

Eaton Vance Short Duration Diversified Income Fund  
Form N-CSR  
December 23, 2011

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**

**Form N-CSR**

**CERTIFIED SHAREHOLDER REPORT OF REGISTERED**  
**MANAGEMENT INVESTMENT COMPANIES**

**Investment Company Act File Number: 811-21563**

**Eaton Vance Short Duration Diversified Income Fund**

(Exact Name of Registrant as Specified in Charter)

Two International Place, Boston, Massachusetts 02110

(Address of Principal Executive Offices)

Maureen A. Gemma

Two International Place, Boston, Massachusetts 02110

(Name and Address of Agent for Services)

(617) 482-8260

(Registrant's Telephone Number)

October 31

Date of Fiscal Year End

October 31, 2011

Date of Reporting Period

**Item 1. Reports to Stockholders**

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Eaton Vance  
Short Duration Diversified  
Income Fund (EVG)

Annual Report  
October 31, 2011

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**Managed Distribution Plan.** On March 10, 2009, the Fund received authorization from the Securities and Exchange Commission to distribute long-term capital gains to shareholders more frequently than once per year. In this connection, the Board of Trustees formally approved the implementation of a Managed Distribution Plan (MDP) to make monthly cash distributions to common shareholders, stated in terms of a fixed amount per common share.

The Fund intends to pay monthly cash distributions equal to \$0.09 per share. You should not draw any conclusions about the Fund's investment performance from the amount of these distributions or from the terms of the MDP. The MDP will be subject to regular periodic review by the Fund's Board of Trustees.

With each distribution, the Fund will issue a notice to shareholders and an accompanying press release which will provide detailed information required by the Fund's exemptive order. The Fund's Board of Trustees may amend or terminate the MDP at any time without prior notice to Fund shareholders. However, at this time there are no reasonably foreseeable circumstances that might cause the termination of the MDP.

**Fund shares are not insured by the FDIC and are not deposits or other obligations of, or guaranteed by, any depository institution. Shares are subject to investment risks, including possible loss of principal invested.**

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**Annual Report** October 31, 2011

Eaton Vance

Short Duration Diversified Income Fund

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Eaton Vance

Short Duration Diversified Income Fund

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Management's Discussion of Fund Performance

### Economic and Market Conditions

During the 12 months ending October 31, 2011, the markets digested a significant number of historical events that established price volatility as norm rather than the exception in global financial markets. Citing a lack of political will in the United States, Standard & Poor's lowered its credit rating on U.S. sovereign debt, which was the first time in history that the United States had been rated below the highest ranking of investment grade. The European sovereign debt crisis deteriorated, as policymakers within the eurozone squandered opportunities to address the issues in a meaningful manner. The tragic Tohoku earthquake and tsunami in Japan seriously disrupted global supply chains and adversely affected global economic growth.

The United States and the eurozone economies grew at an anemic pace during the period, as annual growth lagged 2.0% in both regions. The U.S. economy continued to suffer from an unemployment rate that stubbornly averaged above 9.0% during the period and headline inflation that more than tripled to 3.9% by the end of the period. The debt issues in the eurozone evolved from original concerns regarding Greece's liquidity to a full-fledged solvency crisis surrounding additional periphery countries, including Italy and Spain, and European banks. European consumer and business confidence indicators trended lower in response, dragging economic growth to a near standstill by the end of the period. In contrast to the economic weakness in the U.S. and the eurozone, emerging-market economies led global growth. Most Asian and Latin American economies grew at annual rates above 4.0%. Most Central European economies grew at faster rates than their eurozone counterparts, and growth rates in the Middle East and Africa were roughly evenly mixed.

Global bond markets generally favored the most liquid instruments over riskier assets. Despite the fiscal concerns in the United States and the eurozone, U.S. Treasuries and German Bund yields fell across the curve. In contrast, sovereign yields in the larger economies of the eurozone rose significantly in response to the markets' concerns about solvency and future growth prospects. Emerging-market growth was strong for most of the year, but moderated towards the end of the period as the global inventory cycle slowed and the crisis in Europe intensified. French, Spanish and Italian 10-year credit spreads rose 67, 152 and 214 basis points, respectively, above the corresponding maturity German Bunds. The so-called "hard currencies" of Switzerland, the dollar bloc countries (Canada, Australia and New Zealand), and non-euro Scandinavia appreciated versus the U.S. dollar and euro and, most emerging-market currencies also appreciated versus the U.S. dollar and the euro.

### Fund Performance

The Fund is a closed-end fund that trades on the New York Stock Exchange (NYSE) under the symbol EVG. For the fiscal year ending October 31, 2011, the Fund had a total return of 4.35% at net asset value (NAV).

Investments in mortgage-backed securities (MBS) contributed to the Fund's performance. In general, the Fund focused on seasoned/higher-coupon MBS, which have lower durations. Despite mortgage rates hovering around all-time lows, principal prepayment rates in the Fund's seasoned MBS holdings remained stable for the year, while prepayments of less seasoned MBS showed much greater volatility. A dramatic flattening of the yield curve led to stronger performance of longer-duration assets, which caused seasoned MBS to underperform newer-issue/low-coupon MBS on an absolute basis.

The Fund's exposure to international markets contributed positively to performance, including long/short local markets, credit default swaps (CDS), sovereign bonds and currencies. Positions in Africa, Asia, Latin America, and Europe were the main contributors to positive performance in our foreign strategy. Investments in commodities and a short position in NZD (New Zealand) slightly detracted from performance.

The Fund's investments in senior secured loans benefited the Fund during the first half of the period. These instruments detracted from performance during the second half, however, as investors became preoccupied with uncertainty about the stability of the eurozone, the U.S. debt ceiling crisis and political unrest in the Middle East.

*See Endnotes and Additional Disclosures in this report.*

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*Past performance is no guarantee of future results. Returns are historical and are calculated by determining the percentage change in net asset value (NAV) or market price (as applicable) with all distributions reinvested. Fund performance at market price will differ from its results at NAV due to factors such as changing perceptions about the Fund, market conditions, fluctuations in supply and demand for Fund shares, or changes in Fund distributions. Investment return and principal value will fluctuate so that shares, when sold, may be worth more or less than their original cost. Performance less than one year is cumulative. Performance is for the stated time period only; due to market volatility, current Fund performance may be lower or higher than the quoted return. For performance as of the most recent month end, please refer to [www.eatonvance.com](http://www.eatonvance.com).*

Eaton Vance  
 Short Duration Diversified Income Fund  
 October 31, 2011  
 Performance<sup>2</sup>

**Portfolio Managers** Scott H. Page, CFA; Payson F. Swaffield, CFA; Mark S. Venezia, CFA; Catherine C. McDermott; Andrew Szczerowski, CFA

<b>% Average Annual Total Returns</b>	<b>Inception Date</b>	<b>1 Year</b>	<b>5 Years</b>	<b>Since Inception</b>
Fund at NAV	2/28/2005	4.35%	7.22%	6.82%
Fund at Market		0.51	6.20	5.47

<b>% Premium/Discount to NAV</b>				8.15%
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**Distributions<sup>3</sup>**

Total Distributions per share for the period	\$1.160
Distribution Rate at NAV	6.07%
Distribution Rate at Market Price	6.61%

**% Total Leverage<sup>4</sup>**

Derivatives	34.0%
Borrowings	15.0

**Fund Profile**

**Asset Allocation (% of total leveraged assets)<sup>5</sup>**

See Endnotes and Additional Disclosures in this report.

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Endnotes and Additional Disclosures

- <sup>1</sup> The views expressed in this report are those of portfolio manager(s) and are current only through the date stated at the top of this page. These views are subject to change at any time based upon market or other conditions, and Eaton Vance and the Fund(s) disclaim any responsibility to update such views. These views may not be relied upon as investment advice and, because investment decisions are based on many factors, may not be relied upon as an indication of trading intent on behalf of any Eaton Vance fund. This commentary may contain statements that are not historical facts, referred to as forward looking statements. The Fund's actual future results may differ significantly from those stated in any forward looking statement, depending on factors such as changes in securities or financial markets or general economic conditions, the volume of sales and purchases of Fund shares, the continuation of investment advisory, administrative and service contracts, and other risks discussed from time to time in the Fund's filings with the Securities and Exchange Commission.
- <sup>2</sup> Performance results reflect the effects of leverage.
- <sup>3</sup> The Distribution Rate is based on the Fund's last regular distribution per share in the period (annualized) divided by the Fund's NAV or market price at the end of the period. The Fund's distributions may be comprised of ordinary income, net realized capital gains and return of capital.
- <sup>4</sup> The Fund employs leverage through derivatives and borrowings. Use of leverage creates an opportunity for income, but creates risks including greater price volatility. The cost of borrowings rises and falls with changes in short-term interest rates. The Fund is required to maintain prescribed asset coverage for its borrowings, which could be reduced if Fund asset values decline.
- <sup>5</sup> Total leveraged assets include all assets of the Fund (including those acquired with financial leverage), the notional value of long and short forward foreign currency contracts and other foreign obligations derivatives held by the Fund. Asset Allocation as a percentage of the Fund's net assets amounted to 194.5%. Please refer to the definition of total leveraged assets within the Notes to Consolidated Financial Statements included herein.

#### Important Notice to Shareholders

Effective November 1, 2011, Andrew Szczurowski became a portfolio manager of the Fund to replace Susan Schiff, who will continue to serve as portfolio manager for other Eaton Vance funds. Mr. Szczurowski supported Ms. Schiff in her role as portfolio manager. He joined Scott H. Page, Payson F. Swaffield, Mark S. Venezia, and Catherine C. McDermott. Mr. Szczurowski is an Assistant Vice President of Eaton Vance Management and an analyst on Eaton Vance's global/fixed-income MBS team. Andrew joined the MBS team of the global/fixed-income department in 2007. Prior to joining Eaton Vance, he was affiliated with Bank of New York Mellon.

Fund profile subject to change due to active management.

Eaton Vance  
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Consolidated Portfolio of Investments

Senior Floating-Rate Interests 42.2%)

Borrower/Tranche Description	Principal Amount* (000 s omitted)	Value
Aerospace and Defense 0.5%		
<b>DAE Aviation Holdings, Inc.</b>		
Term Loan, 5.43%, Maturing July 31, 2014	110	\$ 107,081
Term Loan, 5.43%, Maturing July 31, 2014	115	111,734
<b>Dundee Holdco 4, Ltd.</b>		
Term Loan, 4.25%, Maturing May 15, 2015	113	93,528
Term Loan, 4.75%, Maturing May 13, 2016	113	93,528
Term Loan - Second Lien, 6.71%, Maturing January 13, 2016	GBP 250	290,762
<b>Sequa Corp.</b>		
Term Loan, 3.62%, Maturing December 3, 2014	397	383,406
<b>TASC, Inc.</b>		
Term Loan, 4.50%, Maturing December 18, 2015	299	297,973
<b>TransDigm, Inc.</b>		
Term Loan, 4.00%, Maturing February 14, 2017	447	445,788
		<b>\$ 1,823,800</b>
Air Transport 0.2%		
<b>Orbitz Worldwide, Inc.</b>		
Term Loan, 3.31%, Maturing July 25, 2014	764	\$ 664,822
		<b>\$ 664,822</b>

Automotive 2.9%

**Allison Transmission, Inc.**

Term Loan, 2.75%, Maturing August 7, 2014	736	\$ 714,261
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**Chrysler Group, LLC**

Term Loan, 6.00%, Maturing May 24, 2017	1,398	1,324,659
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**Delphi Corp.**

Term Loan, 3.50%, Maturing March 31, 2017	385	384,864
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**Federal-Mogul Corp.**

Term Loan, 2.18%, Maturing December 29, 2014	939	890,478
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Term Loan, 2.18%, Maturing December 28, 2015	555	525,792
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**Goodyear Tire & Rubber Co.**

Term Loan - Second Lien, 1.93%, Maturing April 30, 2014	3,175	3,107,531
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**Metaldyne, LLC**

Term Loan, 5.25%, Maturing May 18, 2017	797	790,271
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**SRAM, LLC**

Term Loan, 4.76%, Maturing June 7, 2018	220	218,694
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**TI Automotive, Ltd.**

Term Loan, 9.50%, Maturing July 29, 2016	499	499,987
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**Tomkins, LLC**

Term Loan, 4.25%, Maturing September 21, 2016	406	405,488
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**Veyance Technologies, Inc.**

Term Loan, 2.75%, Maturing July 31, 2014	84	76,429
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Term Loan, 2.75%, Maturing July 31, 2014	588	533,610
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Term Loan - Second Lien, 6.00%, Maturing July 31, 2015	200	169,000
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**\$ 9,641,064**

Building and Development 0.3%

**Goodman Global Holdings, Inc.**

Term Loan, 5.75%, Maturing October 28, 2016	349	\$ 349,624
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**Panoram Industries International, Inc.**

Term Loan, 8.25%, Maturing December 31, 2013	106	96,604
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**RE/MAX International, Inc.**

Term Loan, 5.50%, Maturing April 15, 2016	413	411,183
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**\$ 857,411**

Business Equipment and Services 3.8%

<b>Acosta, Inc.</b>		
Term Loan, 4.75%, Maturing March 1, 2018	249	\$ 246,263
<b>Axiom Corp.</b>		
Term Loan, 3.38%, Maturing March 15, 2015	289	290,500
<b>Advantage Sales &amp; Marketing, Inc.</b>		
Term Loan, 5.25%, Maturing December 18, 2017	372	366,605
<b>Affinion Group, Inc.</b>		
Term Loan, 5.00%, Maturing October 10, 2016	1,036	956,776
<b>Altegrity, Inc.</b>		
Term Loan, 2.99%, Maturing February 21, 2015	404	373,862
<b>Brand Energy and Infrastructure Services, Inc.</b>		
Term Loan, 3.63%, Maturing February 7, 2014	183	151,837
<b>Brickman Group Holdings, Inc.</b>		
Term Loan, 7.25%, Maturing October 14, 2016	248	248,125
<b>ClientLogic Corp.</b>		
Term Loan, 7.14%, Maturing January 30, 2017	165	150,658
<b>Crawford &amp; Company</b>		
Term Loan, 5.00%, Maturing October 30, 2013	323	320,729
<b>Go Daddy Group, Inc. (The)</b>		
Term Loan, Maturing September 29, 2017 <sup>(2)</sup>	275	275,172
<b>KAR Auction Services, Inc.</b>		
Term Loan, 5.00%, Maturing May 19, 2017	574	573,562
<b>Language Line, LLC</b>		
Term Loan, 6.25%, Maturing June 20, 2016	438	434,807
<b>Mitchell International, Inc.</b>		
Term Loan, 2.38%, Maturing March 28, 2014	186	176,902

*See Notes to Consolidated Financial Statements.*

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Consolidated Portfolio of Investments continued

<b>Borrower/Tranche Description</b>	<b>Principal Amount*</b> (000 s omitted)	<b>Value</b>
Business Equipment and Services (continued)		
<b>MSCI, Inc.</b>		
Term Loan, 3.75%, Maturing March 14, 2017	687	\$ 694,249
<b>N.E.W. Holdings I, LLC</b>		
Term Loan, 6.00%, Maturing March 23, 2016	383	374,212
<b>National CineMedia, LLC</b>		
Term Loan, 1.84%, Maturing February 13, 2015	550	534,417
<b>Protection One Alarm Monitoring, Inc.</b>		
Term Loan, 6.00%, Maturing June 4, 2016	347	344,168
<b>Quintiles Transnational Corp.</b>		
Term Loan, 5.00%, Maturing June 8, 2018	848	840,456
<b>Sabre, Inc.</b>		
Term Loan, 2.30%, Maturing September 30, 2014	1,337	1,176,745
<b>Sensus USA, Inc.</b>		
Term Loan, 4.75%, Maturing May 9, 2017	124	122,509
<b>SunGard Data Systems, Inc.</b>		
Term Loan, 1.99%, Maturing February 28, 2014	79	78,246
Term Loan, 3.90%, Maturing February 26, 2016	2,238	2,218,135
<b>Travelport, LLC</b>		
Term Loan, 6.05%, Maturing August 21, 2015	EUR 370	438,624
<b>West Corp.</b>		
Term Loan, 2.75%, Maturing October 24, 2013	139	137,847
Term Loan, 4.61%, Maturing July 15, 2016	965	958,249
Term Loan, 4.63%, Maturing July 15, 2016	339	336,958
		<b>\$ 12,820,613</b>

Cable and Satellite Television 2.2%

**Atlantic Broadband Finance, LLC**

Term Loan, 4.00%, Maturing March 8, 2016	238	\$	234,055
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**BBHI Acquisition, LLC**

Term Loan, 4.50%, Maturing December 14, 2017	223		222,196
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**CSC Holdings, Inc.**

Term Loan, 1.99%, Maturing March 29, 2016	1,447		1,436,492
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**Insight Midwest Holdings, LLC**

Term Loan, 1.99%, Maturing April 7, 2014	904		896,980
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**Lavena Holdings 4 GmbH**

Term Loan, 4.20%, Maturing March 6, 2015	EUR	56	65,743
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Term Loan, 4.45%, Maturing March 4, 2016	EUR	56	65,743
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**MCC Iowa, LLC**

Term Loan, 1.95%, Maturing January 30, 2015	1,929		1,832,658
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**NDS Finance, Ltd.**

Term Loan, 4.00%, Maturing March 12, 2018	274		269,179
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**UPC Broadband Holding B.V.**

Term Loan, 5.11%, Maturing December 31, 2016	EUR	1,394	1,856,230
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**YPSO Holding SA**

Term Loan, 4.87%, Maturing June 6, 2016 <sup>(3)</sup>	EUR	93	110,006
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Term Loan, 4.87%, Maturing June 6, 2016 <sup>(3)</sup>	EUR	152	179,484
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Term Loan, 4.87%, Maturing June 6, 2016 <sup>(3)</sup>	EUR	228	268,184
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**\$ 7,436,950**

Chemicals and Plastics 2.4%

**Ashland, Inc.**

Term Loan, 3.75%, Maturing August 23, 2018	400	\$	402,333
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**Celanese U.S. Holdings, LLC**

Term Loan, 3.12%, Maturing October 31, 2016	1,024		1,030,390
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**Huntsman International, LLC**

Term Loan, 1.83%, Maturing April 21, 2014	567		557,749
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Term Loan, 2.80%, Maturing April 19, 2017	1,547		1,498,683
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**Ineos US Finance, LLC**

Term Loan, 7.50%, Maturing December 16, 2013	751		772,496
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Term Loan, 8.00%, Maturing December 16, 2014	751		772,971
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**MacDermid, Inc.**

Term Loan, 3.56%, Maturing April 11, 2014	EUR	319	430,143
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**Momentive Performance Materials, Inc. (Nautilus)**

Term Loan, 3.75%, Maturing May 5, 2015	494		467,202
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**Nalco Co.**

Term Loan, 4.50%, Maturing October 5, 2017	297		297,325
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**Norit NV**

Term Loan, 6.75%, Maturing July 7, 2017	250		243,750
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**Rockwood Specialties Group, Inc.**

Term Loan, 3.50%, Maturing February 9, 2018	473		475,106
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**Solutia, Inc.**

Term Loan, 3.50%, Maturing August 1, 2017	509	511,077
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**Styron S.A.R.L.**

Term Loan, 6.00%, Maturing August 2, 2017	397	364,992
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**Univar, Inc.**

Term Loan, 5.00%, Maturing June 30, 2017	298	291,795
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**\$ 8,116,012**

Conglomerates 1.7%

**Education Management, LLC**

Term Loan, 2.13%, Maturing June 3, 2013	837	\$ 796,497
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**Financiere SPIE S.A.S.**

Term Loan, 6.12%, Maturing June 29, 2018	EUR 500	653,798
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**Jarden Corp.**

Term Loan, 3.25%, Maturing March 30, 2018	527	526,918
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**Rexnord Corp.**

Term Loan, 2.87%, Maturing July 19, 2013	2,000	1,982,500
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*See Notes to Consolidated Financial Statements.*

Eaton Vance  
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Consolidated Portfolio of Investments continued

<b>Borrower/Tranche Description</b>	<b>Principal Amount* (000 s omitted)</b>	<b>Value</b>
Conglomerates (continued)		
<b>RGIS Holdings, LLC</b>		