Fidelity® Select FinTech Portfolio

Key Takeaways

- For the fiscal year ending February 29, 2024, the fund gained 24.03%, trailing the 26.11% advance of the FactSet Financial Technologies Linked Index and the 30.45% result of the broad-based S&P 500®.
- According to Portfolio Manager Ruth Nagle, the past 12 months fintech stocks benefited from easing recession fears, a resilient economy, and the Federal Reserve's late-year signal that it was done raising interest rates and anticipated cuts in 2024.
- She notes that, among the main components of the FactSet industry index, the application software group stood out. The consumer finance and transaction payment & processing services segments also had strong advances but lagged the index.
- Although the fund posted a sizable gain this period, it trailed the industry index due primarily to security selection and an overweight in the transaction & payment processing services group.
- Untimely ownership of cloud-based merchant acquiror Adyen (-31%) and a non-index stake in payment processor Block (+4%) were the largest individual relative detractors. An underweight in consumer finance company American Express (+28%) also hurt.
- Conversely, security selection in the application software category boosted the fund's relative performance for the 12 months.
- The fund's largest individual contributors versus the industry index were an underweight in PayPal Holdings (-18%) and timely trading in Fidelity National Information Services (+20%), both in the transaction & payment processing services group.
- As of February 29, Ruth's outlook for fintech companies is favorable, given expectations of lower interest rates and inflation, solid economic growth, favorable employment data, and the ongoing transition from cash to digital payments. She favors companies that she thinks can compound earnings in the long term but plans to add more opportunistic stocks amid an improving backdrop.

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%).

Ruth Nagle
Portfolio Manager

Fund Facts

Trading Symbol:	FSVLX
Start Date:	December 16, 1985
Size (in millions):	$111.81

Investment Approach

- Fidelity® Select FinTech Portfolio is an industry-based, equity-focused strategy that seeks to outperform its benchmark through active management.
- Our investment approach relies on in-depth company and industry research to identify stocks that we consider mispriced. We believe mispricing can occur because the market underappreciates the quality of a business, the duration of growth, or the way that a change in a business or industry can lead to a change in business fundamentals.
- The portfolio skews toward companies with strong secular tailwinds and deep competitive moats that we believe have the ability to compound earnings over time.
- We also look to take advantage of cyclical inflection points caused by economic cycles, as well as stock-specific situations in which the earnings power is misunderstood by the market.
- We leverage Fidelity's deep and experienced financials and technology teams to generate ideas and monitor risks and opportunities for the fund.
- 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 Ruth Nagle

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

The fund gained 24.03% the past 12 months, lagging the 26.11% advance of the FactSet Financial Technologies Linked Index and the 30.45% result of the broad-based S&P 500®. The fund notably topped its peer group average, which tracks the broader financials sector.

Q: What was the backdrop for fintech stocks like the past 12 months?

It was largely favorable, even though the entire financial sector faced challenges in the first half of the period due to high inflation, interest rate hikes, growing concern about a possible recession, and the regional banking crisis last spring. Plus, the highly regulated financials sector had limited exposure to the latest artificial intelligence trends – a key driver of the market's gain. However, the tide shifted in the second half of the period, as inflation slowed, recession fears eased and the Federal Reserve pivoted from hiking interest rates to indicating rate cuts were likely in 2024.

Fintech stocks widely outperformed the broader financials sector, benefiting from the digitization of many financial services as economies worldwide transitioned from cash to digital (or electronic) payments. Plus, the fintech industry had limited exposure to the regional banking crisis and was helped by a shifting interest rate outlook, as well as the resilience of the economy, businesses and consumers.

The biggest components of the FactSet industry index posted sizable gains this period. Transaction & payment processing services – 54% of the index – rose about 18%, as inflation and interest rates eased, reducing the cost of capital for companies and encouraging consumer spending. This backdrop fueled anticipation of higher transaction volume. Application software stocks – 18% of the industry index – were the clear-cut winners, rising roughly 43% amid expectations of lower interest rates and above-average economic growth. Lastly, consumer finance stocks (+24%) rallied, as concern about consumer credit abated.

Q: What was your strategy this period?

I favored compounders – companies that I believe can augment their earnings for years to come. To this end, I preferred businesses with a competitive moat and growth tailwinds that I expect could drive profitability in the long term. Also, I invested opportunistically in companies that I thought had high revenue-growth potential and a clear path to near-term profitability.

Q: What detracted from the fund's result versus the FactSet industry index this period?

Security selection and an overweight (at 62% of assets) in the transaction & payment processing services segment hurt relative performance most. Part of the reason the fund was overweight here was because I found more compounders in this segment. However, shares of more-stable compounders lagged economically sensitive (or cyclical) stocks due to an improved outlook in the second half of the period. An underweight in cyclical stocks – notably in the application software group – also hurt.

The biggest individual detractors were what I viewed as opportunistic investments in the transactions & payment processing services group. The fund, for example, began the period with an overweight in Netherlands-based Adyen, a cloud-based company that facilitates merchants' ability to accept payments in stores and online across multiple currencies. In August, Adyen's management reported poor midyear financial results and a challenging competitive environment, sending the stock into a nosedive. I quickly eliminated the position. However, in November, the company surprised investors with new financial plans, stronger-than-expected third-quarter revenue growth and a more realistic long-term outlook. The stock rose 38% in a single day. I subsequently re-established a position because I believe this is a high-profit-margin business that now has a good plan for growth. Due to untimely ownership, our shares returned about -30%, versus 11% in the index. Adyen was our No. 8 holding, but an underweight, at period end.

Q: Which other stocks detracted?

Also in this segment, a non-index stake in Block, which owns the Square payments platform and falls in my opportunistic bucket, returned about 4% the past 12 months, partly due to a report early in the period that raised concern about the company's disclosures and compliance. Decelerated volume in its small-business processing operation further depressed the stock. I reduced exposure but kept a fairly large stake because I thought the stock was cheap, with revenue-growth drivers that I felt investors didn't fully appreciate. In Q3, a restructuring that included management changes and a renewed focus on improved profitability helped the stock recover its decline. The Fed's pivot in Q4 and expectations of interest rate cuts ahead also helped.

Within consumer finance, the fund's underweight in American Express (+28%), a large index component, hurt. The stock benefited from improved consumer spending and credit. Although I took some profits and modestly reduced exposure to AmEx before period end, I continue to view it as a compounder that can maintain double-digit revenue growth in the next 12 to 24 months.

Q: Conversely, what helped performance?

Stock picks in the application software group lifted the fund's relative result. The top individual contributors came from underweighting certain stocks within transaction & payment processing services. This included PayPal Holdings (-18%), which struggled with profitable growth and a market-share decline. New management came aboard in September to improve the company's strategic positioning within consumer payments, but I reduced the fund's share count due to my view that PayPal still has a lot of work to do to address its technology and brand.

The other notable contributor here was Fidelity National Information Services (+20%), which sells and manages software for regional banks – a low-growth, low-volatility, consistently compounding business. The fund was underweight because the firm faced challenges related to the early-2024 spinoff of its merchant payment processing business, Worldpay. Thanks to an improved interest rate outlook and the successful completion of the spinoff, the stock rallied. I expect 2024 to be a restructuring year for the company but have been encouraged by its efforts and roughly doubled the fund's share count this period.

Q: What positioning changes did you make?

I locked in some profits in the application software category, plus one holding – software, data and analytics company Black Knight – was acquired this period. At period end, our investments in this group were concentrated in Intuit, which is best known for its TurboTax and QuickBooks software. It was the fund's No. 2 holding and No. 3 overweight on February 29. Plus, I established an overweight stake in the internet services & infrastructure group with the purchase of Shopify, a Canada-based e-commerce platform and our seventh-largest position at the end of February. Given the favorable backdrop, lower inflation and the prospect of lower interest rates, I reduced exposure to compounders and added to the fund's weighting in opportunistic stocks.

Q: What's your outlook, Ruth?

As of February 29, my outlook for fintech stocks is better than it has been in some time, given expectations for lower interest rates. Continued digitization of financial services also stands to boost the industry. I plan to focus on companies I believe can grow revenue faster than the market and generate higher profitability. ■

Ruth Nagle on upcoming changes in the consumer finance segment:

"I've become slightly more positive in my outlook for consumer finance stocks, which tend to be driven by interest rates, unemployment rates and consumers' willingness to spend. High and rising interest rates were a big headwind in recent years because the cost to service consumer debt went up. As interest rates decline, so will the cost of debt and credit losses, benefiting credit card issuers.

"Within the category, I'm thinking a lot about the implications of Capital One's plans to buy Discover Financial Services, which was announced in February but is not expected to close until 2025. Capital One is proposing an all-stock transaction at a 26% premium to acquire Discover's credit card business and payment network. The fund has positions in both companies as of February 29.

"Discover – the fund's No. 6 holding – is well-positioned because it has both a card business and payment network. Visa and Mastercard, which are the premier global payment networks, don't issue credit cards. Banks usually issue the cards, with the payments running on Visa's and Mastercard's networks.

"Capital One – the fund's No. 11 position – is a bank and the third-largest credit card issuer in the U.S. It had purchase volume of about $600 billion in 2023, with payments on its cards going through the Visa or Mastercard networks. With this acquisition, Capital One has the potential to transfer some of its payment volume to the Discover network. That could change the positioning of Discover, which handled $550 billion in payments in 2023, versus $6.8 trillion for Visa in the U.S., $2.8 trillion for Mastercard and $1.3 trillion for AmEx.

"I expect that, if this acquisition goes through, Discover will become stronger, adding competition for Visa and Mastercard. However, Mastercard's and Visa's ubiquity and international acceptance give them an advantage over Discover's U.S.-based payment network. I will be closely monitoring Capital One to see if it can enhance the Discover network, especially in international markets. I still expect Mastercard and Visa to remain the leaders in global payments but think this move by Capital One bears watching."

LARGEST CONTRIBUTORS VS. BENCHMARK

Holding	Market Segment	Average Relative Weight	Relative Contribution (basis points)*
PayPal Holdings, Inc.	Transaction & Payment Processing Services	-1.29%	66
Fidelity National Information Services, Inc.	Transaction & Payment Processing Services	-2.35%	62
Worldline SA	Transaction & Payment Processing Services	0.10%	43
Capital One Financial Corp.	Consumer Finance	-0.22%	37
Intuit, Inc.	Application Software	1.71%	36

** 1 basis point = 0.01%.*

LARGEST DETRACTORS VS. BENCHMARK

Holding	Market Segment	Average Relative Weight	Relative Contribution (basis points)*
Adyen BV	Transaction & Payment Processing Services	-0.91%	-213
Block, Inc. Class A	Transaction & Payment Processing Services	2.12%	-114
American Express Co.	Consumer Finance	-3.18%	-47
Flywire Corp.	Transaction & Payment Processing Services	1.77%	-38
Guidewire Software, Inc.	Application Software	-0.93%	-32

** 1 basis point = 0.01%.*

ASSET ALLOCATION

Asset Class	Portfolio Weight	Index Weight	Relative Weight	Relative Change From Six Months Ago
Domestic Equities	84.58%	84.77%	-0.19%	-0.43%
International Equities	13.70%	15.23%	-1.53%	-0.19%
Developed Markets	12.54%	14.19%	-1.65%	-0.02%
Emerging Markets	1.16%	1.04%	0.12%	-0.17%
Tax-Advantaged Domiciles	0.00%	0.00%	0.00%	0.00%
Bonds	0.00%	0.00%	0.00%	0.00%
Cash & Net Other Assets	1.72%	0.00%	1.72%	0.62%

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
Transaction & Payment Processing Services	63.10%	53.94%	9.16%	0.02%
Consumer Finance	17.24%	22.41%	-5.17%	0.87%
Application Software	13.14%	16.89%	-3.75%	-1.84%
Internet Services & Infrastructure	4.81%	4.45%	0.36%	0.42%

10 LARGEST HOLDINGS

Holding	Market Segment	Portfolio Weight	Portfolio Weight Six Months Ago
MasterCard, Inc. Class A	Transaction & Payment Processing Services	13.32%	13.74%
Intuit, Inc.	Application Software	13.14%	12.60%
Visa, Inc. Class A	Transaction & Payment Processing Services	12.43%	13.50%
American Express Co.	Consumer Finance	7.92%	4.87%
Fiserv, Inc.	Transaction & Payment Processing Services	4.84%	4.77%
Discover Financial Services	Consumer Finance	4.83%	3.48%
Shopify, Inc. Class A	Internet Services & Infrastructure	4.81%	4.48%
Adyen BV	Transaction & Payment Processing Services	4.79%	2.34%
Global Payments, Inc.	Transaction & Payment Processing Services	4.75%	5.75%
FleetCor Technologies, Inc.	Transaction & Payment Processing Services	3.71%	3.34%
10 Largest Holdings as a % of Net Assets		**74.54%**	**71.38%**
Total Number of Holdings		**28**	**31**

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 FinTech Portfolio Gross Expense Ratio: 0.75%[2]	15.30%	7.24%	24.03%	1.72%	6.05%	7.46%
S&P 500 Index	13.93%	7.11%	30.45%	11.91%	14.76%	12.70%
FactSet Financial Technologies Linked Index	18.18%	7.15%	26.11%	2.02%	5.56%	6.63%
Morningstar Fund Financial	15.49%	2.50%	8.79%	5.18%	7.61%	7.83%
% Rank in Morningstar Category (1% = Best)	--	--	7%	70%	65%	47%
# of Funds in Morningstar Category	--	--	102	96	95	79

[1] Life of Fund (LOF) if performance is less than 10 years. Fund inception date: 12/16/1985.

[2] This expense ratio is from the prospectus in effect as of the date shown above and generally is based on amounts incurred during that fiscal year, or estimated amounts for the current fiscal year in the case of a newly launched fund. It does not include any fee waivers or reimbursements, which would be reflected in the fund's net expense ratio.

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

Definitions and Important Information

Information provided in, and presentation of, this document are for informational and educational purposes only and are not a recommendation to take any particular action, or any action at all, nor an offer or solicitation to buy or sell any securities or services presented. It is not investment advice. Fidelity does not provide legal or tax advice.

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FUND RISKS

Stock markets, especially foreign markets, are volatile and can decline significantly in response to adverse issuer, political, regulatory, market, or economic developments. Sector funds can be more volatile because of their narrow concentration in a specific industry. Foreign securities are subject to interest-rate, currency-exchange-rate, economic, and political risks. The home finance industry can be significantly affected by regulatory changes, interest rate movements, home mortgage demand, refinancing activity, and residential delinquency trends. 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.

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.

FactSet Financial Technologies Linked Index is a float-adjusted, modified market capitalization weighted index rebalanced on a quarterly basis designed to provide an equity benchmark to track the performance of companies engaged in leveraging technology to deliver financial products and services, primarily in the areas of digital payment processing, enterprise data provider, enterprise financial management, insurance/real estate software, and trading solutions. Index returns shown for periods prior to October 23, 2021 are returns Of the S&P Consumer Finance Index.

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

Ruth Nagle is a 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. Nagle is responsible for the research and analysis of the North American banks and payment companies. She also manages the Select FinTech Portfolio.

Before joining Fidelity in 2019, Ms. Nagle was a managing director at BlackRock, where she was a financial analyst and portfolio manager from 2013 to 2019. Previously, she was a managing director at Wellington Management from 2006 to 2013, a managing director at Deutsche Bank from 2000 to 2005, and a vice president at Federated Investors from 1998 to 2000. She has been in the financial industry since 1998.

Ms. Nagle earned her bachelor of arts degree in economics from Smith College, her master of business administration degree from Case Western Reserve University, and her master in management degree from Arizona State University Thunderbird School of Global Management. She is also a CFA® charterholder.

PERFORMANCE SUMMARY: Quarter ending March 31, 2024

	Annualized			
	1 Year	3 Year	5 Year	10 Year/ LOF[1]
Select FinTech Portfolio Gross Expense Ratio: 0.75%[2]	26.37%	0.69%	6.50%	7.62%
% Rank in Morningstar Category (1% = Best)	72%	72%	75%	49%
# of Funds in Morningstar Category	102	96	95	79

[1] Life of Fund (LOF) if performance is less than 10 years. Fund inception date: 12/16/1985.

[2] This expense ratio is from the prospectus in effect as of the date shown above and generally is based on amounts incurred during that fiscal year, or estimated amounts for the current fiscal year in the case of a newly launched fund. It does not include any fee waivers or reimbursements, which would be reflected in the fund's net expense ratio.

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