

Fidelity® Select Chemicals Portfolio

Key Takeaways

- For the fiscal year ending February 29, 2024, the fund gained 5.75%, trailing the 7.26% advance of the MSCI U.S. IMI Chemicals 25/50 Linked Index and well behind the 30.45% increase in the broad-based S&P 500® index.
- On July 31, 2023, Emma Baumgartner assumed co-management responsibilities for the fund, joining Co-Manager David Wagner. On December 31, 2023, David came off the fund, leaving Emma as sole portfolio manager.
- According to Emma, the chemicals complex was weighed down the past 12 months by weak demand and customer destocking that persisted longer than most industry observers expected.
- The combination of an overweight and subpar stock selection in the lagging diversified chemicals industry detracted from the fund's performance versus the MSCI industry index, as did picks in fertilizers & agricultural chemicals.
- Conversely, investment choices in specialty chemicals notably lifted relative performance, although an underweight in that strong-performing group detracted and offset some of the benefit.
- As of February 29, Emma says earnings visibility in the chemicals complex remains poor, and it's hard to know when this long destocking cycle will end, especially with China's economy still on the ropes.
- For now, Emma is maintaining a balance between offensive stocks, meaning those that are economically sensitive, and defensive holdings that tend to outperform when the rest of the market is struggling.

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%).



Emma Baumgartner
Portfolio Manager

Fund Facts

Trading Symbol:	FSCHX
Start Date:	July 29, 1985
Size (in millions):	\$621.53

Investment Approach

- Fidelity® Select Chemicals Portfolio is an industry-based, equity-focused strategy that seeks to outperform its benchmark through active management.
- We conduct in-depth fundamental research, supported by Fidelity's deep and experienced global cyclicals team, to develop a differentiated view from consensus on product- and end-market trends.
- We follow a contrarian investment approach and focus on companies in which we anticipate a positive change in business fundamentals before it is recognized and properly valued in the company's stock price.
- We also look for reasonably valued stocks of firms with improving returns on capital, healthy free-cash-flow yields, the potential for price-earnings multiple expansion, or defensive-growth characteristics.
- 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 Emma Baumgartner

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

The fund gained 5.75% the past 12 months, trailing the 7.26% advance of the MSCI U.S. IMI Chemicals 25/50 Linked Index and well behind the 30.45% increase in the broadly based S&P 500® index. The fund finished far ahead of its peer group average, which tracks the natural resources segment.

Q: What was the environment like for chemical stocks the past 12 months?

The chemicals complex managed a modest gain but was pressured by weak demand and customer destocking that persisted longer than most industry observers expected. In fact, according to most company executives that I've spoken to, the current destocking period is one of the longest they have ever seen. The uncertainty about future demand triggered by, first, the COVID-19 pandemic and then tepid economic recoveries in global markets, especially China, made companies cautious about building up excess inventories of chemicals.

With that said, some groups in the MSCI index stood out for their relatively strong performance. For example, industrial gases posted a 17% gain the past 12 months, while specialty chemicals recorded a 12% rise. Stocks in these groups tend to have both offensive and defensive characteristics. That is, they are somewhat sensitive to broad economic activity, but they also benefit from selling products for which there is relatively steady demand that tends to hold up well during economic downturns.

On the other hand, commodity chemicals, a group that closely tracks expectations about economic growth, advanced a relatively modest 3% the past 12 months. Meanwhile, fertilizers & agricultural chemicals (-23%) recorded a negative return, while diversified chemicals finished at -27%, mostly because of weakness in Chemours.

Q: Tell us about your management style and how you positioned the fund this period.

I've worked at Fidelity since 2008, and in my prior assignment, I analyzed homebuilders and real estate

investment trusts. I've found that knowing the ins and outs of the housing market has been quite helpful in analyzing chemical companies, as housing is a key end market for many chemical products. For many years before that, I worked as an analyst on Fidelity's mega-cap research team, studying stocks from both a fundamental and quantitative perspective.

My overall approach mirrors (former co-manager) David Wagner's, as we tend to have similar views on the various markets in the MSCI industry index. One difference between us, however, is that I'm typically inclined to keep industry weightings closer to those of the index and let stock selection be the primary driver of the fund's relative return.

With that said, commodity chemicals was the fund's largest industry overweight as of period end. I see the potential to get paid twice there as destocking recedes and valuations – which are modest at present, in my view – expand. Individual overweights of note in that group included Westlake, Orion, Cabot, Tronox Holdings and Olin.

On the other hand, specialty chemicals was the fund's biggest underweight, but the difference versus the MSCI index as of period end was much less than at the start of the period. Meaningful underweights here included RPM International, PPG Industries, Ecolab and International Flavors & Fragrances. In my view, these stocks had fairly rich valuations that made it hard to see how they could outperform if the economic environment continues to improve, which is my base case at present.

Q: What detracted most from performance versus the MSCI industry index?

The combination of an overweight and subpar stock selection in the lagging diversified chemicals industry hurt the fund's result most, followed by picks in fertilizers & agricultural chemicals.

Chemours (-40%) was the fund's top individual relative detractor by a wide margin. On the final day of the reporting period, the company's share price plunged to a more than three-year low after the chemical maker placed its top three executives, including CEO Mark Newman, on administrative leave and said it was looking into potential "material weaknesses" in its financial reporting. The internal review also prompted the company to further delay the reporting of its fourth-quarter and full-year results, without disclosing a new date. The fund continued to hold this position at period end, but we are monitoring the situation closely.

An overweight stake in FMC (-55%), a maker of insecticides, herbicides and the like for the agricultural markets, also detracted this period. In my opinion, the company sells value-added crop protection chemicals with a differentiated research and development pipeline that should allow it –

once we get past the current period of destocking – to outgrow the broader crop protection market, thus potentially unlocking an improving profit margin and profits. However, the stock underperformed due to weaker-than-expected demand driven by destocking and concerns that patent expiries might lead to increased competition. We trimmed exposure to FMC as part of a broader effort to lessen exposure to the fertilizers & agricultural chemicals group, but remained overweight as of February 29.

Q: What about noteworthy contributors?

Investment choices in specialty chemicals notably lifted relative performance, although an underweight in that strong-performing group detracted and offset some of the benefit.

Celanese (+33%) was the top individual contributor versus the MSCI industry index, as our sizable overweight was rewarded. This is a hybrid specialty chemical company with two primary businesses: engineered materials and commodity chemicals tied to the acetic acid chain. The firm's automotive chemicals and specialty polymers enable the development of safer, lighter and more energy-efficient vehicles. Additionally, in November 2022, Celanese completed the acquisition of the majority of DuPont's Mobility & Materials business. We think this acquisition opens up many opportunities for synergy and growth. We reduced our stake in the company to lock in some profit, but Celanese was the fund's fifth-largest holding as of period end.

Underweighting Albemarle (-45%) also paid off for the fund. This firm produces specialty chemicals for mobility, energy, connectivity, and health solutions. Notably, it is the world's top producer of lithium, a key component of batteries for electric vehicles. This period, a supply-demand imbalance for lithium, fueled in part by weaker demand for EVs, hurt the stock. Given the lower valuation, we added to this position.

Q: What's your outlook as of the end of February, Emma?

Earnings visibility in the chemicals complex remains poor at period end, and it's hard to know when this long destocking cycle will end, especially with China's economy still on the ropes.

Given ongoing uncertainty in the economic backdrop, I'm trying to maintain a balance between offensive stocks, meaning those that are more economically sensitive, and defensive holdings that tend to outperform when the rest of the market is struggling. ■

Portfolio Manager Emma Baumgartner on prospects for a recover in the TiO₂ market:

"One fairly consistent theme in the portfolio the past few years has been its investments in producers of the paint and coatings pigment titanium dioxide, or TiO₂. As we've noted in past reports, largely because of its status as one of the lowest-cost suppliers of TiO₂, Chemours emerged as a disciplined market leader whose goal is to reduce the extreme price volatility that used to plague this market.

"One correlation we've noticed is that architectural coating volumes and TiO₂ volumes tend to track one another pretty closely over longer periods of time. In theory, this makes a lot of sense, since TiO₂ is a key component of many architectural coatings. Moreover, given that architectural coatings is the end market and TiO₂ is an intermediate market, it's logical that the former would drive demand in the latter.

"Recently, however, this close relationship has broken down. Demand for architectural coatings has remained healthy, even in the face of subdued existing home sales, largely because of the robust market for new residential construction. However, demand for TiO₂ has been subdued.

"At some point, we are looking for these two markets to converge, and we believe this will likely occur via a recovery in the TiO₂ market. As part of that, we are looking for existing home sales to rebound, which should provide a boost for both markets. This assumes that the U.S. avoids a recession, which is currently our base-case expectation.

"Chemours, mentioned above, remains a key fund overweight among our investments in TiO₂ producers, although we are closely monitoring its recent corporate governance issues. Tronox Holdings, the most vertically integrated supplier of TiO₂ and also near the low end of the cost curve, is another overweight position that we expect to benefit from any rebound in demand for TiO₂. Both Chemours and Tronox were among the fund's top-20 holdings as of the end of February."

LARGEST CONTRIBUTORS VS. BENCHMARK

Holding	Market Segment	Average Relative Weight	Relative Contribution (basis points)*
Celanese Corp. Class A	Specialty Chemicals	3.93%	108
The Mosaic Co.	Fertilizers & Agricultural Chemicals	-1.63%	86
Albemarle Corp.	Specialty Chemicals	-0.64%	64
Linde PLC	Industrial Gases	2.06%	54
International Flavors & Fragrances, Inc.	Specialty Chemicals	-2.02%	53

* 1 basis point = 0.01%.

LARGEST DETRACTORS VS. BENCHMARK

Holding	Market Segment	Average Relative Weight	Relative Contribution (basis points)*
The Chemours Co. LLC	Diversified Chemicals	3.12%	-167
FMC Corp.	Fertilizers & Agricultural Chemicals	1.31%	-122
Sherwin-Williams Co.	Specialty Chemicals	-1.59%	-61
Orion SA	Commodity Chemicals	2.43%	-54
Ecolab, Inc.	Specialty Chemicals	-1.69%	-48

* 1 basis point = 0.01%.

ASSET ALLOCATION

Asset Class	Portfolio Weight	Index Weight	Relative Weight	Relative Change From Six Months Ago
Domestic Equities	76.50%	77.30%	-0.80%	2.55%
International Equities	22.68%	22.70%	-0.02%	-2.32%
Developed Markets	22.68%	22.70%	-0.02%	-2.32%
Emerging Markets	0.00%	0.00%	0.00%	0.00%
Tax-Advantaged Domiciles	0.00%	0.00%	0.00%	0.00%
Bonds	0.00%	0.00%	0.00%	0.00%
Cash & Net Other Assets	0.82%	0.00%	0.82%	-0.23%

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
Specialty Chemicals	40.72%	46.51%	-5.79%	4.40%
Industrial Gases	30.60%	28.87%	1.73%	0.04%
Commodity Chemicals	18.14%	13.09%	5.05%	-3.04%
Fertilizers & Agricultural Chemicals	7.18%	10.17%	-2.99%	0.22%
Diversified Chemicals	2.55%	1.37%	1.18%	-1.38%

10 LARGEST HOLDINGS

Holding	Market Segment	Portfolio Weight	Portfolio Weight Six Months Ago
Linde PLC	Industrial Gases	22.68%	24.80%
Sherwin-Williams Co.	Specialty Chemicals	11.18%	7.99%
Air Products & Chemicals, Inc.	Industrial Gases	7.92%	8.04%
Ecolab, Inc.	Specialty Chemicals	5.38%	4.30%
Celanese Corp. Class A	Specialty Chemicals	5.04%	6.40%
Axalta Coating Systems Ltd.	Specialty Chemicals	4.52%	3.52%
Element Solutions, Inc.	Specialty Chemicals	4.09%	3.51%
Westlake Corp.	Commodity Chemicals	4.00%	4.84%
Corteva, Inc.	Fertilizers & Agricultural Chemicals	3.99%	3.69%
DuPont de Nemours, Inc.	Specialty Chemicals	3.68%	4.94%
10 Largest Holdings as a % of Net Assets		72.48%	74.35%
Total Number of Holdings		24	23

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 Chemicals Portfolio Gross Expense Ratio: 0.70% ²	4.32%	-0.65%	5.75%	7.71%	7.84%	6.71%
S&P 500 Index	13.93%	7.11%	30.45%	11.91%	14.76%	12.70%
MSCI US IMI Chemicals 25/50 Linked Index	5.38%	1.43%	7.26%	7.53%	10.15%	8.34%
Morningstar Fund Natural Resources	-1.26%	-3.38%	0.48%	7.23%	9.43%	4.36%
% Rank in Morningstar Category (1% = Best)	--	--	39%	49%	68%	28%
# of Funds in Morningstar Category	--	--	124	110	105	91

¹ Life of Fund (LOF) if performance is less than 10 years. Fund inception date: 07/29/1985.

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](https://www.fidelity.com/performance), institutional. [fidelity.com](https://www.fidelity.com), or [401k.com](https://www.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

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FUND RISKS

The value of the fund's domestic and foreign investments will vary from day to day in response to many factors. Stock values fluctuate in response to issuer, political, regulatory, market, or economic developments. You may have a gain or loss when you sell your shares. Investments in foreign securities, especially those in emerging markets, involve risks in addition to those of U.S. investments, including increased political and economic risk, as well as exposure to currency fluctuations. Because FMR concentrates the fund's investments in a particular industry, the fund's performance could depend heavily on the performance of that industry and could be more volatile than the performance of less concentrated funds and the market as a whole. The fund is considered non-diversified and can invest a greater portion of assets in securities of individual issuers than a diversified fund; thus changes in the market value of a single investment could cause greater fluctuations in share price than would occur in a more diversified fund. The chemical industry can be significantly affected by intense competition, product obsolescence, raw materials prices, and government regulation, and can be subject to risks associated with the production, handling, and disposal of hazardous components.

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 Chemicals 25/50 Index is a modified market-capitalization-weighted index of stocks designed to measure the performance of Chemicals companies in the MSCI U.S. Investable Market 2500 Index. The MSCI U.S. Investable Market 2500 Index is the aggregation of the MSCI U.S. Large Cap 300, Mid Cap 450, and Small Cap 1750 Indices. Index returns shown for periods prior to January 1, 2010 are returns of the MSCI U.S. Investable Market Chemicals 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

Emma Baumgartner 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. Baumgartner focuses on housing-related stocks both within the consumer discretionary and REIT sectors and is responsible for providing investment objectives for Fidelity portfolio managers.

Prior to assuming her current position in September 2019, Ms. Baumgartner held various roles within Fidelity's Equity division, including mega cap research analyst, mega cap research associate, and business associate. She has been in the financial industry since joining Fidelity in 2008.

Ms. Baumgartner earned her bachelor of arts degree, magna cum laude, in economics from Dartmouth College. 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 Chemicals Portfolio Gross Expense Ratio: 0.70% ²	14.82%	7.01%	9.58%	7.27%
% Rank in Morningstar Category (1% = Best)	31%	62%	67%	27%
# of Funds in Morningstar Category	125	111	105	91

¹ Life of Fund (LOF) if performance is less than 10 years. Fund inception date: 07/29/1985.

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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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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