Fidelity® Select Health Care Portfolio

Key Takeaways

- For the fiscal year ending February 29, 2024, the fund gained 11.63%, lagging the 14.78% advance of the MSCI U.S. IMI Health Care 25/50 Index and the 30.45% result of the broad-based S&P 500® index.
- According to Portfolio Manager Eddie Yoon, health care and other defensive sectors lagged the broader U.S. equity market the past 12 months amid lower inflation and the Fed's signal that it was nearing the end of its interest-rate-hiking campaign.
- Industry positioning meaningfully detracted from the fund's performance versus the MSCI sector index the past 12 months, especially underweights in the strong-performing pharmaceuticals and health care distributors groups. Stock picking in health care equipment and positioning in health care services also notably hurt for the 12 months.
- The biggest individual detractor by far was agilon health (-71%), which provides a value-based health care platform to primary care physicians in the U.S. An overweight stake in health care equipment company Masimo (-22%) also weighed on the fund's relative result.
- Conversely, stock picks in the pharmaceuticals, biotechnology, and life sciences tools & services industries contributed to the fund's relative performance this period.
- Not owning pharma giant and index component Pfizer (-31%) was the top individual relative contributor, followed by a large overweight in Boston Scientific (+42%), which boasts a vast portfolio of medical devices.
- As of February 29, Eddie says he's cautiously optimistic about health care stocks, given that the valuations of many look compelling to him, especially among bioprocessing and select health care equipment and services companies.

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%).

Eddie Yoon
Portfolio Manager

Fund Facts

Trading Symbol:	FSPHX
Start Date:	July 14, 1981
Size (in millions):	$7,915.61

Investment Approach

- Fidelity® Select Health Care Portfolio is a sector-based, equity-focused strategy that seeks to outperform its benchmark through active management.
- Stock picking is the core of our investment process and relies on fundamental, bottom-up research. We look to leverage Fidelity's deep and experienced global health care team in building a diversified portfolio of health care companies, ranging from high-quality, stable earnings growers to opportunistic names producing innovative products that disrupt the marketplace.
- Our fundamental analysis focuses on free cash flow and capital allocation, which we believe are the biggest drivers of long-term shareholder value, and also examines market opportunity, sales growth and margin outlook.
- We seek to concentrate the portfolio in our best ideas, but carefully manage risk through position sizing.
- Sector 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 Eddie Yoon

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

The fund gained 11.63% the past 12 months, lagging the 14.78% gain of the MSCI U.S. IMI Health Care 25/50 Index and the 30.45% advance of the broad-based S&P 500® index. The fund modestly outperformed its peer group average.

Industry positioning meaningfully detracted from the fund's performance versus the MSCI sector index, especially underweights in the strong-performing pharmaceuticals and health care distributors groups. Stock picking in health care equipment and positioning in health care services also notably detracted. These negatives more than offset positive stock choices in the pharmaceuticals, biotechnology, and life sciences tools & services categories.

Q: Why did the sector underperform the broader equity market the past 12 months?

U.S. stocks gained amid lower inflation and the U.S. Federal Reserve's signal that it was nearing the end of its interest-rate-hiking campaign. This news, along with resilient late-cycle expansion of the U.S. economy and a sharp decline in U.S. Treasury yields, provided a favorable backdrop for higher-risk assets. Against this backdrop, areas of the market considered defensive, such as health care, generally underperformed the S&P 500® index.

Still, industries within the MSCI health care index benefited from several sector-specific trends. First, health care utilization continued to tick higher during the period, as patients who delayed surgeries and treatment during the pandemic continued to seek services in hospitals, doctors' offices and ambulatory care centers in increased numbers. This boosted health care distributors (+44%) and health care facilities (+28%). On the flip side, greater utilization of health care weighed on the health care services (0%) and managed health care (+4%) groups.

Elsewhere, glucagon-like peptide 1 agonists have made headlines as an innovative new class of treatment for diabetes and obesity. This produced a strong tailwind for the pharmaceuticals (+26%) industry, especially to firms producing the drugs, including Eli Lilly (+144%). But this trend hurt certain health care equipment (+14%) makers of insulin pumps and sleep apnea devices, as market participants became concerned about a potential decline in demand. Meanwhile, structural improvement, higher merger-and-acquisition activity and positive clinical trial data supported the biotechnology industry (+15%).

Q: Turning to the fund's relative performance, which stocks detracted the most?

The 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 added to our stake this period when the stock's valuation looked attractive.

It also hurt to overweight health care equipment firms Masimo (-22%), Insulet (-41%) and Penumbra (-10%). Shares of Masimo, which makes patient monitoring technologies for hospitals, trended lower in July and October amid weaker-than-expected Q2 and Q3 revenue. In July, the company lowered its growth outlook for 2023, citing hospitals' use of their established inventory, rather than buying new products from Masimo.

A challenging competitive backdrop, combined with rising expenses and the negative affect of currency fluctuation on its international sales, hurt shares of neuro/vascular device maker Penumbra. Insulet's stock declined along with other manufacturers of devices to manage diabetes.

I reduced our positions in Insulet and Penumbra this period, while modestly boosting our stake in Masimo. Penumbra and Masimo were among the fund's top-15 largest holdings at the end of February.

Q: What contributed most to the fund's relative result this period?

Historically, the fund has been underweight large-cap biopharma stocks, which I typically view as defensive investments, given their dividend protection and lack of economic sensitivity. Pfizer (-31%) and Bristol-Myers Squibb (-24%) were index components we didn't own that fit this description. Avoiding these names notably contributed to the fund's relative performance because these stocks underperformed due to investors' rotation to riskier segments of the market, and because the companies experienced slowing drug sales and/or other setbacks.

Also contributing to the fund's relative performance was a large overweight position in Boston Scientific (+42%), which boasts a vast medical devices portfolio. The company benefited from a broad-based recovery in medical demand. This boosted sales of its Watchman device, a minimally invasive permanent implant designed to close the left atrial appendage in the heart, to prevent blood clots and reduce the risk of stroke. Boston Scientific is in the midst of two key product cycles: one going strong and the other launching later this year. I increased our stake in the company this period.

The fund also benefited from some of the tailwinds that boosted biotech stocks, including an overweight in cardiovascular pharmaceutical firm Cytokinetics (+67%). Shares of Cytokinetics rose sharply in the final days of 2023, after the firm announced positive results from a phase 3 trial for Aficamten, its experimental treatment for hypertrophic cardiomyopathy. The drug significantly improved exercise capacity compared with a placebo. The stock jumped again in early January on reports that Novartis was close to acquiring the company, then dropped a few days later when Novartis stepped away from the deal. I remained optimistic on Cytokinetics, added more shares this period and the stock was the portfolio's 15th-largest holding as of February 29.

Q: What's your outlook at period end, and what are some opportunities you'd like to highlight?

I'm cautiously optimistic. The valuations of many stocks in the health care sector look compelling to me, especially among certain large-cap companies. In terms of risk, the upcoming 2024 election may cause turbulence for the sector, particularly as the rhetoric around drug pricing ramps up. It may also be a choppy environment for health care services stocks that provide Medicare/Medicaid coverage. While I can't make explicit predictions on potential election outcomes, I am keeping my eye on some of the prospective drug regulations making their way into Congress.

I shifted the fund's positioning late in the period to reflect my generally optimistic view. While managed care company UnitedHealth Group is the fourth-largest holding in the fund at period end, I reduced our stake in the company and increased positions in other areas of the sector where I'm seeing better long-term prospects. For example, as mentioned earlier, I added to health care equipment firm Boston Scientific, as well as retail pharmacy and benefits firm CVS Health.

Lastly, I expect that by next year we will see peak data on the effectiveness of GLP-1 drugs. Thus, I'm leaning into some interesting opportunities in areas of the market that previously underperformed on GLP-1 exuberance. For instance, I increased the fund's investment in Inspire Medical Systems, a maker of devices to treat sleep apnea and our 18th-largest position as of February 29. ■

Portfolio Manager Eddie Yoon on opportunities in bioprocessing:

"Bioprocessing companies make the tools (bioreactors, fluid bags and cell-culture media) used to produce complex drugs, such as monoclonal antibodies and cell and gene therapy. The stocks of bioprocessing firms appeal to us, given their relatively stable business models and the multiple strong tailwinds that could drive long-term sales growth.

"Following two-plus years of exceptional growth driven by demand for COVID-related products and services, the bioprocessing industry has grappled with several setbacks since the latter half of 2022. Macro headwinds weighed on the group, including a weak biotech funding environment; higher inflation, which put a damper on drug development; and slowing growth in China, which curbed demand for lab equipment and contract research services. Bioprocessing companies also were pressured by declining orders as customers worked through their COVID-era inventories.

"But data suggest the bioprocessing industry should hit the bottom of its COVID inventory in the first half of 2024. From there, I believe the stocks should see better growth and a material cyclical snapback.

"Another benefit for entrenched bioprocessing firms is that the industry is heavily regulated. The tools used to make a drug candidate are built into the FDA process-validation protocols, meaning any effort to replace the equipment requires the FDA to re-validate the process – which can potentially be costly and a barrier to entry for new competitors.

"Lastly, bioprocessing firms may benefit from big pharma's long-term shift to outsourcing its manufacturing needs to third-party contract and development manufacturing organizations, which tend to be major buyers of single-use bioreactors.

"At period end, Danaher is our largest position in this category and the fund's third-biggest holding, followed by Thermo Fisher Scientific, our No. 11 position. We also hold a smaller stake in Lonza Group."

LARGEST CONTRIBUTORS VS. BENCHMARK

Holding	Market Segment	Average Relative Weight	Relative Contribution (basis points)*
Pfizer, Inc.	Pharmaceuticals	-3.40%	186
Boston Scientific Corp.	Health Care Equipment	6.40%	163
Bristol-Myers Squibb Co.	Pharmaceuticals	-2.20%	99
Cytokinetics, Inc.	Biotechnology	0.80%	65
UnitedHealth Group, Inc.	Managed Health Care	1.60%	46

** 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	2.12%	-248
Masimo Corp.	Health Care Equipment	1.73%	-112
Insulet Corp.	Health Care Equipment	1.65%	-83
Penumbra, Inc.	Health Care Equipment	3.88%	-70
Eli Lilly & Co.	Pharmaceuticals	-0.76%	-65

** 1 basis point = 0.01%.*

ASSET ALLOCATION

Asset Class	Portfolio Weight	Index Weight	Relative Weight	Relative Change From Six Months Ago
Domestic Equities	92.58%	100.00%	-7.42%	3.07%
International Equities	7.29%	0.00%	7.29%	-3.04%
Developed Markets	5.62%	0.00%	5.62%	-3.21%
Emerging Markets	1.67%	0.00%	1.67%	0.17%
Tax-Advantaged Domiciles	0.00%	0.00%	0.00%	0.00%
Bonds	0.04%	0.00%	0.04%	0.04%
Cash & Net Other Assets	0.09%	0.00%	0.09%	-0.07%

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
Health Care Equipment	24.34%	18.71%	5.63%	4.85%
Biotechnology	19.63%	18.61%	1.02%	1.87%
Pharmaceuticals	17.53%	28.89%	-11.36%	3.07%
Life Sciences Tools & Services	13.28%	11.31%	1.97%	-4.33%
Managed Health Care	10.59%	11.38%	-0.79%	-4.00%
Health Care Services	9.88%	4.64%	5.24%	-0.60%
Health Care Technology	2.46%	0.87%	1.59%	0.37%
Health Care Facilities	2.00%	1.87%	0.13%	-0.73%
Specialized Finance	0.13%	--	0.13%	0.01%
Diversified Financial Services	0.07%	--	0.07%	-0.01%
Other	0.00%	0.00%	0.00%	0.00%

10 LARGEST HOLDINGS

Holding	Market Segment	Portfolio Weight	Portfolio Weight Six Months Ago
Boston Scientific Corp.	Health Care Equipment	10.04%	7.80%
Eli Lilly & Co.	Pharmaceuticals	8.95%	6.27%
Danaher Corp.	Life Sciences Tools & Services	6.72%	6.84%
UnitedHealth Group, Inc.	Managed Health Care	6.24%	10.23%
Merck & Co., Inc.	Pharmaceuticals	4.95%	1.62%
Regeneron Pharmaceuticals, Inc.	Biotechnology	4.32%	3.18%
Penumbra, Inc.	Health Care Equipment	3.75%	3.72%
Cigna Group	Health Care Services	3.57%	4.01%
CVS Health Corp.	Health Care Services	3.15%	2.30%
Centene Corp.	Managed Health Care	2.77%	1.77%
10 Largest Holdings as a % of Net Assets		**54.44%**	**52.37%**
Total Number of Holdings		**91**	**105**

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 Portfolio Gross Expense Ratio: 0.65%[2]	9.10%	5.49%	11.63%	1.74%	9.49%	9.85%
S&P 500 Index	13.93%	7.11%	30.45%	11.91%	14.76%	12.70%
MSCI US IMI Health Care 25/50	9.55%	5.99%	14.78%	7.25%	10.68%	10.89%
Morningstar Fund Health	9.08%	5.27%	11.02%	-0.81%	7.31%	8.41%
% Rank in Morningstar Category (1% = Best)	--	--	51%	51%	31%	32%
# of Funds in Morningstar Category	--	--	177	158	136	113

[1] Life of Fund (LOF) if performance is less than 10 years. Fund inception date: 07/14/1981.
[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.**

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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. The health care industries are subject to government regulation and reimbursement rates, as well as government approval of products and services, which could have a significant effect on price and availability, and can be significantly affected by rapid obsolescence and patent expirations. 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.

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

Eddie Yoon is a sector leader 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. Yoon is responsible for the coverage of health care equipment and supplies stocks, and serves as the health care sector leader. Additionally, he manages several funds including Fidelity Advisor Health Care Fund, Fidelity and Fidelity Advisor Stock Selector Mid Cap Fund, Fidelity and Fidelity Advisor All Cap Fund, Fidelity Select Health Care Portfolio, and Fidelity Select Medical Technology and Devices Portfolio.

Prior to joining Fidelity in 2006, Mr. Yoon held multiple positions at JPMorgan Asset Management, including analyst and co-portfolio manager. He has been in the financial industry since 2002.

Mr. Yoon earned his bachelor of arts degree in business economics from Brown University.

PERFORMANCE SUMMARY:
Quarter ending March 31, 2024

	Annualized			
	1 Year	3 Year	5 Year	10 Year/ LOF[1]
Select Health Care Portfolio Gross Expense Ratio: 0.65%[2]	10.58%	2.07%	9.78%	10.49%
% Rank in Morningstar Category (1% = Best)	56%	54%	34%	32%
# of Funds in Morningstar Category	178	159	136	114

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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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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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