe the probability of highly disruptive structural reform being enacted in the next two years is greatly diminished. This is particularly relevant for the fund's substantial investment in managed health care stocks, a subindustry that is at the center of the national debate about affordability and access to care. Still, I expect regulatory pressure on legacy business models in the health care ecosystem to continue, forcing industries to work harder to earn their economic share. Policy risks ebb and flow with the political environment, but the increasing drive for scale, efficiency and diversification within health care services remains constant. Consolidation continued at a robust pace, and I expect it to persist.

Lastly, inflation and supply-side disruption has had a meaningful impact on earnings and stock returns across the industry. The severe labor shortage of 2022 has loosened, creating a more favorable operating environment for many health care providers. The current combination of decelerating expense pressure and accelerating unit-price growth has the potential to drive a favorable profit-margin cycle for many providers, particularly those with a higher-fixed-cost structure. As a result, this period I increased the fund's exposure to health care facilities stocks. ■

Justin Segalini on corporate consolidation in health care services:

"I see two distinct types of merger-and-acquisition activity likely to play out in the coming years. The first is large-cap managed care companies acquiring care delivery and technology assets. The second is horizontal consolidation among smaller, capital-constrained health care service providers.

"I expect large managed care firms to continue to expand their enterprise capabilities to better control downstream medical costs within their insured populations and/or to differentiate their platforms by broadening their service offerings. To achieve this, the firms will acquire innovative technology that directly touches the patient, capabilities to help manage chronically ill populations, lower-cost providers of care (home health, surgery centers, telemedicine), and tuck-in health plans with exposure to the fast-growing Medicare and Medicaid populations. Recent examples include CVS's acquisition of Oak Street Health and UnitedHealth Group's acquisition of LHC Group. Both deals closed in 2023.

"Moreover, large managed care firms are in a strong position to win competitive bidding processes against purely financial buyers, as they hold substantial balance-sheet capacity and billions of dollars in excess free cash flow.

"As I noted, a substantial number of under-capitalized small-to-mid-sized health care services companies are at a disadvantage in terms of cost of capital to execute their growth plans. While some of these firms will likely get acquired by the managed care providers outlined in the first bucket, some may seek the opportunity to join forces with complementary assets, in an attempt to not align with a specific payer and thus potentially limiting their ability to sell to multiple payers.

"Value-based care assets, to which the fund is exposed, check both M&A boxes, and I anticipate that consolidation could pick up. While speculating on which assets will get sold is not a primary decision-factor driving my process, I prefer scarce/unique assets that hold strategic value to larger enterprises, and specifically use merger optionality to build my conviction."

LARGEST CONTRIBUTORS VS. BENCHMARK

Holding	Market Segment	Average Relative Weight	Relative Contribution (basis points)*
LifeStance Health Group, Inc.	Health Care Services	1.66%	91
Molina Healthcare, Inc.	Managed Health Care	2.52%	82
Cencora, Inc.	Health Care Distributors	1.75%	65
AMN Healthcare Services, Inc.	Health Care Services	-0.72%	37
Guardant Health, Inc.	Health Care Services	-0.61%	36

** 1 basis point = 0.01%.*

LARGEST DETRACTORS VS. BENCHMARK

Holding	Market Segment	Average Relative Weight	Relative Contribution (basis points)*
agilon health, Inc.	Health Care Services	2.02%	-224
Cardinal Health, Inc.	Health Care Distributors	-2.69%	-95
Humana, Inc.	Managed Health Care	1.89%	-67
Tenet Healthcare Corp.	Health Care Facilities	-1.07%	-45
DaVita, Inc.	Health Care Services	-0.95%	-41

** 1 basis point = 0.01%.*

ASSET ALLOCATION

Asset Class	Portfolio Weight	Index Weight	Relative Weight	Relative Change From Six Months Ago
Domestic Equities	99.15%	100.00%	-0.85%	0.93%
International Equities	0.36%	0.00%	0.36%	-0.04%
Developed Markets	0.36%	0.00%	0.36%	-0.04%
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	0.49%	0.00%	0.49%	-0.89%

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
Managed Health Care	40.50%	40.33%	0.17%	-2.73%
Health Care Services	30.03%	31.10%	-1.07%	3.38%
Health Care Facilities	16.95%	14.06%	2.89%	0.95%
Health Care Distributors	9.87%	14.52%	-4.65%	-1.04%
Health Care Technology	2.10%	--	2.10%	0.32%
Diversified Financial Services	0.05%	--	0.05%	-0.01%

10 LARGEST HOLDINGS

Holding	Market Segment	Portfolio Weight	Portfolio Weight Six Months Ago
UnitedHealth Group, Inc.	Managed Health Care	17.97%	24.59%
CVS Health Corp.	Health Care Services	10.81%	9.88%
Cigna Group	Health Care Services	9.24%	8.89%
Centene Corp.	Managed Health Care	7.48%	6.12%
McKesson Corp.	Health Care Distributors	4.96%	4.75%
Cencora, Inc.	Health Care Distributors	4.91%	4.71%
Molina Healthcare, Inc.	Managed Health Care	4.90%	4.84%
Elevance Health, Inc.	Managed Health Care	4.84%	2.66%
HCA Holdings, Inc.	Health Care Facilities	4.62%	2.90%
Acadia Healthcare Co., Inc.	Health Care Facilities	3.07%	3.27%
10 Largest Holdings as a % of Net Assets		**72.81%**	**74.92%**
Total Number of Holdings		**30**	**30**

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 Health Care Services Portfolio Gross Expense Ratio: 0.68%[2]	9.28%	0.86%	8.32%	7.94%	11.61%	12.20%
S&P 500 Index	13.93%	7.11%	30.45%	11.91%	14.76%	12.70%
MSCI US IMI Health Care Providers & Services 25/50	8.99%	1.61%	8.86%	10.87%	12.88%	13.25%
Morningstar Fund Health	9.08%	5.27%	11.02%	-0.81%	7.31%	8.41%
% Rank in Morningstar Category (1% = Best)	--	--	66%	13%	6%	4%
# of Funds in Morningstar Category	--	--	177	158	136	113

[1] Life of Fund (LOF) if performance is less than 10 years. Fund inception date: 06/30/1986.
[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 medical delivery industry is subject to extensive government regulation and can be significantly affected by government reimbursement for medical expenses, rising costs of medical products and services, pricing pressure, and an increased emphasis on outpatient services.

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 US IMI Health Care Providers & Services 25/50 & Services 25/50 Index represents the performance of the MSCI US IM Health Care Providers & Services 25/50 Index since January 1, 2010, and the MSCI US Investable Market Health Care Providers & Services 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

 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

Justin Segalini is a research analyst and portfolio manager 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. Segalini is responsible for analyzing and recommending investments within the health care services sector. Additionally, he manages Fidelity Select Health Care Services Portfolio.

Prior to assuming his current responsibilities, Mr. Segalini served as a research analyst, responsible for the coverage of Real Estate Investment Trusts (REITs), and as a sector specialist.

Before joining Fidelity in 2007, Mr. Segalini was an associate at V Squared Investments. He has been in the financial industry since 2005.

Mr. Segalini earned his bachelor of arts degree in art history from Boston College. He is also a CFA® charterholder.

PERFORMANCE SUMMARY:
Quarter ending March 31, 2024

	Annualized			
	1 Year	3 Year	5 Year	10 Year/ LOF[1]
Select Health Care Services Portfolio Gross Expense Ratio: 0.68%[2]	12.74%	5.99%	12.72%	12.26%
% Rank in Morningstar Category (1% = Best)	46%	30%	4%	4%
# of Funds in Morningstar Category	178	159	136	114

[1] Life of Fund (LOF) if performance is less than 10 years. Fund inception date: 06/30/1986.

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Fidelity INVESTMENTS

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

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