

Eaton Vance Short Duration Diversified Income Fund
Form N-CSR
December 22, 2016

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, 2016

Date of Reporting Period

Item 1. Reports to Stockholders

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Commodity Futures Trading Commission Registration. Effective December 31, 2012, the Commodity Futures Trading Commission (CFTC) adopted certain regulatory changes that subject registered investment companies and advisers to regulation by the CFTC if a fund invests more than a prescribed level of its assets in certain CFTC-regulated instruments (including futures, certain options and swap agreements) or markets itself as providing investment exposure to such instruments. The Fund has claimed an exclusion from the definition of the term commodity pool operator under the Commodity Exchange Act. Accordingly, neither the Fund nor the adviser with respect to the operation of the Fund is subject to CFTC regulation. Because of its management of other strategies, the Fund's adviser is registered with the CFTC as a commodity pool operator and a commodity trading advisor.

Managed Distribution Plan. Pursuant to an exemptive order issued by the Securities and Exchange Commission (Order), the Fund is authorized to distribute long-term capital gains to shareholders more frequently than once per year. Pursuant to the Order, the Fund's Board of Trustees approved a Managed Distribution Plan (MDP) pursuant to which the Fund makes monthly cash distributions to common shareholders, stated in terms of a fixed amount per common share.

The Fund currently distributes monthly cash distributions equal to \$0.09 per share in accordance with the MDP. 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 and the Board 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.

The Fund may distribute more than its net investment income and net realized capital gains and, therefore, a distribution may include a return of capital. A return of capital distribution does not necessarily reflect the Fund's investment performance and should not be confused with yield or income. With each distribution, the Fund will issue a notice to shareholders and a press release containing information about the amount and sources of the distribution and other related information. The amounts and sources of distributions contained in the notice and press release are only estimates and are not provided for tax purposes. The amounts and sources of the Fund's distributions for tax purposes will be reported to shareholders on Form 1099-DIV for each calendar year.

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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Management's Discussion of Fund Performance

Economic and Market Conditions

During the 12-month period ended October 31, 2016, the accommodative policies of major central banks fueled broad gains across the world's financial markets. Equity returns were positive on a global basis and particularly strong in emerging markets. Key U.S. and international bond indexes climbed higher as interest rates fell and credit spreads narrowed. Emerging market currencies generally strengthened versus the U.S. dollar, while developed market currencies weakened.

As the fiscal year began, investors were preparing for the first interest-rate increase from the Federal Reserve (the Fed) in nearly a decade. While the Fed raised rates 0.25% on December 2015, it held policy steady over the remainder of the period amid uneven U.S. economic growth and slowing growth abroad. Foreign central banks aggressively eased policy in efforts to bolster their respective economies. The Bank of England cut interest rates to an all-time low and expanded its asset purchase program following Brexit, the U.K.'s June 2016 vote to leave the European Union. The Bank of Japan introduced negative rates, and the European Central Bank cut rates deeper into negative territory and increased its monthly bond purchases.

The price of gold surged nearly 20% during the period, buoyed by central bank actions and uncertainty surrounding Brexit and the U.S. presidential election. Oil prices started to recover in February 2016; however, the rally was not strong enough to offset sharp losses suffered earlier in the fiscal year. The weakness in oil drove a modest decline in the broad commodity market for the full 12 months.

Fund Performance

For the fiscal year ended October 31, 2016, Eaton Vance Short Duration Diversified Income Fund (the Fund) had a total return of 6.10% at net asset value (NAV).

Investments in mortgage-backed securities (MBS) had a positive contribution to the Fund's performance. The Fund maintained its focus on high-coupon seasoned agency MBS, due to the prepay protection of loans originated more than a decade ago. The Fund benefited from these investments, as they outperformed similar duration⁸ U.S. Treasuries over the period. The Fund also benefited from its investments in the Agency Collateralized Mortgage Obligation market, as spreads tightened on the lower coupon securities the Fund invests in.

Investments in senior secured loans also contributed to Fund performance. For the 12-month period, BB-rated⁹ loans in the S&P/LSTA Leveraged Loan Index² (the Index) returned 5.16%, B-rated loans in the Index returned 6.77%, CCC-rated loans in the Index returned 14.48% and D-rated (defaulted) loans in the Index returned 11.04%. Though the Fund remained underweight to the better-performing, higher-credit risk tiers of the market, the limited weight of

these segments kept the relative impact limited. The Fund's overweight to the higher-quality loans in the B ratings range which outperformed the market at large contributed more than enough to counterbalance the impact of being underweight the riskier loans.

The Fund's exposure to foreign currency instruments around the world contributed to Fund performance during the 12-month period. Eastern Europe was the best performing region, led by long exposure to Russia's ruble and a long position in the Serbian dinar versus the euro. The Fund also benefited from positions in Asia including long exposure to the Indonesian rupiah and Bangladeshi taka. Latin America was another region that helped performance, driven by long exposure to Argentina's peso and Brazil's real. Other holdings notably impacting performance included positive contribution from a long position in the Icelandic krona, while a long position in the Mexican peso detracted.

See Endnotes and Additional Disclosures in this report.

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 and include management fees and other expenses. 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 or equal to 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 eatonvance.com.

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Performance³

Portfolio Managers Scott H. Page, CFA, Payson F. Swaffield, CFA, Catherine C. McDermott, Andrew Szczurowski, CFA, Eric Stein, CFA and Sarah Orvin, CFA

% Average Annual Total Returns	Inception Date	One Year	Five Years	Ten Years
Fund at NAV	02/28/2005	6.10%	3.85%	5.52%
Fund at Market Price		6.60	3.15	4.66

% Premium/Discount to NAV⁴

11.23%

Distributions⁵

Total Distributions per share for the period	\$1.080
Distribution Rate at NAV	7.18%
Distribution Rate at Market Price	8.08%

% Total Leverage⁶

Derivatives	25.29%
Borrowings	20.53

Fund Profile

Asset Allocation (% of total leveraged assets)⁷

See Endnotes and Additional Disclosures in this report.

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Endnotes and Additional Disclosures

- ¹ The views expressed in this report are those of the 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.
- ² S&P/LSTA Leveraged Loan Index is an unmanaged index of the institutional leveraged loan market. Unless otherwise stated, index returns do not reflect the effect of any applicable sales charges, commissions, expenses, taxes or leverage, as applicable. It is not possible to invest directly in an index.
- ³ Performance results reflect the effects of leverage. Absent an expense waiver by the investment adviser, if applicable, the returns would be lower.
- ⁴ The shares of the Fund often trade at a discount or premium from their net asset value. The discount or premium of the Fund may vary over time and may be higher or lower than what is quoted in this report. For up-to-date premium/discount information, please refer to <http://eatonvance.com/closedend>.
- ⁵ 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 amounts characterized for federal income tax purposes as qualified and non-qualified ordinary dividends, capital gains and nondividend distributions, also known as return of capital. For additional information about nondividend distributions, please refer to Eaton Vance Closed-End Fund Distribution Notices (19a) posted on our website, eatonvance.com. The Fund will determine the federal income tax character of distributions paid to a shareholder after the end of the calendar year. This is reported on the IRS form 1099-DIV and provided to the shareholder shortly after each year-end. For information about the tax character of distributions made in prior calendar years, please refer to Performance-Tax Character of Distributions on the Fund's webpage available at eatonvance.com. The Fund's distributions are determined by the investment adviser based on its current assessment of the Fund's long-term

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return potential. Fund distributions may be affected by numerous factors including changes in Fund performance, the cost of financing for leverage, portfolio holdings, realized and projected returns, and other factors. As portfolio and market conditions change, the rate of distributions paid by the Fund could change.

- ⁶ The Fund employs leverage through derivatives and borrowings. Total leverage is shown as a percentage of the Fund's aggregate net assets plus the absolute notional value of long and short derivatives and borrowings outstanding. 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 may be required to maintain prescribed asset coverage for its leverage and may be required to reduce its leverage at an inopportune time.
- ⁷ Total leveraged assets include all assets of the Fund (including those acquired with financial leverage) and derivatives held by the Fund. Asset Allocation as a percentage of the Fund's net assets amounted to 184.6%. Please refer to the definition of total leveraged assets within the Notes to Financial Statements included herein.
- ⁸ Duration is a measure of the expected change in price of a bond in percentage terms given a one percent change in interest rates, all else being constant. Securities with lower durations tend to be less sensitive to interest rate changes.
- ⁹ Credit ratings are categorized using S&P. Ratings, which are subject to change, apply to the creditworthiness of the issuers of the underlying securities and not to the Fund or its shares. Credit ratings measure the quality of a bond based on the issuer's creditworthiness, with ratings ranging from AAA, being the highest, to D, being the lowest based on S&P's measures. Ratings of BBB or higher by S&P are considered to be investment-grade quality. Credit ratings are based largely on the ratings agency's analysis at the time of rating. The rating assigned to any particular security is not necessarily a reflection of the issuer's current financial condition and does not necessarily reflect its assessment of the volatility of a security's market value or of the liquidity of an investment in the security.

Fund profile subject to change due to active management.

Important Notice to Shareholders

Effective December 1, 2016, Sarah Orvin, CFA, Vice President of EVM, became a portfolio manager of the Fund, joining current managers Scott H. Page, CFA, Payson F. Swaffield, CFA, Catherine C. McDermott, Andrew Szczurowski, CFA and Eric Stein, CFA.

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Portfolio of Investments

Senior Floating-Rate Loans 53.1%

Borrower/Tranche Description	Principal Amount*	Value
	(000 s omitted)	
Aerospace and Defense 0.8%		
BE Aerospace, Inc.		
Term Loan, 3.82%, Maturing December 16, 2021	188	\$ 189,865
Silver II US Holdings, LLC		
Term Loan, 4.00%, Maturing December 13, 2019	358	330,882
TransDigm, Inc.		
Term Loan, 3.82%, Maturing February 28, 2020	500	500,765
Term Loan, 3.83%, Maturing June 4, 2021	318	317,390
Term Loan, 3.75%, Maturing June 9, 2023	669	667,897
Wesco Aircraft Hardware Corp.		
Term Loan, 3.29%, Maturing September 23, 2021	175	174,781
		\$ 2,181,580
Air Transport 0.2%		
Virgin America, Inc.		
Term Loan, 5.36%, Maturing April 4, 2019	450	\$ 456,750
		\$ 456,750
Automotive 2.1%		
Allison Transmission, Inc.		
Term Loan, 3.25%, Maturing September 23, 2022	236	\$ 238,105
CS Intermediate Holdco 2, LLC		
Term Loan, 4.00%, Maturing April 4, 2021	562	564,638
Term Loan, Maturing October 26, 2023 ⁽²⁾	25	25,125

Dayco Products, LLC		
Term Loan, 5.25%, Maturing December 12, 2019	171	171,052
FCA US, LLC		
Term Loan, 3.50%, Maturing May 24, 2017	515	516,305
Term Loan, 3.25%, Maturing December 31, 2018	216	216,251
Federal-Mogul Holdings Corporation		
Term Loan, 4.75%, Maturing April 15, 2021	660	640,348
Goodyear Tire & Rubber Company (The)		
Term Loan - Second Lien, 3.86%, Maturing April 30, 2019	575	579,415
Horizon Global Corporation		
Term Loan, 7.00%, Maturing June 30, 2021	169	169,383
MPG Holdco I, Inc.		
Term Loan, 3.75%, Maturing October 20, 2021	1,401	1,408,805
TI Group Automotive Systems, LLC		
Term Loan, 4.50%, Maturing June 30, 2022	223	223,491
Tower Automotive Holdings USA, LLC		
Term Loan, 4.00%, Maturing April 23, 2020	524	524,224
Tweddle Group, Inc.		
Term Loan, Maturing October 13, 2023 ⁽²⁾	150	147,750
	Principal	
	Amount*	

Borrower/Tranche Description	(000 s omitted)	Value
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Automotive (continued)

Visteon Corporation

Term Loan, 3.55%, Maturing April 9, 2021	102	\$ 102,487
		\$ 5,527,379

Beverage and Tobacco 0.1%

Flavors Holdings, Inc.

Term Loan, 6.75%, Maturing April 3, 2020	366	\$ 310,904
		\$ 310,904

Brokerage / Securities Dealers / Investment Houses 0.2%

Aretec Group, Inc.

Term Loan, 8.00%, Maturing May 25, 2023	65	\$ 65,134
Term Loan - Second Lien, 6.50%, (2.00% Cash, 4.50% PIK), Maturing May 23, 2021	265	214,460
Salient Partners L.P.		
Term Loan, 9.50%, Maturing May 19, 2021	144	137,401
		\$ 416,995

Building and Development 1.0%

American Builders & Contractors Supply Co.

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Term Loan, Maturing October 31, 2023 ⁽²⁾	475	\$	477,672
Auction.com, LLC			
Term Loan, 6.00%, Maturing May 12, 2019	197		198,231
CPG International, Inc.			
Term Loan, 4.75%, Maturing September 30, 2020	395		397,165
DTZ U.S. Borrower, LLC			
Term Loan, 4.25%, Maturing November 4, 2021	469		469,062
Ply Gem Industries, Inc.			
Term Loan, 4.00%, Maturing February 1, 2021	419		421,331
Quikrete Holdings, Inc.			
Term Loan, 4.00%, Maturing September 28, 2020	190		191,405
RE/MAX International, Inc.			
Term Loan, 4.00%, Maturing July 31, 2020	328		327,946
Summit Materials Companies I, LLC			
Term Loan, 4.00%, Maturing July 17, 2022	123		124,460
			\$ 2,607,272

Business Equipment and Services 4.2%

Acosta Holdco, Inc.			
Term Loan, 4.25%, Maturing September 26, 2021	538	\$	518,292
AlixPartners, LLP			
Term Loan, 4.00%, Maturing July 28, 2022	367		368,461
Altisource Solutions S.a.r.l.			
Term Loan, 4.50%, Maturing December 9, 2020	124		120,337

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Portfolio of Investments continued

Borrower/Tranche Description	Principal Amount*	Value
	(000 s omitted)	
Business Equipment and Services (continued)		
Brickman Group Ltd., LLC		
Term Loan, 4.00%, Maturing December 18, 2020	146	\$ 145,857
Camelot UK Holdco Limited		
Term Loan, 4.75%, Maturing October 3, 2023	200	200,531
CCC Information Services, Inc.		
Term Loan, 4.00%, Maturing December 20, 2019	843	