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MF Global collapse may cost Flowers \$48 mln - source

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* Flowers \$7 bln second fund hurt by weak finance sector

* Latest \$2.3 bln fund currently up about 30 pct -source

By Michael Erman

NEW YORK, Oct 31 (Reuters) - In the financial crisis, J. Christopher Flowers built a reputation for showing up at the doors of distressed companies and trying to engineer rescues.

But on Monday the private equity investor, best known for turning a big profit on the takeover of the failed Long-Term Credit Bank of Japan in 2000, was left watching helplessly as one of his investments, the futures broker MF Global Holdings Ltd, collapsed into bankruptcy.

It was a blow for the founder of J.C. Flowers. He not only had MF Global being crippled in the space of a few days, but the man he brought in to run the place -- Jon Corzine -- was getting a lot of the blame for bad bets on euro zone debt.

The actual monetary damage to J.C. Flowers is not much -- the firm's net exposure to MF Global is only about \$47.8 million -- and its latest fund is doing well, a source familiar with the situation said.

Flowers' investment in MF's convertible preferred shares was \$87.4 million, and it had received dividends of \$39.6 million along the way, the source added.

J.C. Flowers declined to comment.

MF Global's collapse marks a high-profile failure for the former Goldman Sachs banker and adds to his other soured investments, such as in the German bank Hypo Real Estate, in the last few years.

A roughly \$7 billion fund Flowers raised in 2006 and used to invest in MF Global has lost more than 60 percent of its value, according to Oregon's public pension fund, which invested in that fund.

"The performance is just horrific," said Steven Kaplan, a professor at University of Chicago's Booth School of Business, referring to the fund's returns.

"He's had big headwinds in that he invests in financial services and financial services in general have been a disaster over the last 5 years," Kaplan said. "But he obviously has made some missteps."

Flowers made a name for himself as a private equity investor with the Long-Term Credit Bank deal. J.C. Flowers and Ripplewood Holdings made about six times their original investment when the firm, which was renamed Shinsei, went public in 2004.

The size of the profit stirred controversy in Japan at the time, given the government had spent 3.6 trillion yen (\$46 billion) to clean up LTCB's debts.

Flowers' latest fund, which raised \$2.3 billion in 2009 and has invested about half, is currently up about 30 percent the source said.

Some other recent investments have struggled.

In 2008, Flowers paid 1.1 billion euros (\$1.52 billion), or 22.5 euros a share for a 25 percent stake in Hypo Real Estate. The firm, which was hit hard by fallout from the financial crisis, was nationalized the following year, with Germany paying 1.30 euros a share for the bank.

Flowers has befuddled investors in the Netherlands as well, where he bought merchant bank NIBC and then tried twice in quick succession to sell it.

In 2005, he led a consortium that bought NIBC from two pension funds. Two years later, he tried and failed to take the bank public. Shortly after the IPO was pulled, he struck a deal to sell it to Iceland's Kaupthing, a sale that collapsed a few months before Kaupthing did.

"People are looking for something to invest in that has higher rate of returns ... to get that high expected return you have to take that risk," said Campbell Harvey, a professor at Duke University. "Most of the investors understand that the high

expected return strategy doesn't come for free."

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