

# Fidelity® Select Semiconductors Portfolio

## Key Takeaways

- For the fiscal year ending February 29, 2024, the fund gained 69.34%, trailing the 82.80% advance of the MSCI U.S. IMI Semiconductors & Semiconductor Equipment 25/50 Index, but far ahead of the 30.45% rise in the broad-based S&P 500® index.
- The U.S. stock market notched a series of new all-time highs the past 12 months, aided by an expanding global economy and cooling inflation, which in July prompted the Federal Reserve to pause its aggressive campaign to raise short-term interest rates.
- This period, semiconductors & semiconductor equipment (+113%) was the best-performing industry group within the information technology (+61%) sector, which was the top performer among the 11 equity sectors in the S&P 500® index.
- Although a number of trends drove the outstanding performance of chip stocks this period, by far the most impactful was excitement about generative artificial intelligence, according to Portfolio Manager Adam Benjamin.
- Stock selection in the fund's core semiconductors group had the biggest negative impact on performance versus the MSCI industry index. Investment choices in the semiconductor materials & equipment segment also detracted.
- Broadly speaking, the fund trailed the MSCI industry index because some stocks in the portfolio that had outperformed in early 2023 took a breather, and the fund had relatively light exposure to others that the market became overly enthusiastic about, in Adam's view.
- Looking ahead, Adam notes that, with valuations for semiconductor stocks fairly elevated, it will be important for companies to come through with earnings that justify this optimism. He remains bullish on prospects for semiconductor-related investments because of the group's status as a core technology for so many key products and services in the modern global economy.

## 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%).



**Adam Benjamin**  
Portfolio Manager

### Fund Facts

<b>Trading Symbol:</b>	FSELX
<b>Start Date:</b>	July 29, 1985
<b>Size (in millions):</b>	\$16,467.62

### Investment Approach

- Fidelity® Select Semiconductors Portfolio is an industry-based, equity-focused strategy that seeks to outperform its benchmark through active management.
- We believe the value of technology stocks is in large part determined by the companies' future potential to generate earnings and cash flow. Our investment framework also focuses on identifying themes that impact the largest end markets, determining potential winners/losers, and how certain companies that are technology disruptors can impact incumbents.
- The semiconductor industry is a very specialized part of the market, and our experience allows for proficiency in a particular domain, aiding in recognizing investment opportunities that arise.
- Through bottom-up research, including discussions with industry experts, technologists, suppliers and competitors, we develop a differentiated view on the fundamentals in seeking to identify companies with compelling risk/reward profiles.
- We leverage the depth and breadth of Fidelity's global research organization, which can provide a competitive edge given the global nature of the semiconductor and electronics supply chain.
- 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 Adam Benjamin

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

It posted a large gain that nevertheless fell considerably short of its industry benchmark. The fund gained 69.34% the past 12 months, trailing the 82.80% advance of the MSCI U.S. IMI Semiconductors & Semiconductor Equipment 25/50 Index, but far ahead of the 30.45% rise in the broad-based S&P 500® index. Additionally, the fund considerably outpaced the peer group average, which tracks the entire information technology sector.

### **Q: What was noteworthy about the investment backdrop for chip stocks the past 12 months?**

The U.S. stock market notched a series of new all-time highs during the period, aided by an expanding global economy and cooling inflation, which in July prompted the Federal Reserve to pause its aggressive campaign to raise short-term interest rates. In December, the central bank pivoted away from a neutral view of interest rates, with its forecast of several rate cuts in 2024.

Semiconductors & semiconductor equipment (+113%) was the best-performing industry group within the information technology (+61%) sector, which was the top performer among the 11 equity sectors in the S&P 500® index. Within the MSCI industry index, semiconductors rose about 93%. Semiconductor materials & equipment also performed well but considerably lagged the chip group, rising about 44%. Although a number of trends drove the outstanding performance of chip stocks this period, by far the most impactful was excitement about generative artificial intelligence.

The stock market's rally this period was quite concentrated, with a handful of mega-cap favorites driving a disproportionate part of the advance.

### **Q: You received some good news about the fund at the end of 2023...**

Yes, thanks for asking about that. Although the fund ran into some difficulty relative to the MSCI industry index in the fourth quarter of the year, it finished with the top return for all of 2023 among 391 U.S.-based mutual or exchange-traded funds investing at least \$5 billion over five years,

according to Bloomberg. The 78% gain we produced in 2023 was a full five percentage points better than the second-best fund. Also, the fund was ranked No. 1 in 2021, so we've merited that distinction in two of the past three years – something I'm quite proud of.

**Q: Congratulations for that, Adam. Let's turn back to this 12-month reporting period. Why did the fund lag the MSCI industry index?**

I think it was a combination of two things. One, some of the stocks in the portfolio that had done really well in early 2023 took a breather later in the period. Second, the fund had relatively light exposure to other stocks that the market became overly enthusiastic about. As a result, stock selection in the fund's core semiconductors group meaningfully detracted from its performance versus the MSCI industry index. A cash position averaging 2% of assets, on average, also hurt in a strongly rising market.

Out-of-index exposure to GlobalFoundries (-16%) detracted from relative performance more than any other individual holding. I consider this semiconductor foundry, with facilities in the U.S., Europe and Singapore, a "scarce asset," given its status as one of only five pure-play foundries without a site in Taiwan or China. As a result, I thought the company was well-positioned to benefit from the global push for domestic production. During the period, though, its business supplying chips for smartphones slowed, and demand from the data center and communications infrastructure markets also began to decelerate, all of which hurt the stock. I meaningfully increased the fund's share count in GlobalFoundries this period and it was our eighth-largest holding at period end.

Onsemi (formerly On Semiconductor, +2%), a stock in which we had a large overweight, also meaningfully weighed on relative performance. The company designs and manufactures semiconductors for automotive, industrial, medical and other applications. On October 30, onsemi's stock fell about 20% after the company reported weaker-than-expected third-quarter earnings, while also notably reducing Q4 guidance for its electric-vehicle-related business. I remained confident in the company's prospects and added significantly to this position, and it was our third-largest holding and No. 2 overweight as of February 29.

Underweighting strong-performing index component Broadcom (+124%) further hampered the fund's relative result. This was one of the chip stocks that played catch-up this period versus some of our overweighted holdings. Broadcom executed well, but its earnings-growth potential from generative AI has been overestimated, in my view, and I chose other companies, notably Nvidia and Marvell Technology, to gain exposure to this theme. Broadcom, Intel and a few other stocks where the fund had a lighter-than-index exposure were deemed by the market to be "AI

winners" and outperformed later in the period. I expect this "AI basket" approach to fall by the wayside as we get further into 2024. At some point, firms will need to deliver AI revenue, or I believe their stock price will fall.

**Q: What about noteworthy contributors?**

Most of the fund's top contributors compared with the MSCI index were weak-performing index components that I underweighted or avoided completely. A sizable underweight in Texas Instruments (+1%) contributed most on a relative basis. The fund also benefited from avoiding SolarEdge Technologies (-79%) and First Solar (-9%), as well as underweight positions in Analog Devices (-7%), Qualcomm (-29%) and Wolfspeed (-62%). The fund did not own Analog Devices or Qualcomm at period end.

Turning to overweight positions, I'll highlight Nvidia (+241%), the fund's largest position, by far, at 28% of assets. This stock was a focal point of much of the excitement about generative AI because of the company's considerable head start over the competition. Nvidia has been investing in AI for about 10 years, and its full-stack solutions of chips, software and systems have positioned it extremely well as the provider of choice for hyperscalers, or large cloud-service providers, and enterprises looking to embrace generative AI. I reduced the position this period to keep it at a manageable size and nail down some profit.

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

With valuations for semiconductor stocks fairly elevated, it will be important for companies to deliver earnings that justify the prevailing optimism. Short term, I wouldn't be surprised to see choppy action in both the chip industry and the broader U.S. stock market.

However, I continue to like longer-term prospects for the companies in the portfolio, driven by a number of powerful themes that remain in play, including the investment in infrastructure and software needed to support the growth of generative AI and the evolving data center architecture.

Other key trends I'm following include digital transformation, as well as the increasing importance of assuring adequate semiconductor supply and the increasing chip content driven by the further adoption of electric vehicles and autonomous-driving capabilities. ■

## Portfolio Manager Adam Benjamin on chipmakers at the forefront of innovation in the auto industry:

"In early January, the Fidelity tech team attended the Consumer Electronics Show in Las Vegas. We were struck by how the show floor was dominated by all things auto. Innovation was especially evident in electrification, autonomous features and safety capabilities, as well as security, display and lighting technology. All this innovation is increasingly supporting the concept that autos have become a 'smartphone on wheels,' which is driving more semiconductor content to support this technological advancement.

"Outside of the cloud/data center end market, which is in the process of being transformed by the impact of generative AI and accelerated computing, the automotive end market has experienced the most significant technological change and disruption. Despite the stock market's concern about slowing sales of electric vehicle, EVs are still expected to see roughly 20% annual growth for the next several years. This may be lower than prior years and previous expectations of roughly 30% annual growth, but factoring in the semi-content growth opportunities – in many cases, \$500 for a vehicle with an internal combustion engine, versus \$1,000 to \$2,000 for an EV – I continue to see opportunities for semiconductor companies that are leading this innovation, specifically NXP Semiconductors and onsemi. NXP was the fund's largest overweight and onsemi the second largest overweight as of February 29.

"NXP is a leader in radar for driver-safety systems and battery-management systems for EVs, and is developing new architecture to simplify auto connectivity and advance the concept of autos being 'smartphones on wheels.' Onsemi is a leader in providing silicon carbide solutions to power EV traction inverters, as well as image processors needed for cameras for advanced safety systems. I believe these two companies are well-positioned to provide leadership products to benefit from these powerful trends that are disrupting and advancing the auto end market."

## LARGEST CONTRIBUTORS VS. BENCHMARK

Holding	Market Segment	Average Relative Weight	Relative Contribution (basis points)*
Texas Instruments, Inc.	Semiconductors	-4.73%	479
Analog Devices, Inc.	Semiconductors	-2.96%	258
NVIDIA Corp.	Semiconductors	2.49%	251
SolarEdge Technologies, Inc.	Semiconductor Materials & Equipment	-0.66%	231
Qualcomm, Inc.	Semiconductors	-4.33%	194

\* 1 basis point = 0.01%.

## LARGEST DETRACTORS VS. BENCHMARK

Holding	Market Segment	Average Relative Weight	Relative Contribution (basis points)*
GlobalFoundries, Inc.	Semiconductors	4.95%	-645
ON Semiconductor Corp.	Semiconductors	6.24%	-614
NXP Semiconductors NV	Semiconductors	6.47%	-297
Broadcom, Inc.	Semiconductors	-8.04%	-273
Teradyne, Inc.	Semiconductor Materials & Equipment	2.46%	-250

\* 1 basis point = 0.01%.

## ASSET ALLOCATION

Asset Class	Portfolio Weight	Index Weight	Relative Weight	Relative Change From Six Months Ago
Domestic Equities	83.23%	100.00%	-16.77%	-5.88%
International Equities	11.25%	0.00%	11.25%	1.56%
Developed Markets	6.10%	0.00%	6.10%	1.44%
Emerging Markets	5.15%	0.00%	5.15%	0.12%
Tax-Advantaged Domiciles	0.00%	0.00%	0.00%	0.00%
Bonds	0.00%	0.00%	0.00%	-0.13%
Cash & Net Other Assets	5.52%	0.00%	5.52%	4.45%

*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
Semiconductors	81.44%	82.45%	-1.01%	-3.67%
Semiconductor Materials & Equipment	12.94%	17.55%	-4.61%	-0.64%
Technology Hardware, Storage & Peripherals	0.04%	--	0.04%	0.00%
Precious Metals & Minerals	0.03%	--	0.03%	-0.03%
Diversified Financial Services	0.02%	--	0.02%	0.02%
Electronic Equipment & Instruments	0.01%	--	0.01%	0.00%
Electronic Components	0.00%	--	0.00%	-0.01%

## 10 LARGEST HOLDINGS

Holding	Market Segment	Portfolio Weight	Portfolio Weight Six Months Ago
NVIDIA Corp.	Semiconductors	28.10%	27.94%
NXP Semiconductors NV	Semiconductors	7.34%	8.38%
ON Semiconductor Corp.	Semiconductors	6.48%	7.90%
Marvell Technology, Inc.	Semiconductors	6.08%	7.07%
Taiwan Semiconductor Manufacturing Co. Ltd. sponsored ADR	Semiconductors	5.02%	5.03%
ASML Holding NV (depository receipt)	Semiconductor Materials & Equipment	4.83%	3.33%
Micron Technology, Inc.	Semiconductors	4.61%	2.24%
GlobalFoundries, Inc.	Semiconductors	4.43%	4.94%
Broadcom, Inc.	Semiconductors	4.39%	4.05%
Lam Research Corp.	Semiconductor Materials & Equipment	3.95%	3.64%
<b>10 Largest Holdings as a % of Net Assets</b>		<b>75.24%</b>	<b>76.12%</b>
<b>Total Number of Holdings</b>		<b>44</b>	<b>46</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.

## FISCAL PERFORMANCE SUMMARY: Periods ending February 29, 2024

	Cumulative		Annualized			
	6 Month	YTD	1 Year	3 Year	5 Year	10 Year/ LOF <sup>1</sup>
Select Semiconductors Portfolio Gross Expense Ratio: 0.64% <sup>2</sup>	27.37%	20.82%	69.34%	26.99%	34.49%	26.92%
S&P 500 Index	13.93%	7.11%	30.45%	11.91%	14.76%	12.70%
MSCI US IMI Semiconductors & Semiconductor Equipment 25/50	31.82%	18.67%	82.80%	26.48%	34.06%	26.51%
Morningstar Fund Technology	17.40%	7.18%	38.84%	1.94%	15.30%	15.58%
% Rank in Morningstar Category (1% = Best)	--	--	4%	1%	1%	2%
# of Funds in Morningstar Category	--	--	267	232	203	158

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

<sup>2</sup> 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.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

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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 electronics industry can be significantly affected by rapid obsolescence, intense competition, and global demand. 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.

Prior to 10/1/16, Select Semiconductors Portfolio was named Select Electronics Portfolio.

### 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 Semiconductors & Semiconductor Equipment 25/50 Index** is a modified market-capitalization-weighted index of stocks designed to measure the performance of Semiconductors & Semiconductor Equipment 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.

**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.

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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

**Adam Benjamin** is a research analyst 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.

Mr. Benjamin manages Fidelity Advisor Technology Fund, Fidelity VIP Technology Portfolio, Fidelity Select Semiconductors Portfolio, Fidelity Advisor Semiconductors Fund and the Information Technology sleeves of the Fidelity Institutional Asset Management (FIAM) Large Cap Core and Global Core sector strategies. He also covers the large cap semiconductors industry.

Prior to assuming his current roles, Mr. Benjamin was a research analyst responsible for the coverage of the semiconductor, semiconductor capital equipment, and solar end markets. Most recently he served as global technology sector leader within FIAM.

Before joining Fidelity in 2011, Mr. Benjamin served as managing director and head of semiconductor equity research at Jefferies & Company, Inc. Previously, he held various roles at SG Cowen, including senior research associate focused on the semiconductor space and vice president in the Technology M&A group. Mr. Benjamin was also an associate in the Corporate Law department of Sullivan & Worcester. He has been following the technology sector for over 18 years.

Mr. Benjamin earned his bachelor of arts degree from Cornell University and his juris doctor degree, cum laude, from Suffolk University Law School.



**PERFORMANCE SUMMARY:**  
**Quarter ending March 31, 2024**

	Annualized			
	1 Year	3 Year	5 Year	10 Year/ LOF <sup>1</sup>
Select Semiconductors Portfolio Gross Expense Ratio: 0.64% <sup>2</sup>	63.07%	28.58%	35.26%	27.14%
% Rank in Morningstar Category (1% = Best)	1%	1%	1%	2%
# of Funds in Morningstar Category	267	232	204	158

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

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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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