

Eaton Vance Short Duration Diversified Income Fund
Form N-CSR
January 06, 2006

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)

The Eaton Vance Building, 255 State Street, Boston, Massachusetts
(Address of principal executive offices)

02109
(Zip code)

Alan R. Dynner

The Eaton Vance Building, 255 State Street, Boston, Massachusetts 02109
(Name and address of agent for service)

Registrant's telephone number, including area code: (617) 482-8260

Date of fiscal year October 31
end:

Date of reporting period: October 31, 2005

Item 1. Reports to Stockholders

Annual Report October 31, 2005

EATON VANCE
SHORT
DURATION
DIVERSIFIED
INCOME
FUND

**IMPORTANT NOTICES REGARDING PRIVACY,
DELIVERY OF SHAREHOLDER DOCUMENTS,
PORTFOLIO HOLDINGS AND PROXY VOTING**

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 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.

In addition, our Privacy Policy only applies 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 (if applicable) will file a schedule of its 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 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.

Eaton Vance Short Duration Diversified Income Fund as of October 31, 2005

MANAGEMENT'S DISCUSSION OF FUND PERFORMANCE

The Fund

Performance

Based on net asset value (NAV) per share for the period from inception on February 28, 2005 through October 31, 2005, the Fund had a total return of 1.71%. This return resulted from a decrease in NAV per share from \$19.10 (offering price, less all commissions) on February 28, 2005 to \$18.57 on October 31, 2005, and the reinvestment of \$0.780 in monthly distributions.(1)

Based on share price (traded on the New York Stock Exchange), the Fund had a total return of -11.98% during the period from inception on February 28, 2005 through October 31, 2005. That return was the result of a decrease in share price from \$19.10 (offering price, less all commissions) on February 28, 2005 to \$16.07 on October 31, 2005 and the reinvestment of \$0.780 in monthly distributions.(1)

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 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.

Management Discussion

In pursuing the Fund's objective, the Fund's investments have been allocated primarily to seasoned mortgage-backed securities (MBS), senior secured loans, instruments tied to foreign exchange, and short-term holdings of cash and Treasuries.

During the period, the Federal Reserve raised shortterm interest rates several times. As a result, two-year Treasury yields increased by 80 basis points (0.8 percentage points) and five-year Treasury yields moved up 40 basis

points. These increases detracted from the returns of fixed-rate bonds of similar maturity, since bond prices move in the opposite direction of interest rates. In contrast, the Fund's bank loan holdings generally performed well. The rise in rates caused the interest rates on the Fund's loans, which are reset periodically, to also increase. Due to relatively stable credit conditions and continued tight demand/supply factors, prices for bank loans were relatively stable.

Within the MBS segment, the Fund's investments remained focused on seasoned MBS, which are mortgages that have older origination dates than the average for the overall MBS market. These securities typically have more predictable prepayment rates, which can enable them to produce more stable returns. The Fund's seasoned MBS holdings generally performed well relative to the overall MBS market, but the rise in interest rates still detracted from their absolute returns. Mortgage prepayment rates fell to approximately 25% by October 31, 2005, well below their peak of approximately 50% in December 2003, contributing to positive MBS returns during the period.

In the foreign obligations portion of the Fund, the Euro, Yen, and currencies tied to them declined by roughly 10% relative to the U.S. Dollar. While the U.S. Federal Reserve Board raised short-term interest rates from 2.5% to 3.75%, European and Japanese central banks left their rates unchanged at 2% and 0%, respectively. The Fund held positions in the currencies of several countries in Europe, Asia, and Latin America. These positions often took the form of long and short forward currency contracts, where the short contract would be designed to reduce the exposure to moves in the U.S. Dollar created by the long contract. This hedging strategy successfully protected the Fund from advances in the Dollar, versus reference currencies that otherwise could have hurt the Fund's performance. On a regional basis, Latin America was the stand-out performer due to an increase in global liquidity and high commodity prices. Eastern Europe, on the other hand, experienced a setback on the road to convergence when France rejected the European constitution.

Shares of the Fund 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.

The views expressed in 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.

(1) Share price and net asset value on 2/28/05 are calculated assuming an offering price of \$20.00, less the sales load of \$0.90 per share paid by the shareholder.

Past performance is no guarantee of future results. Returns are historical and are calculated by determining the percentage change in net asset value or share price (as applicable) with all distributions reinvested. 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.

Performance(1)

Average Annual Total Return (by share price, NYSE)	
Life of Fund (2/28/05)	-11.98%
Average Annual Total Return (at net asset value)	
Life of Fund (2/28/05)	1.71%

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Fund Allocations(2)

By total leveraged assets

(2) Fund Allocations are as of 10/31/05 and are 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 obligation derivatives held by the Fund. Fund Allocations as a percentage of the Fund's net assets amounted to 155% as of 10/31/05. Fund Allocations are subject to change due to active management. The following Portfolio of Investments is reported based on a percentage of total net assets. Please refer to definition of total leveraged assets within the Notes to Financial Statements included herein.

Eaton Vance Short Duration Diversified Income Fund as of October 31, 2005

PORTFOLIO OF INVESTMENTS

Senior, Floating Rate Interests 60.7%			
Principal Amount		Borrower/Tranche Description	Value
Aerospace and Defense 1.4%			
Delta Air Lines, Inc.			
\$	425,000	Term Loan, 12.89%, Maturing March 16, 2008	\$ 434,208
Dresser Rand Group, Inc.			
	976,902	EUR Term Loan, 4.44%, Maturing October 29, 2011	1,181,053
Hexcel Corp.			
	822,222	Term Loan, 5.81%, Maturing March 1, 2012	830,958
K&F Industries, Inc.			
	620,476	Term Loan, 6.38%, Maturing November 18, 2012	627,844
Standard Aero Holdings, Inc.			
	753,846	Term Loan, 6.25%, Maturing August 24, 2012	763,505
Vought Aircraft Industries, Inc.			
	181,818	Term Loan, 6.09%, Maturing December 22, 2010	184,119
	812,406	Term Loan, 6.59%, Maturing December 22, 2011	821,648
			\$ 4,843,335
Air Transport 0.2%			
United Airlines, Inc.			
\$	722,935	DIP Loan, 7.96%, Maturing December 31, 2005	\$ 731,746
			\$ 731,746
Automotive 4.2%			
Accuride Corp.			
\$	781,136	Term Loan, 6.18%, Maturing January 31, 2012	\$ 787,190
Affina Group, Inc.			
	945,482	Term Loan, 6.40%, Maturing November 30, 2011	947,402
Axletech International Holding, Inc.			
	425,000	Term Loan, 12.25%, Maturing April 21, 2013	429,250
CSA Acquisition Corp.			
	380,458	Term Loan, 6.06%, Maturing December 23,	382,836

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Principal Amount		Borrower/Tranche Description	Value
		2011 Term Loan, 6.06%, Maturing December 23, 2011	615,867
Dayco Europe S.R.I.	612,042		
	946,582	EUR Term Loan, 4.40%, Maturing June 21, 2010	1,136,603
Dura Operating Corp.			
	647,000	Term Loan, 7.44%, Maturing May 3, 2011	651,044
Exide Technologies			
	1,530,376	EUR Term Loan, 7.37%, Maturing May 5, 2010	1,846,756
Federal-Mogul Corp.			
	361,345	Term Loan, 6.33%, Maturing December 31, 2005	340,380
	420,728	Term Loan, 6.58%, Maturing December 31, 2005	396,843
Goodyear Tire & Rubber Co.			
	635,000	Term Loan, 7.06%, Maturing April 30, 2010	641,284
	500,000	Term Loan, 7.81%, Maturing March 1, 2011	497,125
Automotive (continued)			
R.J. Tower Corp			
	\$ 370,000	DIP Revolving Loan, 7.25%, Maturing February 2, 2007	\$ 377,014
Tenneco Automotive, Inc.			
	963,141	Term Loan, 6.08%, Maturing December 12, 2009	979,244
	418,922	Term Loan, 6.11%, Maturing December 12, 2010	425,926
The Goodyear Dunlop Tires			
	1,000,000	EUR Term Loan, 4.52%, Maturing April 30, 2010	1,201,742
Trimas Corp.			
	992,503	Term Loan, 7.69%, Maturing December 31, 2009	1,003,255
TRW Automotive, Inc.			
	992,500	Term Loan, 4.94%, Maturing October 31, 2010	1,000,068
	992,500	Term Loan, 5.25%, Maturing June 30, 2012	1,003,149
			\$ 14,662,978
Beverage and Tobacco 1.1%			
Alliance One International, Inc.			
	\$ 248,750	Term Loan, 6.73%, Maturing May 13, 2010	\$ 248,750
Constellation Brands, Inc.			

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	1,174,167	Term Loan, 5.66%, Maturing November 30, 2011	1,188,331
Culligan International Co.			
	495,000	Term Loan, 6.47%, Maturing September 30, 2011	501,394
National Dairy Holdings, L.P.			
	497,500	Term Loan, 6.08%, Maturing March 15, 2012	501,542
National Distribution Company			
	250,000	Term Loan, 10.56%, Maturing June 22, 2010	250,625
Southern Wine & Spirits of America, Inc.			
	995,000	Term Loan, 5.53%, Maturing May 31, 2012	1,005,365
			\$ 3,696,007
Building and Development 3.8%			
Biomed Realty, L.P.			
\$	660,000	Term Loan, 6.11%, Maturing May 31, 2010	\$ 660,825
General Growth Properties, Inc.			
	1,781,057	Term Loan, 5.61%, Maturing November 12, 2007	1,790,333
Hovstone Holdings, LLC			
	265,000	Term Loan, 6.29%, Maturing February 28, 2009	265,662
Kyle Acquisition Group, LLC			
	124,629	Term Loan, 6.06%, Maturing July 20, 2008	126,187
	115,371	Term Loan, 6.06%, Maturing July 20, 2010	116,813
Lion Gables Realty Limited. Partners			
	421,816	Term Loan, 5.63%, Maturing September 30, 2006	424,083
LNR Property Corp.			
	1,469,955	Term Loan, 6.73%, Maturing February 3, 2008	1,481,898

See notes to financial statements

Eaton Vance Short Duration Diversified Income Fund as of October 31, 2005

PORTFOLIO OF INVESTMENTS CONT'D

Principal Amount		Borrower/Tranche Description	Value
Building and Development (continued)			
MAAX Corp.			
\$	634,116	Term Loan, 6.75%, Maturing June 4, 2011	\$ 630,946
Mueller Group, Inc.			
	625,000	Term Loan, 6.40%, Maturing October 3, 2012	634,096
NCI Building Systems, Inc.			
	746,134	Term Loan, 4.94%, Maturing June 18, 2010	750,098
Newkirk Master, L.P.			
	956,392	Term Loan, 6.02%, Maturing August 11, 2008	970,738
Nortek, Inc.			
	994,975	Term Loan, 5.92%, Maturing August 27, 2011	1,006,666
Panolam Industries Holdings, Inc.			
	200,000	Term Loan, 6.77%, Maturing September 30, 2012	203,000
Stile Acquisition Corp.			
	939,475	Term Loan, 6.20%, Maturing April 6, 2013	937,073
Stile U.S. Acquisition Corp.			
	941,075	Term Loan, 6.20%, Maturing April 6, 2013	938,669
Sugarloaf Mills, L.P.			
	1,000,000	Term Loan, 5.79%, Maturing April 7, 2007	1,005,000
The Woodlands Community Property Co.			
	1,000,000	Term Loan, 6.11%, Maturing November 30, 2007	1,006,250
Trustreet Properties, Inc.			
	185,000	Term Loan, 5.86%, Maturing April 8, 2010	186,734
			\$ 13,135,071
Business Equipment and Services 0.9%			
Affinion Group, Inc.			
\$	560,000	Term Loan, 6.91%, Maturing October 17, 2012	\$ 556,616
DynCorp International, LLC			
	497,500	Term Loan, 6.75%, Maturing February 11, 2011	499,573
Global Imaging Systems, Inc.			
	496,231	Term Loan, 5.38%, Maturing May 10, 2010	499,953

Protection One, Inc.