Fidelity® Environment and Alternative Energy Fund

Key Takeaways

- For the fiscal year ending February 29, 2024, the fund gained 24.26%, outpacing the 21.84% advance of the FTSE EO & Alternative Energy Index, but lagging the 30.45% return of the broad-based S&P 500® index.
- The industry performed well the past 12 months, according to Portfolio Manager Julia Pei, boosted by industrial companies with cyclical exposure and large backlogs, which outperformed amid a recovery in supply chains and persistent demand.
- In addition, a rally among information-technology-related companies, driven by expectations of heightened spending on generative artificial intelligence applications, provided a tailwind for the industry.
- However, the industry's performance versus the broad-market S&P 500® index was challenged by elevated and still-rising interest rates, which had a negative impact on solar and wind stocks, says Julia.
- Choices in the communications equipment, building products and electrical components & equipment subindustries contributed to the fund's performance versus the FTSE industry index, as did overweighting the strong-performing systems software category and underweighting the lagging automobile manufacturers group.
- The fund's largest individual relative contributors were overweight positions in software firm Microsoft and electrical equipment manufacturer Eaton, as each gained 68% this period.
- Conversely, avoiding industrial conglomerate General Electric (+86%) – a notable index component – hurt relative performance, as did stock selection in the semiconductor materials & equipment industry.
- As of February 29, Julia thinks lower interest rates in the near term, and tax incentives and government spending in the longer term, will be tailwinds that drive secular growth in decarbonization spending. She says short-term choppiness amid macroeconomic headwinds have presented interesting opportunities for investment.

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

Julia Pei
Portfolio Manager

Fund Facts

Trading Symbol:	FSLEX
Start Date:	June 29, 1989
Size (in millions):	$523.78

Investment Approach

- Fidelity® Environment and Alternative Energy Fund is an industry-based, equity-focused strategy that seeks to outperform its benchmark through active management.
- Our investment philosophy is based on the reasonable premise that human beings cannot predict the future. This leads us to rely on statistics over stories in our quest to own better businesses with stronger balance sheets at cheaper prices and lower expectations relative to the benchmark.
- We focus on estimating underlying intrinsic business value and comparing such value to the price being paid for that company in the marketplace. If the margin of safety is large enough to compensate for the risks inherent in the underlying business, relative to other opportunities, we are likely to purchase shares of that company for the fund's shareholders.
- We believe that intensive fundamental, bottom-up research, supported by Fidelity's deep and experienced global cyclicals and energy teams, is key to identifying these disconnects between price and value.
- 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 Julia Pei

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

The fund gained 24.26% the past 12 months, outpacing the 21.84% advance of the FTSE EO & Alternative Energy Index, but lagging the 30.45% result of the broad-based S&P 500® index. The fund finished ahead of its peer group average, which represents a broad group of industrials funds.

Strong security selection and industry positioning contributed to the fund's performance versus the FTSE industry index this period. Specifically, my stock choices in the communications equipment, building products and electrical components & equipment subindustries helped, as did overweighting the strong-performing systems software category and underweighting the lagging automobile manufacturers group.

On the flip side, avoiding industrial conglomerate General Electric – a notable index component that gained 86% – hurt the fund's relative performance, as did stock selection in the semiconductor materials & equipment industry.

Q: Could you describe the market backdrop for environment and alternative energy stocks the past 12 months?

The industry performed well, for a couple of reasons. Industrial companies with cyclical exposure and large backlogs continued to outperform amid a recovery in supply chains and persistent demand, partially spurred by U.S. government incentives in the Inflation Reduction Act, the Creating Helpful Initiatives to Produce Semiconductors and Science Act – also known as CHIPS and Science Act – and the Infrastructure Investment and Jobs Act.

In addition, the FTSE industry index held a large position in U.S.-based technology company Microsoft, and some smaller stakes in other stocks whose prices were supported by improved corporate earnings estimates tied to cost-cutting measures and investor expectations of heightened spending on generative artificial intelligence applications.

However, the industry's performance versus the broad-market S&P 500® index was challenged by a tougher financing environment, which weighed heavily on many of the alternative-energy-focused areas of the benchmark. In particular, tougher financing had a negative impact on solar stocks, as the residential solar market slowed due to higher financing costs, as well as a regulatory change in California, which makes up a substantial portion of the U.S. market. The development of wind projects was also adversely affected by higher interest rates, in addition to permitting challenges.

Q: What investment decisions contributed most to the fund's relative performance?

I continued to invest in companies I believe will benefit from increased demand and positive earnings growth amid the country's ongoing shift to green/clean energy. Some of the key areas of this transition that I'm focused on include green grid, electrification, greenhouse gas reduction, pollution control and a circular economy.

Microsoft (+68%) is one stock that fit my investment criteria, and our sizable overweight stake in the software & services provider was the fund's top contributor versus the industry index the past 12 months. The firm's cloud infrastructure and, to a lesser degree, AI capabilities, enable decarbonization by providing carbon emissions analytics to companies and the real-time monitoring capabilities that enable a connected grid. Microsoft's strong stock performance was driven by the market's expectation that the company would benefit from AI monetization.

It also helped to own an outsized position in Eaton (+68%), an electrical equipment manufacturer that benefited from investment in the industrial economy. The company should continue to experience an acceleration in demand for its equipment, due largely to increased electrification requiring upgrades to the existing grid across the U.S. and globally.

I reduced our stakes in Microsoft and Eaton as the stocks' valuations became richer over the past 12 months, but they remained the fund's largest and fifth-largest holdings, respectively, at the end of February.

Q: What other stocks lifted the fund's relative result this period?

Among communications equipment stocks, I didn't own tech giant and sizable index component Cisco Systems (+3%), which was helpful. Instead, I chose to overweight Arista Networks (+103%), a new position this period. Cisco and Arista are competitors, and this positioning was based on my belief that Arista will gain market share from Cisco over time.

Both decisions contributed to the fund's relative performance the past 12 months. Shares of Cisco underperformed amid weak demand for the company's products, as consumers continued to work through inventory. Meanwhile, Arista outperformed on increased capital spending for AI and data centers among cloud-computing-platform companies.

Q: Which investments detracted the most?

As I mentioned previously, it hurt to avoid industrials conglomerate GE (+86%), a stock that didn't align with my investment approach. However, the company's persistent strength in the aerospace market drove outperformance.

Other notable relative detractors included overweights in SolarEdge Technologies (-78%), a manufacturer of inverters used in solar systems, as well as renewable energy companies RWE (-20%) and AES (-24%). I expect to see continued – and likely accelerated – investment in renewable energy sources, such as wind and solar, because the European Union has pledged to reduce 100% of its consumption of Russian natural gas by 2030. However, these stocks suffered this period from high interest rates, which made the financing of solar and wind projects unappealing to consumers and utility-scale developers. I sold our position in SolarEdge and reduced exposure to RWE and AES to fund other opportunities I felt had greater potential.

Q: Julia, what's your outlook as of February 29?

I'm optimistic about the industry, especially as the macroeconomic and regulatory environment stabilizes, and given a growing consensus of potentially lower interest rates. Higher rates negatively impacted both utility-scale renewables development and residential solar installations, and the stocks also de-rated to lower valuations. That said, the lifetime net present value of wind and solar remains below that of natural gas, even including increased inflation and financing costs, and without accounting for Inflation Reduction Act credits. With clean-energy stocks having sharply underperformed this period, I am finding more opportunities in these short-term challenged names, believing they are still attractive over a longer-term horizon.

In addition, the supply/demand backdrop for the industry appears to be improving, even without lower interest rates. Historically, many of the companies associated with decarbonization are cyclical businesses, but we are still seeing secular growth evidenced by strong backlogs.

Near term, I'm cautious on the impact of the upcoming U.S. presidential election. I believe the Inflation Reduction Act will influence the performance of many of the stocks in the renewables space and, thus, I am cautious to build positions here too quickly due to potential volatility.

Over the long term, the Inflation Reduction Act, in conjunction with the Infrastructure Investment and Jobs Act and the CHIPS and Science Act should – and has already started to – accelerate investment in energy-transition areas. I do expect some near-term challenges or hiccups, such as with regulatory permitting issues, but we should see a broad acceleration of industrial investment over time. ■

Julia Pei on the effects of AI excitement on the industry:

"The buzz around generative AI the past 12 months was a boon not only to information technology and communication services stocks with direct ties to advanced computing technologies, but also to some of the stocks in the fund's investment universe.

"While I do not hold strong views on AI nor do I make specific investment choices based solely on the advanced technology, I'm mindful that pockets of data and analytics can be valuable to the green transition. Many stocks in this category saw faster growth this period, as the market began to appreciate the value of the technology.

"Take, for example, IBM – a top relative contributor (+50%) and one of our largest holdings the past 12 months. The fund owned IBM on the firm's commitment to addressing climate change, even before OpenAI's November 2022 launch of the breakthrough chatbot ChatGPT, which elicited the initial exuberance around AI. While IBM's data and analytics capabilities contributed to the firm's business growth this period, the stock's rally can largely be attributed to the firm's link to AI.

"Similarly, Vertiv Holdings (+167%), another relative fund contributor and a provider of cooling for data centers, was boosted by accelerated demand due to AI. Vertiv was a new position for the fund this period. Meanwhile, Arista Networks (+103%) was another new investment for the fund this period. The shares of both companies were driven higher this period because of growing appreciation for AI capabilities.

"While I'm still optimistic in the stocks I've mentioned and, more broadly, in electrification as a secular theme, I've become cautious. At the end of February, valuations looked stretched for any stocks associated with AI, so I'm mindful of this risk."

LARGEST CONTRIBUTORS VS. BENCHMARK

Holding	Market Segment	Average Relative Weight	Relative Contribution (basis points)*
Microsoft Corp.	Systems Software	3.32%	142
Eaton Corp. PLC	Electrical Components & Equipment	2.60%	106
Cisco Systems, Inc.	Communications Equipment	-4.97%	97
Arista Networks, Inc.	Communications Equipment	0.96%	87
Texas Instruments, Inc.	Semiconductors	-3.59%	84

** 1 basis point = 0.01%.*

LARGEST DETRACTORS VS. BENCHMARK

Holding	Market Segment	Average Relative Weight	Relative Contribution (basis points)*
General Electric Co.	Aerospace & Defense	-2.90%	-154
SolarEdge Technologies, Inc.	Semiconductor Materials & Equipment	0.55%	-116
RWE AG	Independent Power Producers & Energy Traders	1.18%	-58
The AES Corp.	Independent Power Producers & Energy Traders	0.53%	-54
Neste OYJ	Oil & Gas Refining & Marketing	0.62%	-52

** 1 basis point = 0.01%.*

ASSET ALLOCATION

Asset Class	Portfolio Weight	Index Weight	Relative Weight	Relative Change From Six Months Ago
Domestic Equities	87.81%	89.49%	-1.68%	1.25%
International Equities	12.04%	10.51%	1.53%	-1.15%
Developed Markets	12.04%	8.76%	3.28%	-0.54%
Emerging Markets	0.00%	1.75%	-1.75%	-0.61%
Tax-Advantaged Domiciles	0.00%	0.00%	0.00%	0.00%
Bonds	0.00%	0.00%	0.00%	0.00%
Cash & Net Other Assets	0.15%	0.00%	0.15%	-0.10%

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
Systems Software	13.38%	10.23%	3.15%	1.12%
Industrial Gases	8.34%	4.83%	3.51%	-0.04%
Electrical Components & Equipment	7.95%	5.03%	2.92%	0.51%
It Consulting & Other Services	6.93%	3.97%	2.96%	0.18%
Life Sciences Tools & Services	6.92%	3.70%	3.22%	-0.86%
Semiconductors	6.62%	7.66%	-1.04%	-1.06%
Industrial Reits	5.04%	2.78%	2.26%	0.54%
Rail Transportation	4.97%	6.37%	-1.40%	0.33%
Automobile Manufacturers	4.83%	7.72%	-2.89%	0.53%
Environmental & Facilities Services	4.74%	4.34%	0.40%	-0.09%
Other	30.13%	25.85%	4.28%	0.97%

10 LARGEST HOLDINGS

Holding	Market Segment	Portfolio Weight	Portfolio Weight Six Months Ago
Microsoft Corp.	Systems Software	13.38%	12.55%
Linde PLC	Industrial Gases	8.34%	8.04%
Danaher Corp.	Life Sciences Tools & Services	6.27%	7.47%
IBM Corp.	It Consulting & Other Services	5.91%	5.40%
Eaton Corp. PLC	Electrical Components & Equipment	5.51%	4.94%
Prologis, Inc.	Industrial REITs	5.04%	4.43%
Union Pacific Corp.	Rail Transportation	4.97%	4.00%
Tesla, Inc.	Automobile Manufacturers	4.83%	6.89%
Trane Technologies PLC	Building Products	3.45%	2.78%
Republic Services, Inc.	Environmental & Facilities Services	3.18%	2.80%
10 Largest Holdings as a % of Net Assets		**60.88%**	**59.47%**
Total Number of Holdings		**53**	**52**

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]**
Fidelity Environment and Alternative Energy Fund Gross Expense Ratio: 0.71%[2]	11.27%	4.55%	24.26%	7.69%	11.13%	9.30%
S&P 500 Index	13.93%	7.11%	30.45%	11.91%	14.76%	12.70%
FTSE EO & Alternative Energy Index	9.01%	3.28%	21.84%	9.19%	17.70%	13.22%
Morningstar Fund Industrials	9.70%	3.50%	17.07%	6.77%	10.36%	9.88%
% Rank in Morningstar Category (1% = Best)	--	--	14%	62%	51%	71%
# of Funds in Morningstar Category	--	--	48	42	40	31

[1] Life of Fund (LOF) if performance is less than 10 years. Fund inception date: 06/29/1989.

[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

Stock markets, especially foreign markets, are volatile and can decline significantly in response to adverse issuer, political, regulatory, market, or economic developments. Application of FMR's ESG ratings process and/or its sustainable investing exclusion criteria may affect the fund's exposure to certain issuers, sectors, regions, and countries and may affect the fund's performance depending on whether certain investments are in or out of favor. This process may result in the fund forgoing opportunities to buy certain securities when it might otherwise be advantageous to do so, or selling securities for ESG reasons when it might be otherwise disadvantageous for it to do so. Sector funds can be more volatile because of their narrow concentration in a specific industry. The environment and alternative energy industries can be significantly affected by government regulations and subsidies, changing supply and demand for traditional energy sources, and availability of funding for remedial cleanup efforts or development of new technologies, and can be subject to risks associated with hazardous materials. Foreign securities are subject to interest-rate, currency-exchange-rate, economic, and political risks. The fund may have additional volatility because it can invest a significant portion of assets in securities of a small number of individual issuers.

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.

FTSE EO & Alternative Energy Index is a modified market-capitalization-weighted index designed to measure the performance of the equity markets of securities derived from the FTSE Environmental Opportunities USA Index and the largest 50 non-U.S. companies in the FTSE Environmental Opportunities Renewable & Alternative Energy Index.

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.

Manager Facts

Julia Pei is a portfolio manager and research analyst 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, Ms. Pei manages Fidelity Environment and Alternative Energy Fund. She is also responsible for equity research coverage of environmentally thematic industrial, technology, and energy stocks.

Prior to joining Fidelity in 2018, Ms. Pei was an associate at Equity Group Investments, the Zell family office. She has been in the financial industry since 2012.

Ms. Pei earned her bachelor of arts degree in economics from The University of Chicago and her master of business administration from The Wharton School of the University of Pennsylvania.

PERFORMANCE SUMMARY:
Quarter ending March 31, 2024

	Annualized			
	1 Year	3 Year	5 Year	10 Year/ LOF[1]
Fidelity Environment and Alternative Energy Fund Gross Expense Ratio: 0.71%[2]	23.91%	6.36%	11.72%	9.56%
% Rank in Morningstar Category (1% = Best)	46%	62%	55%	73%
# of Funds in Morningstar Category	48	42	40	32

[1] Life of Fund (LOF) if performance is less than 10 years. Fund inception date: 06/29/1989.

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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.

Fidelity Brokerage Services LLC, Member NYSE, SIPC, 900 Salem Street, Smithfield, RI 02917.

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