# This dividend stock fund is beating the market. Here's its strategy and positions

By Michelle Fox
Jan 10, 2023

Investors lately are searching for income to settle some of the stock market's volatility, but that's a long-held strategy that's paying off for Integrity Viking Funds.

The firm's Integrity Dividend Harvest Fund ended 2022 with a total return, including reinvested dividends, of 3.18%, according to Morningstar, while the broader market saw its worst year since 2008. The S&P 500 finished down nearly 20% (excluding reinvested dividends). So far in 2023, Integrity Dividend had gained 1.84% through Monday, Morningstar says. The S&P 500 was up 1.37%.

At the same time, investors in the Integrity Dividend Harvest Fund collect income. The trailing 12-month yield is running at about 3.27%, again according to Morningstar.

The fund, which has an adjusted expense ratio of 0.70%, was created in 2012 in response to financial advisor demand for a high-quality, low-volatility equity product, said Mike Morey, chief investment officer at Integrity Viking Funds and one of the Dividend Harvest Fund's portfolio managers. Today, the fund manages about $308 million in assets and is 5-star rated by Morningstar. It rounds out Integrity's income offerings, which also include municipal, high yield and government income funds.

Integrity Dividend Harvest I outperformed the S&P 500 in 2022.

The team maintains its investment style regardless of market conditions, he said.

"You go through periods of time where growth gets extremely sexy and everybody chases it," Morey said. "We feel that's just not the most appropriate investment style. We feel owning quality companies and committing to them longer term will reap longer-term benefits."

The result has been a fund with a steadily growing income stream and annual dividend increases, as well as superior risk-adjusted returns, he explained. The fund's three-year annualized return was 8.37% as of Dec. 31, according to Morningstar.

The Integrity Dividend Harvest Fund has a mix of dividend stocks from all the different S&P 500 sectors, but its overweight positioning in sectors such as utilities and consumer staples helped it stand out this past year, Morey said.

**Top picks**

Morey believes utilities and consumer staples, as well as health care, will continue to do well in a slowing, or recessionary, economy.

The firm also is finding opportunities in financials and technology.

"A recessionary outcome would be negative for the group, but if you find quality companies within those sectors, you are starting to get a pretty attractive valuation," Morey said.

**INTEGRITY DIVIDEND HARVEST'S TOP 10 HOLDINGS**

| TICKER | Company | % of net assets |
|---|---|---|
| ABBV | AbbVie | 6.89 |
| AVGO | Broadcom | 6.4 |
| VZ | Verizon Communications | 3.78 |
| JPM | JPMorgan Chase | 3.46 |
| XOM | Exxon Mobile | 3.07 |
| PFE | Pfizer | 2.86 |
| NEE | NextEra Energy | 2.83 |
| KMB | Kimberly-Clark | 2.82 |
| MRK | Merck & Co | 2.78 |
| PEP | PepsiCo | 2.77 |

*Source: IntegrityVikingFunds*

The fund's top holding as of Sept. 30 was biopharmaceutical company AbbVie. The stock, which gained more than 19% last year, has a 3.65% dividend yield. It has significantly contributed to the fund's performance and has a history of raising its dividend for more than 50 years, Morey said.

Biosimilar copies of its drug Humira are set to hit the market this year, but AbbVie is adapting by diversifying its pipeline, he said. In addition, AbbVie is expanding its revenue stream with immunology drugs Rinvoq and Skyrizi, as well as through its 2020 acquisition of Allergan.

"You combine all those together and you really diversify the company's revenue stream, which kind of takes a lot of pressure off Humira and opens upside to the company through multiple expansion, not just earnings growth," Morey said.

The fund's second-largest holding is Broadcom, which lost nearly 16% in 2022 and has a 3.09% dividend yield. The company has transitioned from being a true growth stock to being more of a hybrid, Morey believes.

"They possess a strong growth profile, but are trading at a very attractive valuation," he said. Broadcom also has raised its dividend for 11 consecutive years, he added.

Despite some regulatory "hiccups" in Europe, Morey believes the chipmaker's proposed acquisition of VMWare will go through. Once that happens, more than 50% of Broadcom's revenues will come from recurring software sales, he said. That will provide more visibility to Broadcom's free cash flow and enhance its ability to pay a dividend, he said.

Energy has also played a role in the fund's performance and has the potential to continue doing well this year, Morey said. Exxon Mobil, the fifth-largest holding at 3.07% of the portfolio, returned a whopping 80% last year and has a 3.37% dividend yield.

The largest U.S. oil company by market value continued an active capital spending program through the downturn in oil over the past five years, which is beginning to reap rewards, Morey said.

"They've delivered strong free-cash-flow growth, debt reduction, and I think we're likely going to see further dividend increases," he said. "They're arguably one of the most diverse energy companies in the world, with revenues coming from the full value chain of the energy sector as well as chemicals."

He also likes Diamondback Energy, which is not among the fund's top 10 holdings. The energy firm makes up 1.89% of the portfolio's net assets and has a 2.13% dividend yield. Diamondback Energy recently acquired Lario Permian, a subsidiary of Lario Oil & Gas, which expanded its footprint in the Permian Basin and added to its inventory depth, Morey said. He also likes its free cash flow profile.

**Utilities attractive**

Utilities are also attractive right now because of their low beta and the expectation that they won't have an issue with earnings compression, which other sectors will be dealing with this year, said Shannon Radke, the fund's senior portfolio manager.

"Utilities have minimal exposure to the U.S. or the global economy, just due to the essential service product that they deliver," he said. "That's going to support stability of earnings."

Decarbonization among utility companies is leading to increased capital expenditures and growth across the sector, he added. One of those standout names, in Radke's view, is American Electric Power, which yields 3.38%. The company has increased its capex spending and its management has a record of beating its own guidance as well as analysts' consensus earnings estimates, he said.

"They're pointing to 6% to 7% long-term annual earnings growth, along with dividends growing in lockstep to their earnings," Radke said.

IntegrityVikingFunds®
THE NICHE FUND GROUP

We Don't Predict. We Plan.

***Integrity Dividend Harvest Fund is sold by prospectus only. For more complete information an investor should consider the investment objectives, risks, and charges and expenses of the Fund carefully before investing. The prospectus contains this and other information about the Fund. You may obtain a prospectus at no cost from your financial advisor or at www.integrityvikingfunds.com. Please read the prospectus carefully before investing.***

The performance data represents past performance, which does not guarantee future results. The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. To obtain performance data current to the most recent month-end, an investor may call toll free 800-276-1262 or visit www.integrityvikingfunds.com.

Because the Fund can only distribute what it earns, the distributions to shareholders could decline when dividend income from stocks in the portfolio decline. The Fund's emphasis on dividend-paying stocks involves the risk that such stocks may fall out of favor with investors and underperform the market. Also, a company may reduce or eliminate its dividend, which could affect the Fund's ability to generate income.

Preferred stocks are subject to the risks associated with other types of equity securities, such as potential volatility, as well as additional risks, such as risks related to deferral and omission of distributions; credit and subordination risk; interest rate risk; call, reinvestment and income risk; liquidity risk; risks related to limited voting rights; and risks related to special redemption rights.

The Fund may invest in securities of non-U.S. issuers, which have special risks. These risks include international economic and political developments, foreign government actions including restrictions on payments to non-domestic persons such as the Fund, less regulation, less information, currency fluctuations, and interruptions in currency flow. Investments in foreign securities also entail higher costs.

IDHIX returns & yields are for the period ended 12/31/22: YTD 3.18%, 1-year 3.18%, 3-years 8.37%, 5-years 8.28%, SI 8.98%; Due to inception date of 8/1/2016, 10-year returns are unavailable. Total Annual Fund Operating Expenses After Fee Waivers and Expense Reimbursements are 1.19%; Total Annual Fund Operating Expenses Gross of Fee Waivers and Expense Reimbursements is 0.70%; 30-Day SEC Yield is 2.095% subsidized, 1.633% unsubsidized.

IDHIX Top 10 Holdings represented 35.95% of the Fund as of 12/31/2022: AbbVie 6.69%, Broadcom 6.62%, JPMorgan Chase 3.49%, Verizon 3.48%, Exxon Mobil 2.69%, Kimberly-Clark 2.67%, Merck & Co 2.67%, Pfizer 2.63%, American Electric Power Co 2.60%, PepsiCo 2.41%.

All expressions of opinion are subject to change without notice in reaction to shifting market conditions. Data contained herein from third-party providers is obtained from what are considered reliable sources. However, its accuracy, completeness or reliability cannot be guaranteed.