We examine the effects of IPO underpricing on capital investment efficiency when informed insiders - concerned about their investment funding - strategically disclose value-relevant information to offset the informational advantage of informed traders. Intermediate levels of adverse selection are associated with the most severe underpricing and with excessive funding (relative to the complete information efficient levels) of IPO firms. High levels of adverse selection are associated with underinvestment and low underpricing. Real investment is efficient only when adverse selection is very low. Consistent with the data, underpricing is higher and the quality of IPO firms is lower when the level of real investment is higher (“hot markets”). However, the relation of underpricing to private information is non-monotonic, which also appears supported by the evidence.