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The Best Active ETFs to Buy

What are active ETFs, and which one is best for your investment strategy?

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In the fast-evolving world of investing, actively managed exchange-traded funds (ETFs) have surged in popularity. Unlike traditional ETFs that passively track benchmarks such as the S&P 500, active ETFs are guided by portfolio managers who make real-time decisions, an approach that combines the flexibility and transparency of ETFs with the expertise and adaptability of active management.

With thematic investing—like artificial intelligence, defense, and clean energy—gaining traction, ETFs are experiencing a renaissance in 2025 and investors are turning to them for potential outperformance, more dynamic risk management, and to tap into tax-efficient strategies.

What Qualifies an ETF as "Active" and How Is That Different from Passive ETFs

An actively managed ETF is one in which a portfolio manager makes ongoing investment decisions—buying, selling, and adjusting holdings—rather than simply mirroring a predefined index.

These funds aim to outperform a benchmark or achieve a specific objective rather than just tracking the market. By contrast, passive ETFs replicate a market index (such as the S&P 500) and change holdings only when the index components shift. While both trade on exchanges like stocks, active ETFs have greater flexibility because they involve active investment decisions.

What Are the Advantages of Active ETFs?

Active ETFs offer several advantages over purely passive products, and can be especially useful for high-net-worth investors and family offices:

- **Potential for outperformance:** Because managers can adjust holdings, rotate sectors, or hedge risks, active ETFs sometimes generate returns above benchmark indexes.
- **Management flexibility:** These funds respond to changing market conditions, can shift exposure, and seek upside while controlling risk. They also allow for a tax-aware strategy, such as certain ETFs created and managed at Twin Oak.
- **Transparency and structure of ETFs:** They trade like stocks, have tax-efficient structures with in-kind creation/redemption, and offer transparency with holdings.

What Criteria Should Investors Use to Evaluate and Choose the “Best Active ETFs”?

When selecting top active ETFs, investors should evaluate several key factors:

- **Performance track record:** Look for consistent returns over multiple years, ideally in different market conditions. For example, several active ETFs delivered double-digit YTD gains in 2025.
- **Fees or expense ratio:** Active strategies charge more than passive ones. Look for competitive fees to keep costs in check, but keep in mind that the tax benefits of some ETF strategies make up for a higher expense ratio.
- **Manager credibility and fund size:** A strong investment team, transparent process, and disciplined risk management matter. Also, adequate assets under management (AUM) and trading volume ensure the ETF can function smoothly and avoid closure risk.
- **Know your strategy:** Understand the objective—income generation, long-term growth, tax efficiency—and make sure it aligns with your portfolio goals.

What Are the Risks, Drawbacks, or Costs of Active ETFs?

Active ETFs also carry trade-offs, including higher fees than passive ETFs, the possibility of benchmark underperformance, tracking errors, and increased concentration risk. Generally, however, the benefits of ETFs, both passive and active, outweigh the risks, which is why ETFs of all kinds have for decades been the foundation of many successful investment strategies.

Which Active ETFs Have Been Top Performers Recently, and Why?

Here are a few active ETFs that stand out in 2025 across different categories:

- **ARK Next Generation Internet ETF ($ARKW):** Up ~31.8% YTD, according to recent data. It focuses on disruptive technology and innovation stocks such as AI, cloud infrastructure, and fintech.

- **J.P Morgan International Value ETF ($JIVE):** Delivered ~42.5% performance in the first half of 2025, using a globally diversified strategy.
- **Select STOXX Europe Aerospace & Defense ETF ($EUAD):** Achieved performance of ~77.8% in the first half of 2025, capitalizing on geopolitical factors and a concentrated defense sector approach.
- **At Twin Oak:** our ETFs combine an alpha-seeking high-return strategy with institutional risk management and tax-aware structures to give higher risk-adjusted and after-tax returns.

These examples illustrate how active ETFs can deliver stronger returns when their niche strategies align with market trends, or when a tangential strategy is aligned with a broader investment thesis.

How Should You Incorporate Active ETFs Into Your Portfolio?

Active ETFs have matured from niche experiments into scalable investment tools. For investors seeking growth potential, tactical flexibility, and differentiated exposure, they offer a compelling option.

For high-net-worth and retail investors alike, active ETFs work well alongside passive ETFs to form the foundation of a broad-based approach to the market. This balanced approach allows you to capture upside from active management while keeping core costs low and risk diversified.

Before investing, conduct thorough research into a chosen fund and its goals to ensure it fits your investing ideals. And if you choose wisely, you'll benefit from the best of both worlds: the structure and efficiency of ETFs, along with the growth potential of active management.

Definitions (as used by Twin Oak):

1. **Cost-effective ETFs:** As defined compared to hedge funds, which commonly charge a 2% management fee as well as 20% of the profits.
2. **Institutional Grade:** Investment strategies generally only accessible in private fund formats to accredited investors.
3. **Tax Alpha:** The amount of a gross return lost to the tax drag of an investment vehicle through realized taxable events.
4. **Low Cost:** Defined on a case-by-case basis but generally refers to solutions that are cheaper than private funds (2% management fees and 20% carry).

An investor should consider the investment objectives, risks, charges, and expenses of the Fund(s) carefully before investing. The prospectus and the summary prospectus contain this and other information about the Fund(s). You may obtain a prospectus and a summary prospectus by visiting twinoaketfs.com. Please read the prospectus or summary prospectus carefully before investing.

All investments are subject to risks, including the possible loss of principal. There is no assurance that the objectives of any strategy or fund will be achieved or will be successful. PAST PERFORMANCE IS NOT INDICATIVE OF FUTURE RESULTS; there is no guarantee that Twin Oak will be able to successfully implement the strategy.

1. **New fund risk:** The Fund is a newly organized, management investment company with no operating history.
2. **Non-diversification risk:** More of the Fund's assets may be invested in the securities of a single issuer than could be invested in the securities of a single issuer by a diversified investment company. This may make the value of the Shares more susceptible to certain risks than shares of a diversified investment company. The Fund has a greater potential to realize losses upon the occurrence of adverse events affecting a particular issuer.
3. **Counterparty Risk:** Some of the Fund's derivatives contracts are privately negotiated in the over-the-counter market. A counterparty defaulting on its payment obligations to the Fund will cause the value of an investment in the Fund to decrease.
4. **Derivatives Risk:** The Fund may use derivative contracts which can disproportionately increase losses and reduce opportunities for gains when stock prices, currency rates, or interest rates are changing.
5. **Illiquid Securities Risk:** The Fund may invest up to 15% of its net assets in illiquid investments which are instruments that the Fund reasonably expects cannot be sold or disposed of in current market conditions within 7 calendar days or less without the sale or disposition significantly changing the market value of the investment.
6. **Leverage Risk:** The Funds use of options, swaps, or other derivative instruments may result in losses to the Fund or may adversely affect the Fund's NAV or total return, because these instruments are more sensitive to interest rate changes.
7. **Options Risk:** Purchasing and writing put and call options are highly specialized activities and entail greater than ordinary investment risks from which the Fund may not fully benefit.
8. **New advisory risk:** This is a newly registered investment advisory and as a result, there is no long-term track record against which an investor may judge the Adviser, and it is possible the Adviser may not achieve the Fund's intended investment objective.

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