

High Quality & Dividend Yield Screen

High Quality & Dividend Yield Screen – April 2017

Screen underperformed in March and lags so far this year

The High Quality & Dividend Yield Screen underperformed the S&P 500 index by 0.4ppt in March (-0.3% vs S&P 500 +0.1%). Year to date the screen is underperforming the S&P 500 by 2.0ppt (4.1% vs S&P 500 6.1%). Since inception the screen has outperformed the S&P 500 index by 124ppt (3.1ppt per year). Current constituents of the screen offer an average dividend yield of 2.6% versus the S&P 500's dividend yield of 1.9%.

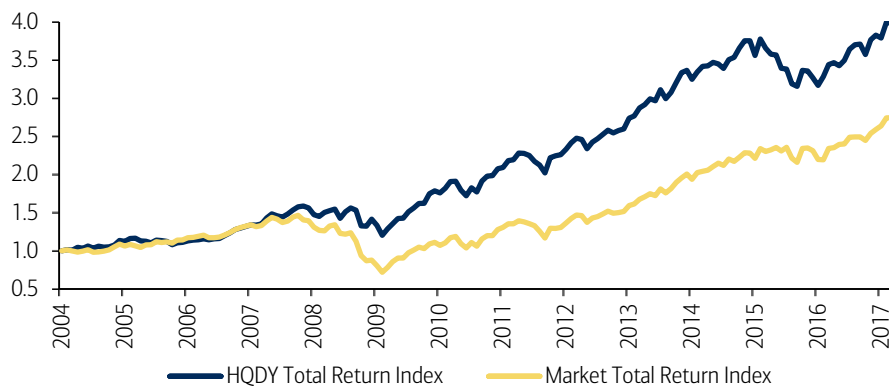
No Additions

No Deletions

A screen for investors seeking quality and yield

Some investors prefer a consistent strategy that focuses on higher quality investments. For those investors, we introduced the High Quality & Dividend Yield Screen in February 2004. The screen seeks to identify high quality stocks with secure and above-market dividend yields that are aligned with our analysts' fundamental outlook. This month's screen generated 12 companies which, we believe, investors who are interested in these themes should consider. For further details, please refer to our [annual performance analysis](#).

Chart 1: High Quality Dividend Yield Strategy Performance vs. S&P 500 Total Return Index February 2004 to March 2017



Source: BofA Merrill Lynch US Equity & Quantitative Strategy

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Table 1: HQ&DY Returns

	HQ & DY Screen	S&P 500 Total Return	Relative (ppt)
Mar 2017	(0.32%)	0.12%	-0.4
3M	4.06%	6.07%	-2.0
6M	7.40%	10.12%	-2.7
YTD	4.06%	6.07%	-2.0
12M**	15.76%	17.17%	-1.4
Annualized			
3 years	5.22%	10.37%	-5.1
5 years	9.97%	13.30%	-3.3
10 years	11.41%	7.51%	3.9
Overall	11.07%	7.97%	3.1

Notes: *Partial year since Feb 2004 **12M = 01 Apr 2016 - 31 Mar 2017. Past performance is no guarantee of future results. Please see Table 3 for additional information. Source: BofA Merrill Lynch US Equity & Quantitative Strategy. Prior to January 2013, performance assumes rebalancing based on closing prices as of the last business day of each month. From January 2013 on, performance assumes rebalancing based on closing prices as of the next business day following the report publish date.

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Refer to important disclosures on page 7 to 8.

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High Quality & Dividend Yield Screen

Table 2: High Quality and Dividend Yield Screen April 2017

Date Added	Ticker	Name	Sector	ROE (%)	DEBT/EQUITY	YIELD (%)	Quality	Market Val (\$mn)	Cost Price	Price	QRQ	FCF/DIV	Footnotes
4/1/2012	ADP	ADP	Information Technology	42.2	0.5	2.1	A	45,963	55.19	102.39	B-1-7	1.9	Bbijopsw
12/1/2016	CVS	CVS Health Corp	Consumer Staples	14.4	0.7	2.3	A+	80,517	77.62	78.50	B-1-7	2.9	Bbgjoprsvw
2/1/2017	EMR	Emerson	Industrials	26.9	0.5	3.2	A	38,614	58.88	59.86	B-2-7	1.8	Bbijopv
11/1/2016	HON	Honeywell	Industrials	25.5	0.8	2.0	A	95,050	108.46	124.87	B-1-7	2.5	BObgijopsw
3/1/2013	JNJ	Johnson & Johnson	Health Care	23.4	0.4	2.5	A	337,947	76.70	124.55	A-2-7	2.0	Bbgjopsw
3/1/2017	MO	Altria Group	Consumer Staples	182.0	1.1	3.3	A-	138,513	75.72	71.42	B-1-7	3.1	Bbow
3/1/2016	PG	Procter & Gamble	Consumer Staples	16.9	0.6	3.0	A	229,699	82.55	89.85	A-1-7	2.1	Bbgjopsw
3/1/2016	QCOM	QUALCOMM	Information Technology	15.9	0.4	3.6	A-	84,694	52.85	57.34	B-1-7	1.9	Bbijopsw
3/1/2017	TXN	Texas Instr.	Information Technology	35.2	0.3	2.0	A-	80,531	78.08	80.56	B-1-7	2.4	Bbgjopsw
6/1/2015	UNP	Union Pacific	Industrials	20.8	0.8	2.1	A	86,197	101.60	105.92	B-1-7	1.5	Bbgjopsw
2/1/2017	UTX	United Tech	Industrials	18.4	0.9	2.3	A+	90,426	108.36	112.21	B-1-7	2.5	BObgijopsw
12/3/2012	WMT	Wal*Mart Stores	Consumer Staples	17.2	0.6	2.8	A	221,516	72.02	72.08	A-1-7	2.1	Bbijopv
		Average		36.6	0.6	2.6		127,472				2.2	
		S&P 500 benchmarks:		14.2	1.1	1.9							

Source: BofA Merrill Lynch Global Research, BofA Merrill Lynch US Quantitative Strategy, FactSet, S&P. Note: Calculations are based on data from the last 12 months. Financials stocks are excluded because they typically have very high Debt/Equity ratios that have nothing to do with their capital structure. We calculate the benchmark S&P 500 ROE by taking the average of the aggregate ROE (S&P 500 EPS ÷ by book value per share) and the median ROE. Disclaimer: These stocks have been selected according to the specified screening criteria and do not constitute a recommended list. Investors looking for a high quality dividend yield oriented investment can consider this analysis as one part of their decision making process, but should also consider other factors including fundamental opinions, financial risk, investment risk, management strategies and operating and financial outlooks.

Screening Criteria

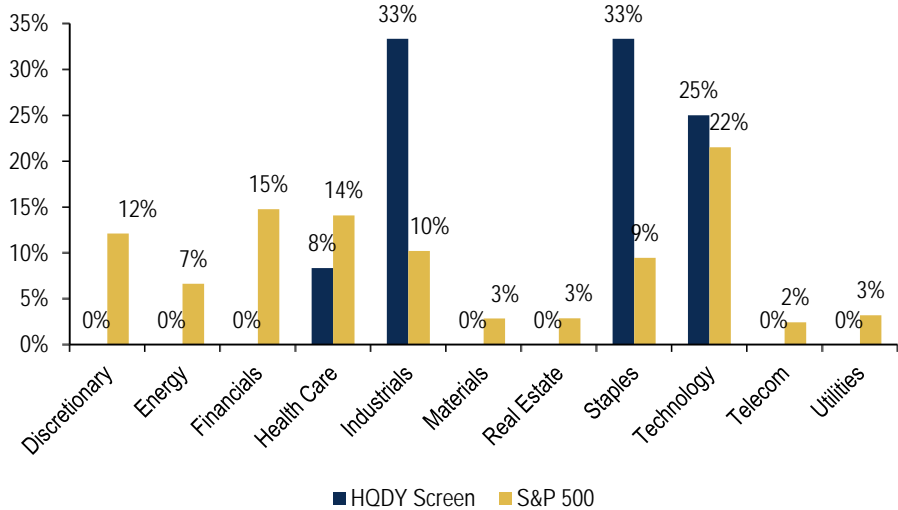
We believe that the following screening factors are likely to uncover higher-quality companies that offer a relatively secure dividend yield. The stocks are selected from the S&P 500 and exclude financial stocks due to metric incomparability with other sectors.

1. S&P Common Stock Rank of A+, A, or A-. The S&P Common Stock Rankings are our main measure of quality. These rankings are based primarily on the growth and stability of earnings and dividends over a 10-year period.
2. Return on equity (ROE) greater than that of the S&P 500 ROE.
3. Debt/Equity lower than that of the S&P 500.
4. Trailing 12-month dividend yield greater than that of the S&P 500.
5. BofAML investment rating indicates "Buy" or "Neutral" as well as the likelihood that the dividend will remain the same or be increased (i.e., a dividend rating of "7").
6. The ratio of the last 12-months' free cash flow to dividends (FCF/Div) must be greater than 1.0.

Screen current sector weighting vs S&P500

This month's screen generated 12 companies. Relative to the S&P 500 index, the HQDY screen is currently overweight Industrials, Consumer Staples and Technology and underweight Health Care. The screen currently has no weighting in Consumer Discretionary, Energy, Materials, Real Estate, Telecom and Utilities and always excludes Financials due to metric incomparability with other sectors.

Chart 2: High Quality and Dividend Yield Screen Sector Weights vs. S&P 500 (March 2017)



BofAML Equity & Quantitative Strategy

Performance Calculation Methodology

Components of the screen are equally weighted and rebalancing takes place in connection with any monthly additions and deletions. Prior to January 2013, additions, deletions and rebalancings took place and were priced as of the market close on the last business day of each month. Beginning in January 2013 and going forward, additions, deletions and rebalancing will be priced as of the close of the market on the business day following the date that the change was published in a BofA Merrill Lynch research report.

The performance of the screen is computed on the basis of total return, assuming that dividends are continuously reinvested into the dividend paying security. We also present performance relative to the benchmark which consists of the market capitalization-weighted total return performance of the S&P 500 index as of the last business day of each month. The results of the screen will differ from the S&P 500 in that it is significantly less diversified, and, as such, the performance is more exposed to specific stock or sector results. Therefore investors seeking to follow this strategy may experience greater volatility in their returns.

The performance results for individuals following the screen presented here will differ from the performance contained in this report for a variety of reasons, including differences related to incurring transaction costs and/or investment advisory fees, as well as differences in the time and price that securities were acquired and disposed of, and differences in the weighting of such securities. The performance results for individuals following the screen could also differ based on differences in treatment of dividends received, including the amount received and whether and when such dividends were reinvested.

Screen performance is provided for informational purposes only and is not a recommendation to follow the screen. Historical performance can be revisited to ensure it most accurately reflects the performance calculation methodology.

Past performance is no guarantee of future results. A complete performance record is available upon request.

Table 3: Historical Performance

	Strategy	Market	Spread (ppt)	Advances	Declines
2004*	13.7%	8.9%	4.8	115	62
2005	(2.3%)	4.9%	-7.2	91	89
2006	18.6%	15.8%	2.8	120	64
2007	18.6%	5.5%	13.1	142	75
2008	(9.4%)	(37.0%)	27.6	86	105
2009	26.1%	26.5%	-0.3	143	68
2010	16.2%	15.1%	1.1	155	117
2011	8.9%	2.1%	6.8	168	126
2012	14.9%	16.0%	-1.1	153	104
2013	29.6%	32.4%	-2.8	152	59
2014	11.6%	13.7%	-2.1	137	93
2015	(12.9%)	1.4%	-14.3	77	107
2016	17.1%	12.0%	5.1	91	58
2017	4.1%	6.1%	-2.0	20	16
Mar 2017	(0.3%)	0.1%	-0.4	4	8
3M	4.1%	6.1%	-2.0	20	16
YTD	4.1%	6.1%	-2.0	20	16
12M**	15.8%	17.2%	-1.4	87	61
3 Years	16.5%	34.4%	-18.0	294	257
5 Years	60.9%	86.7%	-25.8	579	417
10 Years	194.5%	106.3%	88.2	1284	911
Overall	298.2%	174.6%	123.7	1650	1143

Notes: *Partial year since Feb 2004 **12M = 01 Apr 2016 - 31 Mar 2017. Source: BofA Merrill Lynch US Equity & Quantitative Strategy.

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