

Causeway Elite manager does quant, but not as you know it

Top-down and bottom-up quant factors with a sprinkle of fundamental analysis. This is the eclectic mix producing outperformance for Arjun Jayaraman and his team at Causeway.

BY Algy Hall

When macro events set the direction of markets, as they have in 2025, traditional quant strategies can look quaintly naive as they plough their ‘factor’ furrows whilst ignoring the furore all around them. Some proponents of by-the-numbers investing would argue that ignoring worldly concerns is what gives these strategies their edge. But what if there was a middle ground?

Arjun Jayaraman thinks there is. And his views are worth paying attention to, based on the performance of the funds he manages with MacDuff Kuhnert, Joe Gubler and Ryan Myers.

The track records racked up by him and his co-managers on the Causeway International Small Cap and Causeway Emerging Market funds have made them Elite Investors – the accolade awarded by Citywire to the top 3% of equity managers globally based on risk-adjusted performance.

Taxing questions

Jayaraman’s approach to tariffs gives an example of how macro can play a part in the type of quant-driven strategies used to manage his funds.

‘Tariffs like this are something

that’s relatively new in our roughly 25 years in this asset class,’ said Jayaraman. ‘Now we’re monitoring overall US revenue exposure for all stocks in our portfolios and our benchmarks, to make sure that we are not unduly exposed.

‘I don’t think anybody has an idea of where tariffs will end up ... We are basically just saying this is a source of risk. We want to monitor our exposure here and make sure that it’s not too significant.’

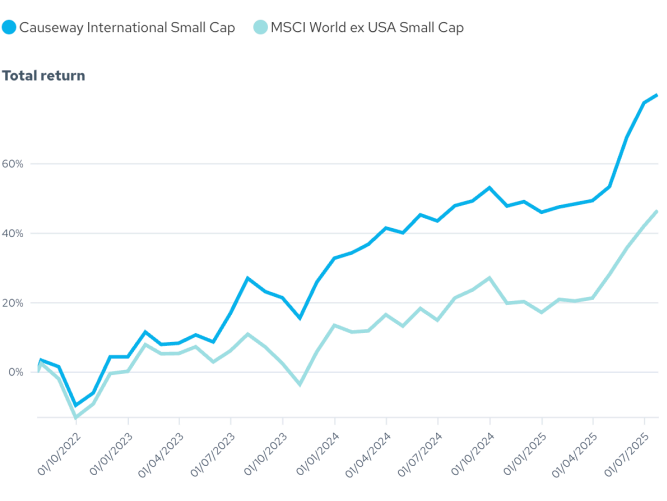
Macro mind

Macro is more than an ad hoc consideration for Jayaraman, though. It has a formal place in the quantitative model, and is a key part of his top-down assessment of stocks. Top-down factors account for a tenth of the overall stock score generated for the international smaller companies fund and a quarter for emerging markets.

‘Emerging markets are a place where top-down is especially important. In the US, we break every single rule of macroeconomic health in terms of the massive fiscal deficit and big current account deficits we run. And we don’t seem very disciplined in the way we deal with monetary policy,’ said Jayaraman.

Small caps and big outperformance for Jayaraman

Three-year total return



Source: Morningstar • USD total returns
Instl share class

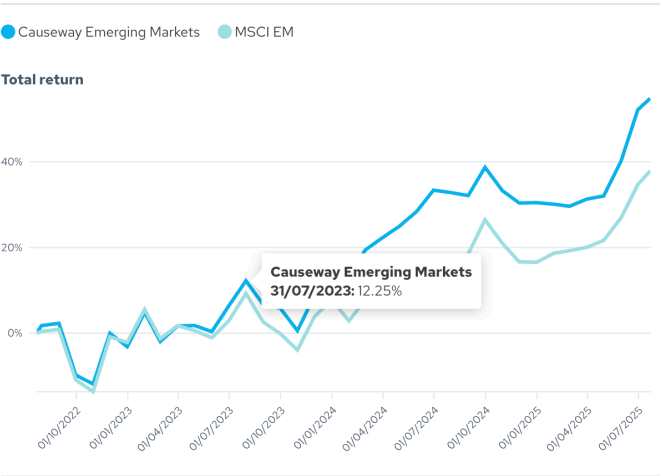
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Top ten International Small Cap holdings

Name - size in fund	F'cst price to earnings	F'cst divi yield	12-mth total return
Celestica (CA:CLS) - 2.2%	29	-	203%
JB Hi-Fi (AU:JBH) - 2.1%	23	3.3%	61%
easyJet (GB:EZJ) - 2.0%	6.7	3.0%	16%
JOYY, ADR (US:JOYY) - 2.0%	10	-	58%
Hanwha (KR:000880) - 1.9%	7.8	0.9%	219%
Jet2 (GB:JET2) - 1.9%	7.7	1.1%	26%
Simplo Technology (TW:6121) - 1.8%	12	5.8%	9.0%
Unipol (IT:UNI) - 1.8%	9.9	5.9%	83%
Sankyo (JP:6417) - 1.7%	11	3.7%	72%
FinVolution, ADR (US:FINV) - 1.7%	5.3	3.9%	91%

Source: Causeway holdings as of 30 Jun 2025, FactSet data as of 25 Jul 2025. Forecasts based on next 12 months.

Jayaraman's performance has been above benchmark in emerging markets
Three-year total return



Source: Morningstar • USD total returns
Instl share class

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‘Emerging markets do not have that luxury. They have to be very orthodox in the way they do things.’

Jayaraman’s top-down emerging market factors are:

- Macroeconomic
- Currency
- Country/sector aggregate

‘US investors sometimes don’t even think about currency. But when it comes to international investing, the currency is so important,’ he said. ‘Similarly, we have a macro model that looks at the macroeconomic health of a country.’

‘And there’s also the sector part which goes into that top-down view ... we look at sectors as sort of distinct objects and we look at the attractiveness or unattractiveness of a sector.’

Taking stock

When it comes to Jayaraman’s numbers-based analysis of the merits of specific stocks, his approach is on more familiar quant territory, but with some significant twists.

Stock scores based on valuation, earnings growth, technical indicators and

competitive strength, for example, chime with favourite quant factors of value, momentum and quality.

However, a fifth factor in Causeway’s ‘bottom-up’ armoury, ‘corporate events’, is not a quant staple.

‘It is our most recent factor that we added to the model,’ said Jayaraman. ‘We looked at the holes in our model and came to the conclusion that there are certain events that are not quantifiable, like a CEO departure, but tend to be a negative for most companies.’

‘This is what we call a discrete factor. Something bad has happened or nothing has happened ... we try to identify if a company has had a number of negatives.’

While the factor is not hugely predictive of likely future share price movements in isolation, the team found it adds to the model overall.

In context

The approach of Jayaraman and the quant team at Causeway also stands out for its focus on combining factors rather than sticking

rigidly to a single one, such as momentum or value. And the strategy adapts what it is looking for in stocks rather than using a rigid blend of multiple factors.

‘We use a contextual weighting scheme,’ says Jayaraman. ‘While a lot of quant models use a one-size-fits-all approach, we first classify a stock. Is it a growth stock? Is it a value stock? Is it a momentum stock? Then, we assign the weightings that are appropriate for that classification.’

‘So, what we find is that for some high-growth stocks, valuation is just not an important metric ... on the other hand, for value stocks, you don’t need to pay too much attention to the growth.’

Fundamental importance

But perhaps the most distinct aspect of the Causeway process is that it blends quantitative and fundamental analysis. Quant is in the driving seat, but fundamentals are important in interpreting its outputs.

‘We have a fundamental override component at Causeway,’ said Jayaraman. ‘We have a large fundamental research team, and we talk to them about things that are outside the scope of our quantitative model.’

‘For instance, Chinese real estate looks very cheap on our models, but our fundamental team is concerned about how prices are artificially inflated for various political reasons. They don’t really believe the numbers ... When we override, it’s not just getting the stock out of the portfolio, sometimes it’s to limit the active exposure.’

A big question is how to make two distinct styles of investing complement and enhance each other rather than undermine each other – Causeway also has fundamental-led funds that draw on quant. Specifically, where does a quant draw the line to stop fundamental viewpoints injecting subjective bias into the process?

‘That’s where the art comes in; trying to make sure you’re not overriding things left and right because you’re introducing too much judgment into the process,’ said Jayaraman. ‘But were also not a black box in the sense that we think this model is right all the time, so it’s a judgement process in that respect.’

Collaboration, not competition

Jayaraman believes an important reason for the success in the co-operation between his team and the fundamental team at Causeway comes down to the firm’s ownership structure.

‘All senior members of the firm have equity, so we’re all incentivised to see each other succeed,’ said Jayaraman. ‘The way we’ve done it, where both sides are incentivised, is unique and more collaborative than competitive, which you see in other firms.’

The structure of the portfolios reflects the fact that quant is in the driving seat, with 150 to 200 stocks and allocations within 5% of the benchmark.

But beneath the surface, something unusual is happening in the blend of considerations that go into stock selection. Most importantly, it’s something that has been benefiting the backers of Jayaraman and his team.

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