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In the last **years the rise of smart beta and actively managed ETFs have blurred the boundaries** between active and passive management, with the most recent comer ANTs (Active Non-Transparent ETFs) pushing further this trend.

Nevertheless, when evaluating **the choice between using a passive and an active approach**, the analysis of liquidity, cost, transparency and above all alpha potential remains the paramount in making an informed and efficient decision.

Besides broad traditional indices exposure, an area where **ETFs are particularly attractive is specific and focused themes, such as sectors and industries.** Among this product line, it is probably wiser to use a dual approach based on the investment objective and time horizon.

If it is about a tactical, short term asset allocation decision in sectors like banks, mining, oil producers etc. certainly the focus should be on the **"efficiency of the beta"**, hence assessing the liquidity and tracking error of the product is likely to drive the selection, and in most cases it is unnecessary to look beyond a traditional market-cap weighted index.

On the contrary, if the **investment decision touches a strategic asset allocation** or an investment universe with high dispersion and alpha potential, the selection process can be much more complex. In this particular case, it is fair to say that the selection and due diligence process would align almost entirely to the one of a traditional actively managed fund. If we take the example of sub-sectors that due to their highly supporting structural trends have enjoyed quite some commercial success in the **ETFs space**, for instance cybersecurity and cloud computing, it is evident that the construction mechanism of such products and how the underlying stocks are selected require a lot of attention and analysis from any investor who wishes to build a meaningful allocation.

To conclude, **sectors ETFs are an important asset allocation tool for most portfolios, and although traditional cyclical "beta sectors" remains the most attractive satellites to trade around a high quality core portfolio**, the financial innovation that took place in the last few years brought to the market a number of innovative products that have now shown to live up to their expectations. In the latter however it is important to make sure that the increased sophistication does not alter the basic principles that made ETFs such a popular format, namely transparency, cost and liquidity, because traditional actively managed funds are certainly not dead and the trade-off between the two should always be evaluated.