

# Fidelity® Select Health Care Portfolio

## 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.

## PERFORMANCE SUMMARY

	Cumulative		Annualized			
	3 Month	YTD	1 Year	3 Year	5 Year	10 Year/ LOF <sup>1</sup>
Select Health Care Portfolio						
Gross Expense Ratio: 0.65% <sup>2</sup>	6.82%	6.82%	10.58%	2.07%	9.78%	10.49%
S&P 500 Index	10.56%	10.56%	29.88%	11.49%	15.05%	12.96%
MSCI US IMI Health Care 25/50	8.35%	8.35%	15.25%	7.35%	11.08%	11.37%
Morningstar Fund Health	6.33%	6.33%	11.04%	-0.38%	7.51%	9.04%
% Rank in Morningstar Category (1% = Best)	--	--	56%	54%	34%	32%
# of Funds in Morningstar Category	--	--	178	159	136	114

<sup>1</sup> Life of Fund (LOF) if performance is less than 10 years. Fund inception date: 07/14/1981.

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

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

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

## FUND INFORMATION

**Manager(s):**  
Eddie Yoon

**Trading Symbol:**  
FSPHX

**Start Date:**  
July 14, 1981

**Size (in millions):**  
\$7,910.20

**Morningstar Category:**  
Fund Health

*Stock markets, especially foreign markets, are volatile and can decline significantly in response to adverse issuer, political, regulatory, market, or economic developments. The 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.*



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## Market Review

Health care stocks advanced 8.35% in the first quarter of 2024, according to the MSCI U.S. IMI Health Care 25/50 Index, behind the 10.56% gain of the broad-based S&P 500® index. U.S. stocks, including health care shares, started off the year strong, driven in large part by the Federal Reserve's likely pivot to cutting interest rates later this year. However, excitement about high-growth megatrends – fanned by artificial intelligence fervor and reflected in the roughly 13% gain for the information technology sector of the S&P 500® Index – continued to captivate investors at the expense of other sectors. As a result, health care stocks lagged the broad market in Q1.

Still, some industries within the MSCI health care index benefited from sector-specific trends of their own. Health care utilization continued to ramp higher in the first three months of 2024, 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 facilities (+21%), including stocks like hospital operator HCA Healthcare (+23%), which reported in January that it had \$65 billion in revenue in 2023, up from \$60 billion in 2022. This trend also supported health care equipment (+11%) companies, who had higher volumes in Q1. For instance, shares of Edwards Lifesciences (+25%) shot up in February after the firm reported Q4 profits that beat Wall Street's estimates on strong demand for its artificial heart valves and other product offerings. Pharmaceuticals (+14%) also gained strongly on the back of the excitement surrounding glucagon-like peptide 1 agonists – the innovative new class of treatments for diabetes and obesity. This produced a strong tailwind to the industry, especially to those firms producing the drugs, including Eli Lilly (+34%).

Conversely, the greater utilization of health care continued to weigh on managed health care (-3%). Medicare providers, including Humana (-24%), also were dragged down in February when CMS (Centers for Medicare and Medicaid Services), the government entity responsible for setting the reimbursement levels for Medicare Advantage, provided a below-inflation-rate increase for 2025. ■

### LARGEST CONTRIBUTORS VS. BENCHMARK

Holding	Market Segment	Average Relative Weight	Relative Contribution (basis points)*
Boston Scientific Corp.	Health Care Equipment	8.20%	78
Johnson & Johnson	Pharmaceuticals	-6.35%	43
Zoetis, Inc. Class A	Pharmaceuticals	-1.43%	35
Gilead Sciences, Inc.	Biotechnology	-1.59%	29
Pfizer, Inc.	Pharmaceuticals	-2.60%	29

\* 1 basis point = 0.01%.

## Performance Review

For the quarter, the fund gained 6.82%, underperforming the MSCI sector index.

Stock choices in health care services detracted the most from the fund's performance versus the sector index the past three months. Here, the fund was hurt by its overweight in agilon health (-51%), which provides a value-based health care platform to primary care physicians in the U.S. On January 5, the stock plunged after the company sharply reduced its full-year 2023 revenue and profitability outlook, citing higher-than-expected costs for patient medical services. The company noted, "while a number of programs have been launched to improve visibility, balance risk sharing and enhance predictability of results, management has assumed higher costs will continue into 2024." Nonetheless, agilon still expects to grow its membership in 2024, while its total revenue guidance for the year topped the consensus expectation.

An overweight in health care equipment firm Penumbra (-11%) also hurt. A challenging competitive backdrop, combined with rising expenses, along with the negative affect of currency fluctuations on its international sales, hurt shares of neuro/vascular device maker. Still, we remained excited about the firm's product cycle and future growth prospects, therefore, it remained the fund's No. 8 holding at the end of March.

On the plus side, a large overweight in Boston Scientific (+18%) was our top individual relative contributor. The stock jumped in January after the firm reported strong Q1 2024 sales guidance and beat Q4 2023 sales expectations on brisk demand for its cardiac and medical-surgical products. Though we trimmed our stake, Boston Scientific was the fund's largest overweight and holding on March 31. Historically, the fund has been underweight large-cap pharma stocks, which are typically viewed as defensive investments given their dividend protection and lack of cyclicity (sensitivity to economic conditions). This positioning was a positive this quarter, especially our decision to avoid large index component Johnson & Johnson because the stock returned 2% the past three months. ■

### LARGEST DETRACTORS VS. BENCHMARK

Holding	Market Segment	Average Relative Weight	Relative Contribution (basis points)*
agilon health, Inc.	Health Care Services	0.87%	-105
Penumbra, Inc.	Health Care Equipment	3.80%	-79
10X Genomics, Inc.	Life Sciences Tools & Services	1.27%	-68
AbbVie, Inc.	Biotechnology	-5.02%	-48
Insulet Corp.	Health Care Equipment	1.26%	-43

\* 1 basis point = 0.01%.

## Outlook and Positioning

We're optimistic regarding our outlook for health care stocks over the long term and maintaining patience in the short term. We're also positive on the fund's holdings as of March 31, and we only made some slight shifts this quarter. Utilization continues to weigh on the managed health care industry, and Medicare advantage companies grapple with lower pricing capabilities and higher costs. The pace of these headwinds came on faster than we expected. We reduced the fund's weighting in managed care this quarter, and the fund is slightly underweight the industry at period end. Notably, we pared our position in UnitedHealth Group, which went from our largest holding at the end of 2023 to our No. 4 position on March 31. Still, our long-term thesis on the group has not changed and we think firms here exhibit strong long-term fundamentals. We are positive on health care equipment names Boston Scientific and Penumbra; bioprocessing firm Danaher; biotech company Regeneron Pharmaceuticals; and Cigna Group, a managed care firm offering Medicare and Medicaid. These were the fund's largest overweights at quarter end.

Health care equipment stocks have benefited from the recovery in health care utilization in 2023 and early 2024, and we expect it to continue. Our expectation is that utilization will begin to moderate in 2025. In this industry, our largest positions are in Boston Scientific and Penumbra – the fund's largest- and eighth-largest holdings at the end of March. Boston Scientific is in the midst of two key product cycles, with one already going strong. The fund is also invested on Glaukos, a maker of iDose TR, a small ophthalmic device to treat glaucoma that was approved by the FDA in December, and Procept BioRobotics, which produces a device to treat prostate cancer. We're also interested in bioproduction stocks. Bioprocessing companies make the tools (e.g., bioreactors, fluid bags and cell-culture media) used to produce complex drugs, such as monoclonal antibodies (mAbs), and cell and gene therapy. The stocks of bioprocessing firms appeal to us, given their relatively stable business models and the multiple long-term tailwinds that could drive long-term sales growth.

The bioprocessing industry is expected to hit the bottom of its COVID inventory in the first half of 2024. From there, the stocks should see better growth and a material cyclical snap back. Danaher is our largest position in this space and the fund's third-biggest holding, though I'll note we trimmed our position in Q1. Elsewhere, we expect to see more M&A activity in the biotech space, as capital raising in the sector has increased and companies have become more realistic about their valuations. As big pharma stocks face looming patent cliffs stretching out into the late-2020s, we think more of the large-cap pharma firms will try to fill these gaps by acquiring innovative biotechs. We're especially bullish on the small- to mid-cap area of the biotech market, where we are finding opportunities with attractive risk-reward dynamics.

Exuberance around the new-generation GLP-1 treatments for diabetes and obesity have created an environment of "have" and "have nots" regarding the innovative drugs. We are skeptical on the sky-high numbers analysts and companies are projecting for these drugs. As a result, the fund is underweight Eli Lilly and we do not own Novo-Nordisk, given high valuations, lack of clarity on how much optimism is already priced into the stocks, and our view on the high earnings momentum ahead. Additionally, we expect that by next year we will see peak data on the effectiveness of GLP-1 drugs. Thus, we're leaning into some interesting opportunities in areas of the market that previously underperformed on GLP-1 exuberance. For instance, we continue to hold Insulet, maker of the Omnipod device for diabetes, and Inspire Medical Systems, a maker of devices to treat sleep apnea. Both were top-20 holdings in the fund on March 31.

In terms of risks, the upcoming elections in 2024 election may cause turbulence for the sector, especially as the rhetoric around drug pricing ramps up. It may also be a choppy environment for health care services stocks that provide of Medicare/Medicaid coverage. While we can't make explicit predictions on potential election outcomes, we are keeping our eye on some of the prospective drug regulations making their way into Congress. ■

## 10 LARGEST HOLDINGS

Holding	Market Segment
Boston Scientific Corp.	Health Care Equipment
Eli Lilly & Co.	Pharmaceuticals
Danaher Corp.	Life Sciences Tools & Services
UnitedHealth Group, Inc.	Managed Health Care
Merck & Co., Inc.	Pharmaceuticals
Regeneron Pharmaceuticals, Inc.	Biotechnology
Cigna Group	Health Care Services
Penumbra, Inc.	Health Care Equipment
CVS Health Corp.	Health Care Services
Centene Corp.	Managed Health Care
<b>10 Largest Holdings as a % of Net Assets</b>	<b>53.89%</b>
<b>Total Number of Holdings</b>	<b>95</b>

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

## CHARACTERISTICS

	Portfolio	Index
<b>Valuation</b>		
Price/Earnings Trailing	66.0x	29.5x
Price/Earnings (IBES 1-Year Forecast)	37.4x	21.0x
Price/Book	4.7x	5.0x
Price/Cash Flow	34.8x	21.9x
Return on Equity (5-Year Trailing)	8.4%	18.3%
<b>Growth</b>		
Sales/Share Growth 1-Year (Trailing)	9.4%	5.1%
Earnings/Share Growth 1-Year (Trailing)	24.0%	-20.6%
Earnings/Share Growth 1-Year (IBES Forecast)	99.4%	23.9%
Earnings/Share Growth 5-Year (Trailing)	5.5%	8.7%
<b>Size</b>		
Weighted Average Market Cap (\$ Billions)	160.6	221.3
Weighted Median Market Cap (\$ Billions)	100.4	140.6
Median Market Cap (\$ Billions)	5.3	1.9

### LARGEST OVERWEIGHTS BY MARKET SEGMENT

Market Segment	Portfolio Weight	Index Weight	Relative Weight	Relative Change From Prior Quarter
Health Care Equipment	25.08%	18.95%	6.13%	3.12%
Health Care Services	9.94%	4.83%	5.11%	-2.05%
Health Care Technology	2.70%	0.85%	1.85%	0.82%
Life Sciences Tools & Services	12.73%	11.24%	1.49%	-2.72%
Biotechnology	19.22%	18.49%	0.73%	1.84%

### LARGEST UNDERWEIGHTS BY MARKET SEGMENT

Market Segment	Portfolio Weight	Index Weight	Relative Weight	Relative Change From Prior Quarter
Pharmaceuticals	17.55%	28.71%	-11.16%	2.18%
Health Care Distributors	--	2.51%	-2.51%	-0.13%
Health Care Supplies	--	1.27%	-1.27%	0.00%
Managed Health Care	10.56%	11.24%	-0.68%	-2.08%

### LARGEST OVERWEIGHTS BY HOLDING

Holding	Market Segment	Relative Weight
Boston Scientific Corp.	Health Care Equipment	8.43%
Danaher Corp.	Life Sciences Tools & Services	3.56%
Penumbra, Inc.	Health Care Equipment	3.42%
Regeneron Pharmaceuticals, Inc.	Biotechnology	2.56%
Centene Corp.	Managed Health Care	1.98%

### LARGEST UNDERWEIGHTS BY HOLDING

Holding	Market Segment	Relative Weight
Johnson & Johnson	Pharmaceuticals	-6.12%
AbbVie, Inc.	Biotechnology	-5.17%
Abbott Laboratories	Health Care Equipment	-3.17%
Pfizer, Inc.	Pharmaceuticals	-2.52%
Amgen, Inc.	Biotechnology	-2.45%

### ASSET ALLOCATION

Asset Class	Portfolio Weight	Index Weight	Relative Weight	Relative Change From Prior Quarter
Domestic Equities	92.51%	100.00%	-7.49%	-0.34%
International Equities	7.37%	0.00%	7.37%	0.78%
Developed Markets	5.92%	0.00%	5.92%	0.32%
Emerging Markets	1.45%	0.00%	1.45%	0.46%
Tax-Advantaged Domiciles	0.00%	0.00%	0.00%	0.00%
Bonds	0.04%	0.00%	0.04%	0.04%
Cash & Net Other Assets	0.08%	0.00%	0.08%	-0.48%

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.

### 3-YEAR RISK/RETURN STATISTICS

	Portfolio	Index
Beta	1.05	1.00
Standard Deviation	17.01%	14.61%
Sharpe Ratio	-0.04	0.32
Tracking Error	7.46%	--
Information Ratio	-0.71	--
R-Squared	0.81	--

## 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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### CHARACTERISTICS

**Earnings-Per-Share Growth Trailing** measures the growth in reported earnings per share over trailing one- and five-year periods.

**Earnings-Per-Share Growth (IBES 1-Year Forecast)** measures the growth in reported earnings per share as estimated by Wall Street analysts.

**Median Market Cap** identifies the median market capitalization of the portfolio or benchmark as determined by the underlying security market caps.

**Price-to-Book (P/B) Ratio** is the ratio of a company's current share price to reported accumulated profits and capital.

**Price/Cash Flow** is the ratio of a company's current share price to its trailing 12-months cash flow per share.

**Price-to-Earnings (P/E) Ratio (IBES 1-Year Forecast)** is the ratio of a company's current share price to Wall Street analysts' estimates of earnings.

**Price-to-Earnings (P/E) Ratio Trailing** is the ratio of a company's current share price to its trailing 12-months earnings per share.

**Return on Equity (ROE) 5-Year Trailing** is the ratio of a company's last five years historical profitability to its shareholders' equity. Preferred stock is included as part of each company's net worth.

**Sales-Per-Share Growth** measures the growth in reported sales over the specified past time period.

**Weighted Average Market Cap** identifies the market capitalization of the average equity holding as determined by the dollars invested in the portfolio or benchmark.

**Weighted Median Market Cap** identifies the market capitalization of the median equity holding as determined by the dollars invested in the portfolio or benchmark.

### 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.

**Select Health Care Linked Index** represents the performance of the MSCI US IM Health Care 25/50 Index since January 1, 2010, the MSCI US Investable Market Health Care Index from October 2, 2006 to December 31, 2009, and the Goldman Sachs Healthcare Index prior to that date.

### MARKET-SEGMENT WEIGHTS

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

### RANKING INFORMATION

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% Rank in Morningstar Category is the fund's total-return percentile rank relative to all funds that have the same Morningstar Category. The highest (or most favorable) percentile rank is 1 and the lowest (or least favorable) percentile rank is 100. The top-performing fund in a category will always receive a rank of 1%. % Rank in Morningstar Category is based on total returns which include reinvested dividends and capital gains, if any, and exclude sales charges. Multiple share classes of a fund have a common portfolio but impose different expense structures.

### RELATIVE WEIGHTS

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

### 3-YEAR RISK/RETURN STATISTICS

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

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

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

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

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

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



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

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

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