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Contents

General introduction

It is widely recognized that the optimization approach plays a key role in modeling and solving real-life problems in different fields of applied sciences.

A general optimization problem is of the form

$$(P) \quad \min\{f(x) : x \in S \subset \mathbb{R}^n\}.$$

Convex programming corresponds to both convexity of the objective function f and the constraint set S. Convex programs are featured by the fact that local and global optimal solutions are identical. As a crucial result, optimality conditions (the famous KKT conditions) are available and they serve to devise (iterative) convex optimization algorithms for solving these problems. The golden age of modern convex analysis and convex programming is situated in the period 1960-1985, where a powerful arsenal of theoretical and algorithmic tools was developed. This period is followed by extensive works on interior point methods and their applications in semidefinite programming (SDP) [94, 142, 201], during the past fifteen years. Under usual precautions, especially for the large-scale setting, one can say, at the present time, that convex programs can be solved by well suitable algorithms.

The passage to nonconvex programming generates enormous difficulty, due to the following fact:

- Distinction between local and global optimal solutions: there is no verifiable global optimality conditions, and consequently there is no iterative algorithms converging to global solutions.

- Computing a global solution of a high-dimensional nonconvex program then is a grail request for mathematicians, especially optimizers.

- The last twenty-five years have seen the development of extensive research in nonconvex programming and global optimization. The reason is quite simple: most real-world optimization problems are of nonconvex nature. Moreover, industrialists have begun to replace convex models by nonconvex ones, which are more complex but more reliable and especially more economic.

However, several approaches for solving nonconvex optimization problems have been proposed in the literature. We can classify them in two main categories:

1. The heuristic methods: they are developed to find acceptably good solutions but ignore whether the solutions can be proven to be optimal. For instance: the method of simulated annealing (S. Kirkpatrick et al. in 1983 [93], and by Vlado Cerný in 1985 [36]), genetic algorithm (J.H. Holland in 1975 [81]), tabu search (F. Glover [67]), the method of variable neighborhood search (P. Hansen and N. Mladenovic in 1997 [130]), the cross-entropy algorithm (R.Y. Rubinstein [176–178]), etc.

2. The deterministic methods: there are two types of different but complementary approaches for nonconvex programming.

(a) **The global approaches**: the approaches are developed according to the spirit of the combinatorial optimization, but with the difference that one works in the continuous framework. In these approaches, optimal solutions are located by using the approximation methods, for instance, cutting techniques, decomposition methods, branch and bound, etc. It was Hoang Tuy who has incidentally put forward by his pioneering paper in 1964 [75]: the new global optimization concerning convex maximization over a polyhedral convex set. Among the most important contributions to these approaches, it is worth citing the ones by Hoang Tuy, R. Horst, H. Konno, P. Pardalos, Le Dung Muu, Le Thi Hoai An, Nguyen Van Thoai, Phan Thien Thach and Pham Dinh Tao [76–78, 84, 85, 95, 115, 116, 119, 133, 134, 154, 160–162]. Although these approaches are known to be heavy and costly to implement, especially in very large-scale settings, they have successfully established some standard methodologies for global optimization, which are the foundation for many other researches.

(b) **The convex approaches**: they are based on convex analysis tools, the DC duality and the local optimal conditions in DC programming. Here the DC programming (Difference of two convex functions) and DCA (DC Algorithms) play the central role because most of nonconvex optimization problems are formulated/reformulated as DC. They are introduced by Pham Dinh Tao in 1985 in their preliminary form and extensively developed by Le Thi Hoai An and Pham Dinh Tao since 1994 to become now classic, and widely used by researchers and practitioners in various fields of applied sciences (see [2, 33, 90, 110–114, 124, 152–157, 163, 185, 194, 209, 211]).

DC programming and DCA aim to solve a general DC program that takes the form

$$\alpha = \inf\{f(x) := g(x) - h(x) : x \in \mathbb{R}^p\} \quad (P_{dc}) \tag{1}$$

where g, h are lower semicontinuous proper convex functions on $\mathbb{R}^p$. Such a function f is called DC function, and $g - h$, DC decomposition of f while g and h are DC components of f. The construction of DCA involves DC components g and h but not the function f itself: each iteration k of DCA consists of computing

$$y^k \in \partial h(x^k), x^{k+1} \in \arg\min\{g(x) - h(x^k) - \langle x - x^k, y^k \rangle : x \in \mathbb{R}^p\} \quad (P_k).$$

Hence, for a DC program, each DC decomposition corresponds to a different version of DCA. Since a DC function f has an infinite number of DC decompositions which have crucial impacts on the qualities (speed of convergence, robustness, efficiency, globality of computed solutions,...) of DCA, the search for a "good" DC decomposition is important from algorithmic point of views. Moreover, despite its local character, DCA with a good initial point can converge to global solutions.

Finding a "good" initial point is then also an important stage of DCA. How to develop an efficient algorithm based on the generic DCA scheme for a practical problem is thus a judicious question to be studied, and the answer depends on the specific structure of the problem being considered.

In this thesis, we consider some optimization problems in Search Theory, Assignment and Portfolio Management: the problem of planning a multisensor multizone search for a (moving) target, the Nonlinear UAV (Unmanned Aerial Vehicles) Task Assignment Problem, the Value-at-Risk constrained Optimization problem and the Multidimensional Assignment Problem (MAP). They are large-scale nonconvex optimization problems. We focus on developing deterministic and heuristic approaches for their solution:

- The deterministic approaches are based on **DC programming and DCA**. Our motivation is due to their robustness and efficiency compared to existing methods, their adaptation to the structures of treated problems and their ability to solve large-scale real world nonconvex programs, such as Transport-Logistics, Telecommunication, Finance, Data Mining and Machine Learning, Cryptology, Mechanics, Image Processing, Robotic & Computer Vision, Petrochemistry, Optimal Control, etc.

- The heuristic approaches are based on **the Cross-Entropy (CE) method**. The CE method was originally developed in [176] for an adaptive networks, where an adaptive variance minimization algorithm for estimating probabilities of rare events for stochastic networks was presented. It was modified in [177, 178] to solve optimization problems. It has been demonstrated that this method is particularly relevant for solving both continuous multi-extremal and combinatorial optimization problems. Several recent publications demonstrate the power of the CE method as simple and efficient approach for many applications such as Telecommunication Systems, Buffer Allocation, Vehicle Routing, DNA Sequence Alignment, Machine Learning, etc. In fact, when deterministic methods failed to find the optimal solution within a reasonable time, in most cases the CE method finds a fairly good solution more quickly. This motivates us to investigate the CE method for our considered problems.

  However, to apply the Cross-Entropy method, the most important point is how to construct a family of distributions on the feasible set of the optimization problem such that updating the parameters could be done as easily as possible. Depending on the structure of feasible sets of our considered problems, we design appropriate families of distributions such that the Cross-Entropy method could be applied efficiently.

The main contributions of the thesis:

- We develop a *deterministic continuous optimization approach* based on DC programming and DCA for solving the problem of **planning a multisensor multizone search for a target**.

- When the **target is moving (Markovian)**, the above problem becomes very complicated because of the huge number of possible target trajectories. We use the forward-backward split technique (FAB) introduced by Brown [29] to split the problem into the sub-problems with the "static" target, then treat the sub-problems via the DC programming and DCA as above. Finally, we obtain a combination of the FAB and the DCA to the case of moving target.

- We propose two approaches for solving **the Nonlinear UAV (Unmanned Aerial Vehicles) Task Assignment Problem**. The first approach is the Cross-Entropy (CE) method, in which we present a family of discrete distributions characterized by probability matrices on the feasible sets of this problem. The second one is the Branch and Bound algorithm, where the DCA is used to compute the lower bounds.

- We develop both deterministic and heuristic approaches for solving **the Value-at-Risk constrained Optimization problem**. In the first approach, we reformulate the problem as a polyhedral DC program by using an exact penalty technique and propose DCA for its solution. In the second one, we introduce an appropriate family of continuous distributions based on the family of exponential distributions on the feasible sets of this problem to apply the Cross-Entropy method. The ability of these methods to solve large scale problems is showed by firstly testing on the 1304 daily returns for 43 assets of the Eurostoxx50 index (from January 1, 2003 to December 31, 2007). Then, they are tested on the empirical distribution of 11 years (from January 1, 2000 to December 31, 2010) of daily data, i.e., 2759 scenarios of the 87 assets comprising the NYSE US 100 index.

- We propose a Cross-Entropy (CE) algorithm for solving **the Multidimensional Assignment Problem (MAP)**, where a family of discrete distributions on the feasible set of MAP was designed. The efficiency of this method has been shown by testing for the large-scale problems, for instance, the MAP with 5 dimensions and there are 20 elements in each dimension, which is equivalent to a 0-1 linear program with 3.2 millions binary variables and 100 constraints.

- After developing mathematical approaches, we implement the proposed algorithms in C/C++, Matlab, etc., to give numerical simulations:

  - The DCA for the problem of planning a multisensor in multizone search for a target.
  - The combination of the forward-backward split technique and DCA for the above problem but in the case of moving target.
  - A Branch and Bound algorithm for the nonlinear UAV Task Assignment Problem.
  - The cross-entropy algorithm for the Nonlinear UAV Task Assignment Problem.
  - The cross-entropy algorithm for the Value-at-Risk constrained Optimization problem.

– The DCA for the Value-at-Risk constrained Optimization problem.

– The cross-entropy algorithm for the Multidimensional Assignment Problem.

The thesis is divided in two parts:

1. The first one consists of three Chapters 1 & 2 & 3. In the first chapter, we introduce some optimization problems in Search Theory, Assignment and Portfolio Management, which we study in this thesis. The background of DC programming and DCA is briefly presented in the second one, while the methodology of the Cross-Entropy method is given in the third one.

2. Part 2 is devoted to the resolutions of our considered problems in Search Theory, Assignment and Portfolio Management.

PUBLICATIONS

[1] Le Thi Hoai An, Nguyen Duc Manh and Pham Dinh Tao (2012), *Globally solving a Nonlinear UAV Task Assignment Problem by stochastic and deterministic optimization approaches,* Optimization Letters 6(2): 315-329.

[2] Nguyen Duc Manh, Le Thi Hoai An and Pham Dinh Tao, *A Cross-Entropy Method for Value-at-Risk Constrained Optimization*, Intelligent Information and Database Systems. N. Nguyen, C.-G. Kim and A. Janiak (Eds.), Springer Berlin / Heidelberg. 6592: 442-451 (2011).

[3] Nguyen Duc Manh, Le Thi Hoai An and Pham Dinh Tao, *A Cross-Entropy method for Nonlinear UAV Task Assignment Problem*, 2010 IEEE-RIVF International Conference on Computing and Communication Technologies Research, Innovation and Vision for the Future, Hanoi, Vietnam, November 1-4, 2010, pp. 267-271.

[4] Le Thi Hoai An, Nguyen Duc Manh and Pham Dinh Tao, *A deterministic optimization approach for planning a multisensor multizone search for a target.*
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[5] Le Thi Hoai An, Nguyen Duc Manh and Pham Dinh Tao, *A fast and scalable Cross-Entropy Method for Value-at-Risk constrained Optimization.*
Submitted to Journal of Global Optimization (August 2011)

[6] Nguyen Duc Manh, Le Thi Hoai An and Pham Dinh Tao, *Solving the Multidimensional Assignment Problem via the Cross-Entropy method.*
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ARTICLES IN PREPARATION

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PRESENTATIONS

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5. *A Cross-Entropy method for Nonlinear UAV Task Assignment Problem*, IEEE-RIVF International Conference on Computing and Communication Technologies Research, Innovation and Vision for the Future, Hanoi, Vietnam, November 2010.

6. *A Cross-Entropy method for Value-at-Risk constrained Optimization*, 12e congrès annuel de la Société française de Recherche Opérationnelle et d'Aide à la Décision (ROADEF), Saint Etienne, France, March 2011.

7. *A Cross-Entropy method for Nonlinear UAV Task Assignment Problem*, Journée de Doctorat SPMII 2011, Université de Rouen, France, April 2011.

8. *A Cross-Entropy method for Value-at-Risk constrained Optimization*, The 3rd Asian Conference on Intelligent Information and Database Systems, Daegu, Korea, April 2011.

9. *Solving the Multidimensional Assignment Problem via the Cross-Entropy method*, Workshop: Optimization and Learning: Theory, Algorithms and Applications, Metz, France, May 2011.

Part I

Fundamentals of DC programming&DCA and the Cross Entropy method

Chapter 1

Introduction to some classes of nonconvex programs in Search Theory, Assignment and Portfolio Management

The purpose of this chapter is to introduce some classes of nonconvex programs in Search Theory, Assignment and Portfolio Management, which will be considered in this thesis. The importance, the difficulties encountered when solving them and the related researches in the literature will also be presented.

1.1   Search Theory

Search theory is defined by Cadre and Soiris [32] as a discipline that treats the problem of how a missing object can be searched optimally, when the amount of searching time is limited and only probabilities of the possible position of the missing object are given. The theory of how to search for missing objects has been a subject of serious scientific research for more than 50 years. It is a branch of the broader applied science known as operations research [59].

In fact, Search theory was first established during World War II by the work of B. O. Koopman and his colleagues [101] in the Antisubmarine Warfare Operations Research Group (ASWORG). The applications of search theory were firstly made on military operations [191]. Koopman [100] stated that the principles of search theory could be applied effectively to any situation where the objective is to find a person or object contained in some restricted geographic area. After military applications, it was also applied to different problems such as surveillance, explorations, medicine, industry and search and rescue operations [72]. The aim of searching in the context of Aeronautical Search and Rescue (ASAR), for instance, is to find the missing aircraft effectively and as quickly as possible with the available resources [190].

In this thesis, we consider two problems in Search Theory. The first one is a bi-level problem:

planning a multi-sensor multi-zone search for a target. It can be described as follows: suppose that a space of search is partitioned into zones of reasonable size. A unique sensor must be able to explore efficiently a whole zone. Each zone is itself partitioned into cells. A cell is an area in which every points have the same properties, according to the difficulty of detection (altitude, vegetation, etc.). Each sensor has its own coefficient of visibility over a cell. The visibility coefficients depend also on the kind of the target that is searched. Here, there is a unique target to detect. The objective is alloting sensors to search zones and finding the search resources sharing of multisensor in multizone so as to maximize the probability of detection of a target.

The optimization model of this problem is hierarchical:

- At upper level: finding the best allotment of sensors to search zones (a sensor is allotted to a unique zone);

- At lower level: determining the best resource sharing for every sensor, in order to have an optimal surveillance over the allotted zone.

At the upper level, the objective function can be nonconvex or implicitly defined via an algorithm applied to the lower level. This makes the problem very hard. In [186], Simonin et al. have proposed a hierarchical approach for solving this problem where a cross-entropy (CE) algorithm [28, 41, 180] has been developed for the upper level while an optimization method based on the algorithm of de Guenin [70] for detecting a stationary target has been used in the lower level. Besides this paper, we do not find in the literature the works considering this problem.

The second one is an extension of the first one, where the target is moving (Markovian). We consider a multi period search of a moving target. This means that information about the sensors and the target will be now indexed by time (the period index). The target prior is now trajectorial and we shall consider here a Markovian (target) prior. Furthermore, assuming that sensors act independently at the cell level. The target is said undetected for this multiperiod search if it has not been detected at any period of the search. The objective is alloting sensors to search zones and finding the search resources sharing of multisensor in multizone at each time period so as to mimimize the probability of non-detection of a target.

This problem, in general, is very complicated because of the huge number of possible target trajectories. For a unique sensor, the problem has been theoretically solved in [189, 193]; while extensions to double layered constraints have been considered in [80]. In practice, all feasible algorithms are based on a forward-backward split introduced by Brown [29]. Similar procedures are also much employed in order to estimate Hidden Markov Models parameters (see e.g. [57]).

1.2 Assignment Problem

1.2.1 Nonlinear Unmanned Aerial Vehicles (UAVs) Task Assignment Problem

A growing number of applications require the coordination of multiple autonomous agents to accomplish a team goal. Many of these efforts utilize unmanned aerial vehicles (UAVs) due to the unique capabilities they provide. In a growing number of these applications, agents must make both tactical and practical decisions autonomously. This is particularly true of systems involving teams of agents which are too complicated to be controlled or efficiently monitored by a human operator.

In fact, the prospect of building unmanned aerial vehicles is not new by any standard [66]. For most of the twentieth century, one has investigated the feasibility of building unmanned aerial vehicles and their potential value in military operations. A principal reason for the interest in UAVs was the desire to reduce the risk to humans in combat, but it also was to perform military missions in a more efficient and less costly fashion than has historically been the case with manned vehicles. Recently, unmanned aerial vehicles (UAVs) can be used for various civilian and military tasks. There has been considerable interest in making these unmanned vehicles completely autonomous, giving rise to the research area of *unmanned autonomous vehicles*. These are usually seen as rather simple vehicles, acting cooperatively in teams to accomplish difficult missions in dynamic, poorly known or hazardous environments [4, 14–16, 18, 25, 43–46, 48, 87, 89, 123, 127, 129, 131, 146, 164, 165, 183, 184, 210].

The mission to be accomplished by a group of UAVs usually involves completing a set of tasks spread over an extended region. The UAVs must reach each task location -possibly under temporal order constraints- and accomplish it while avoiding a spatially distributed set of threats or obstacles. For instance, in a military search-and-destroy mission, the tasks may correspond to targets to be attacked, and the threats may be enemy radar or anti-aircraft batteries. One of the primary challenges, then, is to assign the UAVs to the known tasks/targets and to plan paths for all UAVs such that the overall mission completion time is minimized and the UAVs are exposed to as little threat as possible. This is, in fact, a very complex optimization problem known to be NP-complete. It is very similar to the well-known vehicle routing problem (VRP), for which several heuristic methods have been presented [182, 195].

Typically, a UAV coordination problem includes three sub-problems [18], which are all computationally intensive optimization problems:

1. Determining the team composition: teams are formed and group goals are assigned to each team.

2. Performing the task assignment: tasks that achieve the group goals are assigned to each team member.

3. UAV trajectory optimization: a path is designed for each team member that achieves their tasks while adhering to spatial constraints, timing constraints, and the dynamic capabilities of the aircraft.

The coordination plan is designed to minimize some cost, such as the completion time or the probability of mission failure. The overall control system then monitors the execution of the coordinated plan, and reacts to changes in the operation, the environment, or the goals.

Several previous studies have investigated methods of trajectory planning for coordination and control. Trajectory generation methods include the use of Voronoi diagrams [128], adaptive random search algorithms [106], model predictive control [187], mixed-integer linear programming [17, 171], and the approximate method that yields a fast estimate of the finishing times for the UAV trajectories [18].

The task assignment problem, which is a decision-making process, is normally solved by using integer (or mixed-integer linear) programming techniques [47, 141, 171]. In this approach, the problem is solved as a deterministic optimization problem with known parameters. Since the MILP is NP-hard, it suffers from poor scalability although the solutions preserve global optimality. Recently, uncertainty is taken into account in terms of optimization parameters. The uncertainty in this data can come from many sources, and it is well known that it can have a significant impact on the performance of an optimization-based planner. Mitigating the effect of the uncertainty in this type of optimization problem has recently been addressed by numerous researchers [19, 22–24, 104, 104, 136, 139]. For example, Ben-Tal and Nemirovski [19] discuss the issue of robust feasibility of linear programs, and Bertsimas et al. [23] consider the problem of finding robust solutions to linear programs under more general norms, which extends the research of [139]. In [136], Mulvey et al. introduce general robust optimization techniques that embed higher order statistics from the uncertainty model. In [22, 24], the authors develop techniques that hedge against worst-case performance loss and maintain robust feasibility in the presence of uncertainty in integer optimizations. Solutions are presented with both ellipsoidal and polyhedral uncertainty sets, and the authors show that the robust equivalent of some uncertain integer programs can be found by solving a finite number of new deterministic integer programs. In [104, 105], the authors introduce Conditional Value at Risk (CVaR) as a scenario-based resource allocation problems solved by generating a finite (but possibly large) number of realizations, and finding the assignment that minimizes the conditional expectation of performance loss.

In this thesis, we consider a task allocation model where we seek to assign a set of m UAVs to a set of n tasks in an optimal way. The optimality is quantified by target scores. The mission is to maximize the target score while satisfying capacity constraints of both the UAVs and the tasks. The scoring scheme defining effectiveness in our work is a nonlinear function. More precisely, this problem is an integer nonlinear programming problem for which the classical solution method can not be used.

1.2.2 The Multidimensional Assignment Problem (MAP)

The multidimensional assignment problem (MAP) is a higher dimensional version of the linear assignment problem, where we find tuples of elements from given sets, such that the total cost of the tuples is minimal. Denoting n_k the number of elements in dimension k of d dimensions, $n_1 \leq n_k, k = 2, ..., d$, the MAP can be expressed as an integer program as follows

$$\begin{cases} \min \sum_{i_1=1}^{n_1} ... \sum_{i_d=1}^{n_d} c_{i_1...i_d} x_{i_1...i_d} \\ \text{s.t. } \sum_{i_2=1}^{n_2} ... \sum_{i_d=1}^{n_d} x_{i_1...i_d} = 1, i_1 = 1, 2, ..., n_1, \\ \sum_{i_1=1}^{n_1} ... \sum_{i_{k-1}=1}^{n_{k-1}} \sum_{i_{k+1}=1}^{n_{k+1}} ... \sum_{i_d=1}^{n_d} x_{i_1...i_d} \leq 1, i_k = 1, 2, ..., n_k, k = 2, ..., d-1, \\ \sum_{i_1=1}^{n_1} ... \sum_{i_{d-1}=1}^{n_{d-1}} x_{i_1...i_d} \leq 1, i_d = 1, 2, ..., n_d, \\ x_{i_1...i_d} \in \{0, 1\}. \end{cases} \tag{1.1}$$

An equivalent formulation of this problem, which offers us several approaches to find an optimal assignment is injection formulation

$$\begin{cases} \min \sum_{i=1}^{n_1} c_{i,\pi_1(i),...,\pi_{d-1}(i)} \\ \text{s.t. } \pi_k : \{1, 2, ..., n_1\} \to \{1, 2, ..., n_{k+1}\} \text{ is injective}, \forall k = 1, 2, .., d-1. \end{cases} \tag{1.2}$$

The MAP was first introduced by Pierskalla (1968) [147], and since then has found numerous applications in the areas of data association [7], image recognition [202], multisensor multitarget tracking [132, 167], tracking of elementary particles [169], etc. For a survey of the MAP and its applications, see [30, 31, 35, 61, 143, 188].

It is worth to note that while the linear assignment problem is solvable in polynomial time, the MAP is known to be NP-hard. The computational time to find an optimal solution of an MAP grows exponentially with the number of dimensions and factorially with the dimension size [145]. Indeed, the total number cost coefficients, and the number of feasible solutions for a fully dense problem are given by the following expressions [39]:

$$\text{Total number cost coefficients} = \prod_{k=1}^{d} n_k.$$

$$\text{Number of feasible solutions} = \prod_{k=2}^{d} \frac{n_k!}{(n_k - n_1)!}.$$

In the literature, several exact and heuristic algorithms have been proposed for solving this problem [1, 12, 13, 39, 71, 107, 138, 144, 145, 147, 166, 168, 192]. Most of them are heuristic approaches, such as the GRASP (greedy randomized adaptive search procedure) with Path

Relinking for Three-Index Assignment [1], the Simulated Annealing [39], the Local Search Heuristics [71], Local Search Neighborhoods [145], etc. The exact solution methods are the Branch and Bound procedures [69, 144, 147], the Lagrangian Relaxation Based Algorithms [166, 168].

1.3 Value-at-Risk constrained optimization problem

The optimal stock selection is a classic financial problem since the seminal work of Markowitz [125]. It attempts to maximize portfolio expected return for a given amount of portfolio risk, or equivalently minimize risk for a given level of expected return. In the Markowitz approach, asset returns are random variables that can be controlled by two parameters: the portfolio efficiency is measured by the expectation, while risk is calculated by the standard deviation. There are several assumptions and consequences behind the Markovitz mean/variance model, such as returns are normally distributed, so that mean and variance are sufficient to fully describe the portfolio return distribution function. But in fact, it is frequently observed that returns in equity and other markets are not normally distributed. Another assumption that can assure the use the mean-variance approach is the quadratic shape of the decision maker utility function. But in this case one must accept that the utility function is decreasing with respect to wealth when a threshold is overcome. These observations lead to new research directions on portfolio models.

In the last years, some scholars developed new models for the optimal portfolio problem, taking into account the return non-normality. The simplest models are direct extensions of the Markowitz model. It is commonly accepted that efficiency is measured by the portfolio return expectation, but variance is now replaced by other risk measures.

Value-at-Risk, denoted VaR, is a new risk measure that most prominently imposed itself within the financial community in the last 10 years, especially due to regulatory reasons in the context of Basel-II for the banking sector, as well as Solvency-II for the insurance sector. In financial mathematics and financial risk management, Value-at-Risk is an estimate of the maximum potential loss with a certain confidence level, which a dealer or an end-user of financial instruments would experience during a standardized period (e.g. day, week, or year). In other words, with a certain probability, losses will not exceed VaR [109].

Mathematically, let X be the anticipated random returns, then the Value-at-Risk of X is defined as
$$VaR_\alpha(X) = \inf\{u : F_X(u) \geq \alpha\} = F_X^{-1}(\alpha), \quad 0 < \alpha < 1,$$
where F_X is the distribution function of X. VaR_α is said to be an acceptability functional [150].

If X follows a discrete distribution taking the values $x_1, ..., x_S$ with equal probability, then
$$VaR_\alpha(X) = x_{\sigma(k)},$$

where $x_{\sigma(1)} \leq x_{\sigma(2)} \leq ... \leq x_{\sigma(s)}$ is the set of ordered values of X (σ is a permutation of the set $\{1, 2, ..., S\}$) and $k = \lfloor \alpha S \rfloor$. See [58] for the properties of this estimator. In the financial jargon, when no assumption is explicitly made about $F_X(.)$, then we say that $VaR_\alpha(X)$ has been estimated through "historical simulation" [40].

Let Θ be a linear space of measurable functions, defined on an appropriate probability space.

Definition 1.1 *A functional $\rho : \Theta \to \mathbb{R} \cup \{+\infty\}$ is said to be coherent risk measure if it satisfies the following properties:*

1. *Normalized*
   $\rho(0) = 0.$

2. *Monotonicity*
   If $X, Y \in \Theta$ and $X \leq Y$ then $\rho(X) \leq \rho(Y)$.

3. *Sub-additivity*
   If $X, Y \in \Theta$ then $\rho(X + Y) \geq \rho(X) + \rho(Y)$.

4. *Positive homogeneity*
   If $\lambda \geq 0$ and $X \in \Theta$, then $\rho(\lambda X) = \lambda \rho(X)$.

5. *Translation invariance*
   If $a \in \mathbb{R}$ and $X \in \Theta$, then $\rho(X + a) = \rho(X) + a$.

Definition 1.2 *A functional $\rho : \Theta \to \mathbb{R} \cup \{+\infty\}$ is said to be concave risk measure if $\lambda \in [0, 1], X, Y \in \Theta$ then*

$$\rho(\lambda X + (1 - \lambda)Y) \geq \lambda \rho(X) + (1 - \lambda)\rho(Y).$$

Although popular, VaR -being the quantile of the return distribution- has some serious limitations, such as a lack of subadditivity and concavity [8,9]. VaR is coherent only when it is based on the standard deviation of normal distribution (for a normal distribution VaR is proportional to the standard distribution) [9]. In the case of a finite number of scenarios, VaR is a non-smooth, non-concave, and multi-extreme function with respect to positions [126].

Now, we introduce the two optimization models concerning Value-at-Risk, which are frequently considered in portfolio management.

Consider a finite set of arbitrary financial assets $i = 1, 2, ..., n$. Within a given observation period these assets generate returns

$$\xi = (\xi_1, \xi_2, ..., \xi_n)$$

measured as the relative increase (or decrease) of the asset prices during the period under consideration. These returns are unknown at the time of portfolio allocation and are treated as random variables. The investor has a budget of 1 unit (without loss of generality). He/she may decide on the positions

$$x = (x_1, x_2, ..., x_n)$$

in these assets, such that $x_i \geq 0$ (no short sales permitted) and $\sum_{i=1}^{m} x_i = 1$ (budget constraint). The return of the portfolio at the end of the observation period is

$$X = x^T \xi = \sum_{i=1}^{m} x_i \xi_i.$$

It is a random variable with distribution function F, i.e., $F(u) = P[X \leq u] = P[x^T \xi \leq u]$. Of course, F depends on x. The expected return of portfolio x is

$$\mathbb{E}(X) = \mathbb{E}(x^T \xi) = x^T \mathbb{E}(\xi).$$

The first model (Value-at-Risk constrained optimization) is

$$\begin{cases} \max \; \mathbb{E}(x^T \xi) \\ \text{s.t.} \; \sum_{i=1}^{n} x_i = 1, \\ \qquad x_i \in [a_i, b_i], 1 \leq i \leq n, \\ \qquad VaR_\alpha(x^T \xi) \geq a, \end{cases} \tag{1.3}$$

where a is a lower bound of Value-at-Risk. This is model which we will study in this thesis.

For a given lower bound expectation C, the second one is

$$\begin{cases} \max \; VaR_\alpha(x^T \xi) \\ \text{s.t.} \; \sum_{i=1}^{n} x_i = 1, \\ \qquad x_i \in [a_i, b_i], 1 \leq i \leq n, \\ \qquad \mathbb{E}(x^T \xi) \geq C. \end{cases} \tag{1.4}$$

Because of the non-concavity of Value-at-Risk, both Problem (1.3) and Problem (1.4) are nonconvex programs and are known to be NP-hard [20]. In practice, in order to reduce the difficulty of these problems, VaR is often replaced by the Average Value-at-Risk ($AVaR$, also called Conditional Value-at-Risk, $CVaR$), which is defined as

$$AVaR_\alpha(X) = \frac{1}{\alpha} \int_0^\alpha F_X^{-1}(t)dt = \frac{1}{\alpha} \int_0^\alpha VaR(t)dt, \;\; 0 < \alpha \leq 1.$$

An important reason for this replacement is that $AVaR$ is a coherent risk measure [149]. It is thus relatively easy to incorporate into optimization problems above, especially in the

case of discrete random variables, linear programming formulations exist [6, 174, 199]. Some other reasons justifying the use of $AVaR$ instead of VaR can be found in [208].

However, due to regulatory frameworks such as Basel II and Solvency II, Value-at-Risk remains to be an industry standard and is widely used in portfolio planning. Therefore, numerous approaches to solve either Problem (1.3) or Problem (1.4) have been proposed in the literature [20, 34, 37, 62, 63, 79, 109, 140, 208]. For instance, in [20], Benati and Rizzi reformulate them as mixed-integer programs which allow us to use solvers, for instance CPLEX, to obtain their solution. Some heuristic solution schemes have been designed, such as random search with threshold acceptance [62, 63], or evolutionary computation techniques [79]. In [34] complete enumeration on the risk-return grid is used to find near optimal portfolios for the VaR portfolio optimization problem. Pang and Leyffer [140] formulate the problem (1.4) as a linear program with equilibrium constraints (LPEC) to derive lower and upper bounds for a Branch-and-Bound solution. Cheon et al. [37] propose a solution technique for the more general class of probabilistically constrained linear programs which is based on a Branch-Reduced-Cut algorithm. Larsen et al. [109] have developed two algorithms performing well even on large datasets for the optimization of VaR. Recently, Wozabal et al. [208] gave a representation of the VaR as a DC function (Difference of Convex functions) in the case finite scenarios, and proposed a conical Branch-and-Bound algorithm to find global optima of (1.3). Later, Wozabal [209] introduced a DC Algorithm (DCA) [120, 156, 157] to the DC formulation of the problem (1.3).

1.4   Conclusion

In this chapter we have introduced some optimization problems in Search Theory, Assignment and Portfolio Management, which we study in this thesis. They are generally nonconvex, non-differentiable problems. Therefore, among the methods for solving optimization problems, we choose two powerful tools to develop solution methods. They are the DC programming&DCA and the Cross-Entropy (CE) method. The methodologies of these methods will be presented in the two next chapters.

Chapter 2

DC programming and DC Algorithm (DCA)

Let X be an Euclidean space $\mathbb{R}^n$, equipped with an inner product $\langle x, y \rangle = \sum_{i=1}^{n} x_i y_i = x^T y$, and the corresponding Euclidean norm $\|x\|_2 = \sqrt{\langle x, x \rangle}$. The dual space of X, denoted Y, is thus identified with X itself. One notes $\bar{\mathbb{R}} = \mathbb{R} \cup \{\pm\infty\}$, and uses the convention $(+\infty) - (+\infty) = +\infty$.

2.1 Convex analysis

In this section, we review some definitions and theorems in convex analysis, which are the basis of DC programming. For more details, we could refer some books of Rockafellar [173] and Hiriart-Urruty [74].

Definition 2.1 *(Convex Set) A set $C \subset X$ is convex if the line segment joining any two points x and y in C is contained in C, i.e.,*

$$\forall \lambda \in [0, 1], \lambda x + (1 - \lambda)y \in C.$$

Definition 2.2 *(Convex Hull) Given a set $S \subset X$, the convex hull of S, denoted $co(S)$, is the smallest convex set containing S.*

It is not difficult to show that $co(S)$ is the set of all convex combination of elements in S, i.e.,

$$co(S) = \left\{ \sum_{i=1}^{m} \lambda_i x^i \,\middle|\, x^i \in S, \lambda_i \geq 0, i = 1, ..., m, \sum_{i=1}^{m} \lambda_i = 1 \right\}.$$

Definition 2.3 *(Affine hull) Given a convex set C, the affine hull of C, denoted aff(C), is defined by:*

$$aff(C) = \left\{ \sum_{i=1}^{m} \lambda_i x^i \,\middle|\, x^i \in C, \lambda_i \in \mathbb{R}, i = 1, ..., m, \sum_{i=1}^{m} \lambda_i = 1 \right\}.$$

The affine hull is the smallest affine set that contains C in the following sense: if S is any affine set such that $C \subset S$, then $\text{aff}(C) \subset S$.

Definition 2.4 *(The relative interior) The relative interior of a convex set C in X, denoted $ri(C)$, is its interior within its affine hull, i.e.,*

$$ri(C) = \{x \in C : \exists r > 0, B(x, r) \cap \text{aff}(C) \subset C\},$$

where $B(x, r)$ is the ball with center x and radius r.

Remark 2.5 *Any nonempty convex set in $\mathbb{R}^n$ has nonempty relative interior.*

Given a function $f : C \to (-\infty, +\infty]$ on a convex set C. The *domain* of the function f is the set:
$$dom(f) = \{x \in C, f(x) < +\infty\}.$$

We say f is proper if its domain is nonempty.

Definition 2.6 *(Convex function) f is convex if for all x, y in C and for all $\lambda \in [0, 1]$, we have :*

$$f(\lambda x + (1 - \lambda)y) \leq \lambda f(x) + (1 - \lambda)f(y). \tag{2.1}$$

f is strictly convex if strict inequality holds in (2.1) whenever $x \neq y$, and $0 < \lambda < 1$.

Definition 2.7 *(Epigraph) The epigraph of the function f, denoted $epi(f)$, is defined by*

$$epi(f) = \{(x, \alpha) \in C \times \mathbb{R} : f(x) \leq \alpha\}.$$

The link between convex sets and convex functions is via epigraph: a function is convex if and only if its epigraph is a convex set in $X \times \mathbb{R}$.

Definition 2.8 *(Strongly convex function) The function f is called strongly convex with modulus ρ on the convex set C (also called ρ-convex) if there exists $\rho > 0$ such that for all x, y in C, and for all $\lambda \in [0, 1]$, we have :*

$$f(\lambda x + (1 - \lambda)y) \leq \lambda f(x) + (1 - \lambda)f(y) - \lambda(1 - \lambda)\frac{\rho}{2}\|x - y\|^2.$$

It means that the function $f - \frac{\rho}{2}\|.\|$ is convex on C.
The modulus of strongly convex of f on C, denoted $\rho(f, C)$, is defined by

$$\rho(f, C) = \sup\{\rho > 0 : f - \frac{\rho}{2}\|.\| \text{ is convex on } C\}.$$

Clearly, f is convex on C if and only if $\rho(f, C) \geq 0$. One says that f is strongly convex on C if $\rho(f, C) > 0$.

Remark 2.9 *Every strongly convex function is strictly convex and every strictly convex function is convex.*

Definition 2.10 *(Subgradient) Let f be a proper convex function on X, a vector y in Y is called subgradient of f at $x^0 \in dom(f)$ if for all $x \in X$, we have:*

$$\langle y, x - x^0 \rangle \leq f(x) - f(x^0).$$

We denote the set of subgradients (called the subdifferential) by $\partial f(x^0)$, defining $\partial f(x) = \emptyset$ for x not in $dom(f)$. The domain of subdifferential of f is defined as

$$dom(\partial f) = \{x : \partial f(x) \neq \emptyset\}.$$

Proposition 2.11 *Given $x \in dom(\partial f)$, then $\partial f(x)$ is a nonempty closed convex set in Y.*

Definition 2.12 *(ϵ-subgradient) Let ϵ be a positive, a vector $y \in Y$ is called ϵ-subgradient of f at x^0 if*

$$\langle y, x - x^0 \rangle \leq f(x) - f(x^0) + \epsilon, \forall x \in X.$$

We denote $\partial_\epsilon f(x^0)$ the set of all ϵ-subgradients of f at x^0.

Definition 2.13 *We say that f is lower semi-continuous (l.s.c.) at $x^0 \in C$ if*

$$\lim_{y \to x^0} \inf f(y) = f(x^0).$$

The set of all lower semi-continuous proper convex functions on X is denoted by $\Gamma_0(X)$.

Definition 2.14 *(Conjugate function) The Fenchel conjugate of a function $f : X \to [-\infty, +\infty]$ is the function $f^* : Y \to [-\infty, +\infty]$, defined by*

$$f^*(y) = \sup\{\langle x, y \rangle - f(x) : x \in X\}.$$

Proposition 2.15 *Given $f : X \to \bar{\mathbb{R}}$, thus:*

- *f^* is convex.*

- *$f \in \Gamma_0(X) \Leftrightarrow f^* \in \Gamma_0(Y)$ and $(f^*)^* = f$.*

- *$f \in \Gamma_0(X)$, thus $y \in \partial f(x) \Leftrightarrow x \in \partial f^*(y)$.*

- *$y \in \partial f(x) \Leftrightarrow f(x) + f^*(y) = \langle x, y \rangle$.*

- *$x^0 \in argmin\{f(x) : x \in X\} \Leftrightarrow 0 \in \partial f(x^0)$.*

Definition 2.16 *(Polyhedral convex set) A convex set C is called polyhedral convex if it is a finite intersection of closed half-spaces in $\mathbb{R}^n$, i.e.,*

$$C = \bigcap_{i=1}^{m} \{x \in \mathbb{R}^n : \langle a_i, x \rangle - b_i \leq 0, a_i \in \mathbb{R}^n, b_i \in \mathbb{R}\}.$$

Definition 2.17 *(Polyhedral function) A function $f : \mathbb{R}^n \to \mathbb{R} \cup \{+\infty\}$ is called polyhedral if its epigraph is polyhedral in $\mathbb{R}^{n+1}$.*

Note that a polyhedral function is convex, proper and l.s.c.

Proposition 2.18 *Let $f : \mathbb{R}^n \to \mathbb{R} \cup \{+\infty\}$ be a convex function. Thus, f is polyhedral if and only if $dom(f)$ is polyhedral convex set and*

$$f(x) = \max\{\langle a_i, x \rangle - b_i : i = 1, ..., l\} + \chi_{dom(f)}(x).$$

Proposition 2.19 *The polyhedral convex functions have the following properties:*

- *If f_1 and f_2 are polyhedral convex, then $f_1 + f_2$, $\max\{f_1, f_2\}$ are polyhedral convex.*

- *If f is polyhedral convex then f^* is also polyhedral convex and $dom(\partial f) = dom(f)$. Moreover, if f is finite everywhere then*

$$dom(f^*) = co\{a_i : i = 1, ..., l\},$$

$$f^*(y) = \min\{\sum_{i=1}^{l} \lambda_i b_i : y = \sum_{i=1}^{l} \lambda_i a_i, \sum_{i=1}^{l} \lambda_i = 1, \lambda_i \geq 0, i = 1, ..., l\}.$$

- *If f is polyhedral convex then $\partial f(x)$ is non-empty polyhedral convex set for all $x \in dom(f)$.*

- *Let $f_1, ..., f_m$ be the polyhedral convex functions on X such that the convex sets $dom(f_i), i = 1, ..., m$ have a common point. Then,*

$$\partial(f_1 + ... + f_m)(x) = \partial f_1(x) + ... + \partial f_m(x), \forall x \in X$$

2.2 The DC function class

In this section, we introduce the definition of DC functions and their properties. For more details, see [3, 73, 85, 110, 158].

Definition 2.20 *(DC function) Let C be a convex set in X. A function $f : C \to \mathbb{R} \cup \{+\infty\}$ is called DC on C if it can be expressed as the difference of two convex functions on C, i.e.,*

$$f(x) = g(x) - h(x), \forall x \in C,$$

where g and h are convex functions on C. One says that $g - h$ is a DC decomposition of f.

Remark 2.21 *If $f = g - h$ is a DC function on C then for all finite convex function p on $C, f = (g + p) - (h + p)$ is also a DC decomposition of f. Thus, a DC function has infinitely many DC decompositions.*

Let $\text{Conv}(C)$ be the set of convex functions on C. The set of DC functions on C, denoted $DC(C)$, is the vector space spanned by $\text{Conv}(C)$ defined by

$$DC(C) = \text{Conv}(C) - \text{Conv}(C).$$

The DC functions were considered in years 50 by Aleksandrov [3], and Hartman [73], etc., who proved several important properties of these functions. It is worth noting the richness of DC(X): it contains almost realistic objective functions and is closed under all the operations usually considered in optimization.

Proposition 2.22 *If $f \in DC(C)$ and $f = g - h$ then*

- *$|f| \in DC(C)$, because*
$$|f| = 2\max(g, h) - (g + h).$$

- *$f^+, f^- \in DC(C)$, where $f^+(x) = \max(0, f(x)), f^-(x) = \min(0, f(x))$ because*
$$f^+ = \max(g, h) - h, f^- = g - \max(g, h).$$

Proposition 2.23 *If $f_i = g_i - h_i, i = 1, ..., m$ are functions in $DC(C)$ then*

- *A linear combination of DC functions is a DC function, i.e.,*
$$\sum_{i=1}^{m} \lambda_i f_i \in DC(C), \forall \lambda_i \in \mathbb{R}.$$

- *$\displaystyle\max_{1 \leq i \leq m} f_i \in DC(C)$ and $\displaystyle\min_{1 \leq i \leq m} f_i \in DC(C)$ because*
$$\max_{1 \leq i \leq m} f_i \in DC(C) = \max_{1 \leq i \leq m} (g_i + \sum_{j \neq i} h_j) - \max_{1 \leq i \leq m} h_i \in DC(C).$$

- *$\prod_{i=1}^{m} f_i \in DC(C)$.*

Definition 2.24 *(Locally DC function) A function $f : C \to \overline{\mathbb{R}}$ defined on an open convex set $C \subset X$ is said to be locally DC if for every $x^0 \in C$, there exist a convex neighborhood of x^0 where it is DC.*

Let C be an open convex set in X, we denote by $C^{1,1}(C) \subset C^1(C)$ the set of functions, whose gradients are locally Lipschitzian on C. $C^{1,1}(C)$ is contained in the convex cone $LC^2(C)$ (also called functions of sub-C^2) - the set of functions being locally lower hull of a family of functions in class $C^2(C)$. The following theorem shows the richness of the class of DC functions:

Theorem 2.25   • *A convex function of $\text{Conv}(C)$ is a function of sub-C^2 on C.*

- *A function sub$-C^2$ on C is a locally DC function on C.*

- *A locally DC function on C is a DC function on C. Finally, we have:*

$$C^2(C) \cup C^{1,1}(C) \cup C^1(C) \cup Conv(C) \cup LC^2(C) \subset DC(C).$$

  Moreover, if C is compact, then $DC(C)$ is a dense vector subspace in the set of continuous functions on C equipped with the norm of uniform convergence on C.

2.3 DC Programming

In recent years, there has been very active researches in the following classes of nonconvex and non-differentiable optimization problems:

(1) $\sup\{f(x) : x \in C\}$, f and C are convex.
(2) $\inf\{g(x) - h(x) : x \in \mathbb{R}^n\}$, g, h are convex.
(3) $\inf\{g(x) - h(x) : x \in C, f_1(x) - f_2(x) \leq 0\}$, g, h, f_1, f_2 and C are convex.

Problem (1) is a special case of Problem (2) with $g = \chi_C$, the indicator function of C and $h = f$, while the latter (resp. Problem (3)) can be equivalently transformed into the form of (1) (resp. (2)) by introducing an additional scalar variable (resp. via exact penalty relative to the d.c. constraint $f_1(x) - f_2(x) \leq 0$, see [115, 117]). Clearly the complexity increases from (1) to (3), the solution of one of them implies the solution of the two others. Problem (2) is called a DC program whose particular structure has been permitting a good deal of development both in qualitative and quantitative studies.

2.4 DC duality

The concept of duality is a fundamental concept in mathematics. In convex analysis, duality theory has been given for several decades [173]. More recently, the duality has been proposed and developed in nonconvex analysis. Firstly, in Quasi-convex programming and Anti-convex programming [11, 148]. Then the DC duality introduced by Toland [198] is a generalization of the work of Pham Dinh Tao on convex maximization [151]. For more details on DC duality, we refer to the work of Le Thi Hoai An [110]. In this section we will present the main results about DC duality.

Consider the following DC program:

$$(P_{dc}) \qquad \alpha = \inf\{f(x) = g(x) - h(x) : x \in X\},$$

where $g, h \in \Gamma_0(X)$. We use a convention $(+\infty) - (+\infty) = (+\infty)$ as in convex optimization. Since $h \in \Gamma_0(X)$, we have $h^{**} = h$ and

$$h(x) = (h^*)^*(x) = \sup\{\langle x, y \rangle - h^*(y) : y \in Y\}.$$

With this relationship, we find that

$$\alpha = \inf\{g(x) - \sup\{\langle x, y \rangle - h^*(y) : y \in Y\} : x \in X\}$$
$$= \inf\{\inf\{g(x) - (\langle x, y \rangle - h^*(y)) : x \in X\} : y \in Y\}$$
$$= \inf\{\beta(y) : y \in Y\},$$

where

$$\beta(y) = \inf\{g(x) - [\langle x, y \rangle - h^*(y)] : x \in X\}$$
$$= \begin{cases} h^*(y) - g^*(y) & \text{if } y \in dom(h^*), \\ +\infty & \text{otherwise.} \end{cases}$$

With the convention $(+\infty) - (+\infty) = (+\infty)$, we obtain finally the dual problem of (P_{dc}), denoted (D_{dc}) :

$$(D_{dc}) \qquad \alpha = \inf\{h^*(y) - g^*(y) : y \in Y\}.$$

The (D_{dc}) is also a DC program because h^* et g^* are two convex functions in $\Gamma_0(Y)$.

Note that there are cases, where the dual problem (D_{dc}) is a convex problem, although the primal problem (P_{dc}) is not convex (see [137]). In the following theorem, we observe the perfect symmetry between the primal and dual problems.

Theorem 2.26 *Given $g, h \in \Gamma_0(X)$, then*

1. *$\inf\{g(x) - h(x) : x \in X\} = \inf\{h^*(y) - g^*(y) : y \in Y\}$.*

2. *If y^0 is a minimum of $h^* - g^*$ on Y then each $x^0 \in \partial g^*(y^0)$ is a minimum of $g - h$ on X.*

3. *If x^0 is a minimum of $g - h$ on X then each $y^0 \in \partial h(x^0)$ is a minimum of $h^* - g^*$ on Y.*

2.5   Optimality conditions in DC optimization

Let $\mathcal{P}$ and $\mathcal{D}$ be the solution sets of problems (P_{dc}) and (D_{dc}), a point x^* is called critical point of problem (D_{dc}) if $\partial g(x^*) \cap \partial h(x^*) \neq \emptyset$ (A general KKT point).

In convex optimization, x^* is a minimum of convex function f if and only if $0 \in \partial f(x^*)$. In DC optimization, the optimal condition is formulated by using ϵ-sub-differential of g and h.

Theorem 2.27 *(Global optimality condition) If $g, h \in \Gamma_0(X)$ and $f = g - h$, then x^* is a global minimum of $g - h$ on X if and only if*

$$\partial_\epsilon h(x^*) \subset \partial_\epsilon g(x^*), \forall \epsilon > 0.$$

Remark 2.28

1. If $f \in \Gamma_0(X)$, we can write $g = f$ et $h = 0$. In this case the global optimality condition in DC programming is identical to that in convex programming $0 \in \partial f(x^*)$, since $\partial_\epsilon h(x^*) = \partial h(x^*) = 0, \forall \epsilon > 0$.

2. More generally, we consider the DC decompositions of $f \in \Gamma_0(X)$ in the form $f = g - h$ with $g = f + h$ and $h \in \Gamma_0(X)$ everywhere on X. The corresponding DC problem is a "false" DC problem because it is a convex optimization problem. In this case, the optimality condition $0 \in \partial f(x^*)$ is equivalent to $\partial h(x^*) \subset \partial g(x^*)$.

Definition 2.29 Let g and h be two functions in $\Gamma_0(X)$. A point $x \in dom(g) \cap dom(h)$ is a local minimum of $g - h$ on X if and only if

$$g(x^*) - h(x^*) \leq g(x) - h(x), \forall x \in V_{x^*},$$

where V_{x^*} denotes a neighborhood of x^*.

Theorem 2.30 (Necessary condition for local optimality) If x^* is a local minimum of $g - h$ then $\partial h(x^*) \subset \partial g(x^*)$.

Remark 2.31 If h is polyhedral convex, the necessary condition for local optimality is also sufficient.

Corollary 2.32 If $h \in \Gamma_0(X)$ is polyhedral convex then a necessary and sufficient such that $x^* \in X$ is a local minimum of $g - h$ is

$$\partial h(x^*) \subset int(\partial g(x^*)).$$

Theorem 2.33 (Sufficient condition for local optimality) If x^* admits a neighborhood V such that
$$\partial h(x) \cap \partial g(x^*) \neq \emptyset, \forall x \in V \cap dom(g),$$
then x^* is a local minimum of $g - h$.

Corollary 2.34 If $x^* \in int(dom(h))$ satisfies

$$\partial h(x^*) \subset int(\partial g(x^*)),$$

then x^* is a local minimum of $g - h$.

Theorem 2.35

1. $\partial h(x) \subset \partial g(x), \forall x \in \mathcal{P}$, and $\partial g^*(y) \subset \partial h^*(y), \forall y \in \mathcal{D}$,

2. *Transport of global minima :*

$$\bigcup_{x \in \mathcal{P}} \partial h(x) \subseteq \mathcal{D} \subset dom(h^*).$$

The first inclusion becomes equality if g^* is sub-differentiable in $\mathcal{D}$ (especially if $D \subset ri(dom(g^*))$ or if g^* is sub-differentiable in $dom(h^*)$). In this case $\mathcal{D} \subset (dom(\partial g^*) \cap dom(\partial h^*))$.

$$\bigcup_{y \in \mathcal{D}} \partial g^*(y) \subseteq \mathcal{P} \subset dom(g).$$

The first inclusion becomes equality if h is sub-differentiable in $\mathcal{P}$ (especially if $P \subset ri(dom(h))$ or if h is sub-differentiable in $dom(g)$). In this case $\mathcal{P} \subset (dom(\partial g) \cap dom(\partial h))$.

3. *Transport of local minima : Let $x^* \in dom(\partial h)$ be a local minimum of $g - h$, $y^* \in \partial h(x^*)$, and V_{x^*} is a neighborhood of x^* such that $g(x) - h(x) \geq g(x^*) - h(x^*), \forall x \in V_{x^*} \cap dom(g)$. If*

$$x^* \in int(dom(g^*)), \partial g^*(y^*) \subset V_{x^*},$$

then y^* is a local minimum of $h^* - g^*$.

2.6   DCA (DC Algorithm)

The DCA was introduced by Pham Dinh Tao in 1985 as an extension of his subgradient algorithms (for convex maximization programming) to DC programming, and the extensively developed by Le Thi Hoai An and Pham Dinh Tao since 1994 to become now classic, and widely used by researchers and practitioners in various fields of applied sciences (see [110–113, 152–157]).

The idea of the DCA (also called the simplified DCA) is to construct two sequences $\{x^k\}$ and $\{y^k\}$ (candidates for being optimal solutions of primal and dual programs, respectively), which are easy to calculate and satisfy the following conditions:

1. The sequences $\{g(x^k) - h(x^k)\}$ and $\{h^*(y^k) - g^*(y^k)\}$ are decreasing.

2. Every limit point x^* of the sequence $\{x^k\}$ (resp. y^* of the sequence $\{y^k\}$) is a critical point of $g - h$ (resp. $h^* - g^*$).

Starting $x^0 \in dom(g)$, these two sequences $\{x^k\}$ and $\{y^k\}$ are determined in the following way

$$x^k \to y^k \in \partial h(x^k) = \operatorname{argmin}\{h^*(y) - g^*(y^{k-1}) - \langle y - y^{k-1}, x^k \rangle : y \in Y\} \ (D_k)$$

$$y^k \to x^{k+1} \in \partial g^*(y^k) = \operatorname{argmin}\{g(x) - h(x^k) - \langle x - x^k, y^k \rangle : x \in X\} \ (P_k)$$

Problem (P_k) is a convex program obtained from (P_{dc}) by replacing h with its affine minorization defined by $y^k \in \partial h(x^k)$. Similarly, the convex problem (D_k) is obtained from (D_{dc}) by using the affine minorization of g^* defined by $x^k \in \partial g^*(y^{k-1})$. Here we can see the complete symmetry between problems (P_k) and (D_k), and between the sequences $\{x^k\}$ and $\{y^k\}$ relatively to the duality of DC optimization.

Implement the algorithm that consists of two steps:

1. Choose $x^0 \in X$.

2. Repeat

   - Compute $y^k \in \partial h(x^k)$.
   - Set $x^{k+1} \in \partial g^*(y^k)$ that leads to solving the convex program

$$\inf\{g(x) - h(x^k) + \langle x - x^k, y^k \rangle : x \in X\}.$$

   Until a stopping criterion is met.

Lemma 2.36 *(Existence of the sequences) The following statements are equivalent*

1. *The sequences $\{x^k\}$ and $\{y^k\}$ are well defined*

2. *$dom(\partial g) \subset dom(\partial h)$ and $dom(\partial h^*) \subset dom(\partial g^*)$*

The following proposition establishes the conditions of boundedness for the sequences generated by DCA.

Lemma 2.37 *(Boundedness of the sequences) If $g - h$ is coercive, then*

1. *The sequence $\{x^k\}$ is bounded.*

2. *If $\{x^k\} \in int(dom(h))$ then the sequence $\{y^k\}$ is also bounded.*

If $h^* - g^*$ is coercive, then

1. *The sequence $\{y^k\}$ is bounded.*

2. *If $\{y^k\} \in int(dom(g^*))$ then the sequence $\{x^k\}$ is also bounded.*

The convergence of the DCA is given by the following theorem:

Theorem 2.38 *(Convergence of DCA) Assume that the sequences $\{x^k\}$ et $\{y^k\}$ are well defined*

1. *The sequences $\{g(x^k) - h(x^k)\}$ and $\{h^*(y^k) - g^*(y^k)\}$ are decreasing and*

- $g(x^{k+1}) - h(x^{k+1}) = g(x^k) - h(x^k)$ if and only if $y^k \in \partial g(x^k) \cap \partial h(x^k)$, $y^k \in \partial g(x^{k+1}) \cap \partial h(x^{k+1})$ and $[\rho(g) + \rho(h)]\|x^{k+1} - x^k\| = 0$. Moreover, if g and h are strictly convex on X, then $x^k = x^{k+1}$. In this case, DCA will terminate in a finite iterations. x^k and x^{k+1} are critical points of the function $g - h$.
  ($\rho(g) = \rho(g, X)$ is the modulus of strong convexity of g on X.)

- $h^*(y^{k+1}) - g^*(y^{k+1}) = h^*(y^k) - g^*(y^k)$ if and only if $x^{k+1} \in \partial g^*(y^k) \cap \partial h^*(y^k)$, $x^k \in \partial g^*(x^{k+1}) \cap \partial h^*(x^{k+1})$ and $[\rho(g^*, D) + \rho(h^*, D)]\|y^{k+1} - y^k\| = 0$. Moreover, if g^* and h^* are strictly convex on Y, then $y^k = y^{k+1}$. In this case, DCA will terminate in a finite iterations. y^k et y^{k+1} are critical points of the function $h^* - g^*$.

2. If $\rho(g, C) + \rho(h, C) > 0$ (resp. $\rho(g^*, D) + \rho(h^*, D) > 0$), then the sequence $\{\|x^{k+1} - x^k\|\}$ (resp. $\{\|y^{k+1} - y^k\|\}$) converges.

3. If the optimal value of the problem (P_{dc}) is finite and if the sequences $\{x^k\}$ and $\{y^k\}$ are bounded, then every limit point x^* (resp. y^*) of $\{x^k\}$ (resp. $\{y^k\}$) is a critical point of $g - h$ (resp. $h^* - g^*$).

4. If DCA converges to a point x^* that admits a convex neighbourhood in which the objective function f is finite and convex (i.e., the function f is locally convex at x^*) and if the second DC component h is differentiable at x^*, then x^* is a local minimizer for (P_{dc}).

In general, to apply DCA, we have to answer the following two questions:

1. How to find a "good" DC decomposition?

2. How to find a "good" starting point?

From the theoretical point of view, the question of optimal DC decompositions is still open. Of course, this depends strongly on the very specific structure of the problem being considered. In order to tackle the large scale setting, one tries in practice to choose g and h such that sequences $\{x^k\}$ and $\{y^k\}$ can be easily calculated, i.e., either they are in explicit form or their computations are inexpensive. Normally, we try to ensure that:

- The function h allows us to compute easily ∂h.

- The convex program $\inf\{g(x) - \langle x, y^k \rangle : x \in X\}$ is easy to solve, this is particularly important for a large problem.

- The initial point x^0 is as close as possible to a global solution.

2.7 Polyhedral DC optimization

Definition 2.39 *(Polyhedral DC optimization) A DC program is called polyhedral if one convex component (g and h) of the function $f = g - h$ is a polyhedral convex function.*

It can be shown that for solving a polyhedral DC program, DCA has a finite convergence. Denoting by h_k the affine minorization of the convex function h at x^k, we will construct h^k, polyhedral convex function generated by $\{h_k\}$.

$$h_k = h(x^k) + \langle x - x^k, y^k \rangle = \langle x, y^k \rangle - h^*(y^k), x \in X$$

$$h^k(x) = \sup\{h_i(x) : i = 0, ..., k\} = \sup\{\langle x, y^k \rangle - h^*(y^k) : i = 0, ..., k\}, x \in X,$$

where the sequences $\{x^k\}$ et $\{y^k\}$ are obtained through the DCA procedure.
We define similarly the dual function g_k^* (resp. $(g^*)^k$)

$$g_k^* = g^*(x^{k-1}) + \langle y - y^{k-1}, x^k \rangle = \langle y, x^k \rangle - g(x^k), y \in Y$$

$$(g^*)^k(x) = \sup\{g_i^*(x) : i = 0, ..., k\} = \sup\{\langle y, x^k \rangle - g(x^k) : i = 0, ..., k\}, x \in X$$

Note that a proper, l.s.c., convex function is characterized as the supremum of its affine minorizations. Therefore, it is judicious to use h^k (resp. $(g^*)^k$) as a polyhedral convex minorization of the convex function h (resp. g^*) on X (resp. Y), instead of the affine minorization h_k (resp. $(g^*)_k$). We then obtain the following program:

$$(P^k) \quad \inf\{g(x) - h^k(x) : x \in X\}$$

$$(D^k) \quad \inf\{h^*(x) - (g^*)^k(x) : x \in X\}$$

The problems (P^k) and (D^k) are nonconvex DC problems. But the sub-problems (P_k) and (D_k) are convex. We have the following theorem:

Theorem 2.40

1. $g(x^{k+1}) - h(x^{k+1}) = h^*(y^k) - g^*(y^k)$ *if and only if* $h^k(x^{k+1}) = h(x^{k+1})$.

2. $h^*(y^k) - g^*(y^k) = g(x^k) - h(x^k)$ *if and only if* $g^*(y^k) = (g^*)^k(y^k)$.

3. $g(x^{k+1}) - h(x^{k+1}) = g(x^k) - h(x^k)$ *if and only if* $h^k(x^{k+1}) = h(x^{k+1})$ *and* $g^*(y^k) = (g^*)^k(y^k)$.

Therefore, if $g(x^{k+1}) - h(x^{k+1}) = g(x^k) - h(x^k) = h^*(y^k) - g^*(y^k)$ then the following propositions are true:

- *x^{k+1} (resp. y^k) is an optimal solution of the problem (P^k) (resp. (D^k)).*

- *If h and h^k coincide with a solution of (P_{dc}) or/and g^* and $(g^*)^k$ coincide at some solution to (D_{dc}), then x^{k+1} (resp. y^k) is also a solution to (P_{dc}) (resp. (D_{dc})), and $h^k(x^{k+1}) = h(x^{k+1})$.*

Suppose that the optimal value of problem (P_{dc}) is finite and the sequence $\{x^k\}$ generated by DCA is bounded, then for each limit point x^∞ we have

$$g(x^\infty) - h_\infty(x^\infty) = \inf\{g(x^{i+1}) - h_i(x^{i+1})i = 0, 1, ..., \infty\},$$

where h_∞ is the affine minorization of h at x^∞ defined by

$$h_\infty = h(x^\infty) + \langle x - x^\infty, y^\infty \rangle = \langle x, y^\infty \rangle - h^*(y^\infty), x \in X,$$

with $y^\infty \in \partial h(x^\infty)$ a limit point of $\{y^k\}$. The point x^∞ is therefore a solution of the DC program

$$(P^\infty) \quad \inf\{g(x) - h^\infty(x) : x \in X\}.$$

Similarly, the point y^∞ is a solution of the DC program

$$(D^\infty) \quad \inf\{h^*(x) - (g^*)^\infty(x) : y \in Y\}.$$

We have the following theorem:

Theorem 2.41 *If the optimal value of the problem (P_{dc}) (resp. (D_{dc})) is finite and the sequence $\{x^k\}$(resp. $\{y^k\}$) is bounded, then for every limit point x^∞ (resp. y^∞) of $\{x^k\}$(resp. $\{y^k\}$) is a solution to the problem (P^∞) (resp. (D^∞)). Moreover, the optimal values are equal, i.e.,*

$$g(x^\infty) - h^\infty(x^\infty) = h^*(y^\infty) - (g^*)^\infty(y^\infty).$$

If one of the following conditions is true:

- *The functions h and h^∞ coincide at some optimal solution to (P_{dc})*

- *The functions g^* and $(g^*)^\infty$ coincide at some optimal solution to (D_{dc}) then x^∞ and y^∞ are also optimal solutions to (P_{dc}) and (D_{dc}), respectively.*

2.8 Exact penalty

The exact penalty techniques are often very useful to transform a DC problem with anti-convex constraints into a DC problem with convex constraints. The latter problem can be solved by DCA. For more details on the exact penalty techniques for DC programming we can refer to [115, 122].

Consider an optimization problem

$$(P) \quad \alpha = \inf\{f(x) : x \in C, p(x) \le 0\},$$

where C is a non-empty, bounded and convex polyhedron in $\mathbb{R}^n$, f, g are finite concave functions on C, and p is a function of positive values or zero on C. The problem (P) is a nonconvex program. The nonconvexity of the problem is due to the fact that the objective

function f is concave and the constraint $p(x) \leq 0$ is non convex. A constraint $p(x) \leq 0$ with $p(x)$ concave is called anti-convex. The objective of the problem (P) is to minimize a concave function f with polyhedral convex constraint and anti-convex constraint. Suppose that the problem (P), whose solution set is denoted by $\mathcal{P}$ is feasible. Given a parameter $t > 0$, we can define the penalty problem by:

$$(P_t) \quad \alpha(t) = \inf\{f(x) + tp(x) : x \in C\}.$$

The solution set is denoted by $\mathcal{P}_t$. We obtain the following theorem:

Theorem 2.42 *(Exact penalty theorem) Let C be a non-empty, bounded and convex polyhedron; f and p are two finite concave functions on C, and p is a function of positive values or zero on C. Then, there exists a finite number $t_0 \geq 0$ such that for all $t \geq t_0$, the problem (P) and (P_t) are equivalent in the sense that $\mathcal{P}_t = \mathcal{P}$ and $\alpha(t) = \alpha$. The parameter t_0 can be determined as follows:*

- *If the set of vertices $V(C)$ of C is contained in the set $\{x \in C : p(x) \leq 0\}$, then $t_0 = 0$ and $\alpha(0) = \alpha$.*

- *If $\alpha(0) < \alpha$ then $t_0 = \max\{\dfrac{\alpha - f(x)}{p(x)} : x \in V(C), p(x) > 0\}$*

We also have the following properties:

- *$\alpha(t) = \alpha$ if and only if $t \geq t_0$*

- *$\mathcal{P}_t \cap \{x \in C : p(x) \leq 0\} \neq \emptyset \Leftrightarrow \mathcal{P}_t \subset \mathcal{P} \Leftrightarrow t \geq t_0$*

- *$\mathcal{P}_t = \mathcal{P} \Leftrightarrow t > t_0$*

The class of Problem (P) satisfying the assumption of Theorem 2.42 contains many important real-life ones (see [115]): Convex maximization over the Perato set, bilevel linear programs, linear programs with mixed linear complementarity constraints, mixed zero-one concave minimization programming, etc.

Recently, Le Thi et al. (see [122]) have proved the following result:
We consider the two nonconvex optimization problems

$$\alpha = \inf\{f(x) : x \in C, g(x) = 0\} \qquad (Q)$$

$$\alpha(\tau) = \inf\{f(x) + \tau g(x) : x \in C, g(x) \geq 0\} \qquad (Q_\tau)$$

Theorem 2.43 *(Le Thi et al. [122])*
Let C be a non-empty bounded polyhedral convex set in $\mathbb{R}^n$ and let f, g be finite concave function on C. Suppose that the feasible set of (Q) is not empty. Then there exists $\tau_0 \geq 0$ such that for all $\tau > \tau_0$, the problems (Q) and (Q_τ) are identical. Furthermore, we can take $\tau_0 = \frac{f(x_0) - \alpha(0)}{m}$, with $m = \inf\{g(x) : x \in V(C), g(x) > 0\}$ and any $x_0 \in C, g(x_0) = 0$. Here, the convention $\inf_{\emptyset} g(x) = +\infty$ is used.

It is easy to see that Theorem 2.42 is a special case of Theorem 2.43 when g is a function of positive values or zero on C. Indeed, if g is a function of positive values or zero on C, we have

$$\alpha = \inf\{f(x) : x \in C, g(x) \le 0\} = \inf\{f(x) : x \in C, g(x) = 0\},$$

and

$$\alpha(\tau) = \inf\{f(x) + \tau g(x) : x \in C, g(x) \ge 0\} = \inf\{f(x) + \tau g(x) : x \in C\}.$$

Chapter 3

Cross-Entropy Method

3.1   Introduction

Importance sampling

Importance sampling (see e.g. [181], Section 5.6) involves choosing a sampling distribution that favors important samples. Let

$$\ell = \mathbb{E}_f(H(X)) = \int H(x)f(x)dx, \tag{3.1}$$

be some expected performance measure of a computer simulation model, where X is the input random vector with a probability density function f and H is the sample performance measure.

Let g be another probability density such that $H.f$ is dominated by g. That is, if $g(x) = 0$ then $H(x)f(x) = 0$. Using the density g, we can represent ℓ as

$$\ell = \int H(x)\frac{f(x)}{g(x)}g(x)dx = \mathbb{E}_g\left(H(X)\frac{f(x)}{g(x)}\right), \tag{3.2}$$

where the subscript g means that the expectation is taken with respect to g. Such a density is called the *importance sampling* density, *proposal* density, or *instrumental* density (as we use g as an instrument to obtain information about ℓ). Consequently, if $X^1, X^2, ..., X^N$ is *random sample* from g, that is, $X^1, X^2, ..., X^N$ are independent and identically distributed (iid) random vectors with density g, then

$$\widehat{\ell} = \frac{1}{N}\sum_{i=1}^{N} H(X^i)\frac{f(X^i)}{g(X^i)} \tag{3.3}$$

is an unbiased estimator of ℓ. This estimator is called the *importance sampling estimator*. The ratio of densities

$$W(x) = \frac{f(x)}{g(x)} \tag{3.4}$$

is called the *likelihood ratio*. For this reason the importance sampling estimator is also called the *likelihood ratio estimator*. In particular case where there is no change of measure, that is, $g = f$, we have $W = 1$, and the likelihood ratio estimator in (3.3) reduces to the usual crude Monte Carlo (CMC) estimator.

The Cross-Entropy method

The Cross-Entropy (CE) method is a Monte Carlo simulation method. It takes its name from the Kullback-Leiber distance, also called cross-entropy, an information measure widely used in various engineering fields including artificial intelligence, for instance, neural networks, etc.

The CE method is introduced by D. Lieber, R. Rubinstein, and D. Elmakis in order to evaluate the probability of rare events. In fact, the evaluation of such probabilities is a crucial, difficult problem for many stochastic systems. In addition, there are few problems for which it is possible to evaluate directly. In most cases, using a simulation method is needed. However, if the law to evaluate is used directly for the rare event, a simple Monte Carlo becomes quickly unusable because of the large number of samples. A better way to estimate this probability is to use *importance sampling* (IS), which is well-known variance reduction technique in which the system is simulated under a different set of parameters -or, more generally, a different probability distribution- so as to make the occurrence of the rare event more likely. A major drawback of the IS technique is that the optimal reference (also called tilting) parameters to be used in IS are usually very difficult to obtain. The advantage of the CE method is that it provides a simple adaptive procedure for estimating the optimal reference parameters. Recently the CE method has been successfully applied to the estimation of rare event in dynamic models, in particular queueing models involving both *light* and *heavy* tail input distribution [26, 27, 102].

Also, it has been demonstrated that the CE is particularly suitable for solving "hard" optimization problems, especially combinatorial problems. Indeed, these problems are often solved by Branch and Bound. But when the problem is too complex, exhaustive methods are not able to be applied. On the other hand, obtaining near-optimal solution, in practice, is often satisfactory. Thus, when deterministic methods failed to find the optimal solution within a reasonable amount of computation, the CE can find optimal or near optimal solution in reasonable time.

Unlike most of the stochastic algorithms for optimization which are based on local search, the CE method is a global random search procedure. The CE method was successfully applied to various problems such as the traveling salesman problem [177], the bipartition problem [177], the maximal cut problem [179], the image matching [55], the image segmentation [56], etc. To use the CE method for solving a deterministic optimization problem, this problem must be first translated into a stochastic one. The set of feasible solutions is then regarded as a set of events subjected to an importance density. Thus, the rare event simulation technique is applied.

In the two next sections, we present the methodology of the CE method for the rare event simulation, and for optimization. For a comprehensive overview and history of the CE method, the reader is referred to [28, 180, 181].

3.2   The CE for the rare event simulation

In this section we review the main ideas behind the CE algorithm for rare event simulation (for more details, see [28, 180, 181]).

Let $X = (X_1, ..., X_n)$ be the random vector taking values in the space $\mathcal{X}$. Let $\{f(\cdot; v)\}$ be the family of probability density functions (pdfs) on $\mathcal{X}$, with respect to some base measure ν. Here v is a real-valued parameter (vector). Thus,

$$\mathbb{E}H(X) = \int_{\mathcal{X}} H(x) f(x; v) \nu(dx),$$

for any mesurable function H. In most (or all) application ν is either a counting measure or Lebesgue measure. In the former case f is often called a probability mass function, but in this thesis we use the generic terms density or pdf. For the rest of this section, we take for simplicity $\nu(dx) = dx$.

Let S be some real-valued function on $\mathcal{X}$. Suppose that we are interested in the probability that $S(x)$ is greater than or equal to some real number γ, under $f(\cdot; u)$. This probability can be expressed as

$$\ell = \mathbb{P}_u(S(X) \geq \gamma) = \mathbb{E}_u I_{\{S(X) \geq \gamma\}}.$$

If this probability is small, say smaller than 10^{-5}, we call $\{S(X) \geq \gamma\}$ a rare event.

A direct way to estimate ℓ is to use crude Monte-Carlo simulation: Draw a N samples $X^1, X^2, ..., X^N$ from $f(\cdot; u)$, then

$$\frac{1}{N} \sum_{i=1}^{N} I_{\{S(X^i) \geq \gamma\}}$$

is a unbiased estimator of ℓ. However, this poses serious problem when $\{S(X^i) \geq \gamma\}$ is a rare event. In that case, a large simulation effort is required in order to estimate ℓ accurately, i.e., with small relative error or a narrow confidence interval.

An alternative is based on importance sampling: take a random sample $X^1, X^2, ..., X^N$ from an *importance sampling* (different) density g on $\mathcal{X}$, and evaluate ℓ using likelihood ratio estimator:

$$\widehat{\ell} = \frac{1}{N} \sum_{i=1}^{N} I_{\{S(X^i) \geq \gamma\}} \frac{f(X^i; u)}{g(X^i)}. \tag{3.5}$$

It is well known that the best way to estimate ℓ is to use the change of measure with density

$$g^*(x) = \frac{I_{\{S(X) \geq \gamma\}} f(x; u)}{\ell}.$$

Namely, by using this change of measure we have in (3.5)

$$I_{\{S(X) \geq \gamma\}} \frac{f(X^i; u)}{g(X^i)} = \ell, \tag{3.6}$$

for all i. In other words, the estimator (3.5) has zero variance, and we need to produce only $N = 1$ sample.

The obvious difficulty is of course that this g^* depends on the unknown parameter ℓ. Moreover, it is often convenient to choose a g in the family of densities $\{f(\cdot; v)\}$. The idea now is to choose the parameter vector, called the *reference parameter* (sometimes called tilting parameter) v such that the distance between the density g^* and $f(\cdot; v)$ is minimal. A particular convenient measure of distance between two densities g and h is Kullback-Leibler distance, which is also termed the cross-entropy between g and h. The Kullback-Leibler distance is defined as:

$$\mathcal{D}(g, h) = \mathbb{E}_g \ln \frac{g(X)}{h(X)} = \int g(x) \ln g(x) dx - \int g(x) \ln h(x) dx.$$

We note that $\mathcal{D}$ is not "distance" in the formal sense, for instance, it is not symmetric.

Minimizing the Kullback-Leibler distance between g^* in (3.6) and $f(\cdot; v)$ is equivalent to choosing v such that $-\int g^*(x) \ln f(x; v) dx$ is minimized, which is equivalent to solving the maximization problem

$$\max_v \int g^*(x) \ln f(x; v) dx. \tag{3.7}$$

Substituting g^* from (3.6) into (3.7) we obtain the maximization program

$$\max_v \int \frac{I_{\{S(x) \geq \gamma\}} f(x; u)}{\ell} \ln f(x; v) dx, \tag{3.8}$$

which is equivalent to the program

$$\max_v D(v) := \mathbb{E}_u I_{\{S(X) \geq \gamma\}} \ln f(X; v). \tag{3.9}$$

Using again importance sampling, with a change of measure $f(\cdot; w)$, we can rewrite (3.9) as

$$\max_v D(v) = \max_v \mathbb{E}_w I_{\{S(X) \geq \gamma\}} W(X; u, w) \ln f(X; v), \tag{3.10}$$

for any reference parameter w, where

$$W(x; u, w) = \frac{f(x; u)}{f(x; w)}$$

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is the likelihood ratio, at x, between $f(\cdot; u)$ and $f(\cdot; w)$. The optimal solution of (3.10) can be written as

$$v^* \in \arg\max_v \mathbb{E}_w I_{\{S(X) \geq \gamma\}} W(X; u, w) \ln f(X; v),$$
(3.11)

We may estimate v^* by solving the following stochastic program (also called stochastic counterpart of (3.10))

$$\max_v \widehat{D}(v) = \max_v \frac{1}{N} \sum_{i=1}^{N} I_{\{S(X^i) \geq \gamma\}} W(X^i; u, w) \ln f(X^i; v),$$
(3.12)

where $X^1, X^2, ..., X^N$ is a random sample from $f(\cdot; w)$. In typical applications, the function $\widehat{D}$ in (3.12) is concave and differentiable with respect to v (see [175]), and thus, the solution of (3.12) may be readily obtained by solving (with respect to v) the following system of equation

$$\frac{1}{N} \sum_{i=1}^{N} I_{\{S(X^i) \geq \gamma\}} W(X^i; u, w) \nabla \ln f(X^i; v) = 0,$$
(3.13)

where the gradient is with respect to v.

The advantage of this approach is that the solution of (3.13) can be calculated analytically. In particular, this happens if the distributions of the random variables belong to a natural exponential family (NEF). For further details, see [180].

It is important to note that the stochastic program (3.12) is useful only in the case where the probability of the "target event" $\{S(X) \geq \gamma\}$ is not too small, say $\ell \geq 10^{-5}$. For rare event probabilities, however (when, say, $\ell < 10^{-5}$), the program (3.12) is difficult to carry out. Namely, due to the rareness of the events $\{S(X) \geq \gamma\}$, most of the indicator random variables $I_{\{S(X^i) \geq \gamma\}}, i = 1, ..., N$ will be zero, for moderate N. The same holds for the derivatives of $\widehat{D}(v)$ as given in the left-hand side of (3.13).

A multi-level algorithm can be used to overcome this difficulty. The idea is to construct a sequence of reference parameters $\{v_t, t \geq 0\}$ and a sequence of levels $\gamma_t, t \geq 1$, and iterate in both γ_t and v_t (see Algorithm 1 below).

We initialize by choosing a not very small ρ, say $\rho = 10^{-2}$ and by defining $v_0 = u$. Next, we let $\gamma_1(\gamma_1 < \gamma)$ be such that, under the original density $f(x; u)$, the probability $\ell_1 = \mathbb{E}_u\{S(X) \geq \gamma_1\}$ is at least ρ. We then let v_1 be the optimal CE reference parameter for estimating the pair $\{l, v^*\}$. In other words, each iteration of the algorithm consist of two main phases. In the first phase, γ_t is updated, in the second v_t is updated. Specially, starting with $v_0 = u$, we obtain the subsequent γ_t and v_t as follows:

1. **Adaptive updating of γ_t.** For a fixed v_{t-1}, let γ_t be the $(1 - \rho)$-quantile of $S(X)$ under v_{t-1}. That is, γ_t satisfies

$$\mathbf{P}_{v_{t-1}}(S(X) \geq \gamma_t) \geq \rho,$$
(3.14)

$$\mathbf{P}_{v_{t-1}}(S(X) \leq \gamma_t) \geq 1 - \rho, \tag{3.15}$$

where $X \sim f(\cdot; v_{t-1})$.

A simple estimator of γ_t, denote $\widehat{\gamma}_t$ can be obtained by drawing a random sample $X^1, X^2, ..., X^N$ from $f(\cdot; v_{t-1})$. Suppose that $S(X^{\sigma(1)}) \leq S(X^{\sigma(2)}) \leq ... \leq S(X^{\sigma(N)})$, where σ is a permutation of the set $\{1, ..., N\}$. Evaluating the $(1 - \rho)$-quantile of $S(X)$ as

$$\widehat{\gamma}_t = S_{\lfloor (1-\rho)N \rfloor}. \tag{3.16}$$

2. **Adaptive updating of** v_t. For a fixed γ_t and v_{t-1}, derive v_t by minimizing the Kullback-Leibler distance, or equivalent to solving the following program

$$\max_{v} \mathbf{E}_{v_{t-1}} I_{\{S(X) \geq \gamma_t\}} W(X; u, v_{t-1}) \ln f(X; v), \tag{3.17}$$

where

$$W(x; u, v_{t-1}) = \frac{f(x; u)}{f(x; v_{t-1})}.$$

The stochastic counterpart of (3.28) is as follows: for fixed $\widehat{\gamma}_t$ and $\widehat{v}_{t-1}$ (the estimate of v_{t-1}), derive $\widehat{v}_t$ from the following program

$$\max_{v} D(v) := \frac{1}{N} \sum_{i=1}^{N} I_{\{S(X^i) \geq \gamma_t\}} W(X^i; u, v_{t-1}) \ln f(X^i; v). \tag{3.18}$$

Thus, at the first iteration, starting with $\widehat{v}_0 = u$, to get a good estimate for $\widehat{v}_1$, the target event is artificially made less rare by (temporarily) using a level $\widehat{\gamma}_1$ which is chosen smaller than γ. The value for $\widehat{v}_1$ obtained in this way will (hopefully) make the event $\{S(X) \geq \gamma\}$ less rare in the next iteration, so in the next iteration a value $\widehat{\gamma}_2$ can be used which is closer to γ itself. The algorithm terminates when at some iteration t a level is reached which is at least γ and thus the original value of γ can be used without getting too few samples.

As mentioned before, the optimal solutions of (3.17) and (3.18) can often be obtained analytically, in particular when $f(x; v)$ belongs to a NEF.

The above rationale results in the following algorithm.

Algorithm 1: Main CE Algorithm for rare event simulation

1. Defin $\widehat{v}_0 = u$, and $0 < \rho < 1$. Set $t = 1$.

2. Generate N samples $X^1, X^2, ..., X^N$ according to $f(\cdot; \widehat{v}_{t-1})$, and compute $(1-\theta)$-quantile $\widehat{\gamma}_t$ of S according to (3.16).

3. Using the same samples $X^1, X^2, ..., X^N$ to solve the stochastic programming (3.17). Denote the solution by $\widetilde{v}_t$.

4. If $\widetilde{v}_t < \gamma$, set $t = t + 1$, and iterate from step 2. Else proceed with step 5.

5. Estimate the rare-event probability ℓ using likelihood ratio estimate

$$\widehat{\ell} = \frac{1}{N_1} \sum_{i=1}^{N_1} I_{\{S(X^i) \geq \gamma_t\}} W(X^i; u, \widehat{v}_T),\tag{3.19}$$

where T denotes the final number of iterations.

We have intentionally used the notation $\widetilde{\gamma}_t$ and $\widetilde{v}_t$ in Algorithm 1 above, rather than the more obvious γ_t and v_t, in order to distinguish it from its deterministic counterpart, which is obtained by replacing sample means and sample quantiles by expectations and quantiles.

Remark 3.1 *(Static Simulation) The above method has been formulated for finite-dimensional random vector only. This is sometimes referred to as static simulation. For infinite-dimensional random vectors or stochastic processes we need a more subtle treatment.*

We will not go into detail here, but the main point is that Algorithm 1 holds true without much alteration and can be readily applied to estimation problems involving both light and heavy tail distribution [10, 27, 180]

Remark 3.2 *(Variance minimization) An alternative way to obtain a good reference parameter is to choose v such that the variance, or equivalently, the second moment, of the importance sampling estimator is minimal. In other words we wish to find*

$$_*v = arg\min_v \mathbb{E}_v[I_{\{S(X) \geq \gamma\}} W(X; u, v)]^2.\tag{3.20}$$

More generally, using again the principe of importance sampling, this is equivalent to finding

$$_*v = arg\min_v \mathbb{E}_w I_{\{S(X) \geq \gamma\}} W(X; u, v) W(X; u, w)\tag{3.21}$$

for any reference parameter v_t. As in (3.11), we can estimate $_*v$ as the solution to the stochastic program

$$\min_v \widehat{V}(v) = \min_v \frac{1}{N} \sum_{i=1}^{N} I_{\{S(X^i) \geq \gamma\}} W(X^i; u, v) W(X^i; u, w),\tag{3.22}$$

where $X^1, X^2, ..., X^N$ is a random sample from $f(\cdot; w)$. However, the evaluation of (3.22) in general involves complicated numerical optimization, and it is much more convenient to use the closed-form updating formulas that follow from CE minimization.

3.3   The Cross-Entropy method for optimization

The generic CE scheme for optimization problems can be described as follows (for more detail, see [28, 180, 181]).

Suppose that we wish to maximize a real-valued performance function S over a set $\mathcal{X}$. Denote the maximum by γ^*, thus

$$\gamma^* = \max_{x \in \mathcal{X}} S(x). \tag{3.23}$$

The starting point in the methodology of the CE method is to associate an estimation problem with the optimization problem (3.23). To this end one defines a collection of indicator functions $I_{\{S(x) \geq \gamma\}}$ on $\mathcal{X}$ for various thresholds or levels $\gamma \in \mathbb{R}$. Next, let $\{f(\cdot; v), v \in V\}$ be a family of (discrete) probability density functions (pdfs) on $\mathcal{X}$, parameterized by a real-valued (vector) v.

For some $u \in V$, we consider the *associated stochastic problem* (ASP):

$$
\begin{aligned}
\ell(\gamma) &= \mathbf{P}_u(S(x) \geq \gamma) = \sum_{x \in \mathcal{X}} I_{\{S(x) \geq \gamma\}} f(x; u) \\
&= \mathbf{E}_u I_{\{S(x) \geq \gamma\}}, \tag{3.24}
\end{aligned}
$$

where $\mathbf{P}_u$ is the probability measure under which the random state $\mathcal{X}$ has the pdf $f(\cdot; u)$, and $\mathbf{E}_u$ denotes the corresponding expectation operator. The idea of CE method is to construct simultaneously a sequence of levels $\widehat{\gamma}_1, \widehat{\gamma}_2, ..., \widehat{\gamma}_T$ and parameters (vectors) $\widehat{v}_1, \widehat{v}_2, ..., \widehat{v}_T$ such that $\widehat{\gamma}_T$ is close to the optimal γ^* and $\widehat{v}_T$ is such that the corresponding density assigns high probability mass to the collection of states that give a high value. More specifically, we initialize by setting $v_0 = u$, choosing a not very small quantity θ, and then we proceed as follows:

1. **Adaptive updating of γ_t.** For a fixed v_{t-1}, let γ_t be the $(1-\theta)$-quantile of $S(X)$ under v_{t-1}. That is, γ_t satisfies

$$\mathbf{P}_{v_{t-1}}(S(X) \geq \gamma_t) \geq \theta, \tag{3.25}$$

$$\mathbf{P}_{v_{t-1}}(S(X) \leq \gamma_t) \geq 1 - \theta, \tag{3.26}$$

   where $X \sim f(\cdot; v_{t-1})$.
   A simple estimator of γ_t, denote $\widehat{\gamma}_t$ can be obtained by drawing a random sample $X^1, X^2, ..., X^N$ from $f(\cdot; v_{t-1})$. Suppose that $S(X^{\sigma(1)}) \leq S(X^{\sigma(2)}) \leq ... \leq S(X^{\sigma(N)})$, where σ is a permutation of the set $\{1, ..., N\}$. Evaluating the $(1-\theta)$-quantile of $S(X)$ as

$$\widehat{\gamma}_t = S_{\lfloor (1-\theta)N \rfloor}. \tag{3.27}$$

2. **Adaptive updating of v_t.** For a fixed γ_t and v_{t-1}, derive v_t by minimizing the Kullback-Leibler distance, or equivalent to solving the next program

$$\max_v \mathbf{E}_{v_{t-1}} I_{\{S(X) \geq \gamma_t\}} W(X^i; u, v_{t-1}) \ln f(X; v), \tag{3.28}$$

   where

$$W(x; u, v_{t-1}) = \frac{f(x; u)}{f(x; v_{t-1})}.$$

The stochastic counterpart of (3.28) is as follows: for fixed $\widehat{\gamma}_t$ and $\widehat{v}_{t-1}$ (the estimate of v_{t-1}), derive $\widehat{v}_t$ from following program

$$\max_v D(v) := \frac{1}{N} \sum_{i=1}^{N} I_{\{S(X^i) \geq \gamma_t\}} W(X^i; u, v_{t-1}) \ln f(X^i; v). \tag{3.29}$$

In typical applications, the function D is concave and differentiable with respect to v, and thus the updating equation (3.29) is equivalent to solving the following system of equations:

$$\frac{1}{N} \sum_{i=1}^{N} I_{\{S(X^i) \geq \gamma_t\}} W(X^i; u, v_{t-1}) \nabla \ln f(X^i; v) = 0, \tag{3.30}$$

where the gradient is with respect to v.

Remark (smoothed updating): Instead of updating the parameter v directly via the solution of (3.29) we use the following smoothed version

$$\widehat{v}_t = \alpha \widetilde{v}_t + (1 - \alpha)\widehat{v}_{t-1}, t = 1, 2, ..., \tag{3.31}$$

where $\widetilde{v}_t$ is the parameter vector from the solution of (3.29), and α is called the smoothing parameter, with $0.7 \leq \alpha \leq 1$. The reason for using this smoothed is: (a) to smooth out the value of $\widehat{v}_t$, (b) to reduce the probability that some component $\widehat{v}_{t,i}$ of $\widehat{v}_t$ will be zero or one at the first few iterations. This is particularly important when $\widehat{v}_t$ is a vector or matrix of probabilities.

CE Algorithm for Optimization

1. Choose $\widehat{v}_0$, and $0 < \theta < 1$. Set $t = 1$.

2. Generate N samples $X^1, X^2, ..., X^N$ according to $f(\cdot; \widehat{v}_{t-1})$, and compute $(1-\theta)$-quantile $\widehat{\gamma}_t$ of S according to (3.27).

3. Using the same samples $X^1, X^2, ..., X^N$ to solve the stochastic programming (3.29). Denote the solution by $\widetilde{v}_t$.

4. Applying (3.31) to smooth out the vector $\widetilde{v}_t$.

5. Repeat step 2-4 until a pre-precified stopping criterion is met.

To apply the Cross-Entropy method for an optimization problem, the most important point is how to find an appropriate family of pdfs, say $\{f(\cdot; v), v \in V\}$, on the feasible set of this optimization problem such that updating the parameters could be done as easily as possible. In fact, it seems that there is no common way to do that, since it depends strongly on the structure of the feasible set. In this thesis, when using the Cross-Entropy method, we will propose such families of pdfs for the considered problems.

Part II

Modeling and Approaches based on DC programming&DCA and the Cross-Entropy method for solving some classes of nonconvex programs in Search Theory, Assignment and Portfolio Management

A deterministic optimization approach for planning a multisensor multizone search for a (moving) target

A deterministic optimization approach for planning a multisensor multizone search for a target

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Abstract

In this paper, we consider a well-known problem in the general area of search theory: planning a multisensor in multizone search so as to maximize the probability of detection of a target under a given resource effort to be shared. We propose a new optimization model that is a nonlinear mixed 0-1 programming problem. This problem is then reformulated as a DC (Difference of Convex functions) program via a penalty technique. DC programming and DCA (DC algorithm) have been investigated for solving the resulting DC program. Numerical experiments demonstrate the efficiency and the superiority of the proposed algorithm in comparison with the existing method.

Keywords: Search theory, Hierarchical optimization, Combinatorial optimization, DC programming and DCA, nonlinear mixed 0-1 programming, exact penalty

1. Introduction

Search theory is defined by Cadre and Soiris [3] as a discipline that treats the problem of how a missing object can be searched optimally, when the amount of searching time is limited and only probabilities of the possible position of the missing object are given. The theory of how to search for missing objects has been a subject of serious scientific research for more than

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50 years. It is a branch of the broader applied science known as operations research [6].

In fact, Search theory was first established during World War II by the work of B. O. Koopman and his colleagues [12] in the Antisubmarine Warfare Operations Research Group (ASWORG). The applications of search theory were first made on military operations [19]. Koopman [11] stated that the principles of search theory could be applied effectively to any situation where the objective is to find a person or object contained in some restricted geographic area. After military applications, it was also applied to different problems such as surveillance, explorations, medicine, industry and search and rescue operations [8]. The aim of searching in the context of Aeronautical Search and Rescue (ASAR), for instance, is to find the missing aircraft effectively and as quickly as possible with the available resources [18].

A search theory problem, in general, is characterized by three pieces of data ([3]):

- the probabilities of the searched object (the "target") being in various possible locations;

- the local detection probability that a particular amount of local search effort could detect the target;

- the total amount of searching effort available.

The problem is to find the optimal distribution of this total effort that maximizes the probability of detection.

Stone [18] summarized major steps in the development of search theory, for instance, stationary target problems, moving target problems, optimal searcher path algorithms, and dynamic search games. The last item (search games) is the primary focus of recent research, including numerous sub-domains such as mobile evaders, avoiding target, ambush games, inspection games, and tactical games. For moving target problems, decisive progress has been made in developing search strategies that maximize the probability of detecting the (moving) target within a fixed amount of time. In particular, Brown [2] and Washburn [21] have proposed an iterative algorithm in which the motion space and the time frame have been discretized, and the search effort available in each period is infinitely divisible between the grid cells of the target motion space. In this approach, the search effort available in each period is bounded above by a constant that does not depend on the allocations made during any other periods.

In the "classical" search theory, the target is said to be detected if a detection occurs any time during the measurement epoch. Here, the target track will be said to be detected if (multiple) elementary detections occur at various times, and this is the fundamental difference. Thus, there is a test for acceptance (or detection) of a target track [5, 20]. Track detection is also associated with a spatio-temporal modeling of the target track. A quite common hypothesis in classical search theory is that the objective function, which is generally the non-detection probability, is a convex functional relatively to the search efforts. This is quite a reasonable assumption in this context, which ensures convergence of the iterative algorithms.

In this paper we consider an instance of search theory problems that can be described as follows: suppose that a space of search is partitioned into zones of reasonable size. A unique sensor must be able to explore efficiently a whole zone. Each zone is itself partitioned into cells. A cell is an area in which all points have the same properties, according to the difficulty of detection (altitude, vegetation, etc.). Each sensor has its own coefficient of visibility over a cell. The visibility coefficients depend also on the kind of the target that is searched. Here, there is a unique target to detect. The objective is to allot sensors to search zones and to find the best resource sharing for every sensor so as to maximize the probability of detection of a target.

The optimization model of this problem is hierarchical:

- At upper level: finding the best allotment of sensors to search zones (a sensor is allotted to a unique zone);

- At lower level: determining the best resource sharing for every sensor, in order to have an optimal surveillance over the allotted zone.

At the upper level, the objective function can be non-convex or implicitly defined via an algorithm applied to the lower level. This makes the problem very hard. In [17], Simonin et al. have proposed a hierarchical approach for solving this problem where a cross-entropy (CE) algorithm [1, 4, 16] has been developed for the upper level while an optimization method based on the algorithm of de Guenin [7] for detecting a stationary target has been used in the lower level. Besides this paper, we do not find in the literature any other work considering this problem. We can say that, up to now, there are no deterministic models and methods for solving this problem.

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In this work we develop a *deterministic continuous optimization approach* based on DC (Difference of Convex functions) programming and DCA (DC optimization Algorithms). The contribution of the paper is 3-fold:

Firstly, we propose in this paper an original deterministic mathematical model for the problem. By introducing the binary variables (the assignment variables) we formulate this hierarchical optimization problem as a mixed $0-1$ nonlinear program. Due to the very large dimension of this problem in practice and the non-linearity of the objective function, the standard methods in combinatorial optimization such as branch and bound, branch and cut, cutting plan cannot be applied. Attempting to develop robust numerical solution approaches, we try to reformulate the problem as a DC program.

Secondly, we investigate an exact penalty technique to reformulate the mixed $0-1$ nonlinear program into a continuous optimization problem that is in fact a DC program. We prove also that a penalty parameter can be computed explicitly.

Thirdly, we investigate DC programming and DCA for solving the related DC program.

DC programming and DCA ([13–15] and references therein) aim to solve a general DC program that takes the form

$$\alpha = \inf\{f(x) := g(x) - h(x) : x \in \mathbb{R}^p\} \quad (P_{dc}) \tag{1}$$

where g, h are lower semicontinuous proper convex functions on $\mathbb{R}^p$. Such a function f is called a DC function, and $g - h$, a DC decomposition of f while g and h are the DC components of f. The construction of DCA involves DC components g and h but not the function f itself: each iteration k of DCA consists of computing

$$y^k \in \partial h(x^k), x^{k+1} \in \arg\min\{g(x) - h(x^k) - \langle x - x^k, y^k \rangle : x \in \mathbb{R}^p\} \quad (P_k).$$

Hence, for a DC program, each DC decomposition corresponds to a different version of DCA. Since a DC function f has an infinite number of DC decompositions which have crucial impacts on the qualities (speed of convergence, robustness, efficiency, globality of computed solutions,...) of DCA, the search for a "good" DC decomposition is important from an algorithmic point of view. Moreover, despite its local character, DCA with a good initial point can converge to global solutions. Finding a "good" initial point is then also an important stage of DCA. How to develop an efficient algorithm based on

the generic DCA scheme for a practical problem is thus a judicious question to be studied, and the answer depends on the specific structure of the problem being considered. In the current work, using an appropriate DC decomposition we propose a DCA scheme that is very inexpensive in term of CPU time thanks to the rapidity of the algorithm for solving the subproblem (P_k).

The paper is organized as follows. The problem statement is presented in Section 2. Section 3 is devoted to the reformulation of the considered problem in terms of a deterministic continuous optimization problem. The solution method via DC programming and DCA is investigated in Section 4. The numerical results are reported in Section 5 while some conclusions and perspectives are discussed in Section 6.

2. Problem statement

First, let us introduce the notation employed in the paper.

E : space of search, Z : number of zones, S : number of sensors

z : zone index

i : cell index

s : sensor index

α : prior on the initial location of the target

Φ_s : quantity of resource available for sensor s to search the space

$w_{i,z,s}$: coefficient that characterizes the acuity of sensor s over cell i of the zone z (visibility coefficient).

We state below the problem as described in [17] (see [17] for more details):

The space of search: the search space, named E, is a large space with spatially variable search characteristics. The search space E is divided into Z search zones, denoted $E_z, z = 1, 2, ..., Z$, each of them is partitioned into C_z cells, denoted $\{c_{i,z}\}_{i=1}^{C_z}$ so that:

$$E = \bigcup_{z=1}^{Z} E_z, \quad E_z \cap E_{z'} = \emptyset, \forall z \neq z',$$

$$E_z = \bigcup_{i=1}^{C_z} c_{i,z}, \quad c_{i,z} \cap c_{j,z} = \emptyset, \forall i \neq j.$$

A cell $c_{i,z}$ represents the smallest search area in which the search parameters are constant. For example, it can be a part of land with constant character-

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istics (latitude, landscape). Each zone must have a reasonable size in order to be explored by a sensor within a fixed time interval.

The target: the target is hidden in one unit of the search space. Its location is characterized by a prior $\alpha_{i,z}$. Thus, we have

$$\sum_{z=1}^{Z}\sum_{i=1}^{C_z}\alpha_{i,z} = 1.$$

The means of search: means of search can be passive (e.g. IRST, ESM) or active sensors (radars). We will consider that searching the target will be carried out by S sensors. Due to operational constraints, each sensor $s \in S$ must be allotted to a unique search zone. For example, it could be the exploration time to share between units of a zone. At the lower level, for the sensor s allotted to the zone E_z, the amount of search resource allocated to the cell $c_{i,z}$ is denoted $x_{i,z,s}$. It can represent the time spent on searching the cell $c_{i,z}$ (passive sensor), the intensity of emissions or the number of pulses (active sensors), etc. Furthermore, each sensor s has a search amount Φ_s, it means that if the sensor s is allotted to the zone E_z then:

$$\sum_{i=1}^{C_z}x_{i,z,s} \leq \Phi_s.$$

To characterize the effectiveness of the search at the cell level, we consider the conditional non-detection probability $\bar{P}_s(x_{i,z,s})$ which represents the probability of not detecting the target given that the target is hidden in $c_{i,z}$ and that we apply an elementary search effort $x_{i,z,s}$ on $c_{i,z}$. Some assumptioms are made to model $\bar{P}_s(x_{i,z,s})$. For all sensors, the function $x_{i,z,s} \mapsto \bar{P}_s(x_{i,z,s})$ is convex and non-increasing (law of diminishing return). Assuming independence of elementary detections, a usual model is $\bar{P}_s(x_{i,z,s}) = \exp(-w_{i,z,s}x_{i,z,s})$, where $w_{i,z,s}$ is a (visibility) coefficient which characterizes the reward for the search effort put in $c_{i,z}$ by the sensor s.

An additional assumption is that sensors act independently at the cell level. This means that if S sensors are allotted to $c_{i,z}$ the probability of not detecting a target hidden in $c_{i,z}$ is simply $\prod_{s=1}^{S}\bar{P}_s(x_{i,z,s})$.

Let $m : \{1, 2, ..., S\} \to \{1, 2, ..., Z\}$ be a mapping allotting sensors to search zones. Our aim is to find both the optimal mapping m (i.e., the best

sensor-to-zone allotment) and the optimal local distributions x in order to minimize the non-detection probability. The objective function is then

$$f(m, x) = \sum_{z=1}^{Z} \sum_{i=1}^{C_z} \alpha_{i,z} \prod_{s \in m^{-1}(z)} \bar{P}_s(x_{i,z,s}),$$

which leads to the following problem [17]:

$$
\begin{cases}
\min_{m,x} f(m, x) = \sum_{z=1}^{Z} \sum_{i=1}^{C_z} \alpha_{i,z} \prod_{s \in m^{-1}(z)} \bar{P}_s(x_{i,z,s}) \\
\text{s.t.} \quad \sum_{i=1}^{C_z} x_{i,z,s} \leq \Phi_s, \forall z, \forall s \in m^{-1}(z), \\
\quad x_{i,z,s} \geq 0, \forall i \in C_z, \forall s = 1, ..., S, \forall z = 1, ..., Z, \\
\quad m \text{ mapping} : \{1, 2, ..., S\} \rightarrow \{1, 2, ..., Z\}.
\end{cases}
\tag{2}
$$

This problem is hierarchical:

- At upper level: finding the best allotment of sensors to search zones (a sensor is allotted to a unique zone);

- At lower level: determining the best resource sharing for every sensor.

3. A deterministic formulation of Problem (2)

Let us introduce the allocation variable $u_{z,s}$ defined by

$$
u_{z,s} = \begin{cases}
1 & \text{if the sensor } s \text{ is allotted to the zone } z, \\
0 & \text{otherwise.}
\end{cases}
$$

Let variable $x_{i,z,s}$ be the quantity of resource of the sensor s allotted to the cell $c_{i,z}$ in the zone z. We can rewrite (2) in the following form:

$$
\begin{cases}
\min_{x,u}(f(x, u) = \sum_{z=1}^{Z} \sum_{i=1}^{C_z} \alpha_{i,z} \prod_{s=1}^{S} \bar{P}_s(x_{i,z,s} u_{z,s})) \\
\text{s.t.} \sum_{i=1}^{C_z} x_{i,z,s} \leq \Phi_s, z = 1, ..., Z, s = 1, ..., S, \\
\quad \sum_{z=1}^{Z} u_{z,s} = 1, s = 1, ..., S, \\
\quad u_{z,s} \in \{0, 1\}, x_{i,z,s} \geq 0, s = 1, ..., S, z = 1, ..., Z, i = 1, ..., C_z.
\end{cases}
\tag{3}
$$

The constraints $\sum_{z=1}^{Z} u_{z,s} = 1, \forall s = 1, 2, ..., S$ mean that each sensor $s \in S$ must be allotted to a unique search zone.

With the usual model $\bar{P}_s$ [10]:

$$\bar{P}_s(x_{i,z,s}) = \exp(-w_{i,z,s}x_{i,z,s}),$$

the objective function f becomes:

$$f(x, u) = \sum_{z=1}^{Z} \sum_{i=1}^{C_z} \alpha_{i,z} \exp\left(- \sum_{s=1}^{S} w_{i,z,s}x_{i,z,s}u_{z,s}\right).$$

Set

$$d = S.(C_1 + C_2 + ... + C_z), n = Z.S.$$

Let

$$D = \{x = (x_{i,z,s}) \in \mathbb{R}_+^d : \sum_{i=1}^{C_z} x_{i,z,s} \leq \Phi_s, z = 1, ..., Z, s = 1, ..., S\}$$

and

$$M = \{u = (u_{z,s}) \in \{0, 1\}^{Z.S} : \sum_{z=1}^{Z} u_{z,s} = 1, s = 1, ..., S\},$$

then we can write the problem (3) in the form:

$$(P) \begin{cases} \min_{x,u} \sum_{z=1}^{Z} \sum_{i=1}^{C_z} \alpha_{i,z} \exp\left(- \sum_{s=1}^{S} w_{i,z,s}x_{i,z,s}u_{z,s}\right) \\ \text{s.t. } x \in D, u \in M, \end{cases}$$

which is a nonlinear mixed 0-1 programming problem. It is easy to see that the objective function of (P), say f, is convex in x for each fixed u, and similarly, it is convex in u for each fixed x. Moreover, f is infinitely differentiable.

4. Solution Method

We first reformulate (P) as a DC program by using a penalty technique.

4.1. DC Reformulation

Consider the function p and the bounded polyhedral convex set K defined, respectively, by:

$$p(u) = \sum_{z=1}^{Z} \sum_{s=1}^{S} u_{z,s}(1 - u_{z,s}),$$

and

$$K = \{u = (u_{z,s}) \in [0,1]^{Z.S} : \sum_{z=1}^{Z} u_{z,s} = 1, s = 1, ..., S\}.$$

We notice that p is finite and concave on $\mathbb{R}^{Z.S}$, non-negative on K and

$$M = \{u \in K : p(u) \leq 0\}.$$

Hence Problem (P) can be rewritten as

$$\alpha = \min\{f(x,u) : x \in D, \ u \in K, \ p(u) \leq 0\}.$$

The exact penalty result is given by the following theorem.

Theorem 1. *(i) Let*

$$t^0 = \max\{\|\nabla_u^2(f(x,u))\| : \quad u \in [0,1]^n, x \in D\},$$

then $\forall t > t^0$ the problem (P)

$$\min\{f(x,u) : x \in D, u \in M\} \quad (P)$$

is equivalent to the problem

$$\min\{f(x,u) + tp(u) : x \in D, u \in K\}. \quad (P_t)$$

in the following sense: they have the same optimal value of the objective function and the same optimal solution set.

(ii) If (x^*, u^*) is a local minimum to problem (P_t) then (x^*, u^*) is a feasible solution to the problem (P).

PROOF. Let $\varphi(u) := \min_{x \in D}(f(x,u) + tp(u))$. By definition of t^0, for each fixed x in D, the function $f(x,u) + t^0 p(u)$ is concave in u, thus the function

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$\min\limits_{x \in D}(f(x,u) + t^0 p(u))$ is concave in u, and consequently, for any $t > t^0$, φ is strongly concave in u.

If (x^*, u^*) is an optimal solution to the problem (P), then $p(u^*) = 0$ and

$$f(x,u) \geq f(x^*, u^*), \forall x \in D, \forall u \in M. \tag{4}$$

Hence

$$f(x,u) + tp(u) \geq f(x,u) \geq f(x^*, u^*) + tp(u^*), \forall x \in D, \forall u \in M \tag{5}$$

which implies that

$$\varphi(u) \geq \varphi(u^*), \forall u \in M.$$

Since $extr(K) = M$ (see **Lemma 2** below), and φ is concave, we have

$$\min\{\varphi(u) : u \in K\} = \min\{\varphi(u) : u \in M\}. \tag{6}$$

Combining (5) and (6) we obtain

$$f(x,u) + tp(u) \geq f(x^*, u^*) + tp(u^*), \forall x \in D, \forall u \in K. \tag{7}$$

So (x^*, u^*) is also an optimal solution to the problem (P_t).

Conversely, suppose that (x^*, u^*) is an optimal solution of the problem (P_t), i.e. (7) holds. Thus $\varphi(u) \geq \varphi(u^*), \forall u \in K$. Since φ is strongly concave, u^* is an extreme point of K and therefore $u^* \in M$. It means that (x^*, u^*) is a feasible solution of the problem (P). This and (7) imply (4), i.e., (x^*, u^*) is an optimal solution to (P).

(ii) If (x^*, u^*) is a local minimum of problem (P_t), then there exist a neighbourhood V of x^*, U of u^*, with U is convex and compact such that $f(x,u) + tp(u) \geq f(x^*, u^*) + tp(u^*), \forall x \in D \cap V, \forall u \in K \cap U$. Let ψ be the function defined by

$$\psi(u) = \min\limits_{x \in D \cap V}(f(x,u) + tp(u)).$$

It is clear that ψ is strongly concave in $u \in K \cap U$, and $\psi(u) \geq \psi(u^*), \forall u \in K \cap U$. So u^* is an extreme point of the convex set $K \cap U$, thus u^* is an extreme point of the convex set K, say $u^* \in M$. Therefore (x^*, u^*) is a feasible solution to the problem (P). $\square$

Note that the part (ii) in this theorem is very useful for DCA applied to (P_t) because DCA usually produces a local minimum.

Lemma 2. *We have $extr(K) = M$, where $extr(K)$ is the set of extreme points of K. Hence $co(M) = K$.*

PROOF. The set K can be expressed as the product of S simplex Δ, say

$$K = \Delta \times \Delta \times ... \times \Delta \quad \text{with} \quad \Delta := \left\{ u^s = (u_{z,s})_z \in [0,1]^Z : \sum_{z=1}^{Z} u_{z,s} = 1 \right\}.$$

It is easy to see that

$$extr(\Delta) = \left\{ u^s = (u_{z,s})_z \in \{0,1\}^Z : \sum_{z=1}^{Z} u_{z,s} = 1 \right\}.$$

Hence

$$extr(K) = extr(\Delta) \times extr(\Delta) \times ... \times extr(\Delta) = M.$$

Since D is compact and $f \in C^\infty$, $\max\{||\nabla_u^2(f(x,u))|| : \ u \in [0,1]^n, x \in D\}$ exists. The following proposition gives an estimation of t^0 :

Proposition 3. *We have*

$$t^0 := \max\{||\nabla_u^2(f(x,u))|| : \ u \in [0,1]^n, x \in D\} \leq \Phi \alpha w^2 \sum_{s=1}^{S} \Phi_s,$$

where

$$\alpha = \max\{\alpha_{i,z} : z = 1, ..., Z, i = 1, ..., C_z\}, \Phi = \max\{\Phi_s : 1, ..., S\},$$

$$w = \max\{w_{i,z,s} : z = 1, ..., Z, i = 1, ..., C_z, s = 1, ..., S\}.$$

PROOF. see appendix.

In the following sections we will investigate DCA for solving problem (P_t) with $t^0 = \Phi \alpha w^2 \sum_{s=1}^{S} \Phi_s$.

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4.2. DC Algorithm (DCA)

4.2.1. Outline of DC Programming and DCA

Pham Dinh Tao in 1985 introduced DC programming and DCA, which constitute the backbone of (smooth or nonsmooth) nonconvex programming and global optimization. Le Thi Hoai An and Pham Dinh Tao since 1994 extensively developed them. And now DCA is a classic and increasingly popular approach (see [13–15] and references therein). DC programming and DCA address the problem of minimizing a function f which is a difference of convex functions on the whole space $\mathbb{R}^p$ or on a convex set $C \subset \mathbb{R}^p$. Generally speaking, a DC program takes the form

$$\alpha = \inf\{f(x) := g(x) - h(x) : x \in \mathbb{R}^p\} \quad (P_{dc}) \qquad (8)$$

where g, h are lower semicontinuous proper convex functions on $\mathbb{R}^p$. Such a function f is called DC function, and $g - h$, DC decomposition of f while g and h are DC components of f. The convex constraint $x \in C$ can be incorporated in the objective function of (P_{dc}) by using the indicator function on C denoted χ_C which is defined by

$$\chi_C(x) = \begin{cases} 0 \text{ if } x \in C \\ +\infty, \text{ otherwise.} \end{cases}$$

If either g or h is a polyhedral convex function then (P_{dc}) is called a polyhedral DC program.

Let

$$g^*(y) := \sup\{\langle x, y \rangle - g(x) : x \in \mathbb{R}^p\}$$

be the conjugate function of g. Then, the following program is called the dual program of (P_{dc}):

$$\alpha_D = \inf\{h^*(y) - g^*(y) : y \in \mathbb{R}^p\}. \quad (D_{dc}) \qquad (9)$$

One can prove that $\alpha = \alpha_D$, (see e.g. [13, 14]) and there is the perfect symmetry between primal and dual DC programs: the dual to (D_{dc}) is exactly (P_{dc}).

DCA is based on the local optimality conditions of (P_{dc}), namely

$$\partial h(x^*) \cap \partial g(x^*) \neq \emptyset \qquad (10)$$

(such a point x^* is called a *critical point* of $g - h$), and

$$\emptyset \neq \partial h(x^*) \subset \partial g(x^*). \qquad (11)$$

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The condition (11) is necessary for local optimality of (P_{dc}) (or the generalized KKT condition). It is also sufficient for many classes of DC programs that include some cases quite often encountered in practice (see e.g. [13, 14]).

The idea of DCA is simple: each iteration of DCA approximates the concave part $-h$ by its affine majorization (that corresponds to taking $y^k \in \partial h(x^k)$) and minimizes the resulting convex function (that is equivalent to determining $x^{k+1} \in \partial g^*(y^k)$).

Generic DCA scheme

Initialization: Let $x^0 \in \mathbb{R}^p$ be a best guess, $0 \leftarrow k$.

Repeat

  Calculate $y^k \in \partial h(x^k)$

  Calculate $x^{k+1} \in \arg\min\{g(x) - h(x^k) - \langle x - x^k, y^k \rangle : x \in \mathbb{R}^p\}$ (P_k)

  $k + 1 \leftarrow k$

Until convergence of x^k.

It is important to mention the following main convergence properties of DCA:

- DCA is a descent method (the sequences $\{g(x^k) - h(x^k)\}$ and $\{h^*(y^k) - g^*(y^k)\}$ are decreasing) *without linesearch*;

- If the optimal value α of the problem (P_{dc}) is finite and the infinite sequences $\{x^k\}$ and $\{y^k\}$ are bounded then every limit point x^* (resp. y^*) of the sequence $\{x^k\}$ (resp. $\{y^k\}$) is a critical point of $g - h$ (resp. $h^* - g^*$).

- DCA has a *linear convergence* for general DC programs.

- DCA has a finite convergence for polyhedral DC programs.

The solution of a practical nonconvex program by DCA must have two stages: the search of an *appropriate* DC decomposition and the search of a *good* initial point. An appropriate DC decomposition, in our sense, is the one that corresponds to a DCA which is not expensive and has interesting convergence properties.

In the next subsection we will develop an instance of DCA to solve the problem (P_t), and study the convergence properties of the proposed algorithm.

4.2.2. Description of the DCA applied to (P_t)

From the computations in the Appendix we have

$$||H(f)||_\infty \leq \max\{S\alpha w^2 + S\alpha w^2 \Phi + \alpha w, 2\Phi\alpha w^2 \sum_{s=1}^{S} \Phi_s + Nw\alpha\}.$$

where

$$N = \max\{C_z : z = 1, ..., Z\}.$$

Hence, let $\rho := \max\{S\alpha w^2 + S\alpha w^2 \Phi + \alpha w, 2\Phi\alpha w^2 \sum_{s=1}^{S} \Phi_s + Nw\alpha\}$, a DC formulation of (P_t) can be

$$\min\{g(x, u) - h(x, u) : (x, u) \in D \times K\}, \tag{12}$$

where

$$g(x, u) := \frac{\rho}{2}||(x, u)||^2 \text{ and } h(x, u) := \frac{\rho}{2}||(x, u)||^2 - f(x, u) - tp(u).$$

DCA applied to DC program (12) consists of computing, at each iteration k, the two sequences $\{(y^k, v^k)\}$ and $\{(x^k, u^k)\}$ such that $(y^k, v^k) \in \partial h(x^k, u^k)$ and (x^{k+1}, y^{k+1}) is an optimal solution of the following convex quadratic program:

$$\min\left\{\frac{\rho}{2}||(x, u)||^2 - \langle(x, u), (y^k, v^k)\rangle : (x, u) \in D \times K\right\}$$

which can be decomposed into two subproblems

$$\min\left\{\frac{\rho}{2}||x||^2 - \langle x, y^k\rangle : x \in D\right\} \tag{13}$$

and

$$\min\left\{\frac{\rho}{2}||u||^2 - \langle u, v^k\rangle : u \in K\right\}. \tag{14}$$

We are now in a position to summarize the DCA for solving Problem (P_t)

Step 1. Initialization: let (x^0, u^0) satisfy the constraints of the problem. Choose $\epsilon_1 > 0, \epsilon_2 > 0$ and $k = 0$.

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Step 2. Compute $(y^k, v^k) = \nabla h(x^k, u^k)$, with

$$y^k = \rho x^k - \nabla_x f(x^k, u^k), \ v^k = \rho u^k - \nabla_u f(x^k, u^k) + t(2u^k - e).$$

Step 3. Compute (x^{k+1}, u^{k+1}) by solving the two convex quadratic problems (13) and (14)

Step 4. Iterate Step 2 and 3 until

$$|f(x^{k+1}, u^{k+1}) - f(x^k, u^k)| \leq \epsilon_1(1 + |f(x^{k+1}, u^{k+1})|)$$

$$\text{or} \ \ ||(x^{k+1}, u^{k+1}) - (x^k, u^k)||_\infty \leq \epsilon_2(1 + ||(x^{k+1}, u^{k+1})||_\infty).$$

Theorem 4. *(Convergence properties of Algorithm DCA. For simplicity's sake, we omit the dual part of these properties).*

i) DCA generates the sequence $\{(x^k, u^k)\}$ such that the sequence $\{f(x^k, u^k)\}$ is decreasing.

ii) The point $\{(x^k, u^k)\}$ verifies the generalized condition of the problem (12).

PROOF. Direct consequences of the convergence properties of DCA for general DC programs and the fact that the function h is differentiable.

Efficient ways for solving problems (13) and (14)

In fact, we can continuously divide the problems (13) and (14) into some smaller problems with unique constraints (except positive constraints). By denoting $y^k = (y_{i,z,s}) \in \mathbb{R}^d, v^k = (v_{z,s}) \in \mathbb{R}^{Z.S}$, solving the problem (13) is replaced by solving $S.Z$ subproblems with unique inequality constraints

$$\begin{cases} \min_{x_{i,z,s}} \sum_{i=1}^{C_z} \left(x_{i,z,s}^2 - \frac{2y_{i,z,s}^k}{\rho} x_{i,z,s} \right) \\ s.t. \ \sum_{i=1}^{C_z} x_{i,z,s} \leq \Phi_s, \\ \quad x_{i,z,s} \geq 0, \forall i = 1, 2, ..., C_z, \end{cases} \tag{15}$$

and solving the problem (14) is replaced by solving S subproblems with unique equality constraints

$$\begin{cases} \min_{u_{z,s}} \sum_{z=1}^{Z} \left(u_{z,s}^2 - \frac{2v_{z,s}^k}{\rho} u_{z,s} \right) \\ s.t. \ \sum_{z=1}^{Z} u_{z,s} = 1, \\ \quad u_{z,s} \geq 0, \forall z = 1, 2, ..., Z. \end{cases} \tag{16}$$

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The problem (16) can be solved efficiently by the Block Pivotal Principal Pivoting Algorithm [9]. We develop below an efficient algorithm for solving the problem (15).

An efficient algorithm for solving (15)

We consider the quadratic convex problem:

$$
\begin{cases}
\min\limits_{x} \sum\limits_{i=1}^{n} \left(\frac{1}{2}x_i^2 - a_i x_i \right) \\
s.t. \ \sum\limits_{i=1}^{n} x_i \leq \Phi, \\
\quad x_i \geq 0, \forall i = 1, 2, ..., n.
\end{cases}
\tag{17}
$$

Set

$$
I = \{i \in \{1, 2, ..., n\} : a_i > 0\}.
$$

We firstly see that if $\sum\limits_{i \in I} a_i \leq \Phi$ then $x^* = (x_1^*, ..., x_n^*)$ with $x_i^* = a_i$ if $i \in I$ else $x_i^* = 0$, is an optimal solution for Problem (17).

In contrast, i.e.,

$$
\sum_{i \in I} a_i > \Phi,
\tag{18}
$$

then there exists $\lambda \geq 0$ such that

$$
S(\lambda) := \sum_{i \in I_\lambda} (a_i - \lambda) > \Phi,
$$

where

$$
I_\lambda = \{i \in I : a_i > \lambda\}.
$$

Indeed, we can choose, for instance,

$$
0 \leq \lambda < \min \left\{ \frac{1}{|I|} \left(\sum_{i \in I} a_i - \Phi \right), a_i, i \in I \right\}.
\tag{19}
$$

We consider Karush-Kuhn-Tucker condition for Problem (17)

$$
(KKT) \begin{cases}
x_i - a_i + \lambda - t_i = 0, i = 1, 2, ..., n, \\
\lambda(\sum\limits_{i=1}^{n} x_i - \Phi) = 0, \\
t_i x_i = 0, i = 1, 2, ..., n, \\
\lambda \geq 0, \\
t_i \geq 0, i = 1, 2, ..., n.
\end{cases}
$$

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Suppose that $x = (x_1, ..., x_n)$ and $\lambda \geq 0$ is the solution for (KKT) equations. If $x_i > 0$, by the first condition, then

$$x_i - a_i + \lambda = 0, \quad i \in J, \tag{20}$$

where

$$J = \{i \in \{1, 2, ..., n\} : x_i > 0\}.$$

Thus

$$x_i = a_i - \lambda, \ a_i > \lambda, \quad i \in J.$$

With the condition (18), we have also $\lambda > 0$. The second condition of (KKT) leads to:

$$\sum_{i \in J} x_i = \Phi, \tag{21}$$

From (20) and (21), we have

$$\lambda = \frac{1}{|J|} \left(\sum_{i \in J} a_i - \Phi \right).$$

In this case, we present the following algorithm to solve this problem:

Step 1. Initiation: let $\lambda_1 = \max\{a_i, i \in I\} + \alpha, \alpha > 0$ arbitrary, λ_2 satisfying the condition (19), and $\epsilon > 0$.

Step 2. Iteration
Repeat

- Compute $\lambda = \dfrac{\lambda_1 + \lambda_2}{2}$,

- Set
$$\begin{cases} x_i = a_i - \lambda & \text{if } i \in I_\lambda, \\ x_i = 0 & \text{otherwise,} \end{cases}$$

   where
$$I_\lambda = \{i \in I : a_i > \lambda\}.$$

- Compute $S(\lambda) = \sum\limits_{i \in I_\lambda} x_i$.

- Compare $S(\lambda)$ with Φ, and set
$$\begin{cases} \lambda_2 = \lambda & \text{if } S(\lambda) > \Phi + \epsilon, \\ \lambda_1 = \lambda & \text{if } S(\lambda) < \Phi - \epsilon. \end{cases}$$

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Until $(|S - \Phi| \leq \epsilon)$.

Note that by choosing λ_1, λ_2 in Step 1, we have $S(\lambda_1) = 0 < \Phi < S(\lambda_2)$.

5. Numerical experimentation

The search space is the lake of Laouzas in France [17]. The number of zones is $Z = 4$ and there are $n = 30$ cells in each zone. We have $S = 6$ sensors. All sensors have the same amount of resource Φ. The coefficients are given in Table 1.

The program is written in C using Microsoft Visual C++ 2008, and implemented on a notebook with chipset Intel(R) Core(TM) Duo CPU 2.0 GHz, RAM 3GB.
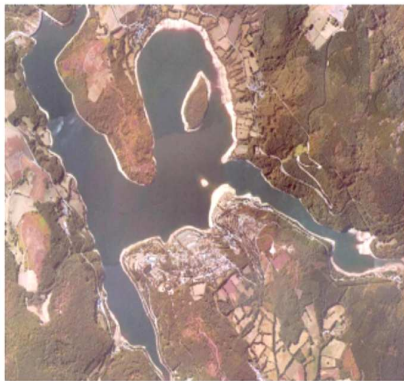
Figure 1: An aerial photograph of the lake of Laouzas

Type of Cell	Prior of target	Visibility of sensors					
		Sensor 1	Sensor 2	Sensor 3	Sensor 4	Sensor 5	Sensor 6
Forest	0.0085	0.4	0.5	0.6	0.8	0.5	0.1
Water	0.001	0.9	0.1	0.1	0.1	0.3	0.5
Plat land	0.0115	0.3	0.1	0.4	0.6	0.5	0.2
Rough land	0.013	0.2	0.7	0.8	0.2	0.4	0.6
Very rough land	0.014	0.1	0.6	0.7	0.1	0.3	0.5
Town	0	0.8	0.9	0.1	0.7	0.6	0.2

Table 1: Data

To find a starting point of DCA, we take (x^0, u^0), where $x^0 = (x^0_{i,z,s})$,
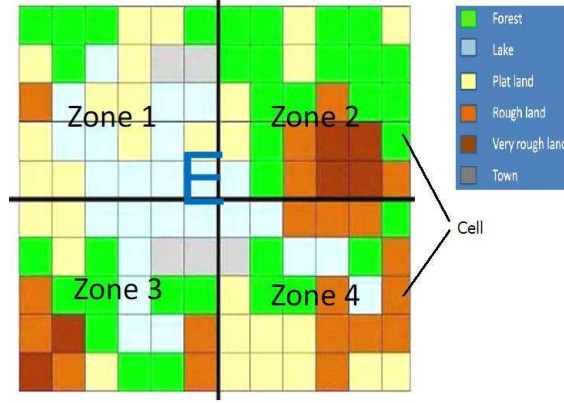
Figure 2: Partition of the lake Laouzas

$u^0 = (u_{z,s}^0)$ are as follows:

$$x_{i,z,s}^0 = \frac{\Phi}{n}, \ u_{z,s}^0 = \frac{1}{Z}, s = 1, ..., S, z = 1, ..., Z, i = 1, ..., C_z,$$

and run DCA for solving (P_t) with the parameters ρ and *penalty* quite small (depending on the parameters Φ). We will get a new pair (x^1, u^1) which becomes the starting point of the main DCA. In the implementation of the main DCA, we choose $\epsilon_1 = \epsilon_2 = 10^{-7}$, and some values of parameters ρ and *penalty* are given in Table 2. In Table 3 we compare the results obtained by

Amount of	The first DCA		The main DCA	
resource Φ	Rho	Penalty	Rho	Penalty
$\Phi = 5$	0.378	0.001701	3.78	1.701
$\Phi = 10$	1.3986	0.006804	13.986	6.804
$\Phi = 15$	1.5498	0.007655	30.996	15.309
$\Phi = 20$	1.0962	0.013698	54.81	27.216
$\Phi = 25$	0.85428	0.004253	85.428	42.525
$\Phi = 30$	0.61425	0.006124	122.85	61.236
$\Phi = 35$	0.83538	0.008335	167.076	83.349
$\Phi = 40$	0.72702	0.010886	218.106	108.864

Table 2: Parameters

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DCA and the CE algorithm [17]. The main idea of CE algorithm is to generate particular allotments of sensors to search zones that will be evaluated and then selected, in order to obtain a drawing law which will converge toward the optimal allotment. The steps of this CE algorithm can be described as follows:

Step 1. Initialize $M = M_0 = (p^{M_0}(z|s))$ a uniform distribution, i.e.,

$$p^{M_0}(z|s) = \frac{1}{Z}, s = 1, ..., S, z = 1, ..., Z,$$

and choose $\theta \in (0,1)$. (Note that $p(z|s)$ represents the probability to assign sensor s to zone z.)

Step 2. Generate N allotment mappings $m_1, m_2, ..., m_N$ according to M, and compute $f(m_k) := \min_x f(m_k, x), k = 1, 2, ..., N$, where $f(m, x)$ is objective function of (2). (In other words, we obtain $f(m_k)$ by solving Problem (2) when m_k is known.)

Step 3. Sort the sequence $\{f(m_k)\}_{k=1}^N$ in the increasing orders. Let $f(m_{\sigma(1)}) \leq f(m_{\sigma(2)}) \leq ... \leq f(m_{\sigma(N)})$, where σ is a permutation of the set $\{1, 2, ..., N\}$. Set $T = \lfloor \theta N \rfloor$, then choose T best draws $X^{\sigma(1)}, X^{\sigma(2)}, ..., X^{\sigma(T)}$.

Step 4. Update M by the formula

$$p^M(z|s) := \frac{\text{card}\{k \in \{\sigma(1), \sigma(2), ..., \sigma(T)\} : \ x_s^{\sigma(k)} = z\}}{T},$$

Step 5. Iterate step 2, 3, 4 until convergence.

Since CE is a heuristic method, for each parameter Φ we run the CE algorithm 10 times and then take the average for the 10 results. The parameters for CE are as follows: for each iteration, number of samples is $N = 50$, $\theta = 0.3$, and the number of iterations is limited to 15. We observe that the DCA produced better solutions than the CE while the CPU time is shorter.

Figure 3 shows the results (non-detection probability) obtained by DCA when the amount of resource, Φ, varies. We can see that there is a negative relationship between Φ and the non-detection probability. When $\Phi = 110$, the non-detection probability is 0.060488.

6. Conclusion

We have presented a new approach for solving the problem of planning a multisensor multizone search for a target. This is the first time a determin-

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Amount of	DCA method		CE method	
resource Φ	Objective function	Time	Objective function	Time
$\Phi = 5$	0.818115	1.406s	0.818577	1.192s
$\Phi = 10$	0.684478	1.281s	0.684701	1.427s
$\Phi = 15$	0.579858	1.281s	0.580673	1.925s
$\Phi = 20$	0.495232	2.500s	0.500550	2.284s
$\Phi = 25$	0.426436	2.437s	0.428900	2.689s
$\Phi = 30$	0.368320	2.265s	0.372219	2.620s
$\Phi = 35$	0.322050	2.422s	0.327574	2.285s
$\Phi = 40$	0.282366	2.421s	0.292742	3.688s

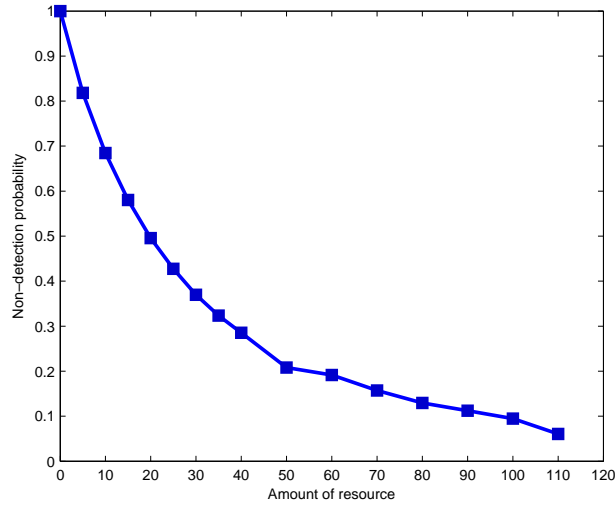Table 3: Comparative results between DCA and CE

Figure 3: Relation of non-detection probability given by DCA and amount of resource

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istic optimization model is introduced in the literature for solving this problem. This constitutes an interesting contribution of the paper. For solving the combinatorial optimization problem by DCA, an innovative continuous approach in nonconvex programming framework, we first reformulated the original problem in the form of a DC program. We prove an exact penalty result in which the penalty parameter can be estimated. That is our second important contribution. The third contribution deals with the development of an efficient DCA scheme for solving the resulting problem. In this scheme, the subconvex programs is decomposed on some simpler convex programs that can be solved by fast algorithms. Numerical results show that our approach can solve this problem more efficiently than the CE method, an efficient algorithm for the problem. Whenever there is a good starting point, we can get a better local solution or even a global solution. In future, we will investigate DCA for solving the moving target case of this problem.

Appendix

Estimate the norm of Hessian matrix of function $f(x, u)$ **and** $\max\{||\nabla_u^2(f(x,u))||_\infty : u \in [0,1]^n, x \in D\}$.

$x = \{x_{i,z,s}\}_{i,z,s} = (x_{1,1,1}, ..., x_{C_1,1,1}, x_{1,2,1}, ..., x_{C_2,2,1}, ..., x_{1,Z,1}, ..., x_{C_Z,Z,1}, x_{1,1,2},$
$..., x_{C_1,1,2}, ..., x_{1,Z,2}, ..., x_{C_Z,Z,2}, ..., x_{1,1,S}, ..., x_{C_1,1,S}, ..., x_{1,Z,2}, ..., x_{C_Z,Z,S}) \in \mathbb{R}^p.$

$u = \{u_{z,s}\}_{z,s} = (u_{1,1}, u_{2,1}, ..., u_{Z,1}, u_{1,2}, u_{2,2}, ..., u_{Z,2}, u_{1,S}, u_{2,S}, ..., u_{Z,S}) \in \mathbb{R}^{Z.S}.$

We have

$$\frac{\partial f}{\partial x_{i_1,z_1,s_1}}(x, u) = -\alpha_{i_1,z_1} w_{i_1,z_1,s_1} u_{z_1,s_1} \exp\left(-\sum_{s=1}^{S} w_{i_1,z_1,s} x_{i_1,z_1,s} u_{z_1,s}\right),$$

$$\frac{\partial^2 f}{\partial x_{i_1,z_1,s_1} \partial x_{i_2,z_2,s_2}}(x, u) =$$

$$\begin{cases} 0 & \text{if } (i_2, z_2) \neq (i_1, z_1) \\ \alpha_{i_1,z_1} w_{i_1,z_1,s_1} u_{z_1,s_1} w_{i_1,z_1,s_2} u_{z_1,s_2} \exp\left(-\sum_{s=1}^{S} w_{i_1,z_1,s} x_{i_1,z_1,s} u_{z_1,s}\right) \\ & \qquad\qquad\qquad \text{if } (i_2, z_2) = (i_1, z_1) \end{cases}$$

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$$\frac{\partial^2 f}{\partial x_{i_1,z_1,s_1} \partial u_{z_3,s_3}}(x,u) =$$

$$\begin{cases} 0 \text{ if } z_3 \neq z_1 \\[2mm] \alpha_{i_1,z_1} w_{i_1,z_1,s_1} u_{z_1,s_1} w_{i_1,z_1,s_3} x_{i_1,z_1,s_3} \exp(-\sum\limits_{s=1}^{S} w_{i_1,z_1,s} x_{i_1,z_1,s} u_{z_1,s}) \\[2mm] \qquad\qquad\qquad\qquad\qquad\qquad \text{if } z_3 = z_1, s_3 \neq s_1 \\[2mm] (-\alpha_{i_1,z_1} w_{i_1,z_1,s_1} + \alpha_{i_1,z_1} w^2_{i_1,z_1,s_1} u_{z_1,s_1} x_{i_1,z_1,s_1}) \exp(-\sum\limits_{s=1}^{S} w_{i_1,z_1,s} x_{i_1,z_1,s} u_{z_1,s}) \\[2mm] \qquad\qquad\qquad\qquad\qquad\qquad \text{if } z_3 = z_1, s_3 = s_1. \end{cases}$$

On the line (i_1, z_1, s_1) of the matrix Hessian of the function f, we have the sum of absolute of all elements:

$$S_{i_1,z_1,s_1} = \sum_{s_2=1}^{S} |\alpha_{i_1,z_1} w_{i_1,z_1,s_1} u_{z_1,s_1} w_{i_1,z_1,s_2} u_{z_1,s_2}| \exp(-\sum_{s=1}^{S} w_{i_1,z_1,s} x_{i_1,z_1,s} u_{z_1,s})+$$

$$\sum_{s_3=1}^{S} (|\alpha_{i_1,z_1} w_{i_1,z_1,s_1} u_{z_1,s_1} w_{i_1,z_1,s_3} x_{i_1,z_1,s_3}| + |\alpha_{i_1,z_1} w_{i_1,z_1,s_1}|) \exp(-\sum_{s=1}^{S} w_{i_1,z_1,s} x_{i_1,z_1,s} u_{z_1,s})$$

$$= (\sum_{s_2=1}^{S} |\alpha_{i_1,z_1} w_{i_1,z_1,s_1} u_{z_1,s_1} w_{i_1,z_1,s_2} u_{z_1,s_2}| + \sum_{s_3=1}^{S} |\alpha_{i_1,z_1} w_{i_1,z_1,s_1} u_{z_1,s_1} w_{i_1,z_1,s_3} x_{i_1,z_1,s_3}|+$$

$$|\alpha_{i_1,z_1} w_{i_1,z_1,s_1}|) \exp(-\sum_{s=1}^{S} w_{i_1,z_1,s} x_{i_1,z_1,s} u_{z_1,s}).$$

Let

$$\alpha = \max\{\alpha_{i,z} : z = 1, 2, ..., Z, i = 1, 2, ..., C_z\}, \Phi = \max\{\Phi_s : 1, 2, ..., S\},$$

$$w = \max\{w_{i,z,s} : z = 1, 2, ..., Z, i = 1, 2, ..., C_z, s = 1, 2, ..., S\},$$

$$N = \max\{C_z : z = 1, 2, ..., Z\}.$$

Because $0 \leq u_{z,s} \leq 1, \forall s \in S, z \in Z$, and $\exp(-\sum\limits_{s=1}^{S} w_{i_1,z_1,s} x_{i_1,z_1,s} u_{z_1,s}) \leq 1$, we have

$$S_{i_1,z_1,s_1} \leq S\alpha w^2 + S\alpha w^2 \Phi + \alpha w$$
$$= S\alpha w^2(\Phi + 1) + \alpha w, \forall z_1 = 1, 2, ..., Z, i_1 = 1, 2, ..., C_{z_1}, s_1 = 1, 2, ..., S.$$

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We have
$$\frac{\partial f}{\partial u_{z_1,s_1}}(x,u) = -\sum_{i=1}^{C_{z_1}} \alpha_{i,z_1} w_{i,z_1,s_1} x_{i,z_1,s_1} \exp\left(-\sum_{s=1}^{S} w_{i,z_1,s} x_{i,z_1,s} u_{z_1,s}\right),$$

$$\frac{\partial^2 f}{\partial u_{z_1,s_1} \partial u_{z_2,s_2}}(x,u) =$$

$$\begin{cases} 0 & \text{if } z_2 \neq z_1, \\ \sum\limits_{i=1}^{C_{z_1}} \alpha_{i,z_1} w_{i,z_1,s_1} x_{i,z_1,s_1} w_{i,z_1,s_2} x_{i,z_1,s_2} \exp\left(-\sum\limits_{s=1}^{S} w_{i,z_1,s} x_{i,z_1,s} u_{z_1,s}\right) & \text{if } z_2 = z_1. \end{cases}$$

$$\frac{\partial^2 f}{\partial u_{z_1,s_1} \partial x_{i_2,z_2,s_2}}(x,u) =$$

$$\begin{cases} 0 & \text{if } z_2 \neq z_1, \\ \alpha_{i_2,z_1} w_{i_2,z_1,s_1} x_{i_2,z_1,s_1} w_{i_2,z_1,s_2} u_{z_1,s_2} \exp\left(-\sum\limits_{s=1}^{S} w_{i_2,z_1,s} x_{i_2,z_1,s} u_{z_1,s}\right) \\ \qquad\qquad\qquad\qquad \text{if } z_2 = z_1, s_2 \neq s_1, \forall i_2 \in z_1, \\ \left(-w_{i_2,z_1,s_1} \alpha_{i_2,z_1} + \alpha_{i_2,z_1} w_{i_2,z_1,s_1} x_{i_2,z_1,s_1} w_{i_2,z_1,s_1} u_{z_1,s_1}\right) \exp\left(-\sum\limits_{s=1}^{S} w_{i_2,z_1,s} x_{i_2,z_1,s} u_{z_1,s}\right) \\ \qquad\qquad\qquad\qquad \text{if } z_2 = z_1, s_2 = s_1, \forall i_2 \in z_1. \end{cases}$$

On the line (z_1, s_1) of the Hessian matrix of the function f, we have the sum of absolute of all elements:

$$S_{z_1,s_1} = \sum_{s_2=1}^{S} \sum_{i=1}^{C_{z_1}} \left|\alpha_{i,z_1} w_{i,z_1,s_1} x_{i,z_1,s_1} w_{i,z_1,s_2} x_{i,z_1,s_2}\right| \exp\left(-\sum_{s=1}^{S} w_{i_2,z_1,s} x_{i_2,z_1,s} u_{z_1,s}\right) +$$

$$\sum_{s_2=1}^{S} \sum_{i_2=1}^{C_{z_1}} \left|\alpha_{i_2,z_1} w_{i_2,z_1,s_1} x_{i_2,z_1,s_1} w_{i_2,z_1,s_2} x_{i_2,z_1,s_2}\right| \exp\left(-\sum_{s=1}^{S} w_{i_2,z_1,s} x_{i_2,z_1,s} u_{z_1,s}\right) +$$

$$\sum_{i_2=1}^{C_{z_1}} \left|w_{i_2,z_1,s_1} \alpha_{i_2,z_1}\right| \exp\left(-\sum_{s=1}^{S} w_{i_2,z_1,s} x_{i_2,z_1,s} u_{z_1,s}\right)$$

$$\leq \sum_{s_2=1}^{S} \sum_{i=1}^{C_{z_1}} \Phi \alpha w^2 x_{i,z_1,s_2} + \sum_{s_2=1}^{S} \sum_{i_2=1}^{C_{z_1}} \Phi \alpha w^2 x_{i_2,z_1,s_2} + N w \alpha$$

$$\leq 2\Phi \alpha w^2 \sum_{s=1}^{S} \Phi_s + N w \alpha.$$

The infinity norm of Hessian matrix of function f satisfies

$$||H(f)||_\infty \leq \max\{S\alpha w^2 + S\alpha w^2\Phi + \alpha w, 2\Phi\alpha w^2\sum_{s=1}^{S}\Phi_s + Nw\alpha\} = \rho.$$

On the line (z_1, s_1) of the Hessian matrix $\nabla_u f(x, u)$ of the function $f(x, .)$, we have the sum of absolute of all elements

$$T_{z_1,s_1} = \sum_{s_2=1}^{S}\sum_{i=1}^{C_{z_1}}|\alpha_{i,z_1}w_{i,z_1,s_1}x_{i,z_1,s_1}w_{i,z_1,s_2}x_{i,z_1,s_2}|\exp(-\sum_{s=1}^{S}w_{i_2,z_1,s}x_{i_2,z_1,s}u_{z_1,s})$$

$$\leq \sum_{s_2=1}^{S}\sum_{i=1}^{C_{z_1}}\Phi\alpha w^2 x_{i,z_1,s_2} \leq \Phi\alpha w^2\sum_{s=1}^{S}\Phi_s, \forall x \in D, \forall u \in [0,1]^n.$$

Thus, we have

$$\sup\{||\nabla_u^2(f(x,u))|| : \quad u \in [0,1]^n, x \in D\} \leq \Phi\alpha w^2\sum_{s=1}^{S}\Phi_s.$$

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A deterministic optimization approach for planning a multisensor multizone search for a moving target

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Abstract

In this paper, we consider a well-known problem in the general area of search theory: planning a multisensor in multizone search so as to minimize the probability of non-detection of a moving target under a given resource effort to be shared. The solution method is based on a combination of the forward-backward split technique and a deterministic resolution for the general subproblem. Numerical experiments demonstrate the efficiency of the proposed algorithm in comparing with a standard method.

1 Introduction

Search theory is defined by Cadre and Soiris [3] as a discipline that treats the problem of how a missing object can be searched optimally, when the amount of searching time is limited and only probabilities of the possible position of the missing object are given. The theory of how to search for missing objects has been a subject of serious scientific research for more than 50 years. It is a branch of the broader applied science known as operations research [6].

Search theory was first established during World War II by the work of B. O. Koopman and his colleagues [13] in the Antisubmarine Warfare Operations Research Group (ASWORG). The applications of search theory were firstly made on military operations [22]. Koopman [12] stated that the principles of search theory could be applied effectively to any situation where the objective is to find a person or object contained in some restricted geographic area. After military applications, it was also applied to different problems such as; surveillance, explorations, medicine, industry and search and rescue operations [9]. The aim of searching in the context of Aeronautical Search and Rescue (ASAR), for instance, is to find the missing aircraft effectively and as quickly as possible with the available resources [21].

Stone [21] summarized major steps in the development of search theory, for instance, stationary target problems, moving target problems, optimal searcher path algorithms, and dynamic search games. The last item (search games) is the primary focus of recent researches, including numerous sub-domains such as mobile evaders, avoiding target, ambush

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games, inspection games, and tactical games.

A search theory problem, in general, is characterized by three pieces of data ([3]):

- the probabilities of the searched object (the "target") being in various possible locations;

- the local detection probability that a particular amount of local search effort could detect the target;

- the total amount of searching effort available.

The problem is to find the optimal distribution of this total effort that maximizes the probability of detection.

In this paper we consider an instance of search theory problems that can be described as follows: suppose that a space of search is partitioned into zones of reasonable size. A unique sensor must be able to explore efficiently a whole zone. Each zone is itself partitioned into cells. A cell is an area in which every points have the same properties, according to the difficulty of detection (altitude, vegetation, etc.). Each sensor has its own coefficient of visibility over a cell. The visibility coefficients depend also on the kind of target that is searched. Here, there is a unique target to detect. This study considers a multi period search of a moving target. This means that information about the sensors and the target will be now indexed by time (the period index). The target prior is now trajectorial and we shall consider here a Markovian (target) prior. Furthermore, assuming that sensors act independently at the cell level. The target is said undetected for this multiperiod search if it has not been detected at any period of the search. The objective is alloting sensors to search zones and finding the search resources sharing of multisensor in multizone at each time period so as to mimimize the probability of non-detection of a target.

This problem, in general, is very complicated because of the huge number of possible target trajectories. For a unique sensor, the problem has been theoretically solved in [20, 23]; while extensions to double layered constraints have been considered in [8]. In practice, all feasible algorithms are based on a forward-backward split introduced by Brown [2]. Similar procedures are also much employed in order to estimate Hidden Markov Models parameters (see e.g. [5]). In our case, although the forward-backward split technique allows us to simplify the main problem, the obtained general subproblem is still very hard since it is hierarchical:

- At upper level: finding the best allotment of sensors to search zones (a sensor is allotted to a unique zone);

- At lower level: determining the best resource sharing for every sensor, in order to have an optimal surveillance over the allotted zone.

In [19], Simonin et al. have proposed a hierarchical approach for solving the general subproblem, where a cross-entropy (CE) algorithm [1, 4, 18] has been developed for the

upper level while an optimization method based on the algorithm of de Guenin [7] for detecting a stationary target has been used in the lower level. Besides this paper, we do not find in the literature the works considering the general subproblem. *We can say that, up to now, there is no deterministic models and methods for it.*

In [15], we efficiently applied a new method for solving a problem, which has the same structure as the general subproblem. In this method, we developed a *deterministic continuous optimization approach* based on DC (Difference of Convex functions) programming and DCA (DC optimization Algorithms). Specifically, we proposed a new optimization model that is a nonlinear mixed 0-1 programming problem. This problem was then reformulated as a DC (Difference of Convex functions) program via a penalty technique. DC programming and DCA (DC algorithm) ([14, 16, 17]) have been investigated for solving the resulting DC program. This motivates us to investigate the combination of the forward-backward split technique and our proposed method for solving the considered problem.

The paper is organized as follows. In Section 2, the problem statement and the classic "forward-backward split" are presented. In Section 3, we present our approach developed in [15] for solving the general subproblem, then introduce a schema combining the forward-backward split and DCA. The numerical results are reported in Section 4 while some conclusions and perspectives are discussed in Section 5.

2   Problem statement

First, let us introduce the notations employed in the remainder of the paper.
The search periods are indexed by $t \in \{1, 2, ..., T\}$
$E:$ space of search, $Z:$ number of zones, $S:$ number of sensors
$z:$ zone index
$i:$ cell index
$s:$ sensor index
$\alpha:$ prior on the initial location of the target
$\varphi_s^t(c_{i,z}):$ quantity of resource of sensor s allotted to cell i of the zone z at the time t
$\Phi_s^t:$ quantity of resource available for sensor s to search the space at the time t
$w_{i,z,s}:$ coefficient that characterizes the acuity of sensor s over cell i of the zone z (visibility coefficient)

We report below the problem statement described in [19] (see [19] for more details).
The space of search: the search space, named E, is a large space with spatially variable search characteristics. The search space E is divided into Z search zones, denoted $E_z, z = 1, 2, ..., Z$, each of them is partitioned into C_z cells, denoted $\{c_{i,z}\}_{i=1}^{C_z}$ so that:

$$E = \bigcup_{z=1}^{Z} E_z, E_z \cap Z_{z'} = \emptyset, \forall z \neq z',$$

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$$E_z = \bigcup_{i=1}^{C_z} c_{i,z}, c_{i,z} \cap c_{j,z}, \forall i \neq j.$$

A cell $c_{i,z}$ represents the smallest search area in which the search parameters are constant. For example, it can be a part of land with constant characteristics (latitude, landscape). Each zone must have a reasonable size in order to be explored by a sensor within a fixed time interval.

The target: the target is hidden in one unit of the search space. Its location is characterized by a prior $\alpha_{i,z}$. Thus, we have

$$\sum_{z=1}^{Z} \sum_{i=1}^{C_z} \alpha_{i,z} = 1.$$

The means of search: means of search can be passive (e.g. IRST, ESM) or active sensors (radars). We will consider that searching the target will be carried out by S sensors. Due to operational constraints, each sensor $s \in S$ must be allotted to a unique search zone. For example, it could be the exploration time to share between units of a zone. At the lower level the amount of search resource allocated to the cell $c_{i,z}$ for the sensor s at the time t -if sensor s is allotted to zone E_z -is denoted $\varphi_s^t(c_{i,z})$. It can represent the time spent on searching the cell $c_{i,z}$ (passive sensor), the intensity of emissions or the number of pulses (active sensors), etc. Furthermore, each sensor s has at the time t a search amount Φ_s^t, it means that if sensor s is allotted to the zone E_z, we have the constraint:

$$\sum_{i=1}^{C_z} \varphi_s^t(c_{i,z}) \leq \Phi_s^t.$$

To characterize the effectiveness of the search at the cell level, we consider the conditional non-detection probability $\bar{P}_s(\varphi_s^t(c_{i,z}))$ which represents the probability of not detecting the target given that the target is hidden in $c_{i,z}$ and that we apply an elementary search effort $\varphi_s^t(c_{i,z})$ on $c_{i,z}$. Some hypotheses are made to model $\bar{P}_s(\varphi_s^t(c_{i,z}))$. For all sensors, $\varphi_s^t(c_{i,z}) \mapsto \bar{P}_s(\varphi_s^t(c_{i,z}))$ is convex and non-increasing (law of diminishing return). Assuming independence of elementary detections, a usual model is $\bar{P}_s(\varphi_s^t(c_{i,z})) = \exp(-w_{i,z,s}\varphi_s^t(c_{i,z}))$, where $w_{i,z,s}$ is a (visibility) coefficient which characterizes the reward for the search effort put in $c_{i,z}$ by sensor s.

An additional assumption is that sensors act independently at the cell level which means that at the time period t if S sensors are allotted to $c_{i,z}$ the probability of not detecting a target hidden in $c_{i,z}$ is simply $\prod_{s=1}^{S} \bar{P}_s(\varphi_s^t(c_{i,z}))$.

At each time period t, let $m_t : \{1, 2, ..., S\} \rightarrow \{1, 2, ..., Z\}$ be a mapping allotting sensors to search zones. Our aim is to find both the optimal mappings m_t and the optimal local distributions φ_s^t in order to minimize the non-detection probability, i.e.,

$$F((m_t, \varphi_s^t)_{t=1}^T) = \sum_{\vec{\omega} \in \Omega} \alpha(\vec{\omega}) \prod_{t=1}^T \prod_{s \in m_t^{-1}(z)} \bar{P}_s\left(\varphi_s^t(\vec{\omega}(t))\right),$$

where Ω denotes the set of target trajectories, $\vec{\omega}$ a target trajectory in Ω, and $\vec{\omega}(t)$ is the cell of the target trajectory $\vec{\omega}$ at the time t. That leads to solve the following constrained problem [19]:

$$
\begin{cases}
\min_{(m_t, \varphi_s^t)_{t=1}^T} F((m_t, \varphi_s^t)_{t=1}^T) \\[2mm]
\text{s.t.} \quad \forall t, \forall z, \forall s \in m^{-1}(z), \sum_{i=1}^{C_z} \varphi_s^t(c_{i,z}) \leq \Phi_s, \\[2mm]
\forall i \in z, \varphi_s^t(c_{i,z}) \geq 0, \\[1mm]
\forall t, m_t \text{ mapping} : \{1, 2, ..., S\} \to \{1, 2, ..., Z\}.
\end{cases}
\tag{1}
$$

Forward-backward split

We can rewrite the objective function F as follows:

$$F((m_t, \varphi_s^t)_{t=1}^T) = \sum_{z=1}^Z \sum_{i=1}^{C_z} \beta_{i,z}^\tau \prod_{s \in m_\tau^{-1}(z)} \bar{P}_s(\varphi_s^\tau(c_{i,z})),$$

where

$$\beta_{i,z}^\tau = \sum_{\vec{\omega} \in \vec{\omega}_{i,z,\tau}} \alpha(\vec{\omega}) \prod_{1 \leq t \leq T}^{t \neq \tau} \prod_{s \in m_t^{-1}(z)} \bar{P}_s\left(\varphi_s^t(c_{i_t, z_t})\right),$$

$$\vec{\omega}_{i,z,\tau} = \{\vec{\omega} \in \Omega : \vec{\omega}(\tau) = c_{i,z}\},$$

$$\vec{\omega} = (c_{i_1, z_1}, ..., c_{i_\tau, z_\tau}, ..., c_{i_T, z_T}),$$

$$\alpha(\vec{\omega}) = \alpha_{i_1, z_1} \prod_t^{T-1} \alpha_{t, t+1}(c_{i_t, z_t}, c_{i_{t+1}, z_{t+1}}).$$

Here, $\alpha_{t, t+1}(c_{i_t, z_t}, c_{i_{t+1}, z_{t+1}})$ is probability the target move from cell c_{i_t, z_t} to the cell $c_{i_{t+1}, z_{t+1}}$.

It remains to have a mean to calculate efficiently the $\beta_{i,z}^\tau$. To that aim, the trajectory Markov hypothesis is instrumental and we consider the following splitting of the $\beta_{i,z}^\tau$:

$$\beta_{i,z}^\tau = U_{i,z}^\tau . D_{i,z}^\tau,$$

where U and D are recursively defined by

$$U^\tau(i, z) = \sum_{j \in \tilde{z}} \alpha_{\tau-1, \tau}(j, i) \prod_{s \in m_{\tau-1}^{-1}(\tilde{z})} \bar{P}_s\left(\varphi_s^{\tau-1}(c_{j, \tilde{z}})\right) U^{\tau-1}(j, \tilde{z}),$$

$$D^\tau(i, z) = \sum_{j \in \tilde{z}} \alpha_{\tau, \tau+1}(j, i) \prod_{s \in m_{\tau+1}^{-1}(\tilde{z})} \bar{P}_s\left(\varphi_s^{\tau+1}(c_{j, \tilde{z}})\right) D^{\tau+1}(j, \tilde{z}).$$

In the above equation, we denote by $\widetilde{z}$, the zones which can be attained conditionally to the hypothesis that the target is in the cell i of the zone z at the period τ and that it has a Markovian prior α. Such a forward-backward split was introduced by Brown [2].

Now, for a given τ, and considering that the $\beta_{i,z}^{\tau}$ are known, the multiperiod search problem is put in the situation: the target is "static" with prior $\beta_{i,z}^{\tau}$. The general subproblem can be written as follows:

$$
\begin{cases}
\min_{\{m,\varphi_s(c_{i,z})\}} \sum_{z=1}^{Z} \sum_{i=1}^{C_z} \beta_{i,z} \prod_{s \in m^{-1}(z)} \bar{P}_s(\varphi_s(c_{i,z})) \\
\text{s.t.} \quad \forall z, \forall s \in m^{-1}(z), \sum_{i=1}^{C_z} \varphi_s(c_{i,z}) \leq \Phi_s, \\
\qquad \forall i \in z, \varphi_s(c_{i,z}) \geq 0, \\
\qquad m \text{ mapping} : \{1, 2, ..., S\} \to \{1, 2, ..., Z\}.
\end{cases}
\tag{2}
$$

3 Solution Method

3.1 A deterministic formulation of Problem (2)

Let us introduce the allocation variable $u_{z,s}$ defined by

$$
u_{z,s} = \begin{cases} 1 & \text{if the sensor } s \text{ is allotted to the zone } z, \\ 0 & \text{otherwise.} \end{cases}
$$

Let variable $x_{i,z,s} = \varphi_s(c_{i,z})$ be the quantity of resource of the sensor s allotted to the cell $c_{i,z}$ in the zone z. We can rewrite (2) in the following form:

$$
\begin{cases}
\min_{x,u} (f(x,u) = \sum_{z=1}^{Z} \sum_{i=1}^{C_z} \beta_{i,z} \prod_{s=1}^{S} \bar{P}_s(x_{i,z,s} u_{z,s})) \\
\text{s.t. } \sum_{i=1}^{C_z} x_{i,z,s} \leq \Phi_s, z = 1, ..., Z, s = 1, ..., S, \\
\qquad \sum_{z=1}^{Z} u_{z,s} = 1, s = 1, ..., S, \\
\qquad u_{z,s} \in \{0,1\}, x_{i,z,s} \geq 0, s = 1, ..., S, z = 1, ..., Z, i = 1, ..., C_z.
\end{cases}
\tag{3}
$$

The constraints $\sum_{z=1}^{Z} u_{z,s} = 1, \forall s = 1, 2, ..., S$ mean that each sensor $s \in S$ must be allotted to a unique search zone.

With the usual model $\bar{P}_s$ [11]:

$$
\bar{P}_s(x_{i,z,s}) = \exp(-w_{i,z,s} x_{i,z,s}),
$$

the objective function f becomes:

$$
f(x,u) = \sum_{z=1}^{Z} \sum_{i=1}^{C_z} \beta_{i,z} \exp(-\sum_{s=1}^{S} w_{i,z,s} x_{i,z,s} u_{z,s}).
$$

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Set
$$d = S.(C_1 + C_2 + ... + C_z), n = Z.S.$$

Denoting by

$$D = \{x = (x_{i,z,s}) \in \mathbb{R}_+^d : \sum_{i=1}^{C_z} x_{i,z,s} \leq \Phi_s, z = 1, ..., Z, s = 1, ..., S, \}$$

$$M = \{u = (u_{z,s}) \in \{0, 1\}^{Z.S} : \sum_{z=1}^{Z} u_{z,s} = 1, s = 1, ..., S\},$$

we can writte the problem (3) in the form:

$$(P) \quad \begin{cases} \min_{x,u} \sum_{z=1}^{Z} \sum_{i=1}^{C_z} \beta_{i,z} \exp(-\sum_{s=1}^{S} w_{i,z,s} x_{i,z,s} u_{z,s}) \\ \text{s.t. } x \in D, u \in M, \end{cases}$$

which is a nonlinear mixed 0-1 programming problem. It is easy to see that the objective function of (P), say f, is convex in x for each fixed u, and similarly, it is convex in u for each fixed x. Moreover, f is infinitely differentiable.

3.2   DC Reformulation

Consider the function p and the bounded polyhedral convex set K defined, respectively, by:

$$p(u) = \sum_{z=1}^{Z} \sum_{s=1}^{S} u_{z,s}(1 - u_{z,s}),$$

and

$$K = \{u = (u_{z,s}) \in [0, 1]^{Z.S} : \sum_{z=1}^{Z} u_{z,s} = 1, s = 1, ..., S\}.$$

We notice that p is finite and concave on $\mathbb{R}^{Z.S}$, non-negative on K and

$$M = \{u \in K : p(u) \leq 0\}.$$

Hence Problem (P) can be rewritten as

$$\alpha = \min\{f(x, u) : x \in D, \ u \in K, \ p(u) \leq 0\}.$$

The exact penalty result is given in the following theorem.

Theorem 1 *(i) Let*

$$t^0 = \max\{||\nabla_u^2(f(x, u))|| : \quad u \in [0, 1]^n, x \in D\},$$

then $\forall t > t^0$ the problem (P)

$$\min\{f(x, u) : x \in D, u \in M\} \quad (P)$$

is equivalent to the next problem

$$\min\{f(x, u) + tp(u) : x \in D, u \in K\}. \quad (P_t)$$

(ii) If (x^*, u^*) is a local solution to problem (P_t) then (x^*, u^*) is a feasible solution to the problem (P).

Proof see [15].

Note that the part (ii) in this theorem is very useful for DCA applied to (P_t) because DCA usually produces a local solution.

Since D is compact and $f \in C^\infty$, $\max\{||\nabla_u^2(f(x, u))|| : \quad u \in [0, 1]^n, x \in D\}$ exists. The following proposition gives an estimation of t^0 :

Proposition 2 *We have*

$$t^0 := \max\{||\nabla_u^2(f(x, u))|| : \quad u \in [0, 1]^n, x \in D\} \leq \Phi\beta w^2 \sum_{s=1}^{S} \Phi_s,$$

where

$$\beta = \max\{\beta_{i,z} : z = 1, ..., Z, i = 1, ..., C_z\}, \Phi = \max\{\Phi_s : 1, ..., S\},$$

$$w = \max\{w_{i,z,s} : z = 1, ..., Z, i = 1, ..., C_z, s = 1, ..., S\}.$$

Proof see [15].

In the sequel we will investigate DCA for solving problem (P_t) with $t^0 = \Phi\beta w^2 \sum_{s=1}^{S} \Phi_s$.

3.3   DC Algorithm (DCA)

3.3.1   Outline of DC Programming and DCA

DC programming and DCA, which constitute the backbone of smooth/nonsmooth nonconvex programming and global optimization, have been introduced by Pham Dinh Tao in 1985 and extensively developed by Le Thi Hoai An and Pham Dinh Tao since 1994 to become now classic and increasingly popular ([14, 16, 17] and references therein). They address the problem of minimizing a function f which is a difference of convex functions on the whole space $\mathbb{R}^p$ or on a convex set $C \subset \mathbb{R}^p$. Generally speaking, a DC program takes the form

$$\alpha = \inf\{f(x) := g(x) - h(x) : x \in \mathbb{R}^p\} \quad (P_{dc}) \tag{4}$$

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where g, h are lower semicontinuous proper convex functions on $\mathbb{R}^p$. Such a function f is called DC function, and $g - h$, DC decomposition of f while g and h are DC components of f. The convex constraint $x \in C$ can be incorporated in the objective function of (P_{dc}) by using the indicator function on C denoted χ_C which is defined by

$$\chi_C(x) = \begin{cases} 0 \text{ if } x \in C \\ +\infty, \text{ otherwise.} \end{cases}$$

If either g or h is polyhedral convex function then (P_{dc}) is called a polyhedral DC program. Let

$$g^*(y) := \sup\{\langle x, y \rangle - g(x) : x \in \mathbb{R}^p\}$$

be the conjugate function of g. Then, the following program is called the dual program of (P_{dc}):

$$\alpha_D = \inf\{h^*(y) - g^*(y) : y \in \mathbb{R}^p\}. \quad (D_{dc}) \tag{5}$$

One can prove that $\alpha = \alpha_D$, (see e.g. [14, 16]) and there is the perfect symmetry between primal and dual DC programs: the dual to (D_{dc}) is exactly (P_{dc}).
DCA is based on the local optimality conditions of (P_{dc}), namely

$$\partial h(x^*) \cap \partial g(x^*) \neq \emptyset \tag{6}$$

(such a point x^* is called *critical point* of $g - h$), and

$$\emptyset \neq \partial h(x^*) \subset \partial g(x^*). \tag{7}$$

The condition (7) is necessary local optimality of (P_{dc}) (or the generalized KKT condition). It is also sufficient for many classes of DC programs. In particular it is sufficient for the next cases quite often encountered in practice (see e.g. [14, 16]):
The idea of DCA is simple: each iteration of DCA approximates the concave part $-h$ by its affine majorization (that corresponds to taking $y^k \in \partial h(x^k)$) and minimizes the resulting convex function (that is equivalent to determining $x^{k+1} \in \partial g^*(y^k)$).
Generic DCA scheme
Initialization: Let $x^0 \in \mathbb{R}^p$ be a best guess, $0 \leftarrow k$.
Repeat
Calculate $y^k \in \partial h(x^k)$
Calculate $x^{k+1} \in \arg\min\{g(x) - h(x^k) - \langle x - x^k, y^k \rangle : x \in \mathbb{R}^p\}$ (P_k)
$k + 1 \leftarrow k$
Until convergence of x^k.
It is important to mention the following main convergence properties of DCA:

- DCA is a descent method (the sequences $\{g(x^k) - h(x^k)\}$ and $\{h^*(y^k) - g^*(y^k)\}$ are decreasing) *without linesearch*;

- If the optimal value α of the problem (P_{dc}) is finite and the infinite sequences $\{x^k\}$ and $\{y^k\}$ are bounded then every limit point x^* (resp. y^*) of the sequence $\{x^k\}$ (resp. $\{y^k\}$) is a critical point of $g - h$ (resp. $h^* - g^*$).

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- DCA has a *linear convergence* for general DC programs.

- DCA has a finite convergence for polyhedral DC programs.

Moreover, it is worth noting that the construction of DCA involves DC components g and h but not the function f itself. Hence, for a DC program, each DC decomposition corresponds to a different version of DCA. Since a DC function f has an infinite number of DC decompositions which have crucial impacts on the qualities (speed of convergence, robustness, efficiency, globality of computed solutions,...) of DCA, the search for a "good" DC decomposition is important from algorithmic point of views. Furthemover, despite its local character, DCA with a good initial point can converge to global solutions. Finding a "good" initial point is then also an important stage of DCA. How to develop an efficient algorithm based on the generic DCA scheme for a practical problem is thus a judicious question to be studied, and the answer depends on the specific structure of the problem being considered. The solution of a practical nonconvex program by DCA must be composed of two stages: the search of an *appropriate* DC decomposition and the search of a *good* initial point. An appropriate DC decomposition, in our sense, is the one that corresponds to a DCA which is not expensive and has interesting convergence properties.
In the next subsection we will develop an instance of DCA to solve the problem (P_t), and study the convergence properties of the proposed algorithm.

3.3.2 Description of the DCA applied to (P_t)

From the computations, we have

$$||H(f)||_\infty \le \max\{S\beta w^2 + S\beta w^2 \Phi + \beta w, 2\Phi\beta w^2 \sum_{s=1}^{S} \Phi_s + Nw\beta\}.$$

where

$$N = \max\{C_z : z = 1, ..., Z\}.$$

Hence, let $\rho := \max\{S\beta w^2 + S\beta w^2 \Phi + \beta w, 2\Phi\beta w^2 \sum_{s=1}^{S} \Phi_s + Nw\beta\}$, a DC formulation of (P_t) can be

$$\min\{g(x, u) - h(x, u) : (x, u) \in D \times K\}, \tag{8}$$

where

$$g(x, u) := \frac{\rho}{2}||(x, u)||^2 \text{ and } h(x, u) := \frac{\rho}{2}||(x, u)||^2 - f(x, u) - tp(u).$$

DCA applied to DC program (8) consists of computing, at each iteration k, the two sequences $\{(y^k, v^k)\}$ and $\{(x^k, u^k)\}$ such that $(y^k, v^k) \in \partial h(x^k, u^k)$ and (x^{k+1}, y^{k+1}) is an optimal solution of the next convex quadratic program

$$\min\left\{\frac{\rho}{2}||(x, u)||^2 - \langle (x, u), (y^k, v^k) \rangle : (x, u) \in D \times K\right\}$$

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which can be decomposed into two subproblems

$$\min\left\{\frac{\rho}{2}||x||^2 - \langle x, y^k \rangle : x \in D \right\} \tag{9}$$

and

$$\min\left\{\frac{\rho}{2}||u||^2 - \langle u, v^k \rangle : u \in K \right\}. \tag{10}$$

We are now in a position to summarize the DCA for solving Problem (P_t)

Algorithm 1:
Step 1. Initialization: let (x^0, u^0) satisfy the constraints of the problem. Choose $\epsilon_1 > 0, \epsilon_2 > 0$ and $k = 0$.

Step 2. Compute $(y^k, v^k) = \nabla h(x^k, u^k)$, with

$$y^k = \rho x^k - \nabla_x f(x^k, u^k), \ \ v^k = \rho u^k - \nabla_u f(x^k, u^k) + t(2u^k - e).$$

Step 3. Compute (x^{k+1}, u^{k+1}) by solving the two convex quadratic problems (9) and (10)
Step 4. Iterate Step 2 and 3 until

$$|f(x^{k+1}, u^{k+1}) - f(x^k, u^k)| \leq \epsilon_1(1 + |f(x^{k+1}, u^{k+1})|)$$

$$\text{or} \ \ ||(x^{k+1}, u^{k+1}) - (x^k, u^k)||_\infty \leq \epsilon_2(1 + ||(x^{k+1}, u^{k+1})||_\infty).$$

Theorem 3 *(Convergence properties of Algorithm DCA, for simplicity's sake, we omit here the dual part of these properties)*
i) DCA generates the sequence $\left\{(x^k, u^k)\right\}$ such that the sequence $\left\{f(x^k, u^k)\right\}$ is decreasing.
ii) The point $\left\{(x^k, u^k)\right\}$ verifies the generalized condition of the problem (8).

Proof Direct consequences of the convergence properties of DCA for general DC programs and the fact that the function h is differentiable.

In order to speed up DCA, we proposed an efficient way for computing (x^{k+1}, u^{k+1}) in [15].

3.4 Combining forward-backward split technique and DCA (FAB&DCA)

The multisensor multizone moving target algorithm takes the following form:
Algorithm 3:

1. **Initialization:**

   $\forall \tau, \forall z, \forall i, D_1^\tau(i, z) = 1,$
   $\forall k, \forall z, \forall i, U_1^k(i, z) = \alpha_{i,z}.$

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2. **Iteration** (k index):

   Iteration(τ index)

   - $\forall z, \forall i$, compute the optimal allotment and resource sharing by DCA with prior

$$\beta_{i,z}^\tau = U_k^\tau(i,z).D_k^\tau(i,z);$$

   - $\forall z, \forall i$, compute $U_k^{\tau+1}(i,z);$

   $\forall z, \forall i$, compute $D_{k+1}(\tau)(i,z);$

   Stop: when the search plan is no more improved.

4   Numerical result

Suppose that the search space is the lake of Laouzas in France [19]. Number of zone is $Z = 4$ and there are $n = 30$ cells in each zone. We assume that the target is Markovian and moves south east direction. The transition matrix describing the target motion is given in Fig. 3 and is assumed to be constant over time. The search is carried out over four time periods by means of the six sensors. All sensors has the same amount of resource Φ for all time period. The coefficients are given in Table 1. We take five search plans.

The program is written by language C on Microsoft Visual C++ 2008, and the implementation takes place on a notebook with chipset Intel(R) Core(TM) Duo CPU 2.0 GHz, RAM 3GB.

To find a starting point of DCA, we firstly apply DCA on (P_t) with the parameters ρ and *penalty* quite small (depending on the parameters Φ) form the starting point (x^0, u^0), where $x^0 = (x_{i,z,s}^0)$ and $u^0 = (u_{z,s}^0)$ is determined as follows:

$$x_{i,z,s}^0 = \Phi/n, \ \forall i, z, s; \ u_{z,s}^0 = 1/Z, \ \forall z, s.$$

Then we get a new pair (x^1, u^1) which is chosen as the starting point of the main algorithm. In two stages of DCA, we choose $\epsilon_1 = \epsilon_2 = 10^{-7}$.

In Table 2, we compare the result obtained by FAB&DCA and the method of combining the forward-backward split technique and the Cross-Entropy method (FAB&CE)[19]. We choose $\Phi = 5$. The parameters for CE as follows: for each iteration, number of samples is $N = 50$, $\theta = 0.3$ and the number of iteration is limited to 15. We observe that the FAB&DCA produced the better solutions than the FAB&CE while the CPU is shorter. Moreover, although we only care of the results at the time 4 of the last search plan

(iteration $k = 5$), FAB&DCA works better than FAB&CE does in all time of this search plan.

Table 3 presents additional results with $\Phi = 10$ and $\Phi = 15$. FAB&DCA produced once again the better solutions than the FAB&CE while CPU time is shorter. Here, there is a negative relationship between Φ and the non-detection probability. When $\Phi = 15$, the probability of non-detection obtained by FAB&DCA is 0.078225.

Figure 1: An aerial photograph of the lake of Laouzas
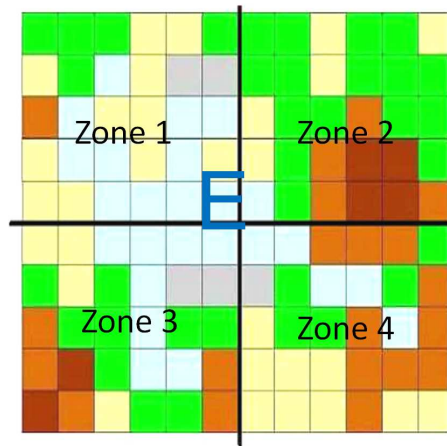
Figure 2: Partition of the lake Laouzas

5   Conclusion

We have presented a new approach for solving the problem planning a multisensor multizone search for a moving target. Actually, this is an extension of our developed approach in the case "static" target. In other words, that is combination of the forward-backward split
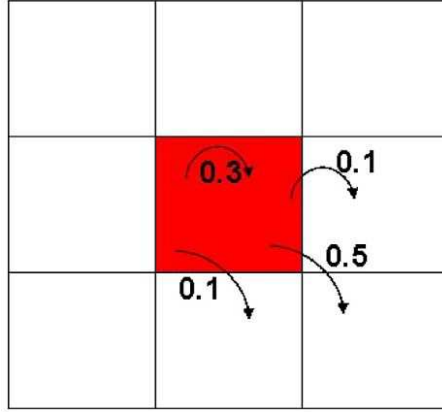
Figure 3: The target transition probability

Type of Cell	Prior of target	Visibility of sensors					
		Sensor 1	Sensor 2	Sensor 3	Sensor 4	Sensor 5	Sensor 6
Forest	0.0085	0.4	0.5	0.6	0.8	0.5	0.1
Water	0.001	0.9	0.1	0.1	0.1	0.3	0.5
Plat Plan	0.0115	0.3	0.1	0.4	0.6	0.5	0.2
Rough plan	0.013	0.2	0.7	0.8	0.2	0.4	0.6
Very rough plan	0.014	0.1	0.6	0.7	0.1	0.3	0.5
Town	0	0.8	0.9	0.1	0.7	0.6	0.2

Table 1: Parameters

Time	Sensors	FAB&CE method				Non-detection probability	CPU time	FAB&DCA method				Non-detection probability	CPU time
		Allotment S = 6						Allotment S = 6					
Time 1	Sensor 1	0	1	0	0	0.468681	18.57s	0	1	0	0	0.440446	9.36s
	Sensor 2	1	0	0	0			0	0	1	0		
	Sensor 3	0	0	1	0			0	0	1	0		
	Sensor 4	1	0	0	0			1	0	0	0		
	Sensor 5	1	0	0	0			1	0	0	0		
	Sensor 6	0	0	0	1			0	0	0	1		
Time 2	Sensor 1	1	0	0	0	0.386112		1	0	0	0	0.367013	
	Sensor 2	0	1	0	0			0	1	0	0		
	Sensor 3	0	0	1	0			0	1	0	0		
	Sensor 4	0	1	0	0			0	1	0	0		
	Sensor 5	0	1	0	0			0	0	0	1		
	Sensor 6	0	1	0	0			0	0	0	1		
Time 3	Sensor 1	0	0	0	1	0.326479		1	0	0	0	0.310935	
	Sensor 2	0	1	0	0			0	1	0	0		
	Sensor 3	0	0	1	0			0	1	0	0		
	Sensor 4	0	1	0	0			0	0	1	0		
	Sensor 5	0	0	0	1			0	0	0	1		
	Sensor 6	0	0	0	1			0	0	0	1		
Time 4	Sensor 1	0	0	1	0	**0.272548**		0	0	1	0	**0.270107**	
	Sensor 2	0	0	0	1			0	0	0	1		
	Sensor 3	0	0	0	1			0	0	0	1		
	Sensor 4	0	0	1	0			0	0	1	0		
	Sensor 5	0	0	0	1			0	0	0	1		
	Sensor 6	0	0	0	1			0	0	0	1		

Table 2: Non-detection probability with $\Phi = 5$.

Amount of resource Φ	Time	FAB&CE method		FAB&DCA method	
		Non-detection probability	CPU time	Non-detection probability	CPU time
5	Time 1	0.468681	18.57s	0.440446	9.36s
	Time 2	0.386112		0.367013	
	Time 3	0.326479		0.310935	
	Time 4	**0.272548**		**0.270107**	
10	Time 1	0.254927	18.43s	0.228051	9.00s
	Time 2	0.205480		0.191276	
	Time 3	0.173844		0.160008	
	Time 4	**0.149615**		**0.137433**	
15	Time 1	0.139648	18.41s	0.134255	14.17s
	Time 2	0.113025		0.111196	
	Time 3	0.098799		0.091861	
	Time 4	**0.090995**		**0.078225**	

Table 3: Relation of non-detection probability and amount of resource.

technique and DCA. The table 2 and 3 show that our approach can solve this problem more effectively than the FAB&CE method, an efficient algorithm for the considered problem.

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Assignment Problem

Globally solving a nonlinear UAV task assignment problem by stochastic and deterministic optimization approaches

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Abstract In this paper, we consider a task allocation model that consists of assigning a set of m unmanned aerial vehicles (UAVs) to a set of n tasks in an optimal way. The optimality is quantified by target scores. The mission is to maximize the target score while satisfying capacity constraints of both the UAVs and the tasks. This problem is known to be NP-hard. Existing algorithms are not suitable for the large scale setting. Scalability and robustness are recognized as two main issues. We deal with these issues by two optimization approaches. The first approach is the Cross-Entropy (CE) method, a generic and practical tool of stochastic optimization for solving NP-hard problem. The second one is Branch and Bound algorithm, an efficient classical tool of global deterministic optimization. The numerical results show the efficiency of our approaches, in particular the CE method for very large scale setting.

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1 Introduction

The use of unmanned aerial vehicles (UAVs) for various military missions has received growing attention in the past years. Apart from the obvious advantage of not placing human life at risk, the lack of a human pilot enables considerable weight savings and lower costs. On the other hand, UAVs provide an opportunity for new operational paradigms. However, to realize these advantages, UAVs must have a high level of autonomy and capacity to work cooperatively in groups. In this context, several algorithms dealing with the problem of commanding multiple UAVs to cooperatively perform multiple tasks have been developed. The aim is to assign specific tasks and flyable trajectories to each vehicle to maximize the group performance. The intrinsic uncertainty imbedded in military operations makes the problem more challenging. Scalability and robustness are recognized as two main issues. Also, to allow implementation, the developed algorithms must be solved in real time.

Extensive research has been done recently in this field [4,7,9,12–18,20,21,27–30]. In [4,17,20], task allocation has been formulated in the form of Mixed-Integer Linear Programming (MILP). In this approach, the problem is solved as a deterministic optimization problem with known parameters. Since the MILP is NP-hard, it suffers from poor scalability although the solutions preserve global optimality [19]. Moreover, military situations are in general dynamic and uncertain because of the UAV's sensing limitation and adversarial strategies. Thus, replanning is necessary whenever the information is updated. Heuristics and ad-hoc methods have been considered during replanning in [14,17]. On the other hand, uncertainty is considered via optimization parameters, and risk management techniques in finance are utilized (see e.g. [21,28]). In [21], a nonlinear integer programming problem is formulated where a risk measure by conditional value-at-risk is considered as constraint. In [28], a robust approach using the Soyster formulation on the expectation of the target scores is investigated. These approaches are based on solving hard combinatorial optimization problems and then scalability is still a big issue. An alternative approach dealing with uncertainties consists of formulating a stochastic optimal control problem by using the method of Model Predictive Control (MPC) [6,27].

In this paper, we are interested in task allocation models where we seek to assign a set of m UAVs to a set of n tasks in an optimal way. The optimality is quantified by target scores. The mission is to maximize the target score while satisfying capacity constraints of both the UAVs and the tasks.

The scoring scheme defining effectiveness in our work is a nonlinear function. More precisely, our considered problem is a mixed integer nonlinear programming problem for which the classical MILP solution method can not be used. We propose two approaches to tackle it. The first approach is the Cross-Entropy (CE) method, a simple generic and practical tool of stochastic optimization for solving NP-hard problem. The second one is the Branch and Bound algorithm, an efficient classical tool of global deterministic optimization.

The CE method was originally developed in [22] for an adaptive networks, where an adaptive variance minimization algorithm for estimating probabilities of rare events for stochastic networks was presented. It was modified in [23,24] to solve optimization problems. Several recent publications demonstrate the power of the CE method

as simple and efficient approach for many applications such as telecommunication systems, buffer allocation, vehicle routing, DNA sequence alignment, Machine Learning, etc. It has been proved that this method is particularly relevant for solving "hard" combinatorial optimization problems. In fact, when deterministic methods failed to find the optimal solution within a reasonable time, in most cases the CE method allows to find a fairly good solution more quickly. This motivates us to investigate the CE method for large scale UAV Task Assignment Problem. For measuring the efficiency of the CE method and globally solving the considered problem, we develop a Brand and Bound (B&B) algorithm and compare the two methods.

The rest of paper is organized as follows. In Sect. 2, we describe the problem and give its mathematical formulation. Section 3 is dedicated to the description of CE method and its application for solving the considered problem. The B&B is presented in Sect. 4 while the numerical experiments are reported in Sect. 5. Finally we conclude the paper by Sect. 6.

2 Problem statement

Let V and T be the sets of m UAVs and n targets, respectively. The scoring scheme defining effectiveness is based on the definition of target score. Each target j has an associated score based on the task success probability r_j and a weight w_j measuring the importance of the target. The probability that the task will be successfully carried out for that target depends on y_j, the number of UAVs which have been assigned to the target j, in the following way:

$$1 - (1 - r_j)^{y_j}.$$

A target score is computed as the product of the success probability and its weight:

$$g_j(y_j) = w_j(1 - (1 - r_j)^{y_j}), \tag{1}$$

and the UAVs group effectiveness is simply the sum of all individual target scores: $\sum_{j \in T} g_j(y_j)$. Then the goal is to maximize the UAVs group effectiveness.

Let z_{ij}, for $i \in V = \{1, \ldots, m\}$ and $j \in T = \{1, \ldots, n\}$, be the decision variable defined by: z_{ij} is equal to 1 when the UAV i is assigned to the target j, and 0 otherwise. An entry of $m \times n$ adjacency matrix A, a_{ij}, indicates which target each UAV can be assigned. So, the number y_j can be computed as $y_j = \sum_{i \in V} a_{ij} z_{ij}$, $j \in T$.

The mathematical model of this problem can be written as follows:

$$\begin{cases} \max_{z,y} \sum_{j \in T} w_j(1 - (1 - r_j)^{y_j}) \\ s.t. \quad y_j = \sum_{i \in V} a_{ij} z_{ij}, \quad j \in T, \\ \sum_{j \in T} z_{ij} = 1, \quad i \in V, \\ z_{ij} \in \{0, 1\}, \quad i \in V, j \in T. \end{cases} \tag{2}$$

The second constraints ensure that each UAV i is used for only one task. This problem is an integer nonlinear programming which is known to be very hard.

3 A Cross-Entropy algorithm for solving the UAV task assignment problem (2)

3.1 An introduction to Cross-Entropy method

The CE method is a relatively new method for solving both continuous multi-extremal and combinatorial optimization problems. It was originally developed in the rare-event estimation framework [22] as an adaptive importance sampling scheme for estimating rare event probabilities via simulation. This approach was afterward modified in [23,24] for solving both continuous multi-extremal and combinatorial optimization problems. The main idea of the CE method is the construction of a random sequence of solutions which converges probabilistically to the optimal or near-optimal solution. It involves the following two iterative phases:

1. Generation of a sample of random data (trajectories, vectors, etc.) according to a specified random mechanism.
2. Updating the parameters of the random mechanism, typically parameters of pdfs (probability density functions), on the basis of the data, to produce a "better" sample in the next iteration.

Unlike most of the stochastic algorithms for optimization which are based on local search, the CE method is a global random search procedure. The CE method was successfully applied to various problems such as the traveling salesman problem [23], the bipartition problem [23], the maximal cut problem [25], the image matching [10], the image segmentation [11], etc.

For a comprehensive overview and history of the CE method, the reader is referred to [26]. For the sake of completion we present below the generic CE scheme for combinatorial optimization problems.

Consider the problem of minimizing the function S over a finite set $\mathcal{X}$, say

$$\gamma^* = \min_{x \in \mathcal{X}} S(x). \tag{3}$$

The starting point in the methodology of the CE method applied to (3) is to associate an estimation problem with the optimization problem (3). To this end one defines a collection of indicator functions $I_{\{S(x) \leq \gamma\}}$ on $\mathcal{X}$ for various thresholds or levels $\gamma \in \mathbb{R}$. Next, let $\{f(\cdot; v), v \in V\}$ be a family of (discrete) probability density functions (pdfs) on $\mathcal{X}$, parameterized by a real-valued (vector) v.

For some $u \in V$, we consider the *Associated Stochastic Problem* (ASP):

$$\ell(\gamma) = \mathbb{P}_u(S(x) \leq \gamma) = \sum_{x \in \mathcal{X}} I_{\{S(x) \leq \gamma\}} f(x; u) = \mathbb{E}_u I_{\{S(x) \leq \gamma\}}, \tag{4}$$

where $\mathbb{P}_u$ is the probability measure under which the random state $\mathcal{X}$ has the pdf $f(\cdot; u)$, and $\mathbb{E}_u$ denotes the corresponding expectation operator. The idea of CE method

is to construct simultaneously two sequences of levels $\widehat{\gamma}_1, \widehat{\gamma}_2, \ldots, \widehat{\gamma}_T$ and parameters (vectors) $\widehat{v}_1, \widehat{v}_2, \ldots, \widehat{v}_T$ such that $\widehat{\gamma}_T$ is close to the optimal γ^*, and $\widehat{v}_T$ is such that the corresponding density assigns high probability mass to the collection of states that give a low value. More specifically, one initializes by setting $v_0 = u$ and choosing a not very small quantity θ, and then proceeds as follows:

1. **Adaptive updating of γ_t.** For a fixed v_t, let γ_t be the θ-quantile of $S(X)$ under v_{t-1}. That is, γ_t satisfies

$$\mathbb{P}_{v_{t-1}}(S(X) \geq \gamma_t) \geq 1 - \theta, \tag{5}$$

$$\mathbb{P}_{v_{t-1}}(S(X) \leq \gamma_t) \geq \theta, \tag{6}$$

where $X \sim f(\cdot; v_{t-1})$.
A simple estimator of γ_t, denotes $\widehat{\gamma}_t$, can be obtained by drawing a random sample $X^1, X^2, \ldots, X^N$ from $f(\cdot; v_{t-1})$. Suppose that $S(X^{\sigma(1)}) \leq S(X^{\sigma(2)}) \leq \cdots \leq S(X^{\sigma(N)})$, where σ is a permutation of the set $\{1, \ldots, N\}$. Estimate the θ-quantile of $S(X)$ as

$$\widehat{\gamma}_t = S_{\lfloor \theta N \rfloor}. \tag{7}$$

2. **Adaptive updating of v_t.** For a fixed γ_t and v_{t-1}, derive v_t by minimizing the Kullback-Leibler distance, or equivalent to solving the program

$$\max_v \mathbb{E}_{v_{t-1}} I_{\{S(X) \leq \gamma_t\}} \ln f(X; v). \tag{8}$$

The stochastic counterpart of (8) is as follows: for fixed $\widehat{\gamma}_t$ and $\widehat{v}_{t-1}$ the estimate of v_{t-1}, derive $\widehat{v}_t$ from the solution of following program

$$\max_v D(v) := \frac{1}{N} \sum_{i=1}^{N} I_{\{S(X^i) \leq \gamma_t\}} \ln f(X^i; v). \tag{9}$$

In typical applications, the function D is concave and differentiable with respect to v, and thus updating Eq. (9) is equivalent to solving the following system of equations:

$$\frac{1}{N} \sum_{i=1}^{N} I_{\{S(X^i) \leq \gamma_t\}} \nabla \ln f(X^i; v) = 0, \tag{10}$$

where the gradient is with respect to v.

CE Algorithm for combinatorial optimization

1. Choose $\widehat{v}_0$, and $0 < \theta < 1$. Set $t = 1$.
2. Generate N samples $X^1, X^2, \ldots, X^N$ according to $f(\cdot; \widehat{v}_{t-1})$, and compute θ-quantile $\widehat{\gamma}_t$ of S according to (7).

3. Use the same samples $X^1, X^2, \ldots, X^N$ to solve the stochastic programming problem (9). Denote the solution by $\widehat{v}_t$.
4. If for some $t \geq d$, say $d = 5$ such that

$$\widehat{\gamma}_t = \widehat{\gamma}_{t-1} = \cdots = \widehat{\gamma}_{t-d},$$

then **stop**; otherwise set $t = t + 1$, reiterate from step 2.

For the convergence analysis of the CE method we refer to [5,8,26].

3.2 A Cross-Entropy method for solving problem (2)

We first rewrite the problem (2) in the form:

$$\begin{cases} \min_z f(z) := \sum_{j \in T} w_j \left(1 - r_j\right)^{\sum_{i \in V} a_{ij} z_{ij}} \\ s.t. \quad \sum_{j \in T} z_{ij} = 1, \quad \forall i \in V, \\ z_{ij} \in \{0, 1\}, \quad \forall i \in V, j \in T. \end{cases} \tag{11}$$

Denote by Z the feasible set of (11), say

$$Z := \left\{ z = (z_{ij}) \in \{0, 1\}^{mn} : \sum_{j \in T} z_{ij} = 1, i \in V \right\}.$$

It is clear that each variable $z \in Z$ is identical to an assignment mapping $m_z : \{1, \ldots, m\} \longmapsto \{1, \ldots, n\}$, i.e., $m_z(i) = j$ iff $z_{ij} = 1$. Then, the set Z is identical to the set:

$$\mathscr{X} = \{x = (x_1, \ldots, x_m) : x_i \in \{1, \ldots, n\} \text{ is the target assigned to UAV } i\}. \tag{12}$$

The CE algorithm draws particular assignment of UAVs to targets that will be evaluated and then selected, in order to obtain a drawing law which will converge toward the optimal assignment. First, we must choose a family of pdf, $f(\cdot; v)$, describing a probability choice of x.

A discrete probability law $p(j|i)$ is associated to each UAV i. It represents the probability to assign the UAV i to the target j. These probabilities are summarized by the matrix M:

$$M = \begin{pmatrix} p(1|1) & p(2|1) & \cdots & p(n|1) \\ p(1|2) & p(2|2) & \cdots & p(n|2) \\ & & \cdots & \\ p(1|m) & p(2|m) & \cdots & p(n|m) \end{pmatrix}.$$

Note that, we must have

$$\sum_{j=1}^{n} p^M(j|i) = 1.$$

Let $X = (x_1, x_2, \ldots, x_m)$ be the random assignment vector of UAVs to targets, x_i is the target assigned to UAV i for the draw. The probability of drawing the vector according to M is

$$p(X) = \prod_{i=1}^{m} p(x_i|i),$$

where $p(x_i|i)$ is the coefficient in the column x_i and the row i of matrix M.

In each iteration, suppose that X^k, $X^k = (x_1^k, \ldots, x_i^k, \ldots, x_m^k)$, $k = 1, 2, \ldots, N$ are the samples drawn. The $H = \lfloor \theta N \rfloor$ best samples, according to the objective function f, are selected to update M. Denoting $\{X^1, X^2, \ldots, X^H\}$ as the H "best" vectors among the draws $\{X^1, X^2, \ldots, X^N\}$. Minimizing the Kullback–Leibler distance leads to the following optimization problem:

$$\begin{cases} \max_{p(j|i)} \mathscr{K} := \sum_{h=1}^{H} \ln\left(\prod_{i=1}^{m} p(x_i^h|i)\right) \\ s.t. \quad \sum_{j=1}^{n} p(j|i) = 1, \quad i = 1, \ldots, m, \\ p(j|i) \geq 0, \quad i = 1, \ldots, m, j = 1, \ldots, n. \end{cases} \tag{13}$$

We first rewrite the objective function as follows

$$\mathscr{K} = \sum_{h=1}^{H} \ln\left(\prod_{i=1}^{m} p\left(x_i^h|i\right)\right) = \sum_{i=1}^{m} \sum_{h=1}^{H} \ln\left(p\left(x_i^h|i\right)\right)$$

$$= \sum_{i=1}^{m} \sum_{j=1}^{n} \mathrm{card}\{h \in \{1, \ldots, H\} : x_i^h = j\} \ln(p(j|i))$$

Denoting

$$u_{ji} = p(j|i), b_{ji} = \mathrm{card}\{h \in \{1, \ldots, H\} : x_i^h = j\}.$$

The program (13) is equivalent to

$$\begin{cases} \min_{u_{ji}} \left(-\sum_{i=1}^{m} \sum_{j=1}^{n} b_{ji} \ln(u_{ji})\right) \\ s.t. \quad \sum_{j=1}^{n} u_{ji} = 1, \quad i = 1, \ldots, m, \\ u_{ji} \geq 0, \quad i = 1, \ldots, m, j = 1, \ldots, n. \end{cases} \tag{14}$$

Since it is a convex programming problem, we consider the Karusk–Kuhn-Tucker (KKT) condition of the program (14):

$$
\begin{cases}
-\dfrac{b_{ji}}{u_{ji}} + \lambda_i - \mu_{ji} = 0, & i = 1, \ldots, m, \ j = 1, \ldots, n, \\[2mm]
\lambda_i \left(\displaystyle\sum_{j=1}^{n} u_{ji} - 1 \right) = 0, & i = 1, \ldots, m, \\[2mm]
\mu_{ji} u_{ji} = 0, & i = 1, \ldots, m, \ j = 1, \ldots, n, \\[1mm]
\lambda_i \geq 0, & i = 1, \ldots, m, \\[1mm]
\mu_{ji} \geq 0, & i = 1, \ldots, m, \ j = 1, \ldots, n.
\end{cases}
$$

Then by solving the KKT condition, we get the updating formula of matrix M as follows

$$
p(j|i) := \frac{\operatorname{card}\{h \in \{1, \ldots, H\} : x_i^h = j\}}{H}.
$$

The CE algorithm for solving the Problem (11):

Step 1. Initialize $M = M_0 = (p_0(j|i))_{m \times n}$ a uniform distribution, i. e.,

$$
p_0(j|i) = \frac{1}{n}, \quad i = 1, \ldots, m, \ j = 1, \ldots, n,
$$

and choose $\theta \in (0, 1)$,

Step 2. Draw N samples $X^1, X^2, \ldots, X^N$ according to M. Compute $f(X^k)$, $k = 1, 2, \ldots, N$,

Step 3. Sort the sequence $\{f(X^k)\}_{k=1}^N$ in the increasing orders. Let $f(X^{\sigma(1)}) \leq f(X^{\sigma(2)}) \leq \cdots \leq f(X^{\sigma(N)})$, where σ is a permutation of the set $\{1, 2, \ldots, N\}$. Set $H = \lfloor \theta N \rfloor$, then choose H best draws $X^{\sigma(1)}, X^{\sigma(2)}, \ldots, X^{\sigma(H)}$,

Step 4. Update M by the formula

$$
p(j|i) := \frac{\operatorname{card}\{h \in \{1, 2, \ldots, H\} : \ x_i^{\sigma(h)} = j\}}{H},
$$

Step 5. Iterate step 2, 3, 4 until convergence.

In practice, we should choose M_0 in the Step 1 as follows:

$$
p_0(j|i) =
\begin{cases}
\dfrac{1}{n_i} & \text{if } a_{ij} = 1, \\[3mm]
0 & \text{if } a_{ij} = 0,
\end{cases}
$$

where $n_i = \sum_{j=1}^{n} a_{ij}, i = 1, \ldots, m$.

4 A Branch and Bound algorithm

For globally solving the considered problem, and for measuring the quality of our CE algorithm, we develop a global approach based on classical Branch and Bound (B&B) scheme. The lower bounds are computed by solving the relaxed problem:

$$\min \left\{ f(z) = \sum_{j=1}^{n} w_j (1 - r_j)^{\sum_{i=1}^{m} a_{ij} z_{ij}} : z \in K \right\}, \tag{15}$$

where K is nonempty bounded polyhedral convex set in $\mathbb{R}^{mn}$.

Since this problem is convex, it can be solved by standard solvers for convex programming. Here, we use DCA [1–3] to solve it. DCA is an efficient approach for DC (Difference of Convex functions) programming problems. It addresses a general DC program of the form

$$\alpha := \inf \left\{ f(z) := g(z) - h(z) : z \in \mathbb{R}^n \right\} \quad (P_{dc})$$

where g and h are convex, lower semicontinuous proper functions. DC programs with closed convex set constraints C can be cast into (P_{dc}) by adding χ_C, the indicator function on C, with g. ($\chi_C(z) = 0$ if $z \in C$, $+\infty$ otherwise).

The DC (Difference of Convex functions) programming and DCA (DC Algorithms) constitute the backbone of Nonconvex Programming and Global Optimization. They were introduced by Tao in 1985 and extensively developed by An and Tao since 1994 to become now classic and increasingly popular. It is clear that convex programs are *false* DC programs for which DCA can be used. On the other hand, with suitable DC decompositions, DCA applied to convex programs permits to find again standard optimization methods for convex programming.

The idea of DCA is quite simple: each iteration k one linearizes the concave part $-h$ and then solve the resulting convex program. More precisely, DCA consists of computing at each iteration k

$$y^k \in \partial h(z^k), \quad z^{k+1} \in \arg \min_{z \in \mathbb{R}^n} \left\{ g(z) - h(z^k) - \langle z - z^k, y^k \rangle \right\} \ (P_k).$$

For solving (15) we use the following DC decomposition:

$$f(z) = \sum_{j=1}^{n} w_j (1 - r_j)^{\sum_{i=1}^{m} a_{ij} z_{ij}} = g(z) - h(z), \tag{16}$$

where

$$g(z) := \frac{\lambda}{2} \|z\|^2; \quad h(z) := \frac{\lambda}{2} \|z\|^2 - \sum_{j=1}^{n} w_j (1 - r_j)^{\sum_{i=1}^{m} a_{ij} z_{ij}}. \tag{17}$$

Here, λ takes the associated value such that h is convex.

Description of the DCA for problem (15)

Step 1. Initialization: Choose $z^0 \in K$, $\varepsilon_1 > 0$, and $\varepsilon_2 > 0$. Set $k = 0$.

Step 2. Compute $y^k = \nabla h(z^k)$, with

$$y_{ij}^k = \lambda z_{ij}^k - w_j \log(1 - r_j) a_{ij} (1 - r_j)^{\sum\limits_{i=1}^{m} a_{ij} z_{ij}^k}$$

for $i = 1, \ldots, m$, $j = 1, \ldots, n$.

Step 3. Compute z^{k+1} by solving the convex quadratic problem

$$\begin{cases} \min\limits_{z} \left(g(z) - \langle z, y^k \rangle \right) \\ s.t. \quad z \in K. \end{cases}$$

Step 4. Iterate Step 2 and 3 until

$$\left| f\left(z^{k+1}\right) - f(z^k) \right| \leq \varepsilon_1 \left(1 + \left| f\left(z^{k+1}\right) \right| \right)$$

$$\text{or} \quad \left\| z^{k+1} - z^k \right\| \leq \varepsilon_2 \left(1 + \left\| z^{k+1} \right\| \right).$$

Let Ω be the set defined by

$$\Omega := \left\{ z = (z_{ij}) \in [0, 1]^{mn} : \sum_{j \in T} z_{ij} = 1, i \in V \right\}.$$

B&B Algorithm

Let $R_0 := [0, 1]^{m.n}$ and ε be a sufficiently small positive number. Set *restart := true*;
Solve the convex problem (15) with $K \leftarrow K_{R_0} = \Omega \cap R_0$ to obtain a solution z^{R_0}
and the first lower bound $\beta_0 := \beta(R_0)$;

If z^{R_0} is feasible to (11) **then**

set $\gamma_0 := f(z^{R_0})$, $z^0 := z^{R_0}$, *restart := false* **else** $\gamma_0 := +\infty$;

Endif

If $(\gamma_0 - \beta_0) \leq \varepsilon |\gamma_0|)$ **then** STOP, z^0 is an ε-optimal solution of (11) **else** set $\mathfrak{R} \leftarrow \{R_0\}$, $k \leftarrow 0$;

Endif

While (STOP = false) **do**

Select a rectangle R_k such that $\beta_k = \beta(R_k) = \min\{\beta(R) : R \in \mathfrak{R}\}$.

Let $j^* \in \{1, \ldots, m.n\}$ be the index such that $z_{j^*}^{R_k} \notin \{0, 1\}$. Divide R_k into two
sub-rectangles R_{k_0} and R_{k_1} via the index j^*:

$$R_{k_i} = \{z \in R_k : z_{j^*} = i; i = 0, 1\}. \tag{18}$$

Solve the subproblems (P_{k_i}) to obtain $\beta(R_{k_i})$ and $(z^{R_{k_i}})$:

$$(P_{k_i}) \quad \beta(R_{k_i}) = \min\{f(z) : z \in \Omega, z \in R_{k_i}\}. \tag{19}$$

For $i = 0, 1$
   If $z^{R_{k_i}}$ is feasible to (11) **then**
      update γ_k and the best feasible solution z^k;
   Endif
Endfor
Set $\mathfrak{R} \leftarrow \mathfrak{R} \cup \{R_{k_i} : \beta(R_{k_i}) < \gamma_k - \varepsilon, i = 0, 1\} \setminus R_k$.
If $\mathfrak{R} = \emptyset$ **then** STOP, z^k is an ε-optimal solution **else** set $k \leftarrow k + 1$.
Endwhile

5 Numerical results

The algorithms are written in language C on Microsoft Visual C++ 2008. The implementation takes place on a notebook with chipset Intel(R) Core(TM) Duo CPU 2.0 GHz, RAM 3GB. The commercial software CPLEX 11.2 is used as a convex quadratic programming solver.

The following notations are used in these tables:

- Pb: Problem,
- Bin: number of the binary variables,
- $Ctrs$: number of the constraints,
- Obj: value of the objective function obtained by each algorithm,
- $Time$: CPU time in seconds of each algorithm,
- $Gap\% = \frac{Obj - Lastlowerbound}{Obj}$,
- $GapCE\% = \frac{Obj - Firstlowerbound}{Obj}$.

In Table 1, we give a comparison between CE and B&B. The results have demonstrated that with small dimension, CE gives good solutions as the same as B&B does, but CPU time in our approach is very better. The ratio of time consumed varies from 114 to 10,218. Especially, for Problem 4, B&B runs for more than one hour and does not produce a solution, whereas CE gives a good solution. In this problem, we compute GapCE by using the first lower bound. Figures 1 and 2 show the result for nine out of ten problems. In Table 2, we continue to compare in larger dimension, with $m = 20, n = 10$. We can see that CE still works very well while B&B runs for more than one hour and does not produce a solution, for all problems. In these experiments CE was run with number of samples, $N = 50$, and $\theta = 0.4$. The number of iterations is limited to 20.

Table 3 gives the results with 10 instances with large dimensions having $50 \times 30 = 1,500$ binary variables. The weights $\{w_j\}$ are random integers chosen uniformly from 1 to 10, and the task success probabilities $\{r_j\}$ are random numbers chosen uniformly in interval $[0, 1]$. The parameters are chosen as follows: number of samples is $N = 100, \theta = 0.4$. Table 4 presents the results for very large dimensions. In this case we take $\theta = 0.04$. The maximum of number of iterations is 50.

Table 1 CE compares with B&B, $m = 10$, $n = 10$

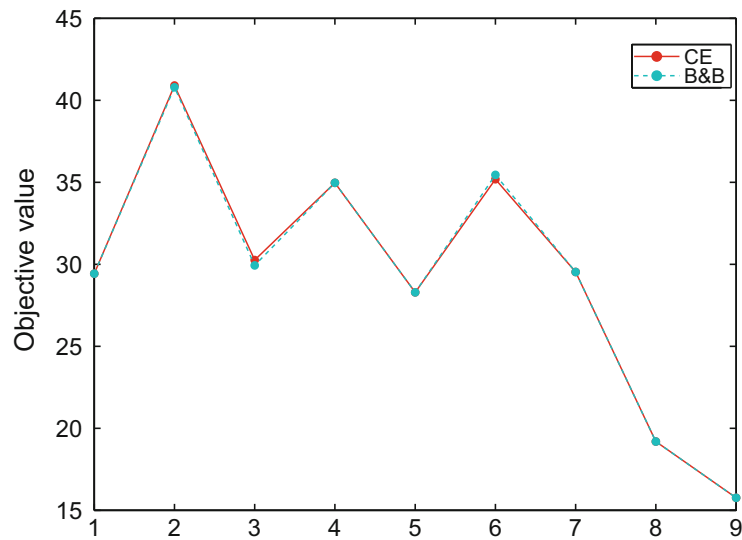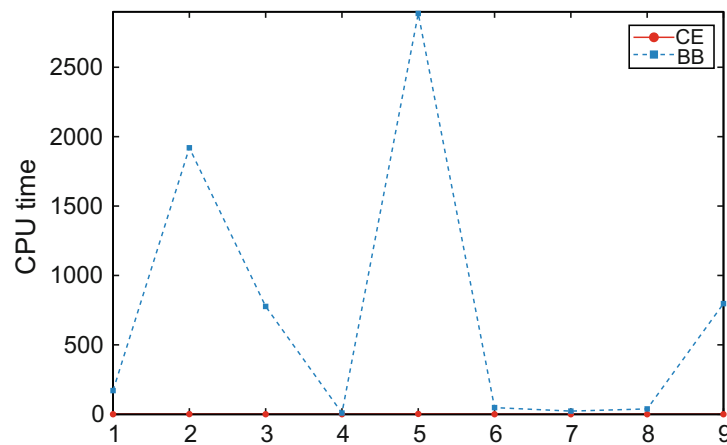| Data			CE method			B&B		
Pb	Bin	Ctrs	Obj	Time(s)	Gap	Obj	Time(s)	Gap
1	100	10	29.425828	0.078	0.1999	29.425858	170.890	0.2
2	100	10	40.899408	1.156	0.5556	40.790448	1919.812	0.29
3	100	10	30.256247	0.078	1.2553	29.927309	776.766	0.17
4	100	10	26.001069	1.140	2.85	NA	>1 h	NA
5	100	10	34.964398	0.078	0.06	34.964398	8.937	0.06
6	100	10	28.286803	2.890	1.03	28.286803	2887.265	1.03
7	100	10	35.185966	0.078	0.3965	35.454166	47.859	1.15
8	100	10	29.528116	0.078	0.33	29.528116	23.110	0.33
9	100	10	19.188199	0.078	0.46	19.188199	38.578	0.46
10	100	10	15.761578	0.078	2.08	15.761578	797.063	2.08

Fig. 1 Objective function, $m = 10$, $n = 10$

Fig. 2 CPU time, $m = 10$, $n = 10$

Table 2 CE compares with B&B, $m = 20, n = 10$

Data			CE method			B&B	
Pb	Bin	Ctrs	Obj	Time(s)	GapCE	Obj	Time (h)
1	200	20	23.765072	0.203	0.2	NA	>1
2	200	20	21.351345	0.218	0.56	NA	>1
3	200	20	22.799311	0.187	1.26	NA	>1
4	200	20	23.388861	0.203	2.85	NA	>1
5	200	20	18.416153	0.187	0.06	NA	>1
6	200	20	25.096867	0.203	1.03	NA	>1
7	200	20	22.698760	0.187	0.4	NA	>1
8	200	20	19.459113	0.218	0.33	NA	>1
9	200	20	13.077463	0.187	0.46	NA	>1
10	200	20	23.539310	0.203	2.08	NA	>1

Table 3 Results with large dimensions: $m = 50, n = 30$

Instance	Bin	Ctrs	Time(s)	GapCE
1	1,500	50	4.766	2.562583
2	1,500	50	4.750	3.315747
3	1,500	50	4.797	2.816054
4	1,500	50	4.797	1.868424
5	1,500	50	5.047	3.784732
6	1,500	50	4.875	2.093580
7	1,500	50	4.968	3.010455
8	1,500	50	4.797	1.401817
9	1,500	50	4.937	3.711038
10	1,500	50	4.860	2.658826

Table 4 Results with very large dimensions

Instance	m	n	Bin	Ctrs	Time (s)	GapCE	Samples
1	300	100	30,000	300	141.078	1.270807	1,000
2	500	100	50,000	500	229.593	1.829299	1,000
3	500	300	150,000	500	1190.437	3.139713	2,000
4	700	500	350,000	700	2306.141	4.031592	2,000
5	1,000	500	500,000	1,000	3649.781	5.114315	2,000

6 Conclusion

In this work, we have firstly proposed an approach based on the CE method for solving UAV Task Assignment problem, and then presented a global approach based on B&B algorithm for measuring the quality of our CE algorithm. The results have shown the efficiency of this approach not only with small dimensions but also with very large dimensions. This approach can overcome very well the barrier of binary variables, that

the standard methods are usually very difficult for treating. Other non-linear models of task assignment problem will be studied in our future work.

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Solving the Multidimentional Assignment Problem via the Cross-Entropy method

Nguyen Duc Manh · Le Thi Hoai An · Pham Dinh Tao

Abstract The multidimensional assignment problem (MAP) is a higher dimensional version of the linear assignment problem, where we find tuples of elements from given sets, such that the total cost of the tuples is minimal. The MAP has many recognized applications such as data association, target tracking, and resource planning. While the linear assignment problem is solvable in polynomial time, the MAP is NP-hard. In this work, we propose a new approach based on the Cross-Entropy (CE) method for solving the MAP. Due to the structure of the MAP, we design an appropriate family of discrete distributions on the feasible set of the MAP and apply CE method. The efficiency of our method will be shown by testing for the large-scale problems, for instance, the MAP with 5 dimensions and there are 20 elements in each dimension, which is equivalent to a 0-1 linear program with 3.2 millions binary variables and 100 constraints.

1 Introduction

The most basic type of assignment problem is linear assignment, which is considered to be the job-to-worker problem. Suppose that we have a set of n_1 jobs and a set of n_2 workers ($n_1 \leq n_2$), and c_{ij} is the cost of worker j performing job i. The objective is to assign each job to a worker so that all the jobs are done with minimum total cost.

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Let x_{ij} be decision variable defined as

$$x_{ij} = \begin{cases} 1 & \text{if worker } j \text{ is assigned job } i, \\ 0 & \text{otherwise,} \end{cases}$$

The 0-1 linear program formulation of this problem is described as follows

$$\begin{cases} \min \sum\limits_{i=1}^{n_1} \sum\limits_{j=1}^{n_2} c_{ij} x_{ij} \\ \text{s.t.} \sum\limits_{j=1}^{n_2} x_{ij} = 1, i = 1, 2, ..., n_1, \\ \qquad \sum\limits_{i=1}^{n_1} x_{ij} \leq 1, j = 1, 2, ..., n_2, \\ \qquad x_{ij} \in \{0, 1\}. \end{cases}$$

The constraints guarantee that each worker performs at most one job, and that all jobs are accomplished.

The multidimensional assignment problem (MAP) is simply a higher dimensional version of the linear assignment problem. Denoting n_k the number of elements in dimension k of d dimensions, $n_1 \leq n_k, k = 2, ..., d$, the MAP can be expressed as an integer program as follows

$$\begin{cases} \min \sum\limits_{i_1=1}^{n_1} ... \sum\limits_{i_d=1}^{n_d} c_{i_1...i_d} x_{i_1...i_d} \\ \text{s.t.} \sum\limits_{i_2=1}^{n_2} ... \sum\limits_{i_d=1}^{n_d} x_{i_1...i_d} = 1, i_1 = 1, 2, ..., n_1, \\ \qquad \sum\limits_{i_1=1}^{n_1} ... \sum\limits_{i_{k-1}=1}^{n_{k-1}} \sum\limits_{i_{k+1}=1}^{n_{k+1}} ... \sum\limits_{i_d=1}^{n_d} x_{i_1...i_d} \leq 1, i_k = 1, 2, ..., n_k, k = 2, ..., d-1, \quad (1) \\ \qquad \sum\limits_{i_1=1}^{n_1} ... \sum\limits_{i_{d-1}=1}^{n_{d-1}} x_{i_1...i_d} \leq 1, i_d = 1, 2, ..., n_d, \\ \qquad x_{i_1...i_d} \in \{0, 1\}. \end{cases}$$

An equivalent formulation of this problem, which offers us several approaches to find an optimal assignment is injection formulation

$$\begin{cases} \min \sum\limits_{i=1}^{n_1} c_{i, \pi_1(i), ..., \pi_{d-1}(i)} \\ \text{s.t.} \ \pi_k : \{1, 2, ..., n_1\} \to \{1, 2, ..., n_{k+1}\} \text{ is injective}, \forall k = 1, 2, .., d-1. \end{cases} \quad (2)$$

The MAP was first introduced by Pierskalla (1968) [24], and since then has found numerous applications in the areas of data association [2], image recognition [36], multisensor multitarget tracking [19, 26], tracking of elementary particles [28], etc. For a survey of the MAP and its applications, see [5, 6, 8, 14, 21, 34].

It is worth to note that while the linear assignment problem is solvable in polynomial time, the MAP is known to be NP-hard. The computational time to find an optimal solution of an MAP grows exponentially with the number of dimensions and factorially with the dimension size [23]. Indeed, the total number cost coefficients, and the number of feasible solutions for a fully dense problem are given by the following expressions [9]:

$$\text{Total number cost coefficients} = \prod\limits_{k=1}^{d} n_k;$$

$$\text{Number of feasible solutions } = \prod_{k=2}^{d} \frac{n_k!}{(n_k - n_1)!}.$$

Despite its inherent difficulty, several exact and heuristic algorithms have been proposed in the literature [1,3,4,9,17,18,20,22–25,27,35]. Most of them are heuristic approaches, such as the GRASP (greedy randomized adaptive search procedure) with Path Relinking for Three-Index Assignment [1], the Simulated Annealing [9], the Local Search Heuristics [17], Local Search Neighborhoods [23], etc. The exact solution methods are the Branch and Bound procedures [16,22,24], the Lagrangian Relaxation Based Algorithms [25,27].

In this paper, we propose a new approach based on the Cross-Entropy (CE) method to tackle the problem (2). The CE method was originally developed in [29] for an adaptive networks, where an adaptive variance minimization algorithm for estimating probabilities of rare events for stochastic networks was presented. It was modified in [30,31] to solve optimization problems. Several recent publications demonstrate the power of the CE method as simple and efficient approach for many applications such as telecommunication systems, buffer allocation, vehicle routing, DNA sequence alignment, Machine Learning, etc. It has been proved that this method is particularly relevant for solving "hard" combinatorial optimization problems. In fact, when deterministic methods failed to find the optimal solution within a reasonable time, in most cases the CE method allows to find a fairly good solution more quickly. This motivates us to investigate the CE method for the MAP.

To apply CE method, the difficulty is how to find an appropriate family of distributions on the feasible set of the optimization problem such that updating the parameters could be done as easily as possible. Due to the formulation (2) of the MAP, we construct a family of discrete distributions, that allows us to apply CE method. It is the main contribution in this paper.

The rest of paper is organized as follows. In section 2, we give a short presentation of the CE method. In Section 3, we propose a CE algorithm for solving our problem. Numerical experiments are reported in Section 4 while some conclusions and perspectives are discussed in Section 5.

2 The Cross-Entropy method

The CE method is a relatively new method for solving both continuous multi-extremal and combinatorial optimization problems. It was originally developed in the rare-event estimation framework [29] as an adaptive importance sampling scheme for estimating rare event probabilities via simulation. This approach was afterward modified in [30,31] for solving both continuous multi-extremal and combinatorial optimization problems. The main idea of the CE method is the construction of a random sequence of solutions which converges probabilistically to the optimal or near-optimal solution. It involves the following two iterative phases:

1. Generation of a sample of random data (trajectories, vectors, etc.) according to a specified random mechanism.
2. Updating the parameters of the random mechanism, typically parameters of pdfs (probability density functions), on the basis of the data, to produce a "better" sample in the next iteration.

Unlike most of the stochastic algorithms for optimization which are based on local search, the CE method is a global random search procedure. The CE method was successfully applied to various problems such as the traveling salesman problem [30], the bipartition problem [30], the maximal cut problem [32], the image matching [12], the image segmentation [13], etc.

For a comprehensive overview and history of the CE method, the reader is referred to [33]. For the sake of completion we present below the generic CE scheme for combinatorial optimization problems.

Consider the problem of minimizing the function S over a finite set $\mathcal{X}$, say

$$\gamma^* = \min_{x \in \mathcal{X}} S(x). \tag{3}$$

The starting point in the methodology of the CE method applied to (3) is to associate an estimation problem with the optimization problem (3). To this end one defines a collection of indicator functions $I_{\{S(x) \leq \gamma\}}$ on $\mathcal{X}$ for various thresholds or levels $\gamma \in \mathbb{R}$. Next, let $\{f(\cdot; v), v \in V\}$ be a family of (discrete) probability density functions (pdfs) on $\mathcal{X}$, parameterized by a real-valued (vector) v.

For some $u \in V$, we consider the *Associated Stochastic Problem* (ASP):

$$\ell(\gamma) = \mathbb{P}_u(S(x) \leq \gamma) = \sum_{x \in \mathcal{X}} I_{\{S(x) \leq \gamma\}} f(x; u) = \mathbb{E}_u I_{\{S(x) \leq \gamma\}}, \tag{4}$$

where $\mathbb{P}_u$ is the probability measure under which the random state $\mathcal{X}$ has the pdf $f(\cdot; u)$, and $\mathbb{E}_u$ denotes the corresponding expectation operator. The idea of CE method is to construct simultaneously two sequences of levels $\widehat{\gamma}_1, \widehat{\gamma}_2, ..., \widehat{\gamma}_T$ and parameters (vectors) $\widehat{v}_1, \widehat{v}_2, ..., \widehat{v}_T$ such that $\widehat{\gamma}_T$ is close to the optimal γ^*, and $\widehat{v}_T$ is such that the corresponding density assigns high probability mass to the collection of states that give a low value. More specifically, one initializes by setting $v_0 = u$ and choosing a not very small quantity θ, and then proceeds as follows:

1. **Adaptive updating of γ_t.** For a fixed v_{t-1}, let γ_t be the θ-quantile of $S(X)$ under v_{t-1}. That is, γ_t satisfies

$$\mathbb{P}_{v_{t-1}}(S(X) \geq \gamma_t) \geq 1 - \theta, \tag{5}$$

$$\mathbb{P}_{v_{t-1}}(S(X) \leq \gamma_t) \geq \theta, \tag{6}$$

where $X \sim f(\cdot; v_{t-1})$.
A simple estimator of γ_t, denotes $\widehat{\gamma}_t$, can be obtained by drawing a random sample $X^1, X^2, ..., X^N$ from $f(\cdot; v_{t-1})$. Suppose that $S(X^{\sigma(1)}) \leq S(X^{\sigma(2)}) \leq ... \leq S(X^{\sigma(N)})$, where σ is a permutation of the set $\{1, ..., N\}$. Estimate the θ-quantile of $S(X)$ as

$$\widehat{\gamma}_t = S_{\lfloor \theta N \rfloor}. \tag{7}$$

2. **Adaptive updating of v_t.** For a fixed γ_t and v_{t-1}, derive v_t by minimizing the Kullback-Leibler distance, or equivalent to solving the program

$$\max_v \mathbb{E}_{v_{t-1}} I_{\{S(X) \leq \gamma_t\}} \ln f(X; v). \tag{8}$$

The stochastic counterpart of (8) is as follows: for fixed $\widehat{\gamma}_t$ and $\widehat{v}_{t-1}$ the estimate of v_{t-1}, derive $\widehat{v}_t$ from the solution of following program

$$\max_v D(v) := \frac{1}{N} \sum_{i=1}^N I_{\{S(X^i) \leq \widehat{\gamma}_t\}} \ln f(X^i; v). \tag{9}$$

In typical applications, the function D is concave and differentiable with respect to v, and thus updating equation (9) is equivalent to solving the following system of equations:

$$\frac{1}{N}\sum_{i=1}^{N} I_{\{S(X^i)\leq\gamma_t\}}\nabla \ln f(X^i; v) = 0, \tag{10}$$

where the gradient is with respect to v.

For the convergence analysis of the CE method we refer to [10, 11, 33].

Remark 1 (**smooth parameter**): Instead of updating the parameter v directly via the solution of (9) we use the following smooth version

$$\widehat{v}_t = \alpha\widetilde{v}_t + (1-\alpha)\widehat{v}_{t-1}, t = 1, 2, ..., \tag{11}$$

where $\widetilde{v}_t$ is the parameter vector from the solution of (9), and α is called the smoothing parameter, with $0.7 \leq \alpha \leq 1$. The reason for using this smooth is: (a) to smooth out the value of $\widehat{v}_t$, (b) to reduce the probability that some component $\widehat{v}_{t,i}$ of $\widehat{v}_t$ will be zero or one at the first few iterations. This is particularly important when $\widehat{v}_t$ is a vector or matrix of probabilities.

CE Algorithm for Combinatorial Optimization

1. Choose $\widehat{v}_0$, and $0 < \theta < 1$. Set $t = 1$.
2. Generate N samples $X^1, X^2, ..., X^N$ according to $f(\cdot; \widehat{v}_{t-1})$, and compute θ-quantile $\widehat{\gamma}_t$ of S according to (7).
3. Use the same samples $X^1, X^2, ..., X^N$ to solve the stochastic programming problem (9). Denote the solution by $\widetilde{v}_t$.
4. Applying (11) to smooth out the vector $\widetilde{v}_t$.
5. If for some $t \geq d$, say $d = 5$ such that

$$\widehat{\gamma}_t = \widehat{\gamma}_{t-1} = ... = \widehat{\gamma}_{t-d},$$

then **stop**; otherwise set $t = t + 1$, reiterate from step 2.

3 Application CE method to Problem (2)

We denote by X the set of the sequences of injections $\pi = (\pi_1, \pi_2, ..., \pi_{d-1})$, where $\pi_k : \{1, 2, ..., n_1\} \to \{1, 2, ..., n_{k+1}\}$ is an injection, $k = 1, 2, ..., d-1$. The objective function of the MAP is computed by:

$$S(\pi) = \sum_{i=1}^{n_1} c_{i, \pi_1(i), ..., \pi_{d-1}(i)}.$$

Due to the special structure of X, it is very hard to directly construct a family of discrete distributions on X. We consider an extending set of X, denoted $\widetilde{X}$, that is the set of the sequences of mappings $\widetilde{\pi} = (\widetilde{\pi}_1, \widetilde{\pi}_2, ..., \widetilde{\pi}_{d-1})$, where $\widetilde{\pi}_k : \{1, 2, ..., n_1\} \to \{1, 2, ..., n_{k+1}\}$, $k = 1, 2, ..., d-1$. We define a function $\widetilde{S}$ on $\widetilde{X}$ as follows

$$\widetilde{S}(\widetilde{\pi}) = \begin{cases} S(\widetilde{\pi}) & \text{if } \widetilde{\pi} \in X, \\ +\infty & \text{otherwise.} \end{cases}$$

Therefore

$$\min_{\pi \in X} S(\pi) = \min_{\widetilde{\pi} \in \widetilde{X}} \widetilde{S}(\widetilde{\pi}).$$

To construct a family of discrete distribution on $\widetilde{X}$, we choose a sequence of probability matrices $M = (M_1, M_2, ..., M_{d-1})$, where

$$M_k = \begin{pmatrix} p_k(1|1) & p_k(1|2) & \cdots & p_k(1|n_{k+1}) \\ p_k(2|1) & p_k(2|2) & \cdots & p_k(2|n_{k+1}) \\ & & \cdots & \\ p_k(n_1|1) & p_k(n_1|2) & \cdots & p_k(n_1|n_{k+1}) \end{pmatrix},$$

and $p_k(i|j)$ represents the probability to assign the element i of dimension 1 to the element j of dimension $k + 1$, for all $k = 1, ..., d - 1$.

We have

$$\sum_{j=1}^{n_{k+1}} p_k(i|j) = 1.$$

For each $\widetilde{\pi} = (\widetilde{\pi}_1, \widetilde{\pi}_2, ..., \widetilde{\pi}_{d-1}) \in \widetilde{X}$. The probability of drawing this sequence of mappings according to M is

$$p(\widetilde{\pi}) = \prod_{k=1}^{d-1} \prod_{i=1}^{n_1} p_k(i|\widetilde{\pi}_k(i)).$$

In each iteration, suppose that $\widetilde{\pi}^l = (\widetilde{\pi}_1^l, \widetilde{\pi}_2^l, ..., \widetilde{\pi}_{d-1}^l)$, $l = 1, 2, ..., N$ are the samples drawn. The $H = \lfloor \theta N \rfloor$ best samples, according to the objective function $\widetilde{S}$, are selected to update M. Denoting $\{\widetilde{\pi}^1, \widetilde{\pi}^2, ..., \widetilde{\pi}^H\}$ as the H "best" samples among the draws $\{\widetilde{\pi}^1, \widetilde{\pi}^2, ..., \widetilde{\pi}^N\}$, minimizing the Kullback-Leibler distance leads to the following optimization problem:

$$\begin{cases} \max_{p_k(i|j)} \mathcal{K} := \sum_{h=1}^{H} \ln(\prod_{k=1}^{d-1} \prod_{i=1}^{n_1} p_k(i|\widetilde{\pi}_k^h(i))) \\ s.t. \sum_{j=1}^{n_{k+1}} p_k(i|j) = 1, i = 1, ..., n_1, k = 1, ..., d - 1, \\ \qquad p_k(i|j) \geq 0, i = 1, ..., n_1, j = 1, .., n_{k+1}, k = 1, ..., d - 1. \end{cases} \tag{12}$$

Solving this program is equivalent to solving $(d - 1)$ following programs

$$\begin{cases} \max_{p_k(i|j)} \mathcal{K}_k := \sum_{h=1}^{H} \ln(\prod_{i=1}^{n_1} p_k(i|\widetilde{\pi}_k^h(i))) \\ s.t. \sum_{j=1}^{n_{k+1}} p_k(i|j) = 1, i = 1, ..., n_1, \\ \qquad p_k(i|j) \geq 0, i = 1, ..., n_1, j = 1, .., n_{k+1}. \end{cases} \tag{13}$$

We first rewrite the objective function of (13) as follows

$$\mathcal{K}_k = \sum_{h=1}^{H} \ln(\prod_{i=1}^{n_1} p_k(i|\widetilde{\pi}_k^h(i))) = \sum_{i=1}^{n_1} \sum_{h=1}^{H} \ln p_k(i|\widetilde{\pi}_k^h(i))$$

$$= \sum_{i=1}^{n_1} \sum_{j=1}^{n_{k+1}} \text{card}\{h \in \{1, ..., H\} : \widetilde{\pi}_k^h(i) = j\} \ln(p(i|j)).$$

Denoting
$$u_{ij} = p(i|j), b_{ij} = \text{card}\{h \in \{1, ..., H\} : \ \widetilde{\pi}_k^h(i) = j\}.$$

The program (13) is equivalent to

$$\begin{cases} \min_{u_{ij}}(-\sum_{i=1}^{n_1}\sum_{j=1}^{n_{k+1}} b_{ij}\ln(u_{ij})) \\ s.t. \ \sum_{j=1}^{n_{k+1}} u_{ij} = 1, i = 1, ..., n_1, \\ \qquad u_{ij} \geq 0, i = 1, ..., n_1, j = 1, .., n_{k+1}. \end{cases} \qquad (14)$$

The Karusk-Kuhn-Tucker (KKT) condition of the convex program (14) is:

$$\begin{cases} -\frac{b_{ij}}{u_{ij}} + \lambda_i - \mu_{ij} = 0, i = 1, ..., n_1, j = 1, ..., n_{k+1}, \\ \lambda_i(\sum_{j=1}^{n_{k+1}} u_{ij} - 1) = 0, i = 1, ..., n_1, \\ \mu_{ij}u_{ij} = 0, i = 1, ..., n_1, j = 1, ..., n_{k+1}, \\ \lambda_i \geq 0, i = 1, ..., n_1, \\ \mu_{ij} \geq 0, i = 1, ..., n_1, j = 1, ..., n_{k+1}. \end{cases} \qquad (15)$$

Then by solving (15), we get the updating formula of matrix $M_k, k = 1, ..., d-1$ as follows
$$p_k(i|j) := \frac{\text{card}\{h \in \{1, ..., H\} : \ \widetilde{\pi}_k^h(i) = j\}}{H}.$$

The CE algorithm for solving the Problem (2):
Step 1. Initialize $M = (M_1, M_2, ..., M_{d-1})$, where $M_k = (p_k(i|j))_{n_1 \times n_{k+1}}, k = 1, ..., d-1$, are a uniform distribution, i.e.,

$$p_k(i|j) = \frac{1}{n_{k+1}}, i = 1, ..., n_1, j = 1, ..., n_{k+1},$$

and choose $\theta \in]0, 1[$.
Step 2. Draw N samples $\widetilde{\pi}^1, \widetilde{\pi}^2, ..., \widetilde{\pi}^N$ according to M. Compute $\widetilde{S}(\widetilde{\pi}^l), l = 1, 2, ..., N$.
Step 3. Sort the sequence $\widetilde{S}(\widetilde{\pi}^l)_{l=1}^N$ in the increasing orders. Let $\widetilde{S}(\widetilde{\pi}^{\sigma(1)}) \leq \widetilde{S}(\widetilde{\pi}^{\sigma(2)}) \leq ... \leq \widetilde{S}(\widetilde{\pi}^{\sigma(N)})$, where σ is a permutation of the set $\{1, 2, ..., N\}$. Set $H = \lfloor \theta N \rfloor$, then choose H best draws $\widetilde{\pi}^{\sigma(1)}, \widetilde{\pi}^{\sigma(2)}, ..., \widetilde{\pi}^{\sigma(H)}$.
Step 4. Update M by the formula

$$p_k(i|j) := \frac{\text{card}\{h \in \{1, 2, ..., H\} : \ \widetilde{\pi}_k^{\sigma(h)}(i) = j\}}{H},$$

$$i = 1, ..., n_1, j = 1, ..., n_{k+1}, k = 1, ..., d-1.$$

Step 5. Applying (11) to smooth out M.
Step 6. Iterate step 2-5 until convergence.

Remark 2 : In **Step 2**, if we use the sequence of matrices $M = (M_1, ..., M_{d-1})$ to generate directly the sequence of mappings $\widetilde{\pi} = (\widetilde{\pi}_1, ..., \widetilde{\pi}_{d-1})$, then the generated mapping $\widetilde{\pi}_k$ may not be an injection, in this case $\widetilde{S}(\widetilde{\pi})$ would be $+\infty$. For avoiding the generation of irrelevant mappings, we propose the following procedure.

Generation of sequence of injections in the MAP

For $k = 1, ..., d - 1$:
    1. Set $\widehat{M}_k = M_k$, i.e., $\widehat{p}_k(i|j) = p_k(i|j)$. Let $r = 1$.
    2. Generate a value of random variable X from the following distribution

$$\text{Prob}\{X = j\} = \widehat{p}_k(r|j), j = 1, ..., n_{k+1}.$$

    Assume that X receives value j^*. Define

$$\pi_k(r) = j^*.$$

    3. If $(r < n_1)$ update $M_k^{(r)}$
        for $i = r + 1$ to n_1
          $\widehat{p}_k(i|j^*) = 0$;
          $sum = 0$;
          for $j = 1$ to n_{k+1}
              $sum = sum + \widehat{p}_k(i|j)$;
          end for
          for $j = 1$ to n_{k+1}
              $\widehat{p}_k(i|j) := \widehat{p}_k(i|j)/sum$;
          end for
        end for
        Set $r = r + 1$, go to **2**.
      else stop

4 Numerical Results

In this section, we test our CE algorithm on a set of 58 MAPs. In the first experiment, we use the procedure given in [16] to generate the data. By this procedure, we know a priori optimal solution of MAP that allows us to evaluate the efficiency of our CE algorithm. The problems are fully dense and the cost variables for individual problems are approximately normally distributed [9,16].

    The CE algorithm is written in language C of Microsoft Visual C++ 2008, and is tested on a notebook with chipset Intel(R) Core(TM) Duo CPU 2.0 GHz, 3GB of RAM.

    The following notations are used in these tables:

- *Prob*: the problem,
- *Samples*: the number of the samples N,
- *Smooth*: the smooth parameter α,
- *MaxIter*: the maximal number of iteration of CE algorithm,
- *Vars*: the number of the binary variables,
- *Ctrs*: the number of the constraints,
- *Average*: the average for the 10 results,
- *Best*: the best result among the 10 results,
- *Time*: the average time of 10 tests,
- *Objective value*: the objective value given by the CE algorithm,
- *Gap* $\% = \frac{\text{Objective value - Optimal value}}{\text{Optimal value}}$.

Table 1 gives the value of parameters of the CE algorithm for each problem. In the "Prob" column, we list the structure of test problems. For instance, n5d3 represents the MAP with dimension $d = 3$, and each dimension has $n = 5$ elements.

Prob	Samples	θ	Smooth	MaxIter
n5d3	500	0.1	0.3	10
n8d3	2000	0.01	0.3	10
n10d3	5000	0.01	0.3	15
n15d3	8000	0.01	0.3	30
n20d3	8000	0.01	0.3	30
n8d5	3000	0.01	0.3	20
n10d5	5000	0.01	0.3	20
n12d5	5000	0.01	0.3	30
n15d5	8000	0.01	0.3	30
n20d5	8000	0.01	0.3	30

Table 1 Parameters.

Prob	Vars	Ctrs	Optimal	Objective value		Gap		Time (s)
				Average	Best	Average	Best	
1	125	15	29	29.9	29	3.10	0.00	0.21
2	125	15	24	24.4	24	1.67	0.00	0.20
3	125	15	17	19.8	17	16.47	0.00	0.20
4	125	15	18	18.9	18	5.00	0.00	0.20
5	125	15	14	16.0	14	14.29	0.00	0.22
6	125	15	24	25.8	24	7.50	0.00	0.20
7	125	15	23	25.4	23	10.43	0.00	0.20
8	125	15	24	24.0	24	0.00	0.00	0.21
9	125	15	31	31.0	31	0.00	0.00	0.21
10	125	15	30	30.0	30	0.00	0.00	0.21

Table 2 Results with d = 3, n = 5.

For each test problem in these tables, we run CE algorithm 10 times, then take the average result ("Average") and the best result ("Best") in term of objective value and gap.

Table 2, 3, 4, 5, 6 present the results with $d = 3$, and $n = 5, 8, 10, 15, 20$.

From the Table 2 and 3, the best run of the CE method found an optimal solution in almost problems, except the two last problems in the case $n = 3, d = 8$. Moreover, the CE algorithm is fast: CPU time is less than 0.22 (resp. 4.5) seconds in the case $n = 5$ (resp. $n = 8$).

In Table 4, 5, 6, the CE algorithm also produced good solutions. The best gap varies from 0.00% to 11.63% (resp. from 7.87% to 12.82%, from 11.71% to 17.78%) in the case $n = 10$ (resp. $n = 15, n = 20$).

In the second experiment, we consider the data given on the website [37] corresponding to [16], where the optimal value and the optimal assignment are furnished.

Prob	Vars	Ctrs	Optimal	Objective value		Gap		Time (s)
				Average	Best	Average	Best	
1	512	24	57	63.6	57	11.58	0.00	3.03
2	512	24	40	44.7	40	11.75	0.00	3.27
3	512	24	49	54.3	49	10.82	0.00	3.20
4	512	24	41	45.3	41	10.49	0.00	3.87
5	512	24	36	41.0	36	13.89	0.00	4.25
6	512	24	40	45.1	40	12.75	0.00	4.38
7	512	24	43	46.9	43	9.07	0.00	4.39
8	512	24	62	65.9	62	6.29	0.00	4.42
9	512	24	45	50.2	49	11.56	8.89	4.18
10	512	24	47	52.2	48	11.06	2.13	2.05

Table 3 Results with d = 3, n = 8.

Prob	Vars	Ctrs	Optimal	Objective value		Gap		Time (s)
				Average	Best	Average	Best	
1	1000	30	54	61.1	58	13.15	7.41	10.92
2	1000	30	47	53.6	51	14.04	8.51	11.55
3	1000	30	70	76.0	72	8.57	2.86	10.92
4	1000	30	66	73.9	71	11.97	7.58	11.45
5	1000	30	43	50.4	48	17.21	11.63	10.98
6	1000	30	59	66.0	64	11.86	8.47	12.94
7	1000	30	42	49.2	46	17.14	9.52	10.97
8	1000	30	56	64.5	61	15.18	8.93	13.22
9	1000	30	51	56.6	51	10.98	0.00	11.41
10	1000	30	51	58.5	56	14.71	9.80	11.78

Table 4 Results with d = 3, n = 10.

Prob	Vars	Ctrs	Optimal	Objective value		Gap		Time (s)
				Average	Best	Average	Best	
1	3375	45	68	79.6	75	17.06	10.29	195.03
2	3375	45	79	92.6	89	17.22	12.66	201.44
3	3375	45	89	99.8	96	12.13	7.87	201.97
4	3375	45	81	93.8	90	15.80	11.11	197.92
5	3375	45	79	92.5	89	17.09	12.66	208.25
6	3375	45	71	85.4	80	20.28	12.68	214.77
7	3375	45	86	99.2	96	15.35	11.63	211.83
8	3375	45	78	92.4	88	18.46	12.82	214.14
9	3375	45	83	96.1	92	15.78	10.84	213.78
10	3375	45	72	85.7	79	19.03	9.72	190.41

Table 5 Results with d = 3, n = 15.

Prob	Vars	Ctrs	Optimal	Objective value		Gap		Time (s)
				Average	Best	Average	Best	
1	8000	60	109	131.2	127	20.37	16.51	315.08
2	8000	60	118	140.2	135	18.81	14.41	315.08
3	8000	60	97	117.1	112	20.72	15.46	334.59
4	8000	60	103	123.6	119	20.00	15.53	341.13
5	8000	60	119	139.4	134	17.14	12.61	324.33
6	8000	60	111	129.1	124	16.31	11.71	335.38
7	8000	60	90	108.4	106	20.44	17.78	339.08
8	8000	60	107	126.7	122	18.41	14.02	356.17
9	8000	60	113	134.9	131	19.38	15.93	346.45
10	8000	60	100	120.0	116	20.00	16.00	226.31

Table 6 Results with d = 3, n = 20.

The results are reported in Table 7 with $d = 5$, and $n = 8, 10, 12, 15, 20$ respectively. We use the same notations as in the previous tables.

We observe from the numerical results that the CE algorithm produced the good solutions in acceptable time. The best gap varies from 3.23% to 11.54%. On the other hand, the difference between the best gap and the average gap is from 3.83% to 6.73%, that shows the stability of our CE method.

Prob	Vars	Ctrs	Optimal	Objective value		Gap		Time (s)
				Average	Best	Average	Best	
n8d5prob1	32768	40	31	33.6	32	8.39	3.23	10.66
n8d5prob2	32768	40	38	41.8	40	10.00	5.26	11.03
n10d5prob1	100000	50	47	52.8	51	12.34	8.51	42.20
n10d5prob2	100000	50	52	57.2	55	9.81	5.77	60.63
n12d5prob1	248832	60	56	62.4	60	11.43	7.14	118.39
n12d5prob2	248832	60	53	61.1	59	15.28	11.32	127.55
n15d5prob1	759375	75	64	74.1	70	15.78	9.38	340.66
n20d5prob1	3200000	100	104	123	116	18.27	11.54	718.04

Table 7 Results with d = 5.

5 Conclusion

In this paper, we have proposed a new and efficient approach based on the CE method for solving the Multidimensional Assignment Problem. Exploiting the formulation (2) of the MAP, we constructed a family of discrete distributions such that the CE method could be applied. The computational results have shown the efficiency of our proposed approach. It found a near-optimal solution within an acceptable time for even large-scale problems. Our CE algorithm solves the MAP up to 3.2 millions binary variables

and 100 constraints, while the existing methods, for instance the GRASP with Path Relinking [1] and the simulated annealing [9], the maximal numbers of binary variables of the MAP are 287,496 and 1.0 million respectively. In the future work, we plan to combine our CE algorithm with a local method to improve the result.

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Value-at-Risk constrained Optimization

A fast and scalable Cross-Entropy Method for Value-at-Risk constrained Optimization

Le Thi Hoai An, Nguyen Duc Manh, Pham Dinh Tao

Abstract In this paper, we consider a portfolio selection problem that consists of maximizing a return distribution under a Value-at-Risk constraint. It is a nonconvex nonsmooth optimization problem which is very hard to solve. We propose an approach based on the Cross-Entropy (CE) method to tackle it. The numerical results show the efficiency of our approach

Keywords: Portfolio Optimization, Risk Management, Value at Risk, Cross-Entropy.

1 Introduction

Value-at-Risk, denoted VaR, is an important and popular risk measure that has been used extensively in recent years in portfolio selection and in risk analysis (see e.g. [12]). Let X be the anticipated random returns, then the Value-at-Risk of X is defined as

$$VaR_\alpha(X) = \inf\{u : F_X(u) \geq \alpha\} = F_X^{-1}(\alpha), \;\; 0 < \alpha < 1,$$

where F_X is the distribution function of X. VaR_α is said to be an acceptability functional [15].

The VaR has the undesirable mathematical characteristics such as a lack of subadditivity and concavity [2,3]. Due to the non-concavity of VaR, the problem of maximizing Value-at-Risk or maximizing the return under a Value-at-Risk constrain is nonconvex. That is why, in practice VaR is often replaced by the Average Value-at-Risk ($AVaR$, also called Conditional Value-at-Risk, $CVaR$). Some reasons justifying the use of $CVaR$ instead of VaR can be found in [25]. However, due to regulatory frameworks such as Basel II and Solvency II, Value-at-Risk remains to be widely used in portfolio management in most notably banks.

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In this paper, we consider the following non-convex portfolio selection under the Value-at-Risk constraint:

$$\begin{cases} \max \ \mathbb{E}(x^T\xi) \\ \text{s.t.} \ \sum_{i=1}^{n} x_i = 1, \\ \qquad x_i \geq 0, 1 \leq i \leq n, \\ \qquad VaR_\alpha(x^T\xi) \geq a, \end{cases} \tag{1}$$

where x_i denotes the relative weight of asset i in portfolio, ξ_i is the random return of asset i, and n is the number of assets. Because of the non-convexity of Value-at-Risk constrain, this problem is NP-hard (NP-complete in the strong sense) [4].

There are several approaches including deterministic and heuristic to solve the problem (1) in the literature (see e.g. [4–6, 9–11, 14] or [24] for an overview). Recently, Wozabal et al. [24] gave a representation of the *VaR* as a DC function (Difference of Convex functions) in the case finite scenarios, and proposed a conical Branch-and-Bound algorithm to find global optima of (1). Later, Wozabal [25] introduced a DC Algorithm (DCA) to the DC formulation of the problem (1). To obtain this DC formulation, the author used a penalty technique that is not exact. In [25] it has been not proved that the DC formulation is equivalent to the original problem.

In this paper, we propose an algorithm based on the Cross-Entropy (CE) method to tackle Problem (1). The CE method was motivated by an adaptive algorithm for estimating probabilities of rare events in complex stochastic networks [19], which involves variance minimization. It was soon realized [20, 21] that a simple cross-entropy modification of [19] could be used not only for estimating probabilities of rare event but for solving difficult combinatorial optimization problems as well. This is done by translating the "deterministic" optimization problem into a related "stochastic" optimization problem and then using rare event simulation technique similar to [19]. Several recent applications demonstrate the power of the CE method as a generic and practical tool for solving NP-hard problems. The crucial point in applying CE method is how to find a family of pdfs (probability density functions) on the feasible set of the optimization problem such that updating the parameters could be done as easily as possible. Due to the special structure of the feasible set of problem (1), we will construct a family of pdfs based on a family of exponential pdfs for our CE algorithm. The numerical results demonstrate that our proposed algorithm finds a near-optimal solution. It is a fast and scalable algorithm.

The rest of paper is organized as follows. In Section 2, we give a short presentation of the CE method. In Section 3, we propose an application of CE for our problem based on a family of exponential pdfs. Results of numerical experiments are reported in Section 4 while some conclusions and perspectives are discussed in Section 5.

2 The Cross-Entropy method

The Cross - Entropy (CE) method [7, 17, 19–21] has been developed by Rubinstein initially for evaluating rare events probabilities, for which a direct computation by usual methods would be unreliable. The only way to evaluate them is then to resort to a simulation method based on importance sampling. The CE method allows to tilt proposed densities in order to favor sampling of rare events. It has been demonstrated that this method is particularly relevant for solving "hard" optimization problems like combinatorial optimization problems. Indeed, when deterministic methods failed to find the optimal solution within a reasonable amount of computation, in most cases the CE method allows to find a fairly good one

more quickly. To use the CE method for solving a deterministic optimization problem, this problem must be first translated into a stochastic one. The set of feasible solutions is then regarded as a set of events subjected to an importance density. Thus, we use rare event simulation technique.

Suppose that we wish to maximize a real-valued performance function S over a set $\mathscr{X}$. Let us denote the maximum by γ^*

$$\gamma^* = \max_{x \in \mathscr{X}} S(x). \tag{2}$$

The starting point in CE method is to associate an estimation problem with the optimization problem (2). To this end we define a collection of indicator functions $I_{\{S(x) \leq \gamma\}}$ on $\mathscr{X}$ for family of (discrete) probability density functions (pdfs) on $\mathscr{X}$, parameterized by a real-valued (vector) v.

For a certain $u \in V$, we consider the *associated stochastic problem* (ASP):

$$\ell(\gamma) = \mathbf{P}_u(S(x) \geq \gamma) = \sum_{x \in \mathscr{X}} I_{\{S(x) \geq \gamma\}} f(x; u) = \mathbf{E}_u I_{\{S(x) \geq \gamma\}},$$

where $\mathbf{P}_u$ is the probability measure under which the random state $\mathscr{X}$ has the pdf $f(\cdot; u)$, and $\mathbf{E}_u$ denotes the corresponding expectation operator. The idea of CE method is to construct simultaneously a sequence of levels $\widehat{\gamma}_1, \widehat{\gamma}_2, ..., \widehat{\gamma}_T$ and parameters (vectors) $\widehat{v}_1, \widehat{v}_2, ..., \widehat{v}_T$ such that $\widehat{\gamma}_T$ is close to the optimal γ^* and $\widehat{v}_T$ is such that the corresponding density assigns high probability mass to the collection of states that give a high value. More specifically, we initialize by setting $v_0 = u$, choosing a not very small quantity θ, and then we proceed as follows:

1. **Adaptive updating of γ_t.** For a fixed v_{t-1}, let γ_t be the $(1 - \theta)$-quantile of $S(X)$ under v_{t-1}. That is, γ_t satisfies

$$\mathbf{P}_{v_{t-1}}(S(X) \geq \gamma_t) \geq \theta, \tag{3}$$

$$\mathbf{P}_{v_{t-1}}(S(X) \leq \gamma_t) \geq 1 - \theta, \tag{4}$$

where $X \sim f(\cdot; v_{t-1})$.
A simple estimator of γ_t, denote $\widehat{\gamma}_t$ can be obtained by drawing a random sample $X^1, X^2, ..., X^N$ from $f(\cdot; v_{t-1})$. Suppose that $S(X^{\sigma(1)}) \leq S(X^{\sigma(2)}) \leq ... \leq S(X^{\sigma(N)})$, where σ is a permutation of the set $\{1, ..., N\}$. Evaluating the $(1 - \theta)$-quantile of $S(X)$ as

$$\widehat{\gamma}_t = S_{\lfloor (1-\theta)N \rfloor}. \tag{5}$$

2. **Adaptive updating of v_t.** For a fixed γ_t and v_{t-1}, derive v_t by minimizing the Kullback-Leibler distance, or equivalent to solving the following program:

$$\max_v \mathbf{E}_{v_{t-1}} I_{\{S(X) \geq \gamma_t\}} W(X; u, v_{t-1}) \ln f(X; v), \tag{6}$$

where

$$W(x; u, v_{t-1}) = \frac{f(x; u)}{f(x; v_{t-1})}.$$

The stochastic counterpart of (6) is as follows: for fixed $\widehat{\gamma}_t$ and $\widehat{v}_{t-1}$ (the estimate of v_{t-1}), derive $\widehat{v}_t$ from the following program:

$$\max_v D(v) := \frac{1}{N} \sum_{i=1}^N I_{\{S(X^i) \geq \gamma_t\}} W(X^i; u, v_{t-1}) \ln f(X^i; v). \tag{7}$$

In typical applications, the function D is concave and differentiable with respect to v, and thus the updating equation (7) is equivalent to solving the following system of equations:

$$\frac{1}{N}\sum_{i=1}^{N}I_{\{S(X^i)\geq\widehat{\gamma}_t\}}W(X^i;u,v_{t-1})\nabla\ln f(X^i;v)=0,\tag{8}$$

where the gradient is with respect to v.

Remark 1 (**Smoothing parameter**): instead of updating the parameter v directly via the solution of (7) we use the following smoothed version

$$\widehat{v}_t=\beta\widetilde{v}_t+(1-\beta)\widehat{v}_{t-1}, t=1,2,...,\tag{9}$$

where $\widetilde{v}_t$ is the parameter vector from the solution of (7), and β is called the smoothing parameter, with $0.7\leq\beta\leq 1$.

Generic CE Algorithm for Optimization

1. Choose $\widehat{v}_0$, and $0<\theta<1$. Set $t=1$.
2. Generate N samples $X^1,X^2,...,X^N$ according to $f(\cdot;\widehat{v}_{t-1})$, and compute $(1-\theta)$-quantile $\widehat{\gamma}_t$ of S according to (5).
3. Using the same samples $X^1,X^2,...,X^N$ solve the stochastic programming problem (7). Denote the solution by $\widetilde{v}_t$.
4. Apply (9) to smooth out the vector $\widetilde{v}_t$.
5. Repeat step 2-4 until a pre-specified stopping criterion is met.

3 A CE algorithm for solving Problem (1)

Let X be the set defined by

$$X=\{x=(x_1,x_2,...,x_n)\in\mathbb{R}^n:\sum_{i=1}^{n}x_i=1, x_i\geq 0, i=1,2,...,n\}.$$

To apply CE, we will construct a family of pdfs $\{f(\cdot;v),v\in V\}$ on X and then use the penalty technique to treat the Value-at-Risk constraint of Problem (1) as follows

$$\text{if } x\in X, VaR_\alpha(x^T\xi)<a \text{ then } S(x)=0,$$

where $S(x)=\mathbb{E}(x^T\xi)$ is the objective function of (1). Here, we assume that the distribution of ξ allows us to compute $S(x)$ and $VaR_\alpha(x^T\xi)$ uncomplicatedly, (for instance, in the case of finite scenario - a very common case in practice).

A direct construction of a "natural" family of pdfs $\{f(\cdot;v),v\in V\}$ on X is in general difficult. Thus, instead of the set X, we consider the following set

$$\Omega=\{x=(x_1,x_2,...,x_{n-1})\in\mathbb{R}^{n-1}:\sum_{i=1}^{n-1}x_i\leq 1, x_i\geq 0, i=1,2,...,n-1\}.$$

There exists a diffeomorphism P from X to Ω as follows

$$x=(x_1,x_2,...,x_n)\in X\mapsto P(x)=(x_1,x_2,...,x_{n-1})\in\Omega.\tag{10}$$

Therefore, having a family of pdfs $\{f(\cdot;v), v \in V\}$ on Ω is equivalent to having a family of pdfs on X. The reason to choose Ω is that we have a rich choice of the "natural" family of pdfs on it. In this paper, we choose a family of pdfs as follows.

Firstly, we consider the exponential distribution on $\mathbb{R}_+^n$

$$f(x;v) = \exp\left(-\sum_{i=1}^{n} \frac{x_i}{v_i}\right) \prod_{i=1}^{n} \frac{1}{v_i}, \quad x \in \mathbb{R}_+^n,$$

where $v = (v_1, v_2, ..., v_n) \in \mathbb{R}_+^n$ is the parameter. Thus, we have

$$\int_{\mathbb{R}_+^n} f(x;v) dx = 1, \quad \forall v \in \mathbb{R}_+^n.$$

By considering the diffeomorphism H from $\Omega \times (0, +\infty)$ to $\mathbb{R}_+^n$

$$
\begin{aligned}
H: \quad & \Omega \times (0, +\infty) \to \mathbb{R}_+^n \\
& (y_1, ..., y_{n-1}, t) \mapsto (x_1, x_2, ..., x_n), \\
& \begin{cases} x_i = t y_i, & i = 1, 2, ..., n-1, \\ x_n = t(1 - y_1 - ... - y_{n-1}), \end{cases}
\end{aligned}
$$

we have a transformation of variables for the above integral.

The Jacobian matrix of the function H is given by

$$
J_H(y,t) = \begin{pmatrix}
t & 0 & 0 & \dots & 0 & y_1 \\
0 & t & 0 & \dots & 0 & y_2 \\
 & & & \ddots & & \\
0 & 0 & 0 & \dots & t & y_{n-1} \\
-t & -t & -t & \dots & -t & 1 - \sum_{i=1}^{n-1} y_i
\end{pmatrix}.
$$

It is clear to see that $\det(J_H(y,t)) = t^{n-1}$. Thus, we have

$$
\begin{aligned}
1 &= \int_{\mathbb{R}_+^n} f(x;v) dx = \int_{\Omega} \left(\int_0^{+\infty} f((y,t);v) t^{n-1} dt \right) dy \\
&= \frac{1}{\prod_{i=1}^{n} v_i} \int_{\Omega} \left(\int_0^{+\infty} \exp\left(-t \sum_{i=1}^{n-1} \frac{y_i}{v_i} - \frac{t(1 - y_1 - ... - y_{n-1})}{v_n} \right) t^{n-1} dt \right) dy \\
&= \int_{\Omega} \frac{1}{\prod_{i=1}^{n} v_i} \cdot \frac{(n-1)!}{\left(\sum_{i=1}^{n-1} \frac{y_i}{v_i} - \frac{(1 - y_1 - ... - y_{n-1})}{v_n} \right)^n} dy.
\end{aligned}
$$

Now, we get a family of probability measures on Ω with the pdfs

$$
g(x;v) = \frac{1}{\prod_{i=1}^{n} v_i} \cdot \frac{(n-1)!}{\left(\sum_{i=1}^{n-1} \frac{x_i}{v_i} - \frac{(1 - x_1 - ... - x_{n-1})}{v_n} \right)^n}, \quad x = (x_1, ..., x_{n-1}). \tag{11}
$$

Therefore, by using the map P, we have a family of pdfs on X as follows

$$g(x;v) = \frac{1}{\prod\limits_{i=1}^{n} v_i} \cdot \frac{(n-1)!}{\left(\dfrac{x_1}{v_1} + \dfrac{x_2}{v_2} + \ldots + \dfrac{x_n}{v_n}\right)^n}, \quad x = (x_1, \ldots, x_{n-1}, x_n) \in X. \tag{12}$$

Updating the parameter v_t

We have

$$\ln g(x;v) = \sum_{i=1}^{n-1} \ln i - n \ln\left(\sum_{i=1}^{n} \frac{x_i}{v_i}\right) - \sum_{i=1}^{n} \ln v_i.$$

Thus

$$\frac{\partial}{\partial v_j} \ln g(x;v) = \frac{1}{v_j^2} \left(\frac{n x_j}{\sum\limits_{i=1}^{n} \dfrac{x_i}{v_i}} - v_j \right) \quad j = 1, 2, \ldots, n.$$

In our case, we can solve the system of equation (8) to update the parameter v:

$$\sum_{i=1}^{N} I_{\{S(X_i) \geq \gamma\}} W(X^i; u, v_{t-1}) \left(\frac{n x_j}{\sum\limits_{i=1}^{n} \dfrac{x_i}{v_i}} - v_j \right) = 0, \quad j = 1, 2, \ldots, n,$$

therefore

$$v_j = \frac{\sum\limits_{i=1}^{N} I_{\{S(X_i) \geq \gamma\}} W(X^i; u, v_{t-1}).n.X_{ij}}{\sum\limits_{i=1}^{N} I_{\{S(X_i) \geq \gamma\}} W(X^i; u, v_{t-1}).\sum\limits_{i=1}^{n} \dfrac{X_{ij}}{v_j}}, \tag{13}$$

where

$$X^i = (X_{i1}, X_{i2}, \ldots, X_{in}) \in X, \quad i = 1, 2, \ldots, N.$$

Set

$$a_j = \sum_{i=1}^{N} I_{\{S(X_i) \geq \gamma\}} W(X^i; u, v_{t-1}) X_{ij}, \quad j = 1, 2, \ldots, n.$$

The system of equations (13) becomes

$$v_j = \frac{n a_j}{\sum\limits_{j=1}^{n} \dfrac{a_j}{v_j}}, \quad j = 1, 2, \ldots, n,$$

therefore

$$\sum_{j=1}^{n} \frac{a_j}{v_j} = n \frac{a_j}{v_j}, \quad j = 1, 2, \ldots, n.$$

Thus

$$\frac{a_1}{v_1} = \frac{a_2}{v_2} = \ldots = \frac{a_n}{v_n} = c = const,$$

or

$$v_j = \frac{a_j}{c}, \quad j = 1, 2, \ldots, n.$$

We only consider $v = (v_1, v_2, ..., v_n)$ satisfying

$$v_j > 0, j = 1, 2, ..., n \text{ and } \sum_{j=1}^{n} v_j = 1.$$

Thus

$$
\begin{aligned}
c = \sum_{j=1}^{n} a_j &= \sum_{j=1}^{n} \sum_{i=1}^{N} I_{\{S(X_i) \geq \gamma\}} W(X^i; u, v_{t-1}) X_{ij} \\
&= \sum_{i=1}^{N} I_{\{S(X_i) \geq \gamma\}} W(X^i; u, v_{t-1}) \sum_{j=1}^{n} X_{ij} \\
&= \sum_{i=1}^{N} I_{\{S(X_i) \geq \gamma\}} W(X^i; u, v_{t-1}).
\end{aligned}
$$

Hence, we get the formula to update v:

$$\widetilde{v}_j = \frac{\sum\limits_{i=1}^{N} I_{\{S(X_i) \geq \gamma\}} W(X^i; u, v_{t-1}) X_{ij}}{\sum\limits_{i=1}^{N} I_{\{S(X_i) \geq \gamma\}} W(X^i; u, v_{t-1})}, j = 1, 2, ..., n. \tag{14}$$

In practice, we can generate the samples on X by $g(\cdot; v)$ as follows:

1. Generate the sample $x = (x_1, x_2, ..., x_n) \in \mathbb{R}_+^n$ by $f(\cdot; v)$.
2. If $x_1 + x_2 + ... + x_n > 0$ then take $y = (y_1, y_2, ..., y_n) \in X$, where

$$y_i = \frac{x_i}{x_1 + x_2 + ... + x_n}, i = 1, 2, ..., n.$$

Finally our CE algorithm for solving Problem (1) can be described as follows.

The CE algorithm for solving Problem (1):

Step 1. Initialize $v_0 = u = (\frac{1}{n}, \frac{1}{n}, ..., \frac{1}{n})$, and $\theta \in (0, 1), VM = [\emptyset], \varepsilon > 0$.

Step 2. Draw N samples $X^1, X^2, ..., X^N$ according to $g(x; v_t)$. Compute $S(X^k), k = 1, 2, ..., N$. Sort the sequence $\{S(X^k)\}_{k=1}^{N}$ in the increasing order. Suppose that $S(X^{\sigma(1)}) \leq S(X^{\sigma(2)}) \leq ... \leq S(X^{\sigma(N)})$, where σ is a permutation of the set $\{1, 2, ..., N\}$. Set $H = \lfloor (1-\theta)N \rfloor$, then choose H best draws $X^{\sigma(H)}, X^{\sigma(H+1)}, ..., X^{\sigma(N)}$.

Step 3. Update v_{t+1} by the formula (14) and the smoothed updating (9).

Step 4. Set $M = \frac{1}{N-H+1} \sum_{i=H}^{N} S(X^{\sigma(i)}), VM = [VM; M], \Delta_t = std(VM)$, where $std(V)$ computes the sample standard deviation of the data in V.

Step 5. Iterate step 2-5 until $\Delta_t < \varepsilon$.

Here, M is the average of the best values $\{S(X^k)\}_{k=H}^{N}$, and VM in iteration k is a vector which contains M at all iterations less or equal k. In practice, in each iteration we should store the "best" value of the sequence $\{S(X^k)\}_{k=1}^{N}$, i.e., $S(X^{\sigma(N)})$, to get the "best" value when the algorithm stops.

4 Numerical experiments

The algorithm described above is tested on real-world financial market data. The code is written in MATLAB 2007a, and is tested on a notebook with chipset Intel(R) Core(TM) Duo CPU 2.0 GHz, 3GB of RAM.

Our experiment is composed of two parts. In the first part we study the globality of the CE algorithm by comparing the solutions given by the CE with an optimal solution furnished by the software CPLEX 12.1 applied to the mixed-integer formulation of the problem (1) (see [4]). In the second experiment we consider large datasets (for which CPLEX can not find global solutions) and compare our method with a heuristic algorithm developed in [13].

4.1 The globality of the CE algorithm: comparison with global optima

We used the empirical distribution of two years of weekly data, i.e., $S = 104$ scenarios of the following 5 indices: CAC 40, Standard&Poors 100, Nasdaq 100, FTSE 100, and Hang Seng. We take $\alpha = 0.045$. Different values of a are considered in the dataset (a is incremented by 0.0005). It is easy to see that if a is smaller than the VaR of the portfolio that consists only of the asset with the highest return, then the problem is trivial. Hence, in our test problems, a is greater than that VaR.

Name	Average Return	Variance	$VaR_{0.045}$	$AVaR_{0.045}$
CAC 40	1.0027144	0.000217647	0.9742	0.9694
Standard&Poors100	1.0004326	0.000179629	0.9755	0.9717
Nasdaq 100	1.0013597	0.000471718	0.9653	0.9504
FTSE 100	1.0021901	0.000151213	0.9824	0.9797
Hang Seng	1.0016546	0.000421260	0.9624	0.9561

Table 1 Time frame: 2004-2005, weekly data

The parameters in the CE method are taken as follows: the number of samples $N = 2000$, $\theta = 0.01$, the parameter smooth $\beta = 0.8$, and the number of iterations is limited to 20.

The results are presented in Table (2) where we compare the objective value (say, the expected return) obtained by our CE algorithm and the optimal value given by CPLEX software.

The Figure 2 shows the efficient frontier traced by each algorithm that illustrates the globality of the CE algorithm in almost all cases. We observe from the numerical results that the CE algorithms furnished an ε-optimal solution with ε between $7.52 * 10^{-08}$ and $6.26 * 10^{-05}$. Moreover the CE algorithm is fast: CPU time is less than 2.5 seconds.

4.2 The scability of the CE algorithm

To study the scability of the CE method we first test on the 1304 daily returns for 43 assets of the Eurostoxx50 index from January 1, 2003 to December 31, 2007, which gave positive returns. Then, we test on the empirical distribution of 11 years (from January 1, 2000 to

a	CE method				Optimal solution			Error
	Expected Return	$VaR_{0.045}$	Time(s)	Delta	Expected Return	$VaR_{0.045}$	Time (s)	
0.9745	1.00270419	0.974502	2.26	7.13E-06	1.00270427	0.974500	0.49	7.52E-08
0.9750	1.00268620	0.975001	2.39	3.13E-07	1.00268702	0.975000	0.58	8.19E-07
0.9755	1.00266935	0.975500	2.26	6.04E-07	1.00266978	0.975500	0.41	4.27E-07
0.9760	1.00265231	0.976002	2.31	6.09E-07	1.00265254	0.976000	0.47	2.33E-07
0.9765	1.00263104	0.976528	2.37	1.51E-06	1.00263307	0.976500	0.39	2.03E-06
0.9770	1.00260890	0.977058	2.29	1.77E-06	1.00261218	0.977000	0.39	3.28E-06
0.9775	1.00258806	0.977524	2.36	1.56E-06	1.00259129	0.977500	0.42	3.23E-06
0.9780	1.00256581	0.978067	2.42	2.15E-06	1.00257040	0.978000	0.38	4.59E-06
0.9785	1.00254669	0.978545	2.39	2.01E-06	1.00254951	0.978500	0.34	2.82E-06
0.9790	1.00252463	0.979010	2.25	2.27E-06	1.00252862	0.979000	0.36	3.98E-06
0.9795	1.00250197	0.979522	2.23	1.28E-05	1.00250773	0.979500	0.36	5.76E-06
0.9800	1.00242424	0.980006	2.33	2.06E-05	1.00248684	0.980000	0.34	6.26E-05
0.9805	1.00230423	0.980501	2.26	9.05E-07	1.00230464	0.980500	0.38	4.15E-07
0.9810	1.00228115	0.981023	2.25	3.10E-06	1.00228322	0.981000	0.50	2.07E-06
0.9815	1.00226396	0.981501	2.31	1.82E-06	1.00226662	0.981500	0.53	2.66E-06
0.9820	1.00224391	0.982037	2.19	2.78E-06	1.00224655	0.982000	0.53	2.64E-06
0.9825	1.00222225	0.982528	2.34	4.53E-06	1.00222647	0.982500	0.59	4.21E-06
0.9830	1.00167853	0.983036	2.31	0.239363	1.00173056	0.983000	0.70	5.20E-05
0.9835	1.00155414	0.983539	2.22	0.015037	1.00160072	0.983500	0.89	4.66E-05

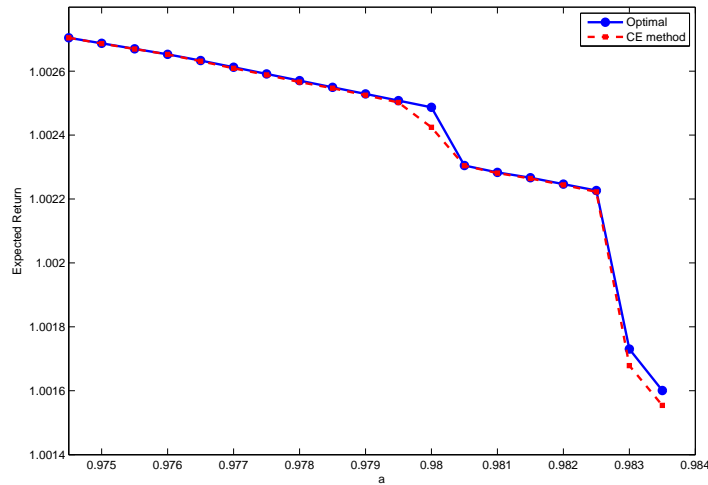**Table 2** The performance of the CE algorithm compared with CPLEX solver

Fig. 1 The efficient frontier: the CE method and Optima

December 31, 2010) of daily data, i.e., 2759 scenarios of the 87 assets comprising the NYSE US 100 index.

For these datasets, CPLEX furnished only a feasible solution which is not a global solution. We then compare our CE algorithm with an efficient existing method developed in [13], called Algorithm A1. This method is widely used in the industry for the Value-at-Risk portfolio selection. It solves the following problem:

$$\begin{cases} \min & VaR_{1-\alpha}(x^T\xi) \\ \text{s.t.} & x \in [0,1]^n, \sum_{i=1}^{n} x_i = 1 \\ & \mathbb{E}(x^T\xi) \geq C, \end{cases} \tag{15}$$

where C is a given lower bound expectation.

Note that in [13] X represents the random losses. Hence minimizing $VaR_{1-\alpha}$ amounts to maximizing VaR_α. The main idea of Algorithm A1 is the approximation of the VaR by $CVaR$ and iterative application of discarding scenarios with large losses. This algorithm performs well even on large datasets. Algorithm A1 from [13] adapted to our problem is described as follows ([25]):

1. Fix C as a lower bound on expectation, a parameter for the Value-at-Risk α and a parameter for the heuristic $0 < \zeta < 1$.
2. Set $\alpha_0 = \alpha, i_0 = 0$, and $k = 0$.
3. Solve the problem

$$\begin{cases} \max_{x} & AVaR_{\alpha_k}(\sum_{i=i_k}^{S} x^T\xi^i) \\ \text{s.t.} & \sum_{i=1}^{n} x_i = 1, \\ & \mathbb{E}(x^T\xi) \geq C, \\ & x^T\xi^i \leq \gamma, \ i \leq i_k, \\ & x^T\xi^i \geq \gamma, \ i > i_k, \\ & x_i \geq 0, \ 1 \leq i \leq n. \end{cases} \tag{16}$$

4. Call the solution of the above problem x_k and sort the scenarios ξ^i according to their returns $r_i = x_k^T\xi^i$.
5. Set $k = k+1, b_k = \alpha + (1-\alpha)(1-\zeta)^k, i_k = \lfloor S(1-b_k) \rfloor$, and $\alpha_k = 1 - \dfrac{1-\alpha}{b_k}$.

6. If $i_k \leq \lfloor S/\alpha \rfloor$ goto step 3, otherwise exit.

The comparison between our CE algorithm and the A1 algorithm has proceeded as follows: for each value a, we solve the problem (1) by the CE algorithm and obtain an expected return and the corresponding Value-at-Risk. That expected return becomes lower bound expectation (say, the value of C) for the A1 algorithm. The A1 algorithm will produce a new Value-at-Risk, and then we compare the Value-at-Risk obtained by the two methods.

We run the CE method with the number of samples $N = 2000$, $\theta = 0.1$, the smoothing parameter $\beta = 0.8$ and the number of iteration is limited to 50. We choose the parameter $\zeta = 0.5$ for the A1 algorithm.

Table 3 represents the results corresponding to Eurostoxx50 data, when a varies from 0.972 to 0.985. The lower bound for a is the $VaR_{0.05}$ of the portfolio that consists only of the asset with the highest return (i.e., AXA with $VaR_{0.05}$ of 0.9713956 and expected daily return 1.002344), and the upper bound is 0.985, because the CE algorithm does not work

a	CE method			A1 algorithm		Difference
	Expected Return	$VaR_{0.05}(CE)$	Time(s)	$VaR_{0.05}(A1)$	Time(s)	VaR
0.972	1.00230523	0.972034	31.76	0.972112	57.89	0.000078
0.973	1.00224968	0.973001	30.81	0.973372	57.80	0.000372
0.974	1.00217375	0.974043	30.64	0.974555	57.97	0.000512
0.975	1.00205663	0.975048	30.43	0.976237	58.45	0.001189
0.976	1.00190228	0.976163	31.07	0.978605	62.20	0.002442
0.977	1.00178848	0.977255	30.79	0.979443	62.44	0.002188
0.978	1.00174446	0.978191	33.94	0.980305	68.31	0.002114
0.979	1.00161818	0.979144	34.94	0.981539	88.55	0.002395
0.980	1.00151780	0.980039	35.67	0.982554	69.74	0.002515
0.981	1.00144481	0.981269	38.65	0.983351	85.02	0.002082
0.982	1.00139708	0.982213	37.45	0.984068	62.45	0.001855
0.983	1.00137637	0.983122	42.65	0.983897	76.00	0.000775
0.984	1.00131175	0.984109	30.42	0.984358	67.00	0.000249
0.985	1.00091841	0.985104	44.35	0.988501	57.00	0.003397

Table 3 The performance of CE algorithm compared with the A1 algorithm, Eurostoxx50 daily data

anymore for a greater value. In this table, for each value a, we solve the problem (1) by the CE to get an objective value that becomes lower bound expectation for the A1 algorithm.

The Figure 2 shows the efficient frontier traced by each algorithm while the Figure 3 shows their CPU times.

From the Table 3 and the Figure 2 we see that the difference of $VaR_{0.05}$ of solutions between two methods is small, it varies from 0.000078 to 0.002515. Additionally, the CE algorithm still runs very fast: CPU time varies from 30 to 44 seconds. It is much faster than the A1 algorithm. The ratio of CPU time between the two algorithms varies from 1.3 to 2.24

Tables 4 and 5 represent, respectively, the results (objective function and CPU time) of the CE algorithm and the A1 algorithm in case $\alpha = 0.05$ and $\alpha = 0.1$, for the data of NYSE US 100. Also, the curves in figures 4 and 5 (resp. figures 6 and 7) show the efficient frontier and CPU time of each algorithm in case $\alpha = 0.05$ (resp. $\alpha = 0.1$).

Here, a varies from 0.953 to 0.983 when $\alpha = 0.05$, and from 0.971 to 0.988 when $\alpha = 0.1$. The lower bound for a is the VaR of the portfolio that consists only of the asset with the highest return (i.e., AIG with $VaR_{0.05}$ of 0.95263158, $VaR_{0.1}$ of 0.97037850, and expected daily return 1.00518861).

We observe from the numerical results that the difference of $VaR_{0.05}$ (resp. $VaR_{0.1}$) given by the two methods varies from 0.000039 to 0.004869 (resp. from 0.000352 to 0.003048). On the other hand, the proposed CE is much faster than the A1 algorithm: the ratio of CPU time between the two algorithms varies from 2.75 to 3.78 in Table 4 and from 2.53 to 3.29 in Table 5. Moreover, the larger the sample size N we use, the better the solution we obtain, and the more stable the CE algorithm works.
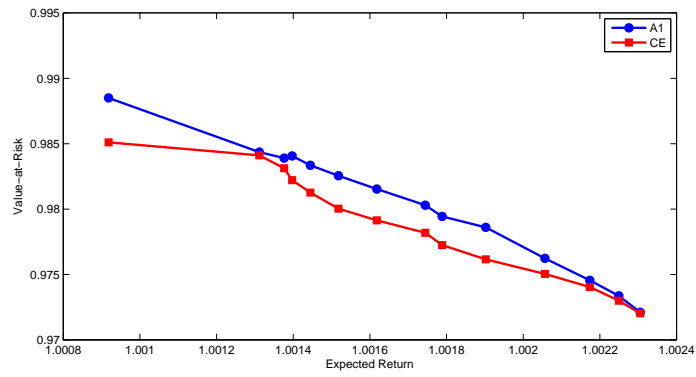
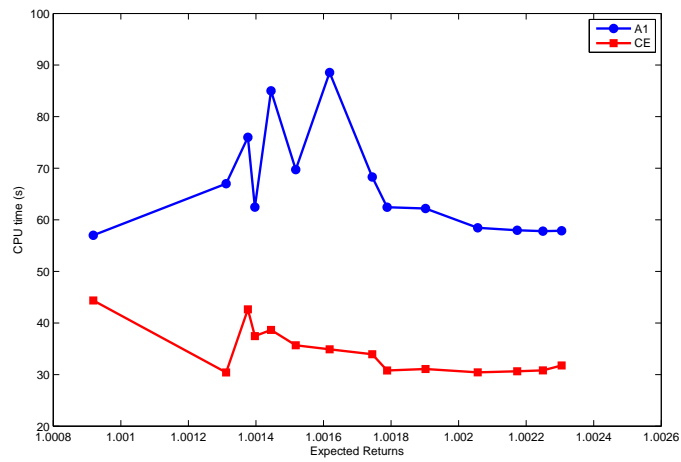**Fig. 2** Efficient frontier for Eurostoxx50 data

Fig. 3 CPU time: Eurostoxx50 data

a	CE method			A1 algorithm		Difference
	Expected Return	$VaR_{0.05}(CE)$	Time(s)	$VaR_{0.05}(A1)$	Time(s)	
0.953	1.00516360	0.953000	191.16	0.953039	646.13	0.000039
0.955	1.00494747	0.955093	229.84	0.955462	727.56	0.000368
0.957	1.00468419	0.957047	249.14	0.957465	862.25	0.000418
0.959	1.00430391	0.959184	242.67	0.960987	710.94	0.001802
0.961	1.00398844	0.961062	258.80	0.963480	736.92	0.002419
0.963	1.00377939	0.963250	234.31	0.965365	735.95	0.002115
0.965	1.00354935	0.965161	234.33	0.968078	862.31	0.002917
0.967	1.00327660	0.967272	233.41	0.969814	747.13	0.002542
0.969	1.00304977	0.969002	233.14	0.971765	745.59	0.002763
0.971	1.00264867	0.971137	231.77	0.975143	874.66	0.004006
0.973	1.00227647	0.973088	230.47	0.977629	755.27	0.004541
0.975	1.00192505	0.975047	229.78	0.979916	765.66	0.004869
0.977	1.00168743	0.977045	240.27	0.981061	670.20	0.004015
0.979	1.00149955	0.979033	230.66	0.982378	770.92	0.003346
0.981	1.00121198	0.981043	229.72	0.983926	773.48	0.002882
0.983	1.00088400	0.983163	226.50	0.985883	779.64	0.002720

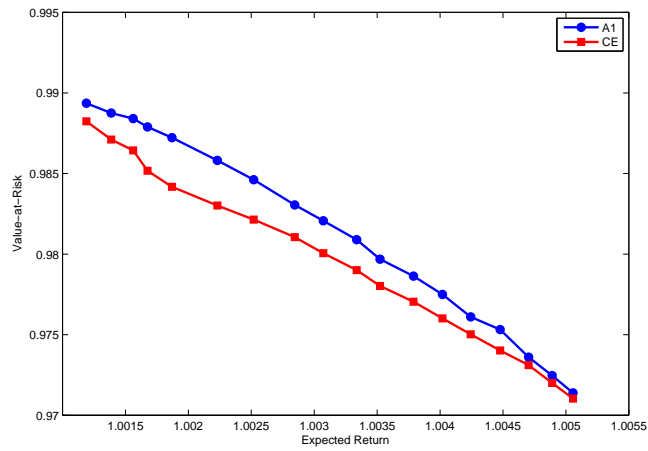**Table 4** NYSE US 100 daily data with $\alpha = 0.05$.
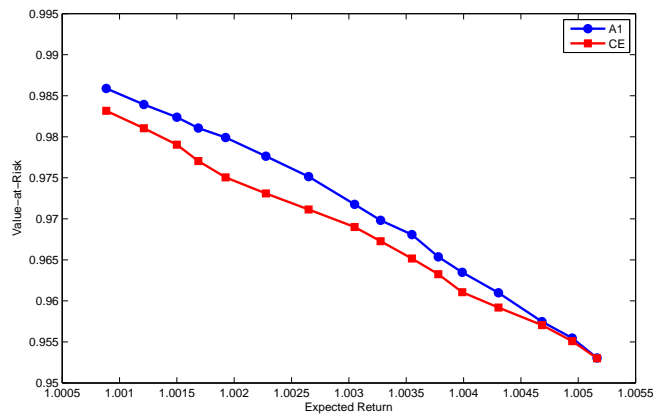
Fig. 4 Efficient frontier: NYSE US 100 daily data with $\alpha = 0.05$.
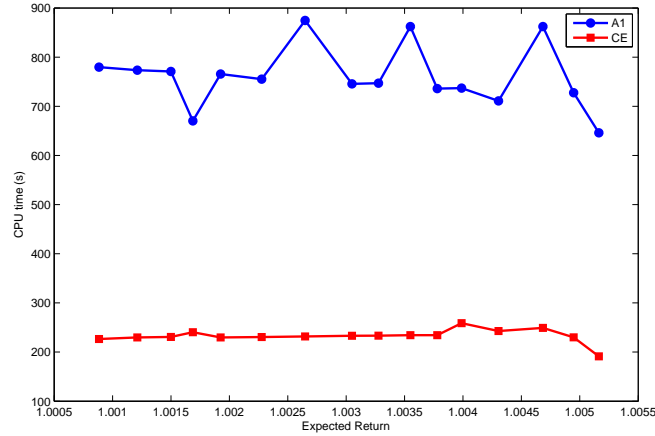
Fig. 5 CPU time: NYSE US 100 daily data with $\alpha = 0.05$.

a	CE method			A1 algorithm		Difference
	Expected Return	$VaR_{0.1}(CE)$	Time(s)	$VaR_{0.1}(A1)$	Time (s)	
0.971	1.00505703	0.971038	249.45	0.971390	819.36	0.000352
0.972	1.00489083	0.972007	258.28	0.972466	878.23	0.000459
0.973	1.00470412	0.973110	264.47	0.973609	769.77	0.000500
0.974	1.00447797	0.974020	274.28	0.975321	761.50	0.001301
0.975	1.00424399	0.975024	254.22	0.976104	996.36	0.001080
0.976	1.00401883	0.976018	267.45	0.977502	737.53	0.001484
0.977	1.00378923	0.977045	260.13	0.978636	853.59	0.001591
0.978	1.00352334	0.978022	268.81	0.979688	849.47	0.001665
0.979	1.00333735	0.979009	257.64	0.980898	698.95	0.001890
0.980	1.00307247	0.980060	272.19	0.982067	620.45	0.002007
0.981	1.00284515	0.981052	275.66	0.983053	701.24	0.002001
0.982	1.00251888	0.982145	273.27	0.984617	691.67	0.002471
0.983	1.00223072	0.983015	256.48	0.985813	711.09	0.002798
0.984	1.00186933	0.984177	270.23	0.987225	766.99	0.003048
0.985	1.00167539	0.985171	252.91	0.987890	772.53	0.002719
0.986	1.00156141	0.986435	267.56	0.988408	776.99	0.001973
0.987	1.00138666	0.987110	248.14	0.988752	703.80	0.001642
0.988	1.00118943	0.988237	259.52	0.989365	687.17	0.001128

Table 5 NYSE US 100 daily data with $\alpha = 0.1$.

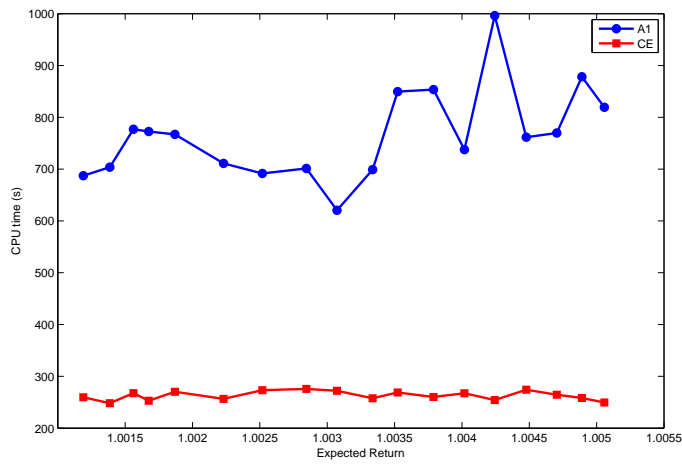**Fig. 6** Efficient frontier: NYSE US 100 daily data with $\alpha = 0.1$.

Fig. 7 CPU time: NYSE US 100 daily data with $\alpha = 0.1$.

5 Conclusion

In this paper, we have proposed a new and efficient heuristic approach based on the Cross-Entropy method for solving a Value-at-Risk constrained optimization problem. Due to the special structure of the feasible set of problem (1), we have introduced an appropriate family of exponential pdfs, and developed a fast and scalable CE algorithm. Although the theoretical convergence properties of the CE method are not yet fully understood, the computational results in Table 2 and 3 show the efficiency of the proposed approach. It found a near-optimal solution within an acceptable time for large scale problems. We plan to combine our CE algorithm with other approaches for globally solving Problem (1), where CE can be used to find good feasible solutions.

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A new method for Value-at-Risk constrained Optimization using the DC programming and DCA

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Abstract

In this paper, we consider a portfolio optimization problem with a Value-at-Risk constraint. It is a nonconvex nonsmooth optimization problem, which is very hard to solve. We firstly reformulate this problem as a polyhedral DC program by using an exact penalty technique, and then propose DCA (DC algorithm) for its solution. The numerical results show the efficiency of our approach, especially in large scale setting.

Keywords: Portfolio Optimization, Risk Management, Value at Risk, DC programming and DCA.

1 Introduction

Value-at-Risk, denoted VaR, is an important and popular risk measure that has been used extensively in recent years in portfolio selection and in risk analysis (see e.g. [9]). Let X be the anticipated random returns, then the Value-at-Risk of X is defined as

$$VaR_\alpha(X) = \inf\{u : F_X(u) \geq \alpha\} = F_X^{-1}(\alpha), \quad 0 < \alpha < 1,$$

where F_X is the distribution function of X. VaR_α is said to be an acceptability functional [15].

The VaR has the undesirable mathematical characteristics such as a lack of subadditivity and concavity [1, 2]. Due to the non-concavity of VaR, the problem of maximizing Value-at-Risk or maximizing the return under a Value-at-Risk constrain is nonconvex. That is why, in practice VaR is often replaced by the Average Value-at-Risk (AVaR, also called Conditional Value-at-Risk, CVaR), which is defined as

$$AVaR_\alpha(X) = \frac{1}{\alpha} \int_0^\alpha F_X^{-1}(t)dt = \frac{1}{\alpha} \int_0^\alpha VaR(t)dt, \quad 0 < \alpha \leq 1.$$

Some reasons justifying the use of CVaR instead of VaR can be found in [21]. However, due to regulatory frameworks such as Basel II and Solvency II, Value-at-Risk remains to be widely used in portfolio management in most notably banks.

In this paper, we consider the following non-convex portfolio selection under the Value-at-Risk constraint:

$$
\begin{cases}
\max\ \mathbb{E}(w^T\xi) \\
\text{s.t.}\ \sum_{i=1}^{m} w_i = 1, \\
\quad w_i \in [a_i, b_i], 1 \leq i \leq m, \\
\quad VaR_\alpha(w^T\xi) \geq a,
\end{cases}
\tag{1}
$$

where w_i denotes the relative weight of asset i in the portfolio, ξ_i the random return of asset i, $w^T\xi = \sum_{i=1}^{m} w_i\xi_i$, and m is the number of assets. Because of the non-convexity of Value-at-Risk constraint, this problem is NP-hard (NP-complete in the strong sense) [3].

There are several approaches including deterministic and heuristic to solve the problem (1) in the literature (see e.g. [3, 4, 5, 6, 7, 8, 14] or [21] for an overview). Recently, Wozabal et al. [21] gave a representation of the VaR as a DC function (Difference of Convex functions) in the case finite scenarios, and proposed a conical Branch-and-Bound algorithm to find global optima of (1). Later, Wozabal [22] introduced a DC Algorithm (DCA) [11, 17, 18] to the DC formulation of the problem (1). To obtain this DC formulation, the author used a penalty technique that is not exact. In [22] it has been not proved that the DC formulation is equivalent to the original problem.

In this work we propose a new approach based on DC programming and DCA for solving this problem. DC programming and DCA ([11, 17, 18] and references therein) aim to solve a general DC program that takes the form

$$
\alpha = \inf\{f(x) := g(x) - h(x) : x \in \mathbb{R}^p\} \quad (P_{dc})
\tag{2}
$$

where g, h are lower semicontinuous proper convex functions on $\mathbb{R}^p$. Such a function f is called DC function, and $g - h$, DC decomposition of f while g and h are DC components of f. The construction of DCA involves DC components g and h but not the function f itself: each iteration k of DCA consists of computing

$$
y^k \in \partial h(x^k), x^{k+1} \in \arg\min\{g(x) - h(x^k) - \langle x - x^k, y^k \rangle : x \in \mathbb{R}^p\} \quad (P_k).
$$

Hence, for a DC program, each DC decomposition corresponds to a different version of DCA. Since a DC function f has an infinite number of DC decompositions which have crucial impacts on the qualities (speed of convergence, robustness, efficiency, globality of computed solutions,...) of DCA, the search for a "good" DC decomposition is important from algorithmic point of views. Moreover, despite its local character, DCA with a good initial point could converge to global solutions. Finding a "good" initial point is then also an important stage of DCA. How to develop an efficient algorithm based on the generic DCA scheme for a practical problem is thus a judicious question to be studied, and the answer depends on the specific structure of the problem being considered. Due to the representation of the VaR as a DC function [21], we reformulate the problem (1) as a polyhedral DC

program based on an exact penalty technique and apply DCA to find its solution.

This paper is organized as follows. In Section 2, we reformulate the problem (1) as a polyhedral DC program. In Sections 3, we propose an application of DCA to the problem. Numerical experiments are reported in Section 4 while some conclusions and perspectives are discussed in Section 5.

2   Reformulation of the problem (1)

2.1   Reformulation of VaR_α as a DC function.

In this part, we recall how to reformulate VaR_α as a DC function (see [21] for more details). Let m be number of available budget. We need the two following assumptions.

Assumption 1 *The distribution of the random asset returns $\xi = (\xi_1, ..., \xi_m)$ is discrete with finite atoms, i.e. there are $S \in N$ scenarios for the joint realizations of the random variables ξ_i. The $(m \times 1)$ vector of realizations of ξ^s in scenario s will be denoted by ξ^s and the probability of the scenario will be denoted by p_s.*

Assumption 2 *Assume that all the scenarios have equal probabilities, i.e.,*

$$p_s = \frac{1}{S}, \quad 1 \le s \le S.$$

Assumption 2 is made for the sake of simplicity of presentation. In fact, the VaR functional can be represented as a DC function even in the case of unequal weights [21].

Given the above assumptions, the problem (1) becomes

$$
\begin{cases}
\max_{w} \ \frac{1}{S} \sum_{s=1}^{S} (w^T \xi^s) \\
\text{s.t. } \sum_{i=1}^{m} w_i = 1, \\
\quad w_i \in [a_i, b_i], 1 \le i \le m, \\
\quad VaR_\alpha(w^T \xi) \ge a.
\end{cases}
\tag{3}
$$

It is easy to see that if X follows a discrete distribution taking the values $x_1, ..., x_S$ with equal probability (in our case X represents the anticipated random returns of the portfolio, i.e., $X = w^T \xi$), then

$$AVaR_{\frac{k}{S}}(X) = \frac{S}{k} \sum_{i=1}^{k} x_{\sigma(i)} \frac{1}{S} = \frac{1}{k} \sum_{i=1}^{k} x_{\sigma(i)},$$

where $x_{\sigma(1)} \le x_{\sigma(2)} \le ... \le x_{\sigma(S)}$ is the set of ordered values of X (σ is a permutation of the set $\{1, 2, ..., S\}$). Therefore

$$VaR_\alpha(X) = x_{\sigma(k)} = kAVaR_{\frac{k}{S}}(X) - (k-1)AVaR_{\frac{k-1}{S}}(X),$$

with $k = \lfloor \alpha S \rfloor$. Hence under the above assumptions, $VaR_\alpha(X)$ can be written as the difference of the two concave functions

$$kAVaR_{\frac{k}{S}}(X) \text{ and } (k-1)AVaR_{\frac{k-1}{S}}(X).$$

Therefore, the problem (3) becomes

$$
\begin{cases}
\max\limits_{w} & \dfrac{1}{S} \sum\limits_{s=1}^{S} (w^T \xi^s) \\
\text{s.t.} & \sum\limits_{i=1}^{m} w_i = 1, \\
& w_i \in [a_i, b_i], 1 \le i \le m, \\
& kAVaR_{\frac{k}{S}}(w^T \xi) - (k-1)AVaR_{\frac{k-1}{S}}(w^T \xi) \ge a,
\end{cases}
\tag{4}
$$

or equivalently can be written as a minimization problem with a DC constraint:

$$
\begin{cases}
\max\limits_{w} & -\dfrac{1}{S} \sum\limits_{s=1}^{S} (w^T \xi^s) \\
\text{s.t.} & \sum\limits_{i=1}^{m} w_i = 1, \\
& w_i \in [a_i, b_i], 1 \le i \le m, \\
& (-kAVaR_{\frac{k}{S}}(w^T \xi)) - (-(k-1)AVaR_{\frac{k-1}{S}}(w^T \xi)) \le -a.
\end{cases}
\tag{5}
$$

2.2 An exact penalty technique

We consider the following nonconvex optimization problems

$$\alpha = \min\{f(x) : x \in K, g(x) = 0\} \qquad (P)$$

$$\alpha(\tau) = \min\{f(x) + \tau g(x) : x \in K, g(x) \ge 0\} \qquad (P_\tau)$$

Theorem 2.1 (H.A. Le Thi et al. [12])
Let K be a non-empty bounded polyhedral convex set in $\mathbb{R}^n$ and let f, g be finite concave function on K. Suppose that the feasible set of (P) is not empty. Then there exists $\tau_0 \ge 0$ such that for all $\tau > \tau_0$, the problems (P) and (P_τ) are identical. Furthermore, we can take $\tau_0 = \frac{f(x_0) - \alpha(0)}{m}$, with $m = \min\{g(x) : x \in V(K), g(x) > 0\}$ and any $x_0 \in K, g(x_0) = 0$. Here, the convention $\min\limits_{\emptyset} g(x) = +\infty$ is used.

Due to this theorem, we could transform problem (5) to polyhedral DC program as follows.

Set

$$C = \{w \in \mathbb{R}^m : \sum_{i=1}^{m} w_i = 1, w_i \in [a_i, b_i], 1 \le i \le m\}.$$

4

It is clear to see that $(-kAVaR_{\frac{k}{S}}(w^T\xi))$ and $(-(k-1)AVaR_{\frac{k-1}{S}}(w^T\xi))$ are polyhedral convex functions in w since

$$kAVaR_{\frac{k}{S}}(w^T\xi) = \min\left\{\sum_{s\in I} w^T\xi^s : I \in S_k\right\},$$

$$(k-1)AVaR_{\frac{k-1}{S}}(w^T\xi) = \min\left\{\sum_{s\in J} w^T\xi^s : J \in S_{k-1}\right\},$$

where

$$S_k = \{I \subset \{1,2,...,S\} : |I| = k\}, S_{k-1} = \{J \subset \{1,2,...,S\} : |J| = k-1\}.$$

Let

$$f(w) = -\frac{1}{S}\sum_{s=1}^{S}(w^T\xi^s),$$

$$g(w) = -kAVaR_{\frac{k}{S}}(w^T\xi) + a,$$

$$h(w) = -(k-1)AVaR_{\frac{k-1}{S}}(w^T\xi).$$

The problem (5) can be written in the form:

$$\begin{cases} \min \ f(w) \\ \text{s.t.} \ \ w \in C, \\ \qquad g(w) - h(w) \le 0. \end{cases} \tag{6}$$

We have

$$g(w) - h(w) \le 0 \Leftrightarrow g(w) \le h(w) \Leftrightarrow g(w) \le t \le h(w)$$
$$\Leftrightarrow g(w) - t \le 0, t - h(w) \le 0.$$

Thus, the problem (6) becomes

$$\begin{cases} \min \ f(w) \\ \text{s.t.} \ \ (w,t) \in C \times [t_1, t_2], \\ \qquad g(w) - t \le 0, \\ \qquad t - h(w) \le 0, \end{cases} \tag{7}$$

where

$$t_1 \le \min_{w\in C} g(w), \quad t_2 \ge \max_{w\in C} h(w).$$

This problem is equivalent to

$$\begin{cases} \min \ f(w) \\ \text{s.t.} \ \ (w,t,s) \in C \times [t_1, t_2] \times [0, \beta], \\ \qquad g(w) - t \le 0, \\ \qquad t + s - h(w) = 0, \end{cases} \tag{8}$$

where

$$\beta = \max\{h(w) - t : \ w \in C, t \in [t_1, t_2]\}$$
$$= t_2 - t_1.$$

Since g is polyhedral convex in w, the set $\{(w,t) \in \mathbb{R}^{m+1} : \ w \in C, \ g(w) - t \le 0\}$ is also polyhedral convex. Due to Theorem 2.1, the problem (8) is equivalent to

$$
\begin{cases}
\min \ f(w) + \tau(t + s - h(w)) \\
\text{s.t.} \ (w, t, s) \in C \times [t_1, t_2] \times [0, \beta], \\
\qquad g(w) - t \le 0, \\
\qquad h(w) - t - s \le 0.
\end{cases}
\tag{9}
$$

Because $-[f(w) + \tau(t + s - h(w))]$ is polyhedral convex and the constraints display a bounded polyhedral convex set. The problem (9) is a polyhedral DC program.

3 Application of DCA to problem (9)

3.1 Outline of DC Programming and DCA

DC Programming and DCA [11, 17, 18] constitute the backbone of smooth/nonsmooth nonconvex programming and global optimization. They are introduced by Pham Dinh Tao in 1985 in their preliminary form and extensively developed by Le Thi Hoai An and Pham Dinh Tao since 1994 to become now classic and more and more popular.

We consider the DC (difference of convex functions) program:

$$\alpha = \inf\{f(x) := g(x) - h(x) : x \in X\} \quad (P_{dc})$$

where $X = \mathbb{R}^n$ is the usual Euclidean space and g, h are lower semicontinuous proper convex functions on X.

We are interested in local and global optimality conditions, relationships between local and global solutions to primal DC programs and their dual

$$\alpha = \inf\{h^*(y) - g^*(y) : y \in Y\} \quad (D_{dc})$$

where Y is the dual space of X, which can be identified with X it self, and g^*, h^* denote the conjugate functions of g and h, respectively and solution algorithms.

The transportation of global solutions between (P_{dc}) and (D_{dc}) is expressed as:

- If x^* is an optimal solution of (P_{dc}), then $y^* \in \partial h(x^*)$ is an optimal solution of (D_{dc}),

- If y^* is an optimal solution of (D_{dc}), then $x^* \in \partial g^*(y^*)$ is an optimal solution of (P_{dc}).

Under technical conditions, this transportation holds also for local solutions of (P_{dc}) and (D_{dc}).

DC programming investigates the structure of the vector space $DC(X)$, DC duality and optimality conditions for DC programs. The complexity of DC programs resides, of course, in the lack of practical optimal global conditions. We developed instead the following necessary local optimality conditions for DC programs in their primal part, (by symmetry their dual part is trivial):

$$\partial g(x^*) \cap \partial h(y^*) \neq \emptyset \quad (i)$$

such a point x is called critical point of $g - h$ or for (P_{dc}), and

$$\partial g(x^*) \subset \partial h(y^*) \quad (ii)$$

The condition (ii) is also sufficient for many important classes of DC programs. In particular it is sufficient for the next cases quite often encountered in practice:

- In polyhedral DC programs with h being a polyhedral convex function. In this case, if h is differentiable at a critical point x, then x is actually a local minimizer for (P_{dc}). Since a convex function is differentiable everywhere except for a set of measure zero, one can say that a critical point x is almost always a local minimizer for (P_{dc}).

- In case the function f is locally convex at x.

Based on local optimality conditions and duality in DC programming, the DCA consists in the construction of two sequences $\{x^k\}$ and $\{y^k\}$, candidates to be optimal solutions of primal and dual programs respectively, such that the sequences $\{g(x^k) - h(x^k)\}$ and $\{h^*(y^k) - g^*(y^k)\}$ are decreasing, and $\{x^k\}$ (resp. $\{y^k\}$) converges to a primal feasible solution x^* (resp. a dual feasible solution y^*) verifying local optimality conditions and

$$x^* \in \partial g^*(y^*), \quad y^* \in \partial h(x^*).$$

Starting $x^0 \in dom(g)$, these two sequences x^k and y^k are determined in the way following

$$x^k \in \partial g^*(y^{k-1}) \rightarrow y^k \in \partial h(x^k) = \operatorname{argmin}\{h^*(y) - g^*(y^{k-1}) - \langle y - y^{k-1}, x^k \rangle : y \in R^n\} \ (D_k)$$

$$y^k \in \partial h(x^k) \rightarrow x^{k+1} \in \partial g^*(y^k) = \operatorname{argmin}\{g(x) - h(x^k) - \langle x - x^k, y^k \rangle : x \in R^n\} \ (P_k)$$

Problem (P_k) is a convex program obtained from (P) by replacing h with its affine minorization defined by $y^k \in \partial h(x^k)$. Similarly, the convex problem (D_k) is obtained from (D) by using the affine minorization of g^* defined by $x^k \in \partial(y^{k-1})$.

Implement the algorithm that consists of three steps:

1. Choose $x^0 \in \mathbb{R}^n$.

2. Set $y^k \in \partial h(x^k)$.

3. Set $x^{k+1} \in \partial g^*(y^k)$ that leads to solving the convex program
$$\inf\{g(x) - h(x^k) + \langle x - x^k, y^k \rangle : x \in \mathbb{R}^n\}.$$

   Until the convergence.

3.2 Application DCA for solving Problem (9)

For applying DCA to Problem (9), we need to compute $\partial h(w)$ for each $w \in C$. Because

$$h(w) = -(k-1)AVaR_{\frac{k-1}{S}}(w^T\xi) = -\sum_{i=1}^{k-1} r_{i:S}(w),$$

where the $r_{i:S}(w)$ are the ordered returns depending on the portfolio w. Suppose that we have w^p, therefore $r_{i:S}(w^p)$ for $i = 1, 2, ..., m$, we will compute $y^p = \partial h(w^p)$ as follows:

- If $r_{1:S} \leq ... \leq r_{(k-1):S} < r_{k:S} \leq ... \leq r_{S:S}$ then

$$\partial h(w^p) = \nabla h(w^p) = -\sum_{i=1}^{k-1} \xi^{i:S}.$$

- If $r_{1:S} \leq ... \leq r_{(s-1):S} < r_{s:S} = ... = r_{(k-1):S} = r_{k:S} = ... = r_{t:S} < r_{(t+1):S} \leq ... \leq r_{S:S}$ then $\partial h(w^p)$ can be written as the convex hull of the following vectors

$$V = \left\{ \sum_{i=1}^{s-1} \nabla r_{i:S}(w^p) + \sum_{j \in J} \nabla r_{j:S}(w^p) : J \subset \{s, s+1, ..., t\}, |J| = k - s - 2 \right\}$$

$$= \left\{ -\sum_{i=1}^{s-1} \xi^{i:S} - \sum_{j \in J} \xi^{j:S} : J \subset \{s, s+1, ..., t\}, |J| = k - s - 2 \right\}.$$

Algorithm 1: The DCA for solving the problem (9)

Step 1. Initialization: Let $w^0 \in C$, $\epsilon_1 > 0, \epsilon_2 > 0$, and $p = 0$.

Step 2. Compute $y^p = \partial h(w^p)$ by the above formulas.

Step 3. Compute w^{p+1} by solving the linear program

$$\begin{cases} \min \ (f(w) + \tau(t+s) - \tau\langle w, y^p \rangle) \\ \text{s.t.} \ (w, t, s) \in C \times [t_1, t_2] \times [0, \beta], \\ \quad g(w) - t \leq 0, \\ \quad h(w) - t - s \leq 0. \end{cases} \tag{10}$$

Step 4. Iterate Step 2 and 3 until

$$|f(w^{(p+1)}) - f(w^p)| \leq \epsilon_1(1 + |f(w^{(p+1)})|)$$

$$\text{or} \ \ ||w^{p+1} - w^p||_\infty \leq \epsilon_2(1 + ||w^{p+1}||_\infty).$$

In practice, to solve the problem (10), we use an useful linear reformulation for constraints, which is presented in [19, 20]. Because the problem (9) is polyhedral DC program, we have the following convergence theorem:

Theorem 3.1 *The discrete sequence $\{(w^p, t^p, s^p)\}$ (i.e., it has only finitely many different elements) generated by Algorithm 1 verifies:*

1. *The sequence $\{f(w^p) + \tau(t^p + s^p - h(w^p))\}$ is decreasing.*

2. *The sequence $\{(w^p, t^p, s^p)\}$ is convergent.*

Proof see [11, 17].

4 Numerical Experiment

The algorithm described above is tested on real-world financial market data. The code is written in C++, and is tested on a notebook with chipset Intel(R) Core(TM) Duo CPU 2.0 GHz, 3GB of RAM. We use CPLEX 12.1 for solving linear programming.

Our experiment is composed of two parts. In the first part, we study the globality of the DCA by comparing the solutions given by the DCA with an optimal solution furnished by the software CPLEX 12.1 applied to the mixed-integer formulation of the problem (1) (see [3]). In the second experiment, we consider large datasets (for which CPLEX can not find global solutions) and compare our method with a heuristic algorithm developed in [10]. In the following tests, we choose $a_i = 0, b_i = 1, i = 1, ..., m$.

4.1 Comparison with global optima: DCA gives a good near-optimal solution

We used the empirical distribution of two years of weekly data, i.e., $S = 104$ scenarios of the following 5 indices: CAC 40, Standard&Poors 100, Nasdaq 100, FTSE 100, and Hang Seng. We take $\alpha = 0.045$. Different values of a are considered in the dataset (a is incremented by 0.0005). It is easy to see that if a is smaller than the VaR of the portfolio that consists only of the asset with the highest return, then the problem is trivial. Hence, in our test problems, a is greater than that VaR.

The results are presented in Table 2, where we compare the objective value (say, the expected return) obtained by our DCA and the optimal value given by CPLEX software. The Figure 2 shows the efficient frontier traced by each algorithm that illustrates the globality of the DCA in almost all cases.

We observe from the numerical results that in almost cases the results given by DCA the same as the global solutions, except the cases $a = 0.9805$ and $a = 0.9825$. Moreover the DCA is fast: CPU time is approximately 0.5 seconds.

Name	Average Return	Variance	$VaR_{0.045}$	$AVaR_{0.045}$
CAC 40	1.0027144	0.000217647	0.9742	0.9694
Standard&Poors100	1.0004326	0.000179629	0.9755	0.9717
Nasdaq 100	1.0013597	0.000471718	0.9653	0.9504
FTSE 100	1.0021901	0.000151213	0.9824	0.9797
Hang Seng	1.0016546	0.000421260	0.9624	0.9561

Table 1: Time frame: 2004-2005, weekly data

a	DCA			Optimal solution		
	Expected Return	$VaR_{0.045}$	Time(s)	Expected Return	$VaR_{0.045}$	Time(s)
0.9745	1.00270427	0.974500	0.47	1.00270427	0.974500	0.49
0.9750	1.00268702	0.975000	0.47	1.00268702	0.975000	0.58
0.9755	1.00266978	0.975500	0.47	1.00266978	0.975500	0.41
0.9760	1.00265254	0.976000	0.48	1.00265254	0.976000	0.47
0.9765	1.00263307	0.976500	0.45	1.00263307	0.976500	0.39
0.9770	1.00261218	0.977000	0.47	1.00261218	0.977000	0.39
0.9775	1.00259129	0.977500	0.50	1.00259129	0.977500	0.42
0.9780	1.00257040	0.978000	0.47	1.00257040	0.978000	0.38
0.9785	1.00254951	0.978500	0.52	1.00254951	0.978500	0.34
0.9790	1.00252862	0.979000	0.50	1.00252862	0.979000	0.36
0.9795	1.00250773	0.979500	0.47	1.00250773	0.979500	0.36
0.9800	1.00248684	0.980000	0.47	1.00248684	0.980000	0.34
0.9805	1.00229933	0.980500	0.47	1.00230464	0.980500	0.38
0.9810	1.00228322	0.981000	0.47	1.00228322	0.981000	0.50
0.9815	1.00226662	0.981500	0.47	1.00226662	0.981500	0.53
0.9820	1.00224655	0.982000	0.47	1.00224655	0.982000	0.53
0.9825	1.00186039	0.982500	0.45	1.00222647	0.982500	0.59
0.9830	1.00173056	0.983000	0.47	1.00173056	0.983000	0.70
0.9835	1.00160072	0.983500	0.47	1.00160072	0.983500	0.89
0.984	1.00146105	0.984000	0.46	1.00146105	0.984000	0.72

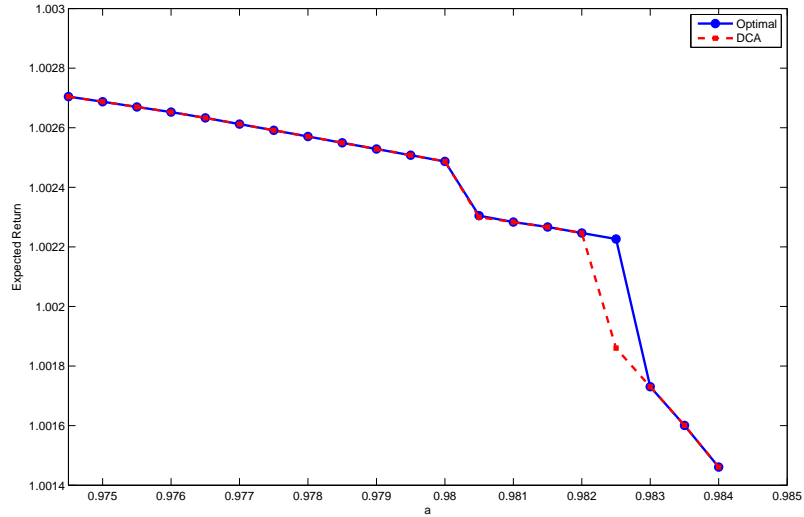Table 2: DCA compares with global optima

Figure 1: Efficient frontier: DCA and Optima

4.2   Large scale problem: DCA is a scalable approach

To study the scability of the DCA we first test on the 1304 daily returns for 43 assets of of the Eurostoxx50 index in year from January 1, 2003 to December 31, 2007, which give positive returns. Then, we test on the empirical distribution of 11 years (from January 1, 2000 to December 31, 2010) of daily data, i.e., 2759 scenarios of the 87 assets comprising the NYSE US 100 index.

For these datasets, CPLEX furnished only a feasible solution which is not a global solution. We then compare our DCA with an efficient existing method developed in [10], called Algorithm A1. This method is widely used in the industry for the Value-at-Risk portfolio selection. It solves the following problem:

$$\begin{cases} \min_{w} \ VaR_{1-\alpha}(w^T\xi) \\ \text{s.t. } w \in [0,1], \sum_{i=1}^{n} w_i = 1, \\ \quad \mathbb{E}(w^T\xi) \geq C, \end{cases} \tag{11}$$

where C is a given lower bound expectation.

Note that in [10] X represents the random losses. Hence minimizing $VaR_{1-\alpha}$ amounts to maximizing VaR_{α}. The main idea of Algorithm A1 is the approximation of the VaR by $CVaR$ and iterative application of discarding scenarios with large losses. This algorithm performs well even on large datasets. Algorithm A1 from [10] adapted to our problem is described as follows ([22]):

   1. Fix C as a lower bound on expectation, a parameter for the Value-at-Risk α and a

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parameter for the heuristic $0 < \zeta < 1$.

2. Set $\alpha_0 = \alpha, i_0 = 0$, and $k = 0$.

3. Solve the problem

$$
\begin{cases}
\max_{w} \ AVaR_{\alpha_k}(\sum_{i=i_k}^{S} w^T \xi^i) \\
\text{s.t.} \ \sum_{i=1}^{n} w_i = 1, \\
\qquad \mathbb{E}(w^T \xi) \geq C, \\
\qquad w^T \xi^i \leq \gamma, \quad i \leq i_k, \\
\qquad w^T \xi^i \geq \gamma, \quad i > i_k, \\
\qquad w_i \geq 0, \quad 1 \leq i \leq n.
\end{cases}
\tag{12}
$$

4. Call the solution of the above problem w_k and sort the scenarios ξ^i according to their returns $r_i = w_k^T \xi^i$.

5. Set $k = k + 1, b_k = \alpha + (1 - \alpha)(1 - \zeta)^k, i_k = \lfloor S(1 - b_k) \rfloor$, and $\alpha_k = 1 - \dfrac{1 - \alpha}{b_k}$.

6. If $i_k \leq \lfloor S/\alpha \rfloor$ goto step 3, otherwise exit.

The comparison between DCA and A1 algorithm has proceeded as follows: for each value a, we solve the problem (1) by DCA to get an expected return and the corresponding Value-at-Risk. That expected return becomes lower bound expectation (say, the value of C) for A1 algorithm. The A1 algorithm will produce a new Value-at-Risk, and then we compare the Value-at-Risk obtained by the two methods. In the two numerical comparisons below, we choose the parameter $\zeta = 0.5$ for A1 algorithm.

Table 3 represents the results corresponding to Eurostoxx50 data, while the Figure 2 shows the efficient frontier traced by each algorithm. The lower bound for a is the VaR of the portfolio that consists only of the asset with the highest return (i.e., AXA with $VaR_{0.05}$ of 0.9713956 and expected daily return 1.002344), and the upper bound is 0.983, because DCA does not work anymore for a greater value.

From Table 3 and 2 we can see that the difference of $VaR_{0.05}$ between two methods is small, it varies from 7.85E-04 to 3.95E-03. Additionally, the number of active assets, i.e., the number of assets whose portfolio contributions are different from 0, in solution obtained by DCA in most cases is greater. It means that the portfolio given by DCA is more diversified.

Table 4 presents the results corresponding to NYSE US 100 daily data, with $\alpha = 0.05$. Also, the curve in figure 3 shows the efficient frontier each algorithm. Here, a varies from 0.953 to 0.983. The lower bound for a is the VaR of the portfolio that consists only of the asset with the highest return (i.e., AIG with $VaR_{0.05}$ of 0.95263158 and expected daily return 1.00518861).

a	DCA				A1 algorithm			Difference
	Expected Return	$VaR_{0.05}(CE)$	Active	Time(s)	$VaR_{0.05}(A1)$	Active	Time(s)	
0.972	1.002214	0.973127	5	31.59	0.974010	6	138.28	0.000883
0.973	1.002172	0.973544	6	31.86	0.974329	9	156.09	0.000785
0.974	1.002038	0.974685	8	163.67	0.976597	8	143.40	0.001912
0.975	1.001877	0.975563	10	93.64	0.978440	11	163.28	0.002877
0.976	1.001839	0.976539	11	79.38	0.978823	11	169.12	0.002284
0.977	1.001702	0.977581	14	78.50	0.980512	11	145.23	0.002931
0.978	1.001535	0.978353	15	78.22	0.982240	10	168.01	0.003887
0.979	1.001535	0.980599	16	211.88	0.982240	10	166.75	0.001641
0.980	1.001369	0.980145	17	238.14	0.983807	15	165.43	0.003662
0.981	1.001338	0.982272	19	295.49	0.984424	11	167.48	0.002152
0.982	1.001338	0.982272	19	203.11	0.984424	11	166.37	0.002152
0.983	1.000976	0.983827	20	205.00	0.987778	14	166.57	0.003951

Table 3: The performance of CE algorithm compared with the A1 algorithm, Eurostoxx50 daily data
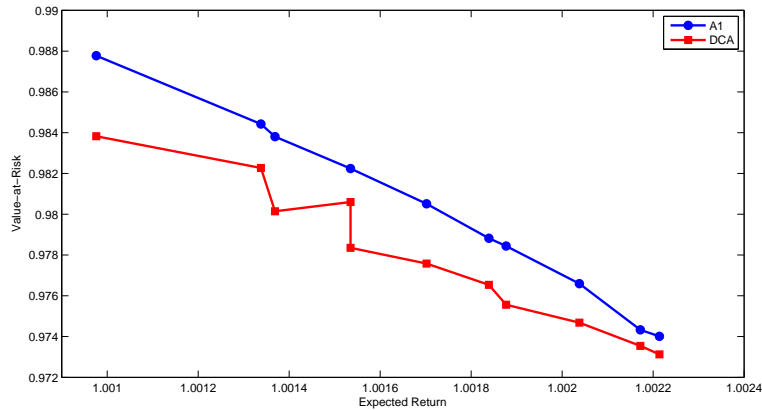
Figure 2: Efficient frontier: Eurostoxx50 data

a	DCA				A1 algorithm			Difference
	Expected Return	$VaR_{0.05}(CE)$	Active	Time(s)	$VaR_{0.05}(A1)$	Active	Time(s)	
0.953	1.005061	0.953390	6	959.63	0.953819	5	546.218	0.000429
0.955	1.004888	0.955019	6	379.09	0.955824	7	686.235	0.000805
0.957	1.004705	0.957126	8	697.45	0.957619	10	658.171	0.000493
0.959	1.004429	0.959168	8	863.77	0.958908	11	666.422	0.000260
0.961	1.004007	0.961210	10	765.27	0.963695	10	658.188	0.002485
0.963	1.003834	0.963117	14	954.78	0.965239	14	657.718	0.002122
0.965	1.003576	0.965158	15	980.16	0.967907	13	579.469	0.002749
0.967	1.003248	0.967065	14	980.75	0.970413	15	758.078	0.003348
0.969	1.003061	0.969107	13	967.88	0.971647	17	666.156	0.002540
0.971	1.002784	0.971149	22	1520.00	0.973388	22	656.734	0.002239
0.973	1.002317	0.973059	36	164.03	0.976911	24	830.688	0.003852
0.975	1.002174	0.975101	37	328.45	0.977981	22	681.609	0.002880
0.977	1.002042	0.977007	36	347.08	0.979110	24	687.922	0.002103
0.979	1.001789	0.979047	32	521.23	0.980465	20	705.547	0.001418
0.981	1.001271	0.981192	45	288.92	0.983466	27	693.766	0.002274
0.983	1.001064	0.983097	44	354.47	0.984695	21	596.891	0.001598

Table 4: NYSE US 100 daily data with $\alpha = 0.05$.
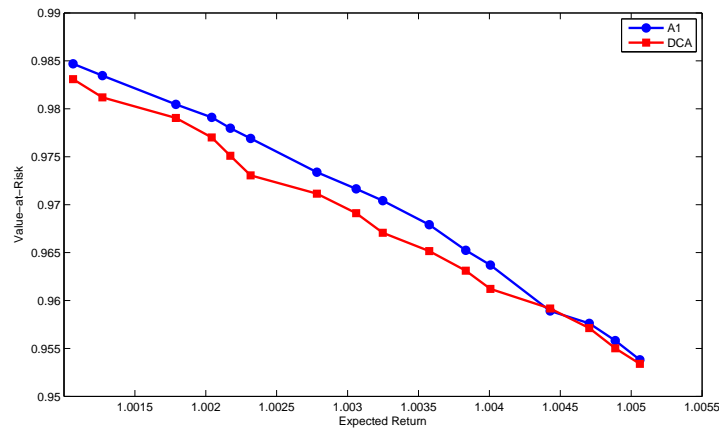
Figure 3: Efficient frontier: NYSE US 100 daily data

We observe from the numerical results that the difference of $VaR_{0.05}$ given by the two methods varies from 2.60E-04 to 3.85E-03. Moreover, for a from 0.973 to 0.983, the number of active assets in solution obtained by DCA is greater.

5   Conclusion

In this paper, we have proposed a new reformulation of the problem (1) based on an exact penalty technique, and DCA for solving locally the polyhedral DC program (9). Some numerical experiments have shown the efficiency of our approach. In fact, the quality of the solution obtained by DCA, as well as the CPU time in running DCA depend on strongly the starting point. Whenever having a good starting point, we can get a better local solution or even a global solution within a shorter time. Therefore, how to find a good starting point for DCA is an interesting work in the future.

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Conclusion and Perspective

Conclusion

In this thesis, we have studied some optimization problems in Search Information, Assignment and Portfolio Management. Our methodologies are based on DC programming& DCA and the Cross-Entropy method, which are known to be powerful tools in optimization. Due to the techniques of formulation/reformulation, we have given the DC formulation of considered problems such that we can use DCA to obtain their solutions. Also, depending on the structure of feasible sets of considered problems, we have designed appropriate families of distributions such that the Cross-Entropy method could be applied. The main contribution is to develop new approaches for efficiently solving these problems, especially in very large dimension. Specifically:

- We have presented a new approach for solving the problem of *planning a multisensor multizone search for a target.* This is the first time a deterministic optimization model is introduced in the literature. This constitues an interesting contribution of the paper. For solving the combinatorial optimization problem by DCA, an innovative continuous approach in nonconvex programming framework we first reformulated the original problem in the form of DC program by proving an exact penalty result in which the penalty parameter can be estimated. That is our second important contribution. The third contribution deals with the development of an efficient DCA scheme for solving the resulting problem.

- In the case of *moving (Markovian) target*, although the above problem becomes very complicated, we have successfully combined the forward-backward split technique and the DCA for its solution.

- We proposed two approaches to tackle the *Nonlinear UAV Task Assignment Problem.* We first developed an heuristic method based on the Cross-Entropy (CE) method. Here, we have chosen an appropriate family of discrete distributions characterized by probability matrices on the feasible sets of this problem. The second one is the Branch and Bound algorithm for measuring the efficiency of the CE method and globally solving the considered problem.

- A new heuristic approach based on Cross-Entropy method for solving the *Multidimensional Assignment Problem (MAP)* is introduced. Due to the special structure of the

MAP, we designed an appropriate family of discrete distributions on the feasible set of the MAP, which allows us to apply the Cross-Entropy method efficiently.

- We developed both deterministic and heuristic approaches for solving the *Value-at-Risk constrained optimization problem.* In the first approach, we introduced an appropriate family of continuous distributions based on the family of exponential distributions on the feasible sets of this problem to apply the Cross-Entropy method. In the second one, we reformulated the problem as a polyhedral DC program by using an exact penalty technique and proposed DCA for its solution.

Moreover, to demonstrate the efficiency of our approaches, we implemented optimization algorithms in MATLAB, C/C++:

- The DCA for the problem of planning a multisensor in multizone search for a target.

- The combination of the forward-backward split technique and DCA (FAB&DCA) for the case of moving target.

- BB&DCA for the Nonlinear UAV Task Assignment Problem.

- The CE algorithm for the Nonlinear UAV Task Assignment Problem.

- The CE algorithm for the Multidimensional Assignment Problem.

- The DCA for the Value-at-Risk constrained Optimization problem.

- The CE algorithm for the Value-at-Risk constrained Optimization problem.

Perspective

Some questions are posed in this thesis:

- Although DCA showed good performances in applications, the quality of the solution obtained by DCA, as well as the CPU time in running DCA strongly depend on the starting point. Whenever having a good starting point, we can get a better local solution or even a global solution within a shorter time. Thus, how to find a good starting point for DCA in our considered problems is an interesting work in the future.

- The approach for solving the problem of *planning a multisensor multizone search for a target* is a local method. With the obtained DC formulation of problem, how can we develop global approaches for solving this problem?

- The *Nonlinear UAV Task Assignment Problem* is only a sub-problem of UAV coordination problem. In the future, we plan to deeply study UAV coordination problems.

- The Cross-Entropy algorithm provided good solutions for the *Value-at-Risk constrained optimization problem.* But if the constraints become more complex, how we can use the CE method? And can we apply this approach for the other optimization problems in portfolio management.

- In this thesis, we used the CE method and DCA separately. They both showed good performances. How we could combine them is also an attractive job?

- From our experiences in performing the CE algorithms, there is a positive relationship between the quality of solutions and the number of samples N. However, when N increases, so does the CPU time. How to parallelize the CE algorithms to save time?

- In the future, we intend to apply our proposed approaches in some industrial applications. For instance, application of the MAP to data association, image recognition, multisensor multitarget tracking, etc. Also, we continuously apply the cross-entropy for the other problems.

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Abstract: In this thesis we focus on developing deterministic and heuristic approaches for solving some classes of optimization problems in Finance, Assignment and Search Theory. They are large-scale nonconvex optimization problems. Our approaches are based on DC programming & DCA and the Cross-Entropy method. Due to the techniques of formulation/reformulation, we have given the DC formulation of considered problems such that we can use DCA to obtain their solutions. Also, depending on the structure of feasible sets of considered problems, we have designed appropriate families of distributions such that the Cross-Entropy method could be applied efficiently. This thesis is divided into two parts:

In the part 1, besides the introduction to some classes of nonconvex programs in Finance, Assignment and Search Information, we present the methodologies of DC programming&DCA and the CE method. They are two main tools, which we use to investigate solution methods for our considered problems.

Part 2 is devoted to the resolutions of our considered problems. It contains three sections:

In the first section, we propose a deterministic continuous optimization approach based on DC programming and DCA for solving the problem of planning a multisensor multizone search for a target. Then, we extend the obtained result to the case of moving (Markovian) target by combining the forward-backward split technique and DCA.

In the second one, we apply the CE method for solving the UAV (Unmanned Aerial Vehicles) Task Assignment Problem and the Multidimensional Assignment Problem. We construct appropriate families of discrete distributions on the feasible sets of the problems such that the CE method could be applied efficiently. Particularly, for the UAV Task Assignment Problem, we also give a global approach based on Branch and Bound algorithm for measuring the quality of our CE algorithm.

In the last one, we study both deterministic and heuristic approaches for solving the Value-at-Risk constrained optimization problem. On the one hand, we introduce a new and efficient heuristic approach based on the Cross-Entropy method for its solution, where an appropriate family of continuous distributions on the feasible set of this problem is designed. On the other hand, we reformulate this problem as a polyhedral DC program based on an exact penalty technique, and then apply the DCA for solving this problem.

All these proposed approaches have been implemented by using MATLAB, C/C++. They show very good performance even in very large dimension, for instance, up to 500,000 binary variables and 1000 constraints in the UAV (Unmanned Aerial Vehicles) Task Assignment Problem, up to 3.2 millions binary variables and 100 constraints in the Multidimensional Assignment Problem, or the testing on the daily data of 11 years (from January 1, 2000 to December 31, 2010), i.e., 2759 scenarios of the 87 assets comprising the NYSE US 100 index in the Value-at-Risk constrained optimization problem, etc.

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Résumé: La présente thèse a pour objectif principal de développer des approches déterministes et heuristiques pour résoudre certaines classes de problèmes d'optimisation en Finance, Affectation et Recherche d'Informations. Il s'agit des problèmes d'optimisation non convexe de grande dimension. Nos approches sont basées sur la programmation DC & DCA et la méthode Cross-Entropy (CE). Grâce aux techniques de formulation/reformulation, nous avons donné la formulation DC des problèmes considérés afin d'obtenir leurs solutions en utilisant DCA. En outre, selon la structure des ensembles réalisables de problèmes considérés, nous avons conçu des familles appropriées de distributions pour que la méthode Cross-Entropy puisse être appliquées efficacement. Cette thèse est divisée en deux parties:

Dans la partie 1, en plus de certaines classes de problèmes d'optimisation en Finance, Affectation et Recherche d'informations, nous présentons la méthodologie de la programmation DC&DCA et la méthode Cross-Entropy. Ce sont les deux outils principaux que nous utilisons pour résoudre des problèmes considérés.

La partie 2 est consacrée à la résolution des problèmes considérés. Elle comprend trois sections:

Dans la première section, nous proposons une approche d'optimisation déterministe continue basée sur la programmation DC et DCA pour résoudre le problème de planification multi-capteurs multizones pour la recherche d'une cible. Puis, nous étendons notre résultat obtenu au cas de la cible mobile (markovienne) en combinant la technique FAB et l'algorithme DCA.

Dans la seconde section, nous appliquons la méthode Cross-Entropy pour résoudre le problème d'affectation des tâches d'UAVs, et le problème d'affectation multi-dimensionnelle. Nous construisons les familles appropriées de distributions discrètes sur des ensembles réalisables des problèmes afin que la méthode CE puisse être appliquée efficacement. Particulièrement, pour le problème d'affectation des tâches d'UAVs, nous présentons aussi une approche globale basée sur l'algorithme de séparation et d'évaluation pour mesurer la qualité de notre algorithme CE.

Dans la dernière section, nous étudions des approches déterministes et heuristiques pour résoudre le problème d'optimisation de portefeuille sous la contrainte de Value-at-Risk. Pour résoudre ce problème, d'une part nous introduisons une approche heuristique nouvelle et efficace basée sur la méthode Cross-Entropy pour, où nous construisons une famille appropriée de distributions continues sur l'ensemble réalisable de ce problème. D'autre part, nous reformulons ce problème comme une programmation DC polyédrale basée sur une

technique de pénalité exacte, et puis nous utilisons DCA.

Les simulations numériques de nos différentes approches ont été réalisées en utilisant Matlab, C/C++. Elles montrent de très bonnes performances même en très grande dimension, par exemple, jusqu'à 500.000 variables binaires et 1000 contraintes dans le problème d'affectation des tâches d'UAVs, jusqu'à 3,2 millions variables binaires et 100 contraintes dans le problème d'affectation multi-dimensionnelle, ou les tests sur les données quotidiennes de 11 ans (du 1 janvier 2000 au 31 décembre 2010), c'est à dire 2759 scénarios des 87 actifs composant l'indice NYSE US 100 dans le problème d'optimisation de portefeuille sous la contrainte de Value-at-Risk, etc.