

Eaton Vance Short Duration Diversified Income Fund
Form N-CSR
December 29, 2010

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, 2010

Date of Reporting Period

Item 1. Reports to Stockholders

Annual Report October 31 , 2010 EATON VANCE SHORT DURATION DIVERSIFIED INCOME FUND

IMPORTANT NOTICES

Privacy. The Eaton Vance organization is committed to ensuring your financial privacy. Each of the financial institutions identified below has in effect the following policy (Privacy Policy) with respect to nonpublic personal information about its customers:

Only such information received from you, through application forms or otherwise, and information about your Eaton Vance fund transactions will be collected. This may include information such as name, address, social security number, tax status, account balances and transactions.

None of such information about you (or former customers) will be disclosed to anyone, except as permitted by law (which includes disclosure to employees necessary to service your account). In the normal course of servicing a customer's account, Eaton Vance may share information with unaffiliated third parties that perform various required services such as transfer agents, custodians and broker/dealers.

Policies and procedures (including physical, electronic and procedural safeguards) are in place that are designed to protect the confidentiality of such information.

We reserve the right to change our Privacy Policy at any time upon proper notification to you. Customers may want to review our Privacy Policy periodically for changes by accessing the link on our homepage:
www.eatonvance.com.

Our pledge of privacy applies to the following entities within the Eaton Vance organization: the Eaton Vance Family of Funds, Eaton Vance Management, Eaton Vance Investment Counsel, Boston Management and Research, and Eaton Vance Distributors, Inc. Our Privacy Policy applies only to those Eaton Vance customers who are individuals and who have a direct relationship with us. If a customer's account (i.e., fund shares) is held in the name of a third-party financial adviser/broker-dealer, it is likely that only such adviser's privacy policies apply to the customer. This notice supersedes all previously issued privacy disclosures. For more information about Eaton Vance's Privacy Policy, please call 1-800-262-1122.

Delivery of Shareholder Documents. The Securities and Exchange Commission (the SEC) permits funds to deliver only one copy of shareholder documents, including prospectuses, proxy statements and shareholder reports, to fund investors with multiple accounts at the same residential or post office box address. This practice is often called householding and it helps eliminate duplicate mailings to shareholders.

Eaton Vance, or your financial adviser, may household the mailing of your documents indefinitely unless you instruct Eaton Vance, or your financial adviser, otherwise. If you would prefer that your Eaton Vance documents not be househanded, please contact Eaton Vance at 1-800-262-1122, or contact your financial adviser. Your instructions that householding not apply to delivery of your Eaton Vance documents will be effective within 30 days of receipt by Eaton Vance or your financial adviser.

Portfolio Holdings. The Fund and its underlying Portfolio(s) (if applicable) will file a schedule of portfolio holdings on Form N-Q with the SEC for the first and third quarters of each fiscal year. The Form N-Q will be available on the Eaton Vance website at www.eatonvance.com, by calling Eaton Vance at 1-800-262-1122 or in the EDGAR database on the SEC's website at www.sec.gov. Form N-Q may also be reviewed and copied at the SEC's public reference room in Washington, D.C. (call 1-800-732-0330 for information on the operation of the public reference room).

Proxy Voting. From time to time, funds are required to vote proxies related to the securities held by the funds. The Eaton Vance Funds or their underlying Portfolios (if applicable) vote proxies according to a set of policies and procedures approved by the Funds' and Portfolios' Boards. You may obtain a description of these policies and procedures and information on how the Fund or Portfolio voted proxies relating to portfolio securities during the most recent 12 month period ended June 30, without charge, upon request, by calling 1-800-262-1122. This description is also available on the SEC's website at www.sec.gov.

Additional Notice to Shareholders. The Fund may purchase shares of its common stock in the open market when they trade at a discount to net asset value or at other times if the Fund determines such purchases are advisable. There can be no assurance that the Fund will take such action or that such purchases would reduce the discount.

Eaton Vance Short Duration Diversified Income Fund as of October 31, 2010

MANAGEMENT'S DISCUSSION OF FUND PERFORMANCE

Economic and Market Conditions

Payson F. Swaffield, CFA Mark S. Venezia, CFA
Co-Portfolio Manager Co-Portfolio Manager

Scott H. Page, CFA Susan Schiff, CFA
Co-Portfolio Manager Co-Portfolio Manager

Catherine C. McDermott Christine Johnston, CFA
Co-Portfolio Manager Co-Portfolio Manager

During the fiscal year ending October 31, 2010, the strongest returns in the global debt markets were generated by the riskier assets, including non-investment-grade corporate debt and locally denominated emerging-market currencies. Credit spreads were tighter across most of the U.S. credit markets for the 12-month period, with the strongest performance produced during the first six months. In the U.S. fixed-income markets, positive returns during the last six months were primarily the result of a rally in U.S. Treasuries, accompanied by only modest spread widening. For the fiscal year, yields fell across the U.S. Treasury curve, with the 2-year, 5-year, and 10-year bond yields declining by 55, 114, and 78 basis points, respectively. The S&P/LSTA Leveraged Loan Index, a measure of the bank loan market, returned 11.91%. U.S. government agency mortgage-backed securities (MBS) also generated positive returns, with the BofA Merrill Lynch Mortgage Master Index returning 6.24%.¹

Turning to the global currency markets, the euro depreciated by more than 5% versus the U.S. dollar; however, most other currencies across the developed and emerging markets, including the Japanese yen, appreciated significantly. Currency appreciation was widespread for the period, including significant appreciation in emerging Asia and Latin America (against the dollar) and Eastern Europe, the Middle East and Africa (against the euro).

For the 12-month period, among the most notable developments were the problems in Europe, as markets increasingly focused on the fiscal problems in Portugal, Italy, Greece and Spain. The first half of the period produced consistent negative headlines out of Greece, resulting in both increased volatility and significant credit spread widening in those four countries.

Globally, economic data released during the first six months of the period provided evidence of economic recovery, particularly in the emerging markets. However, the pace of acceleration in economic activity moderated in the final six months, and the focus shifted to the weakening in the U.S. economy and the anticipation of another round of quantitative easing by the U.S. Federal Reserve.

Management Discussion

The Fund is a closed-end fund that trades on the New York Stock Exchange (NYSE) under the symbol **EVG**. The Fund's primary investment objective is to provide a high level of current income, with a secondary objective of seeking capital appreciation to the extent consistent with its primary goal. In pursuing its objectives, the Fund's investments have been allocated primarily to

Total Return Performance 10/31/09 10/31/10

NYSE Symbol

EVG

At Net Asset Value (NAV)²

10.26%

At Market Price²

20.48%

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Premium/(Discount) to NAV (10/31/10)		(3.67)%
Total Distributions per share		\$1.080
Distribution Rate ³	<i>At NAV</i>	5.91%
	<i>At Market</i>	
	<i>Price</i>	6.14%

See page 3 for more performance information.

- ¹ It is not possible to invest directly in an Index. The S&P/LSTA Leveraged Loan Index is an unmanaged index of the institutional leveraged loan market. The BofA Merrill Lynch Mortgage Master Index is an unmanaged index of mortgage-backed securities.
- ² Performance results reflect the effects of leverage. Use of leverage creates an opportunity for increased total return but, at the same time, creates special risks (including the likelihood of greater volatility of net asset value and market price).
- ³ 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.

Past performance is no guarantee of future results. Returns are historical and are calculated by determining the percentage change in net asset value or market price (as applicable) with all distributions reinvested. The Fund's performance at market price will differ from its results at NAV. Although market price performance generally reflects investment results over time, during shorter periods, returns at market price can also be affected by factors such as changing perceptions about the Fund, market conditions, fluctuations in supply and demand for the Fund's 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 is for the stated time period only; due to market volatility, the Fund's current 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.

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.

Eaton Vance Short Duration Diversified Income Fund as of October 31, 2010

MANAGEMENT'S DISCUSSION OF FUND PERFORMANCE

senior, secured loans, U.S. government agency MBS, and foreign obligations. During the fiscal year, the Fund had total returns of 20.48% at market price and 10.26% at NAV.

The Fund's bank loan investments posted strong returns for the period as investors put aside fears about sovereign credit risk and a possible double-dip recession to purchase floating-rate loans. Investors in search of yield began to take on incremental credit risk, evidenced by improved inflows into high-yield bond and bank loan mutual funds. These greater inflows led to more robust demand in the secondary market, as well as increased refinancing activity, bond-for-loan take-outs, and a general improvement in the overall tone of the market—all of which contributed to tighter credit spreads and higher prices for bank loans. Importantly, and in contrast to other fixed-income sectors, bank loan credit spreads remained above their historical average levels over the London Interbank Offered Rate (LIBOR).

In the MBS portion of the Fund, the investment emphasis remained on seasoned, U.S. government agency MBS (seasoned MBS). Typically, the mortgages underlying seasoned MBS were originated in the 1980s and 1990s. As a result, they have generally lower loan-to-home value ratios, meaning that the underlying homeowners have more equity in their homes than the average borrower. In addition, these loans are guaranteed by government agencies. Yield spreads on seasoned MBS over U.S. Treasuries tightened by approximately 20 basis points (0.20%) during the fiscal year. Principal prepayment rates on these securities were relatively stable for the year.

The Fund's foreign obligations contributed significantly to its positive performance. Each region contributed positively to the return of the Fund; the most significant contributions came from the Latin American and Eastern European regions.

The Fund's performance in Eastern Europe was primarily driven by positions in Poland and Turkey. In Poland, the zloty was supported by strong economic activity. The Fund's position in Polish zloty currency forward contracts benefited from the appreciation of the currency. In addition, like many other Eastern European currency positions within the Fund, this position was cross-hedged with short euro currency forwards, which added to the positive return as the euro depreciated during the 12-month period. Turkey had a surprisingly strong recovery from the international economic crisis, and the Fund's position in Turkish inflation-linked bonds benefited from strong demand, as concerns about future inflation became an investor focus.

Positive performance from Latin America was spread across all of the Fund's positions. While countries in Latin America, with the exception of Venezuela, experienced growth during the 12-month period, the rate of increase varied from country to country. Uruguay experienced exceptionally strong growth, benefiting the Fund's position in local debt through currency appreciation. Similarly, currency appreciation bolstered the Fund's positions in Mexican sovereign debt and Colombian peso currency forwards as well.

In Asia, the rally in the currency markets, namely in India, Indonesia, and Malaysia, was significant. The strong returns in this region were largely driven by broad dollar weakness and fund flows into the emerging Asia region. Additionally, the global economic recovery was led by Asia, with a pickup in demand from Europe and the U.S. leading to an export recovery which had a positive effect on export-oriented countries. The story in Indonesia and India, however, was one of strong domestic demand, which we believe is likely to continue based on positive demographics. Offsetting those positives were negative returns from the Fund's short position in the Japanese yen and government bond futures, reflecting a rally in both the yen and Japanese bond yields.

The largest source of negative performance for the Fund during the period was a short South African rand position. Despite its endowment with natural resources, management remained concerned about the country's

fundamentals and maintained a short position, utilizing currency forwards, in this country.

The Fund's duration was reduced to 1.73 years as of October 31, 2010, from 1.89 years as of October 31, 2009. Duration is a measure of the sensitivity of a fund or a fixed-income security to changes in interest rates. A shorter duration instrument normally has less exposure to interest rate risk than longer duration instruments.

The Fund employs leverage through the use of derivative instruments and borrowings. As of October 31, 2010, the Fund's leverage was comprised of approximately 13% through borrowings and 40% through derivative investments. Use of leverage creates an opportunity for increased total return but, at the same time, creates special risks (including the likelihood of greater volatility of net asset value and market price).

The views expressed throughout this report are those of the portfolio managers and are current only through the end of the period of the report as stated on the cover. These views are subject to change at any time based upon market or other conditions, and the investment adviser disclaims any responsibility to update such views. These views may not be relied on as investment advice and, because investment decisions for a fund are based on many factors, may not be relied on as an indication of trading intent on behalf of any Eaton Vance fund. Portfolio information provided in the report may not be representative of the Fund's current or future investments and may change due to active management.

Eaton Vance Short Duration Diversified Income Fund as of October 31 , 2010

FUND PERFORMANCE

Performance¹

NYSE Symbol	EVG
Average Annual Total Returns (at market price, NYSE)	
One Year	20.48%
Five Years	10.25
Life of Fund (2/28/05)	6.56
Average Annual Total Returns (at net asset value)	
One Year	10.26%
Five Years	7.91
Life of Fund (2/28/05)	7.26

¹ Performance results reflect the effects of leverage.

Fund Composition

Fund Allocations²

By total leveraged assets

² Fund Allocations are as of 10/31/10 and are shown as a percentage of the Fund's total leveraged assets. 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. Fund Allocations as a percentage of the Fund's net assets amounted to 213.9% as of 10/31/10. Fund Allocations are subject to change due to active management. Please refer to the definition of total leveraged assets within the Notes to Consolidated Financial Statements included herein.

Past performance is no guarantee of future results. Returns are historical and are calculated by determining the percentage change in net asset value or market price (as applicable) with all distributions reinvested. The Fund's performance at market price will differ from its results at NAV. Although market price performance generally reflects investment results over time, during shorter periods, returns at market price can also be affected by factors such as changing perceptions about the Fund, market conditions, fluctuations in supply and demand for the Fund's 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 is for the stated time period only; due to market volatility, the Fund's current 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.

Eaton Vance Short Duration Diversified Income Fund as of October 31, 2010

CONSOLIDATED PORTFOLIO OF INVESTMENTS

Senior Floating-Rate Interests 46.4%**Principal
Amount***

(000 s omitted)	Borrower/Tranche Description	Value
Aerospace and Defense 1.2%		
Aveos Fleet Performance, Inc.		
8	Revolving Loan, 8.18%, Maturing March 12, 2013 ⁽²⁾	\$ 8,188
12	Term Loan, 11.25%, Maturing March 12, 2013	12,313
33	Term Loan - Second Lien, 10.75%, Maturing March 12, 2015 ⁽³⁾	30,984
DAE Aviation Holdings, Inc.		
111	Term Loan, 4.04%, Maturing July 31, 2014	107,082
115	Term Loan, 4.04%, Maturing July 31, 2014	110,585
Doncasters (Dunde HoldCo 4 Ltd.)		
114	Term Loan, 4.26%, Maturing July 13, 2015	102,705
114	Term Loan, 4.76%, Maturing July 13, 2015	102,705
GBP	250 Term Loan - Second Lien, 6.57%, Maturing January 13, 2016	310,956
Evergreen International Aviation		
173	Term Loan, 10.50%, Maturing October 31, 2011 ⁽³⁾	171,181
Hawker Beechcraft Acquisition		
1,842	Term Loan, 2.26%, Maturing March 26, 2014	1,547,688
110	Term Loan, 2.29%, Maturing March 26, 2014	92,528
International Lease Finance Co.		
500	Term Loan, 6.75%, Maturing March 17, 2015	513,081
TransDigm, Inc.		
1,000	Term Loan, 2.27%, Maturing June 23, 2013	990,250

\$ 4,100,246

Air Transport 0.1%

Delta Air Lines, Inc.

495 Term Loan, 2.28%, Maturing April 30,
2012 \$ 486,608

\$ 486,608

Automotive 2.7%

Adesa, Inc.

721 Term Loan, 3.01%, Maturing October 18,
2013 \$ 704,627

Allison Transmission, Inc.

762 Term Loan, 3.03%, Maturing August 7,
2014 732,524

Dayco Products, LLC

EUR 103 Term Loan, 7.00%, Maturing
November 13, 2014 135,534

118 Term Loan, 10.50%, Maturing May 13,
2014 117,346

19 Term Loan, 12.50%, Maturing October 2,
2017⁽³⁾ 18,146

Federal-Mogul Corp.

949 Term Loan, 2.20%, Maturing
December 29, 2014 844,720

560 Term Loan, 2.20%, Maturing
December 28, 2015 498,773

Ford Motor Co.

947 Term Loan, 3.04%, Maturing
December 16, 2013 938,971

Goodyear Tire & Rubber Co.

3,175 Term Loan - Second Lien, 2.21%,
Maturing April 30, 2014 3,062,551

HHI Holdings, LLC

488 Term Loan, 9.75%, Maturing March 30,
2015 494,813

Keystone Automotive Operations, Inc.

233 Term Loan, 3.79%, Maturing January 12,
2012 198,458

LKQ Corp. U.S.

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	227	Term Loan, 2.51%, Maturing October 12, 2013	226,360
Metaldyne Co., LLC			
	200	Term Loan, 7.75%, Maturing October 28, 2016	201,750
TriMas Corp.			
	714	Term Loan, 6.00%, Maturing August 2, 2011	715,326
	292	Term Loan, 6.00%, Maturing December 15, 2015	293,231
			\$ 9,183,130

Building and Development 0.5%

Brickman Group Holdings, Inc.			
	250	Term Loan, 7.25%, Maturing October 14, 2016	\$ 252,969
Building Materials Corp. of America			
	204	Term Loan, 3.06%, Maturing February 24, 2014	203,331
Panolam Industries Holdings, Inc.			
	121	Term Loan, 8.25%, Maturing December 31, 2013	112,155
Re/Max International, Inc.			
	448	Term Loan, 5.50%, Maturing April 15, 2016	449,149
Realogy Corp.			
	74	Term Loan, 3.26%, Maturing October 10, 2013	67,293
	542	Term Loan, 3.26%, Maturing October 10, 2013	493,683
			\$ 1,578,580

Business Equipment and Services 4.1%

Activant Solutions, Inc.			
	460	Term Loan, 2.31%, Maturing May 2, 2013	\$ 444,653
Axiom Corp.			
	425	Term Loan, 3.29%, Maturing March 15, 2015	425,943
Affinion Group, Inc.			

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846	Term Loan, 5.00%, Maturing October 10, 2016	836,235
Allied Barton Security Service		
194	Term Loan, 7.75%, Maturing February 18, 2015	195,179
Dealer Computer Services, Inc.		
407	Term Loan, 5.25%, Maturing April 21, 2017	407,197
Education Management, LLC		
1,396	Term Loan, 2.06%, Maturing June 3, 2013	1,300,711
Fifth Third Processing Solution		
175	Term Loan, Maturing November 1, 2016 ⁽⁴⁾	173,250

See notes to consolidated financial statements

Eaton Vance Short Duration Diversified Income Fund as of October 31, 2010

CONSOLIDATED PORTFOLIO OF INVESTMENTS CONT'D

Principal Amount* (000 s omitted)	Borrower/Tranche Description	Value
Business Equipment and Services (continued)		
First American Corp.		
249	Term Loan, 4.75%, Maturing April 12, 2016	\$ 251,089
Language Line, Inc.		
499	Term Loan, 5.50%, Maturing November 4, 2015	494,691
Mitchell International, Inc.		
188	Term Loan, 2.31%, Maturing March 28, 2014	175,991
NE Customer Service		
407	Term Loan, 6.00%, Maturing March 23, 2016	404,371
Protection One Alarm Monitor, Inc.		
399	Term Loan, 6.00%, Maturing May 16, 2016	399,997
Quintiles Transnational Corp.		
876	Term Loan, 2.29%, Maturing March 29, 2013	867,613
Sabre, Inc.		
1,352	Term Loan, 2.27%, Maturing September 30, 2014	1,287,170
Serena Software, Inc.		
1,185	Term Loan, 2.29%, Maturing March 10, 2013	1,155,375
Sitel (Client Logic)		
165	Term Loan, 5.79%, Maturing January 30, 2014	151,487
SunGard Data Systems, Inc.		
81	Term Loan, 2.01%, Maturing February 28, 2014	78,932
2,288	Term Loan, 4.03%, Maturing February 26, 2016	2,264,814
Travelport, LLC		
EUR 526	Term Loan, 5.33%, Maturing August 21, 2015	721,070

Valassis Communications, Inc.

107	Term Loan, 2.54%, Maturing March 2, 2014	106,149
472	Term Loan, 2.54%, Maturing March 2, 2014	469,269

West Corp.

140	Term Loan, 2.63%, Maturing October 24, 2013	137,846
345	Term Loan, 4.51%, Maturing July 15, 2016	343,860
978	Term Loan, 4.51%, Maturing July 15, 2016	974,889

\$ 14,067,781

Cable and Satellite Television 3.6%

Charter Communications Operating, Inc.

1,726	Term Loan, 2.26%, Maturing March 6, 2014	\$ 1,696,258
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CSC Holdings, Inc.

1,462	Term Loan, 2.01%, Maturing March 29, 2016	1,436,252
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CW Media Holdings, Inc.

1,058	Term Loan, 3.26%, Maturing February 16, 2015	1,056,404
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Insight Midwest Holdings, LLC

946	Term Loan, 2.02%, Maturing April 7, 2014	915,760
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Kabel Deutschland GmbH

EUR 978	Term Loan, 3.10%, Maturing March 31, 2014	1,351,332
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MCC Iowa, LLC

1,949	Term Loan, 2.00%, Maturing January 31, 2015	1,866,519
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ProSiebenSat.1 Media AG

EUR 232	Term Loan, 2.77%, Maturing June 26, 2015	297,450
EUR 9	Term Loan, 2.77%, Maturing July 3, 2015	12,072
EUR 62	Term Loan, 3.52%, Maturing March 6, 2015	