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Pension. |

Why pension funds are betting on telecom stocks

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Pension funds are often perceived as conservative investors, and with good reason. More than 80 percent of their assets are typically invested in fixed income instruments, particularly government securities (80.25 percent).

But the smaller slice allocated to equities (10.94 percent), though modest in proportion, reveals where pension managers are willing to take calculated risks for higher returns.

Data from the pension sector regulator shows this risk is not spread widely across the market. It is instead concentrated in a handful of blue-chip companies, with telecoms taking the lead.

As of June 2025, nearly 43 percent of pension equity investments were concentrated in just three companies: MTN, Airtel Uganda, and Safaricom.

The concentration underscores both the profitability of East Africa's telecom sector and the structural constraints of local capital markets.

In absolute terms, domestic pension schemes have invested about Shs772.5b in MTN, or 23 percent of all pension equity investments in listed companies, making it the single largest holding across the sector.

The second-largest telecom holding, Airtel Uganda, accounts for approximately Shs337.5b, or 10.1 percent of the portfolio, while Kenya's Safaricom commands Shs334.9b, equivalent to 10 percent of the total.

Combined, the three telecoms absorb about Shs1.44 trillion in pension capital, a sum larger than the sector's total exposure to private equities (Shs452b), fixed deposits (Shs282b), cash (Shs123b), or other fixed income (Shs294b).

Collectively, pension funds have Shs29.8 trillion in assets under management as of June 2025. Shs23.8 trillion is in government securities, while Shs3.2 trillion is in public equities.

The attraction to telecom firms is that they generate stable cash flows, strong dividend yields, and relatively predictable demand.

John Kamara, the country manager of Xeno Asset Management, says the appeal is both structural and practical.

"They are strong, predictable businesses. They are almost like utilities," he says. Size also plays a crucial role.

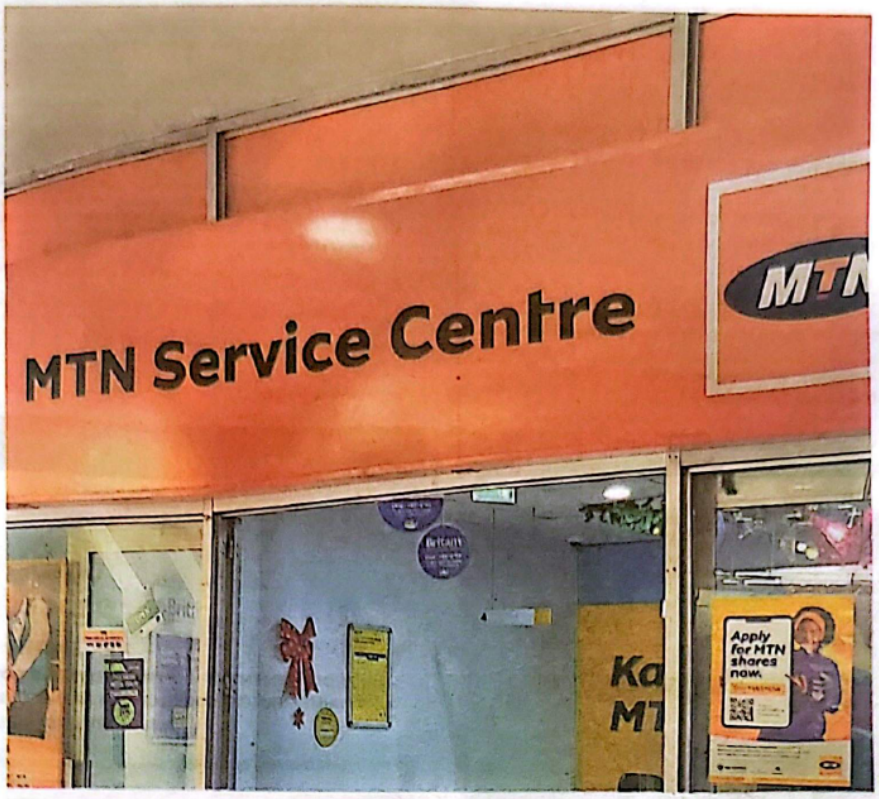
"Pension schemes manage very large pools of money. They need companies where they can invest millions of dollars without becoming the largest shareholder. That naturally pushes them toward bigger companies," says Kamara.

This dynamic also helps explain why Safaricom, despite being listed in Kenya, ranks among the top three holdings of Ugandan pension portfolios.

"Its scale and liquidity make it a natural fit for institutional investors," Kamara notes.

Regional banking groups

After telecoms, the next major allocation in pension portfolios goes to banking groups, which also offer large balance sheets and reliable dividend streams.



MTN dominates telecom investments in the pension equity sector. At least 43 percent of total investments is held by telecoms, reflecting their strong cash flows, reliable dividends, and scale. PHOTO/FILE

Key data

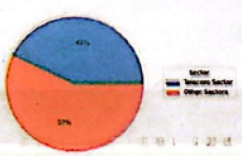
23%

Pension schemes have invested Shs772.5b in MTN, or 23 percent of all pension equity investments.

10.1%

Airtel Uganda, accounts for approximately Shs337.5b, or 10.1 percent of the portfolio

Telecom versus other sectors in pension equity portfolios



Investments in KCB Group amount to roughly Shs262b (7.8 percent), while Equity Bank Group accounts for about Shs250.2b (7.5 percent).

Tanzania's CRDB Bank follows with Shs236.8b (7.1 percent), and NMB Bank holds around Shs216.8b (6.5 percent).

Together, the top five holdings alone account for roughly 58 percent of total pension equity investments, a concentration that would be notable even in many frontier markets.

Extending the analysis further, the top 10 companies represent nearly 86 percent of the sector's equity portfolio, indicating that diversification across listed universe remains limited.

Structure

From a portfolio construction perspective, this pattern reflects both risk management considerations and market constraints.

Pension funds typically favour companies with large market capitalizations, high liquidity, and reliable dividend policies. Telecom and major banks satisfy this criteria.

Consumer-sector companies also appear in institutional portfolios, though at smaller weights. Tanzania Breweries accounts for approximately Shs199.5b (5.9 percent), while East African Breweries represents about Shs144.7b (4.3 percent). These companies remain attractive due to strong regional brands, resilient demand patterns, and historically consistent dividend payouts.

The structure of pension portfolios also reflects deeper limitations within East Africa's capital markets.

Simon Mwebaze, managing director of Cornerstone Asset Managers, notes that regulatory constraints and a limited pool of investable companies shape asset allocation decisions.

"Most pension funds have not had a very good equities experience, partly because regulation restricts them largely to East African markets," he says.

"If you look at the investable universe, you basically have telecoms, some breweries, and then the banks," he adds. "Beyond that, many listed companies lack liquidity or sufficient free float to absorb institutional capital."

This narrow investable universe means that even when pension funds want to diversify, practical constraints often limit their options. The regional distribution of pension investments reflects this dynamic.

While Uganda-based companies dominate some of the largest individual holdings, Kenyan and Tanzanian firms capture a substantial share of institutional capital. Kenyan companies, including Safaricom, KCB, Equity, and East African Breweries, collectively account for well over a quarter of total pension equity exposure.

Tanzanian companies, led by CRDB, NMB, and Tanzania Breweries, also attract significant allocations.

The reason is that regional markets are deeper than the Uganda Securities Exchange, which remains relatively small compared with the Nairobi Securities Exchange.

For pension funds managing rapidly expanding assets, the local market alone cannot absorb large volumes of capital without creating liquidity constraints.

More like utilities

Andrew Mwiima, a financial markets consultant, says telecom companies have emerged as the natural anchor of pension portfolios largely because their services have become essential to modern economic activity.

"You cannot imagine how business or daily life can function today without internet, phone calls, or mobile money," he says.

"That is why the revenues and profitability of companies like Airtel and MTN keep growing. The demand for these services is almost guaranteed."

Banks follow closely behind because of their regulatory structure and dividend reliability.

"The banking sector is highly regulated, and banks must maintain strong capital positions," Mwiima notes. The scale of pension exposure also varies between different types of schemes.

Mandatory pension schemes, which account for the bulk of retirement savings, hold approximately Shs715.4b in MTN, compared with Shs57b held by occupational schemes.

The disparity largely reflects the significantly larger asset base of mandatory savings programmes.

From an institutional investment perspective, the sector's allocation profile reflects a classic frontier-market dynamic, where large pools of long-term capital are chasing a limited number of investable assets.

Telecom firms have emerged as the natural anchor of pension portfolios because they combine growth, scale and consistent cash generation.

But the resulting concentration also means that a relatively small group of companies exerts disproportionate influence over the performance of Uganda's retirement savings industry.

As the pension sector continues to expand, the pressure to broaden the investable universe is likely to intensify.

Without new listings, deeper capital markets, or broader regional investment opportunities, institutional investors may find themselves increasingly reliant on the same handful of regional blue-chip stocks that already dominate their portfolios.

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